KENYA

FINANCIAL STATEMENTS AT 31 DECEMBER 2016

BANK OF AFRICA

Groupe BMCE BANK

Table of contents

KENYA

Opening date: July 2004
Created in 1981: BANQUE INDOSUEZ Kenyan Branch > CREDIT AGRICOLE–INDOSUEZ > CALYON.
Incorporated under Kenyan law, integrated as a subsidiary into BOA network in 2004.

Capital as at 31/12/2016
Kenyan Shillings (KES) 6.217 billion

Board of Directors as at 31/12/2016
Ambassador Dennis AWORI, Chairman
Amine BOUABID
Abdelkabir BENNANI
Vincent de BROUWER
Susan KASINGA
Eunice MBOGO
Ronald MARAMBII

Auditor
PRICEWATERHOUSECOOPERS

Registered office
BOA House, Karuna Close off Waiyaki Way, Westlands
P.O. Box 69562-00400 - Nairobi - Kenya
Tél.: (254) (254) 20 327 5000
Fax: (254) 20 221 1477

E-mail: <yoursay@boakenya.com>
Web site: www.boakenya.com

Principal Shareholders as at 31/12/2016

BANK OF AFRICA - BENIN 32,28 %
NETHERLANDS DEVELOPMENT FINANCE COMPANY (FMO) 13,41 %
AFH-OCEAN INDIEN 11,89 %
BANK OF AFRICA - MADAGASCAR 12,00 %
BANK OF AFRICA - CÔTE D'IVOIRE 11,33 %
BOA GROUP S.A. 12,09 %
OTHER SHAREHOLDERS 7,00 %

Key figures of 2016 (Amount in KSHS)

Activity	2015	2016	Variation
Deposits	47 488	34 464	-27,4 %
Loans	37 799	31 542	-16,6 %
Number of branches at the end of the financial year	42	44	4,8 %
Structure			
Total Assets	69 280	55 996	-19,2 %
Shareholders' equity	8 496	8 418	-0,9 %
Average number of employees	511	515	0,8 %
Income			
Tier 1	6 970	5 585	
Tier 2	1 681	2 052	
Risk Weighted Asset (RWA)	52 778	47 248	
Tier 1 + Tier 2 / RWA	16,4 %	16,2 %	

Capital Adequacy Ratio	2015	2016	Variation
Net operating income	4 272	3 969	-7,1 %
Operating expenses	2 912	2 905	0,2 %
Gross operating profit	1 360	1 063	-21,8 %
Cost of risk (in value) (*)	2 778	1 216	-56,2 %
Net income	-1 023	10	-101,0 %
Operating ratio	68,2 %	73,2 %	
Cost of risk	7,3 %	3,5 %	
Return on Assets (ROA)	-1,48 %	0,02 %	
Return on Equity (ROE)	-12,5 %	0,1 %	

(*) Including general provision

Financial Analysis

In 2016, BANK OF AFRICA - KENYA (BOA-KENYA) recorded a net profit of KES 10.4 million compared to a net loss of KES 1,023 million in 2015. The key drivers of the improved 2016 performance were as follows:

- Balance sheet shrinkage so as to let go of relatively expensive liabilities and assets whose return was below expected threshold.
- Improved asset and liability management leading to reduced cost of funds.
- Stringent management of the asset portfolio with close follow up leading to improved recoveries as well as prevention of further deterioration of the assets.
- Improved fees and commissions from branch operations following growth in account numbers and new electronic products such as e-customs, i-Tax and enhanced mobile banking.
- Improved results of the Bank's associated companies leading to increased share of income (BOA-UGANDA where BOA-KENYA owns 43.24% shareholding).
- Tight control over operating expenses especially on staff costs.

Key strategies of the Bank however did not materialize during 2016 such as deepening business growth in the SME sector due to the challenging operating environment following a market confidence crisis in the Banking Industry in Kenya and the interest rate regulation passed under the Banking (Amendment) Act 2016.

The results of the Bank therefore reflect the harsh operating environment which started in October 2015 following the collapse of Imperial Bank and the first recorded segmentation of the banking industry. The situation continued in 2016 with the collapse of Chase Bank that triggered a run on banks following a market confidence crisis affecting Tier 2 and 3 banks (BOA-KENYA is in Tier 2) where depositors moved their deposits to Tier 1 banks in what was described as a "flight to size". The effects of this was far reaching and more intense than the October 2015 flight with the near collapse of the money market (with banks not trusting each other), the suspension of trade lines by correspondent banks abroad as they took steps to control their risk exposure in Kenya and the loss of funds by fund managers in collapsed banks (hence reducing liquidity avenues for Tier 2 and 3 Banks). Interest rate control was then introduced in quarter 3 2016 just as the market was recovering from the segmentation risk, leading to the inability of banks in Kenya to price for risk on one end, and the inability to offer remunerated deposits at a price that could support already booked assets (due to a floor being introduced on deposit rates). This affected strategies, with banks having to reorganize themselves both on the assets and liabilities side. During the same year, private sector credit growth had started declining due to largely the market liquidity crisis, with most liquid banks opting to invest surplus funds in Treasury bills and bonds. The interest rate control that happened in September 2016 went further to aggravate the position. In the midst of all these, the non performing accounts in the industry had been on the upward trend and this too impacted negatively on the industry with hefty provisions being taken and more caution being exercised on risk asset generation by the industry.

The Bank's Management remains optimistic about 2017 and has reorganized the Bank so as to better manage its operating expenses and cost of risk. Further, the Bank is embarking on a digitalization strategy which will lead to enhanced IT systems capabilities. This is expected to improve customer experience, enhance transactional deposit collections as well as improve operating efficiencies. In line with the digitalization strategy, the Bank is rationalizing its branch network and is in the process of closing 12 retail branches out of its network of 44 branches and leverage on technology to serve clients better.

Reports of the Directors

For the year ended 31 December 2016

The Directors have pleasure in submitting their report together with the financial statements for the year ended 31 December 2016. The report discloses the state of affairs of the Company.

Principal activities

The Bank is engaged in the business of commercial banking and provision of related services and is licensed under the Banking Act and regulated by the Central Bank of Kenya.

Results

The results of the company for the year are set out on page 9.

Dividend

The Directors do not recommend the payment of a dividend in respect of the year ended 31 December 2016 (2015: Nil).

Directors

The Directors who served during the year to the date of this report are as set out below:

Name	Position	Nationality
Ambassador Dennis Awori*	Chairman, Non-Executive Director	Kenyan
Amine Bouabid	Non-Executive Director	Moroccan
Alexandre Randrianasolo (Resigned on 27 May 2016)	Non-Executive Director	Malagasy
Vincent De Brouwer	Non-Executive Director	Belgian
Bernardus A.M. Zwinkels (Resigned on 1 October 2016)	Non-Executive Director	Dutch
Abdelkabir Bennani	Non-Executive Director	Moroccan
Susan Kasinga*	Non-Executive Director	Kenyan
Eunice Mbogo*	Non-Executive Director	Kenyan
Ronald Marambii	Managing Director	Kenyan

*Independent Non-Executive Directors

Relevant audit information

The Directors in office at the date of this report confirm that:

– There is no relevant audit information of which the Company's auditor is unaware; and

– Each director has taken all the steps that they ought to have 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.

Auditors

The Company's auditors, KPMG Kenya, have indicated their willingness to continue in office in accordance with Section 719 of the Kenyan Companies Act, 2015, and subject to Section 24(1) of the Banking Act (Cap 488).

Approval of financial statements

The financial statements were approved on 8 March 2017.

By order of the Board

Anne GITAU
Company Secretary
8 March 2017

Corporate Governance Report

For the year ended 31 December 2016

Corporate governance outlines the way companies are run and managed, the role of the Board of Directors and the framework of internal controls. The Board of BANK OF AFRICA - KENYA Limited is keen on ensuring the adoption of good corporate governance.

The Board

The Board is made up of the Chairman, the Managing Director, and five Non-Executive Directors. All Directors are subject to periodic re-appointment in accordance with the Company's Articles of Association. On appointment, each Director receives information about the Bank and is advised of the legal, regulatory and other obligations of a Director.

The full Board meetings were held as shown in the table below. In the event that a Director cannot attend a Board Meeting, an acceptable apology with a valid reason is sent to the Chairman in advance of the meeting. Directors are given appropriate information that guides their control over strategic, financial, operational, compliance and governance matters. The Managing Director is in charge of the day to day operations while the Board oversees the performance of the executive management.

The following table shows the number of Board meetings held during the year and the attendance of individual Directors.

Board meeting membership and attendance in 2016

	22 Feb. 2016	9 March 2016	7 June 2016	16 Sept. 2016	6 Dec. 2016
Ambassador Dennis Awori	A	A	A	A	A
Amine Bouabid	AP	A	A	A	A
Alexandre Randrianasolo	AP	A	N/A	N/A	N/A
Vincent de Brouwer	A	A	AP	A	A
Bernardus A.M. Zwinkels	A	A	A	AP	N/A
Abdelkabir Bennani	A	A	A	A	A
Susan Kasinga	A	A	A	A	A
Eunice Mbogo	A	A	A	A	A
Ronald Marambii	A	A	A	A	A

A – Attended

AP – Absent with apology

N/A- Not Applicable, as the individual was not a Director of the Company at the time the meeting was held.

Board Committees

To increase efficiency and allow deeper focus on the management of key functions of the Bank, the Board has established the following four main Committees:

i) The Board Audit Committee

The main role of the Board Audit Committee is to provide independent oversight of the Bank's financial reporting and internal control systems to ensure that checks and balances within the Bank are in place. The Committee also reviews the performance and findings of the internal and external auditors, findings of the regulatory authorities, and recommends appropriate remedial action. The Committee has direct access to the Company's internal and external auditors. The Members of this Committee are Ms. Susan Kasinga (Chairperson), Mr. Vincent de Brouwer, Mr. Abdelkabir Bennani and Ms. Eunice Mbogo.

ii) The Board Credit Committee

The overall responsibility of the Board Credit Committee is to approve and review the credit risk strategy and credit risk policies of the Bank. The Committee sets the acceptable risk appetite and tolerance that the Bank is willing to engage. The Members of this Committee are Ms. Susan Kasinga (Chairperson), Mr. Vincent de Brouwer and Mr. Abdelkabir Bennani.

iii) The Board Risk Management Committee

This Committee's main responsibility is to assist the Directors in discharging their responsibility of ensuring quality, integrity and reliability of the Bank's enterprise wide risk management and corporate accountability and associated risks in terms of management, assurance and reporting. The Committee also assists in fostering an effective risk management culture throughout the Bank as well as assisting the Board in fulfilling its oversight responsibility relating to compliance with legal and regulatory requirements and the Bank's policies. The Members of this Committee are Ms. Eunice Mbogo (Chairperson), Mr. Vincent de Brouwer, Mr. Abdelkabir Bennani and Ms. Susan Kasinga.

iv) The Board Nomination, Compensation and Human Resources Committee:

The purpose of this Committee is to enable the Board to discharge its responsibilities in relation to the nomination of appropriate directors to the Board and its committees, the assessment of the performance of the Board, Directors (including the Executive Directors) and Senior Management, succession planning for Directors and Senior Management, remuneration, welfare, retention and human capital development policies and programs for the Directors and all staff of the Bank. The Members of this Committee are Ms. Eunice Mbogo (Chairperson), Ms. Susan Kasinga and Mr. Abdelkabir Bennani.

There also exists a Board Head Office Project Committee which, acting with the accordance with the authority delegated by the Board, has assisted Management of the Bank in locating a suitable Head Office premises for the Company as well as fit out of the same.

At each quarterly Board Meeting, the Chairpersons of the various Board Committees report to the Board on the highlights of the Committees' deliberations and escalate to the Board all matters requiring its consideration and approval.

Directors' remuneration

The remuneration of all Directors is subject to regular review to ensure that levels of remuneration and compensation are appropriate. Information on the aggregate amount of emoluments and fees paid to Directors is disclosed in Note 31 of the financial statements.

Board performance evaluation

Under the Prudential Guidelines issued by the Central Bank of Kenya, the Board is responsible for ensuring that an evaluation of its performance, that of its Committees and individual Directors is done. The results of such an evaluation are to be provided to the Central Bank of Kenya.

In a process led by the Chairperson of the Board Nomination, Compensation and Human Resources Committee and supported by the Company Secretary, a comprehensive evaluation of the performance of the Board the Board Committees and the Board Chairman for the year 2016 was conducted in the last quarter of 2016, with the aim of assessing capacity and effectiveness relative to the mandates, and identifying any challenges that could form a basis for action in the coming year.

The Directors, following the evaluation exercise, agreed that the Board continues to operate effectively, and there is a high level of meaningful interaction amongst the Directors, and also between the Board and Management. Areas requiring further attention and action by individual Directors were noted and shall be acted upon in the course of the year 2017. Key areas of focus by the Board as a whole in 2017 were agreed on and include the development and implementation of a clear strategy and the right human resource to go with it in order to deliver performance in the new dispensation of interest caps and deposit floors, enhancing the Bank's ICT system, controlling the Bank's operating expenses, debt recovery, and enhancing the Bank's image and its membership in the BMCE Group. The Board shall be monitoring keenly the performance of the Bank against each of these parameters.

Going concern

The Board ensures that the Bank has adequate resources to continue in business into the foreseeable future. For this reason, it continues to adopt the going concern basis when preparing the financial statements.

Internal controls

The Board has the responsibility of ensuring that adequate systems of internal control that provide reasonable assurance of effective and efficient operations are in place.

The Board strives to achieve a strong control environment including the evaluation of non-financial risks guided by written policies and procedures to identify and manage risk.

The Bank's Internal Audit Department which is independent, reports to the Board Audit Committee and provides an independent confirmation that BOA Group business standards, policies and procedures are being complied with.

Statement of Directors' Responsibilities

The Directors are responsible for the preparation and presentation of the financial statements of BANK OF AFRICA - KENYA Limited set out on pages 18 to 65 which comprise the statement of financial position at 31 December 2016, statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

The Directors' responsibilities include: determining that the basis of accounting described in Note 2 is an acceptable basis for preparing and presenting the financial statements in the circumstances, preparation and presentation of financial statements in accordance with International Financial Reporting Standards and in the manner required by 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 misstatements, whether due to fraud or error.

Under the Kenyan Companies Act, 2015, the directors are required to prepare financial statements for each financial period which give a true and fair view of the state of affairs of the Bank as at the end of the financial period and of the operating results of the Bank for that period. It also requires the directors to ensure the Bank keeps proper accounting records which disclose with reasonable accuracy the financial position of the Bank.

The Directors accept responsibility for the annual financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgments and estimates, in conformity with International Financial Reporting Standards and in the manner required by the Kenyan Companies Act, 2015. The Directors are of the opinion that the financial statements give a true and fair view of the state of the financial affairs of the Bank and of its operating results.

The Directors further accept responsibility for the maintenance of accounting records which may be relied upon in the preparation of financial statements, as well as adequate systems of internal financial control.

The Directors have made an assessment of the Bank's ability to continue as a going concern and have no reason to believe the Bank will not be a going concern for at least the next twelve months from the date of this statement.

Approval of the financial statements

The financial statements, as indicated above, were approved by the Board of Directors on 8 March 2017 and were signed on its behalf by:

Chairman
Ambassador Dennis Awori

Managing Director
Ronald Marambii

Director
Susan Kasinga

Company Secretary
Anne Gitau

Report of the Independent Auditors

To the members of BANK OF AFRICA - KENYA limited

Report on the audit of the financial statements

Unqualified opinion

We have audited the financial statements of BANK OF AFRICA - KENYA Limited set out on pages 9 to 71, which comprise the statement of financial position as at 31 December 2016, statement of profit or loss and other comprehensive income, the statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of BANK OF AFRICA - KENYA Limited as at 31 December 2016, and of the financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs) 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 Bank in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements that are relevant to our audit of the financial statements in Kenya, and we have fulfilled our other ethical responsibilities in accordance with 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 other information. The other information comprises the Corporate Governance Report and the Directors' Report but does not include the financial statements and our auditors' 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 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 that we have performed, we conclude that there is a material misstatement of this other information, then we are required to report that fact. We have nothing to report in this regard.

Directors' responsibilities for the Financial Statements

As stated on page 5, the Directors are responsible for the preparation of financial statements that give a true and fair view in accordance with IFRSs and in the manner required by the Kenyan Companies Act, 2015, and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

Auditors' 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 International Standards on Auditing (ISAs) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

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

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

– Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors.

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

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

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

Report on other legal and regulatory requirements

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

(i) We have obtained all the information and explanations, which to the best of our knowledge and belief were necessary for the purpose of our audit;

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

(iii) The statement of financial position and statement of profit or loss and other comprehensive income are in agreement with the books of account.

The Engagement Partner responsible for the audit resulting in this independent auditors' report is FCPA Eric Aholi – P/1471.

Financial Statements

For the year ended 31 december 2016

Statement of profit or loss and other comprehensive income

	NOTE	2016 KSHS 000	2015 KSHS 000
INTEREST INCOME	5	6,515,259	6,914,635
INTEREST EXPENSE	6	(3,492,703)	(3,764,295)
NET INTEREST INCOME		3,022,556	3,150,340
FEE AND COMMISSION INCOME	7	700,255	813,443
FEE AND COMMISSION EXPENSE	7	(19,163)	(9,538)
NET FEE AND COMMISSION INCOME		681,092	803,905
NET FOREIGN EXCHANGE INCOME		256,650	317,864
OTHER OPERATING INCOME	8	8,516	-
TOTAL INCOME		3,968,814	4,272,109
IMPAIRMENT LOSSES ON LOANS AND ADVANCES	17	(1,216,268)	(2,777,945)
NET OPERATING INCOME		2,752,546	1,494,164
STAFF COSTS	9	(1,224,951)	(1,295,499)
DEPRECIATION AND AMORTISATION	10	(208,508)	(216,766)
OTHER OPERATING COSTS	11	(1,472,037)	(1,399,381)
TOTAL OPERATING EXPENSES		(2,905,496)	(2,911,646)
LOSS FROM OPERATIONS		(152,950)	(1,417,482)
SHARE OF PROFIT OF ASSOCIATES	32	136,453	3,558
LOSS ON LOSS OF CONTROL	32	-	(20,264)
LOSS BEFORE INCOME TAX		(16,497)	(1,434,188)
INCOME TAX CREDIT	12	26,967	410,827
PROFIT/(LOSS) FOR THE YEAR		10,470	(1,023,361)
OTHER COMPREHENSIVE INCOME			
ITEMS THAT MAY SUBSEQUENTLY BE RECLASSIFIED TO PROFIT OR LOSS			
NET CHANGES IN FAIR VALUE OF AVAILABLE FOR SALE INVESTMENTS	16(A)	(40,156)	(37,678)
DEFERRED TAX ON FAIR VALUE ON AVAILABLE FOR SALE INVESTMENTS	18	2,008	1,884
FOREIGN CURRENCY TRANSLATION DIFFERENCES			
FOR INVESTMENTS IN FOREIGN OPERATIONS	32	(50,072)	(58,528)
OTHER COMPREHENSIVE INCOME, NET OF TAX		(88,220)	(94,322)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		(77,750)	(1,117,683)

The notes on pages 16 to 65 are an integral part of these financial statements.

Statement of financial position

	NOTE	2016 KSHS 000	2015 KSHS 000
ASSETS			
CASH AND BALANCES WITH CENTRAL BANK	14	6,392,943	5,953,628
DUE FROM OTHER BANKING INSTITUTIONS	15	3,240,179	7,986,755
DUE FROM GROUP BANKS	31 (A)	2,911,005	5,245,893
INVESTMENT SECURITIES- AVAILABLE FOR SALE	16(A)	570,332	610,488
INVESTMENT SECURITIES- HELD TO MATURITY	16(B)	5,293,768	6,487,110
LOANS AND ADVANCES TO CUSTOMERS	17	31,541,959	37,798,691
DEFERRED INCOME TAX	18	1,250,435	768,899
OTHER ASSETS	19	1,100,843	955,848
PROPERTY AND EQUIPMENT	20	2,461,496	2,332,484
INTANGIBLE ASSETS	21	62,168	60,659
NON- CURRENT ASSET HELD FOR SALE	22	4,350	-
INVESTMENT IN ASSOCIATE	32	1,166,193	1,079,812
TOTAL ASSETS		55,995,671	69,280,267
LIABILITIES			
CUSTOMER DEPOSITS	23	34,463,707	47,487,589
DUE TO OTHER BANKING INSTITUTIONS	24	36,174	15,870
DUE TO GROUP BANKS	31(B)	2,875,347	5,663,228
CURRENT INCOME TAX PAYABLE	12	241,980	17,206
OTHER LIABILITIES	25	852,228	806,213
BORROWINGS	33	9,108,249	6,794,425
TOTAL LIABILITIES		47,577,685	60,784,531
SHAREHOLDERS' EQUITY			
SHARE CAPITAL	26	6,217,678	5,275,991
UNISSUED CAPITAL	26	187,271	1,128,958
SHARE PREMIUM	26	1,980,356	1,980,356
STATUTORY CREDIT RISK RESERVE	27	1,445,499	49,729
FAIR VALUE RESERVE	28 (A)	(73,942)	(35,794)
FOREIGN CURRENCY TRANSLATION RESERVE	28 (B)	(108,600)	(58,528)
RETAINED EARNINGS		(1,230,276)	155,024
TOTAL SHAREHOLDERS' EQUITY		8,417,986	8,495,736
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		55,995,671	69,280,267

The financial statements on pages 13 to 65 were approved for issue by the Board of Directors on 8 March 2017 and signed on its behalf by:

Chairman
Ambassador Dennis Awori

Managing Director
Ronald Marambii

Director
Susan Kasinga

Company Secretary
Anne Gitau

The notes on pages 16 to 65 are an integral part of these financial statements.

Statement of changes in equity

	NOTES	SHARE CAPITAL KSHS 000	UNISSUED CAPITAL KSHS 000	SHARE PREMIUM KSHS 000	STATUTORY CREDIT RISK RESERVE KSHS 000	FAIR VALUE RESERVE KSHS 000	FOREIGN CURRENCY TRANSACTION RESERVE KSHS 000	RETAINED EARNINGS KSHS 000	TOTAL EQUITY KSHS 000
AT 1 JANUARY 2016		5,275,991	1,128,958	1,980,356	49,729	(35,794)	(58,528)	155,024	8,495,736
TOTAL COMPREHENSIVE INCOME									
PROFIT FOR THE YEAR		-	-	-	-	-		10,470	10,470
TRANSFER FROM RETAINED EARNINGS	27	-	-	-	1,395,770	-	-	(1,395,770)	-
NET CHANGE IN FAIR VALUE ON AFS FINANCIAL ASSETS, NET OF DEFERRED TAX	16(A)	-	-	-	-	(38,148)	-	-	(38,148)
FOREIGN CURRENCY TRANSLATION DIFFERENCES ON FOREIGN OPERATIONS	32	-	-	-	-	-	(50,072)	-	(50,072)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		-	-	-	1,395,770	(38,148)	(50,072)	(1,385,300)	(77,750)
TRANSACTIONS WITH OWNERS, RECORDED DIRECTLY IN EQUITY									
ISSUE OF SHARES	26	941,687	(941,687)	-	-	-	-	-	-
TOTAL CONTRIBUTIONS BY AND DISTRIBUTIONS TO OWNERS		941,687	(941,687)	-	-	-	-	-	-
AT 31 DECEMBER 2016		6,217,678	187,271	1,980,356	1,445,499	(73,942)	(108,600)	(1,230,276)	8,417,986
AT 1 JANUARY 2015 - RESTATED		5,275,991	-	1,409,104	347,356	-	-	880,758	7,913,209
TOTAL COMPREHENSIVE INCOME									
LOSS FOR THE YEAR		-	-	-	-	-		(1,023,361)	(1,023,361)
TRANSFER TO RETAINED EARNINGS	27	-	-	-	(297,627)	-	-	297,627	-
NET CHANGE IN FAIR VALUE ON AFS FINANCIAL ASSETS, NET OF DEFERRED TAX	16(A)	-	-	-	-	(35,794)	-	-	(35,794)
FOREIGN CURRENCY TRANSLATION DIFFERENCES ON INVESTMENTS IN FOREIGN OPERATIONS	32	-	-	-	-	-	(58,528)	-	(58,528)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		-	-	-	(297,627)	(35,794)	(58,528)	(725,734)	(1,117,683)
TRANSACTIONS WITH OWNERS, RECORDED DIRECTLY IN EQUITY									
SUBSCRIPTION OF SHARES	26	-	1,128,958	571,252	-	-	-	-	1,700,210
TOTAL CONTRIBUTIONS BY AND DISTRIBUTIONS TO OWNERS		-	1,128,958	571,252	-	-	-	-	1,700,210
AT 31 DECEMBER 2015		5,275,991	1,128,958	1,980,356	49,729	(35,794)	(58,528)	155,024	8,495,736

The notes on pages 16 to 65 are an integral part of these financial statements.

Statement of cash flows

	NOTE	2016 KSHS 000	2015 KSHS 000
CASH FLOWS FROM OPERATING ACTIVITIES			
NET LOSS BEFORE TAXATION		(16,497)	(1,434,188)
ADJUSTMENTS FOR:			
DEPRECIATION AND AMORTISATION	10	208,508	216,766
PROFIT ON DISPOSAL OF PROPERTY AND EQUIPMENT	8	(209)	
SHARE OF PROFIT OF ASSOCIATE	32	(136,453)	(3,558)
LOSS ON LOSS OF CONTROL OF ASSOCIATES AND SUBSIDIARY	32		20,264
IMPAIRMENT OF FIXED ASSETS		84,675	
WRITE OFF OF FIXED ASSETS		6,330	17,716
CASH FLOWS FROM/(USED IN) OPERATING ACTIVITIES		146,354	(1,183,000)
INCOME TAX PAID	12	(227,787)	(39,096)
NET CASH FLOWS USED IN OPERATING ACTIVITIES BEFORE CHANGES IN OPERATING ASSETS AND LIABILITIES		(81,433)	(1,222,096)
CHANGES IN OPERATING ASSETS AND LIABILITIES:			
DECREASE IN LOANS AND ADVANCES		6,256,732	665,185
DECREASE/(INCREASE) IN CASH RESERVE REQUIREMENT		536,352	(112,258)
INCREASE IN OTHER ASSETS		(144,995)	(12,129)
(DECREASE)/INCREASE IN CUSTOMER DEPOSITS		(13,023,882)	5,816,777
DECREASE IN NET DEPOSITS (TO)/ FROM OTHER BANKS			312,463
DECREASE/(INCREASE) IN NET AMOUNTS DUE (TO)/ FROM GROUP COMPANIES		24,722	(1,335,343)
INCREASE IN OTHER LIABILITIES		46,015	357,126
NET CASH (USED IN) / FROM OPERATING ACTIVITIES		(6,386,489)	4,469,725
CASH FLOWS FROM INVESTING ACTIVITIES			
INVESTMENT IN ASSOCIATE	32		(109,040)
PURCHASE OF PROPERTY AND EQUIPMENT	20	(421,762)	(1,681,663)
PURCHASE OF INTANGIBLE ASSETS	21	(13,040)	(17,051)
PROCEEDS FROM SALE OF PROPERTY AND EQUIPMENT		627	
MATURING OF INVESTMENT SECURITIES – BILLS AND BONDS		398,904	1,449,567
NET CASH USED IN INVESTING ACTIVITIES		(35,271)	(358,187)
CASH FLOWS FROM FINANCING ACTIVITIES			
ISSUE OF ORDINARY SHARES	26		1,700,210
NET PROCEEDS FROM BORROWINGS	33	2,313,824	2,644,412
NET CASH GENERATED FROM FINANCING ACTIVITIES		2,313,824	4,344,622
NET (DECREASE)/ INCREASE IN CASH AND CASH EQUIVALENTS		(4,107,936)	8,456,160
AT START OF YEAR		11,878,824	3,422,664
AT YEAR END	30	7,770,888	11,878,824

The notes on pages 16 to 65 are an integral part of these financial statements.

Notes to the Financial Statements

For the year ended 31 December 2016

1. General information

BANK OF AFRICA - KENYA Limited is incorporated in Kenya under the Kenyan Companies Act, 2015 as a limited liability company, and is domiciled in Kenya. The company is regulated by the Central Bank of Kenya. The Bank is controlled by BOA Group S.A. incorporated in Luxembourg with its ultimate parent being BMCE Bank incorporated in Morocco. The address of its registered office is:

BOA House

LR No: 1870/III/313 and 1870/III/314
School Lane
Westlands, Nairobi
P.O. Box 69562 - 00400
Nairobi

2. Significant accounting policies

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

2.1. Basis of preparation

(a) Statement of Compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and the Kenyan Companies Act, 2015. For Kenyan Companies Act, 2015 reporting purposes in these financial statements, the balance sheet is represented by the statement of financial position, and the profit and loss account is presented in the statement of profit or loss and other comprehensive income.

(b) Basis of measurement

The measurement basis used is the historical cost basis except for fair valuation of certain assets as disclosed in the accounting policies below.

(c) Use of estimates

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

(i) New standards, amendments and interpretations effective and adopted during the year

The Bank has adopted the following new standards and amendments during the year ended 31 December 2016, including consequential amendments to other standards with the date of initial application by the Bank being 1 January 2016. The nature and effects of the changes are explained below:

(d) New standards and interpretations

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

The amendments to IAS 16 Property, Plant and Equipment explicitly state that revenue-based methods of depreciation cannot be used for property, plant and equipment.

The amendments to IAS 38 Intangible Assets introduce a rebuttable presumption that the use of revenue-based amortisation methods for intangible assets is inappropriate. The presumption can be overcome only when revenue and the consumption of the economic benefits of the intangible asset are 'highly correlated', or when the intangible asset is expressed as a measure of revenue. The amendments apply prospectively for annual periods beginning on or after 1 January 2016.

The adoption of these changes did not have a significant impact on the financial statements of the Bank.

Equity Method in Separate Financial Statements (Amendments to IAS 27)

The amendments allow the use of the equity method in separate financial statements, and apply to the accounting not only for associates and joint ventures but also for subsidiaries. The amendments apply retrospectively for annual periods beginning on or after 1 January 2016.

The adoption of these changes did not have a significant impact on the financial statements of the Bank.

Investment Entities: Applying the Consolidation Exception (Amendments to IFRS 10, IFRS 12 and IAS 28)

The amendment to IFRS 10 Consolidated Financial Statements clarifies which subsidiaries of an investment entity are consolidated instead of being measured at fair value through profit and loss. The amendment also modifies the condition in the general consolidation exemption that requires an entity's parent or ultimate parent to prepare consolidated financial statements.

The amendment clarifies that this condition is also met where the ultimate parent or any intermediary parent of a parent entity measures subsidiaries at fair value through profit or loss in accordance with IFRS 10 and not only where the ultimate parent or intermediate parent consolidates its subsidiaries.

The amendment to IFRS 12 Disclosure of Interests in Other Entities requires an entity that prepares financial statements in which all its subsidiaries are measured at fair value through profit or loss in accordance with IFRS 10 to make disclosures required by IFRS 12 relating to investment entities.

The amendment to IAS 28 Investments in Associates and Joint Ventures modifies the conditions where an entity need not apply the equity method to its investments in associates or joint ventures to align these to the amended IFRS 10 conditions for not presenting consolidated financial statements.

The amendments introduce relief when applying the equity method which permits a non-investment entity investor in an associate or joint venture that is an investment entity to retain the fair value through profit or loss measurement applied by the associate or joint venture to its subsidiaries.

The amendments apply retrospectively for annual periods beginning on or after 1 January 2016. The adoption of these changes did not have a significant impact on the financial statements of the Bank.

Disclosure Initiative (Amendments to IAS 1)

The amendments provide additional guidance on the application of materiality and aggregation when preparing financial statements. The amendment applies for annual periods beginning on or after 1 January 2016 and early application is permitted. The adoption of these changes did not have a significant impact on the financial statements of the Bank.

(ii) New standards, amendments and interpretations not yet adopted

Disclosure Initiative (Amendments to IAS 7)

The amendments in Disclosure Initiative (Amendments to IAS 7) come with the objective that entities shall provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities.

The International Accounting Standards Board (IASB) requires that the following changes in liabilities arising from financing activities are disclosed (to the extent necessary): (i) changes from financing cash flows; (ii) changes arising from obtaining or losing control of subsidiaries or other businesses; (iii) the effect of changes in foreign exchange rates; (iv) changes in fair values; and (v) other changes.

The IASB defines liabilities arising from financing activities as liabilities "for which cash flows were, or future cash flows will be, classified in the statement of cash flows as cash flows from financing activities". It also stresses that the new disclosure requirements also relate to changes in financial assets if they meet the same definition.

The amendments state that one way to fulfil the new disclosure requirement is to provide reconciliation between the opening and closing balances in the statement of financial position for liabilities arising from financing activities.

Finally, the amendments state that changes in liabilities arising from financing activities must be disclosed separately from changes in other assets and liabilities.

The amendments are effective for annual periods beginning on or after 1 January 2017, with early application permitted. Since the amendments are being issued less than one year before the effective date, entities need not provide comparative information when they first apply the amendments.

The Bank is assessing the potential impact on its financial statements resulting from the application of IAS 7.

IFRS 15 Revenue from Contracts with Customers

This standard replaces IAS 11 Construction Contracts, IAS 18 Revenue, IFRIC 13 Customer Loyalty Programmes, IFRIC 15 Agreements for the Construction of Real Estate, IFRIC 18 Transfer of Assets from Customers and SIC-31 Revenue – Barter of Transactions Involving Advertising Services.

The standard contains a single model that applies to contracts with customers and two approaches to recognising revenue: at a point in time or over time. The standard specifies how and when an IFRS reporter will recognise revenue as well as requiring such entities to provide users of financial statements with more informative, relevant disclosures.

The standard provides a single, principles based five-step model to be applied to all contracts with customers in recognising revenue being: Identify the contract(s) with a customer; identify the performance obligations in the contract; determine the transaction price; Allocate the transaction price to the performance obligations in the contract; and recognise revenue when (or as) the entity satisfies a performance obligation.

IFRS 15 is effective for annual reporting periods beginning on or after 1 January 2018, with early adoption permitted.

The Bank is assessing the potential impact on its financial statements resulting from the application of IFRS 15.

IFRS 9: Financial Instruments (2014)

On 24 July 2014 the IASB issued the final IFRS 9 Financial Instruments Standard, which replaces earlier versions of IFRS 9 and completes the IASB's project to replace IAS 39 Financial Instruments: Recognition and Measurement.

This standard introduces changes in the measurement bases of the financial assets to amortised cost, fair value through other comprehensive income or fair value through profit or loss. Even though these measurement categories are similar to IAS 39, the criteria for classification into these categories are significantly different. In addition, the IFRS 9 impairment model has been changed from an "incurred loss" model from IAS 39 to an "expected credit loss" model.

The standard is effective for annual period beginning on or after 1 January 2018 with retrospective application, early adoption permitted.

The Bank is assessing the potential impact on its financial statements resulting from the application of IFRS 9.

Classification and Measurement of Share-based Payment Transactions (Amendments to IFRS 2)

The following clarifications and amendments are contained in the pronouncement:

— Accounting for cash-settled share-based payment transactions that include a performance condition

Up until this point, IFRS 2 contained no guidance on how vesting conditions affect the fair value of liabilities for cash-settled share-based payments. IASB has now added guidance that introduces accounting requirements for cash-settled share-based payments that follows the same approach as used for equity-settled share-based payments.

— Classification of share-based payment transactions with net settlement features

IASB has introduced an exception into IFRS 2 so that a share-based payment where the entity settles the share-based payment arrangement net is classified as equity-settled in its entirety provided the share-based payment would have been classified as equity-settled had it not included the net settlement feature.

— Accounting for modifications of share-based payment transactions from cash-settled to equity-settled

Up until this point, IFRS 2 did not specifically address situations where a cash-settled share-based payment changes to an equity-settled share-based payment because of modifications of the terms and conditions. The IASB has introduced the following clarifications:

- On such modifications, the original liability recognised in respect of the cash-settled share-based payment is derecognised and the equity-settled share-based payment is recognised at the modification date fair value to the extent services have been rendered up to the modification date.
- Any difference between the carrying amount of the liability as at the modification date and the amount recognised in equity at the same date would be recognised in profit and loss immediately.

The amendments are effective for annual periods beginning on or after 1 January 2018. Earlier application is permitted. The amendments are to be applied prospectively. However, retrospective application if allowed if this is possible without the use of hindsight. If an entity applies the amendments retrospectively, it must do so for all of the amendments described above.

The adoption of these changes will not affect the amounts and disclosures of the Bank.

Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts (Amendments to IFRS 4)

The amendments in Applying IFRS 9 'Financial Instruments' with IFRS 4 'Insurance Contracts' (Amendments to IFRS 4) provide two options for entities that issue insurance contracts within the scope of IFRS 4:

— an option that permits entities to reclassify, from profit or loss to other comprehensive income, some of the income or expenses arising from designated financial assets; this is the so-called overlay approach;

– an optional temporary exemption from applying IFRS 9 for entities whose predominant activity is issuing contracts within the scope of IFRS 4; this is the so-called deferral approach.

The application of both approaches is optional and an entity is permitted to stop applying them before the new insurance contracts standard is applied.

An entity applies the overlay approach retrospectively to qualifying financial assets when it first applies IFRS 9. Application of the overlay approach requires disclosure of sufficient information to enable users of financial statements to understand how the amount reclassified in the reporting period is calculated and the effect of that reclassification on the financial statements.

An entity applies the deferral approach for annual periods beginning on or after 1 January 2018. Predominance is assessed at the reporting entity level at the annual reporting date that immediately precedes 1 April 2016. Application of the deferral approach needs to be disclosed together with information that enables users of financial statements to understand how the insurer qualified for the temporary exemption and to compare insurers applying the temporary exemption with entities applying IFRS 9.

The deferral can only be made use of for the three years following 1 January 2018. Predominance is only reassessed if there is a change in the entity's activities.

The adoption of these changes will not affect the amounts and disclosures of the Bank's financial statements.

IFRS 16: Leases

On 13 January 2016 the IASB issued IFRS 16 Leases, completing the IASB's project to improve the financial reporting of leases. IFRS 16 replaces the previous leases standard, IAS 17 Leases, and related interpretations.

IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract, i.e. the customer ('lessee') and the supplier ('lessor'). The standard defines a lease as a contract that conveys to the customer ('lessee') the right to use an asset for a period of time in exchange for consideration.

A company assesses whether a contract contains a lease on the basis of whether the customer has the right to control the use of an identified asset for a period of time.

The standard eliminates the classification of leases as either operating leases or finance leases for a lessee and introduces a single lessee accounting model. All leases are treated in a similar way to finance leases. Applying that model significantly affects the accounting and presentation of leases and consequently, the lessee is required to recognise:

a) Assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. A company recognises the present value of the unavoidable lease payments and shows them either as lease assets (right-of-use assets) or together with property, plant and equipment. If lease payments are made over time, a company also recognises a financial liability representing its obligation to make future lease payments.

b) depreciation of lease assets and interest on lease liabilities in profit or loss over the lease term; and

c) separate the total amount of cash paid into a principal portion (presented within financing activities) and interest (typically presented within either operating or financing activities) in the statement of cash flows.

IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently.

However, compared to IAS 17, IFRS 16 requires a lessor to disclose additional information about how it manages the risks related to its residual interest in assets subject to leases.

The standard does not require a company to recognise assets and liabilities for:

a) short-term leases (i.e. leases of 12 months or less) and;

b) leases of low-value assets

The new Standard is effective for annual periods beginning on or after 1 January 2019. Early application is permitted insofar as the recently issued revenue Standard, IFRS 15 Revenue from Contracts with Customers is also applied.

The adoption of these changes will affect the amounts and disclosures of the Bank's financial statements. The Bank is assessing the potential impact on its financial statements resulting from the application of IFRS 16.

Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments to IFRS 10 and IAS 28)

The amendments require the full gain to be recognised when assets transferred between an investor and its associate or joint venture meet the definition of a 'business' under IFRS 3 Business Combinations. Where the assets transferred do not meet the definition of a business, a partial gain to the extent of unrelated investors' interests in the associate or joint venture is recognised. The definition of a business is key to determining the extent of the gain to be recognised.

The effective date for these changes has now been postponed until the completion of a broader review.

The adoption of these changes will not have a significant impact on the financial statements of the Bank.

2.2. Consolidation

(i) Associates

Associates are all entities over which the Bank has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting. Under the equity method, the investment is initially recognised at cost, and the carrying amount is increased or decreased to recognise the investor's share of the profit or loss of the investee after the date of acquisition. The Bank's investment in associates includes goodwill identified on acquisition.

If the ownership interest in an associate is reduced but significant influence is retained, only a proportionate share of the amounts previously recognised in other comprehensive income is reclassified to profit or loss where appropriate.

The Bank's share of post-acquisition profit or loss is recognised in profit or loss, and its share of post-acquisition movements in other comprehensive income is recognised in other comprehensive income with a corresponding adjustment to the carrying amount of the investment. When the Bank's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Bank does not recognise further losses, unless it has incurred legal or constructive obligations or made payments on behalf of the associate.

The Bank determines at each reporting date whether there is any objective evidence that the investment in the associate is impaired. If this is the case, the Bank calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognises the amount adjacent to 'share of profit/(loss) of associates in profit or loss.

Profits and losses resulting from upstream and downstream transactions between the Bank and its associate are recognised in the Bank's financial statements only to the extent of unrelated investor's interests in the associates. Unrealised losses are eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Bank.

2.3. Foreign currency translation

(i) Functional and presentation currency

Items included in the financial statements of the Bank are measured using the currency of the primary economic environment in which entity operates ('the functional currency') which is in Kenya shillings. Except as otherwise indicated, financial information presented in Kenya shillings (Kshs) has been rounded to the nearest thousand.

(ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss, except when deferred in other comprehensive income as qualifying cash flow hedges and qualifying net investment hedges. All other foreign exchange gains and losses (including those that relate to borrowings and cash and cash equivalents) are presented in profit or loss for the year within "other gains / losses".

Changes in the fair value of monetary securities denominated in foreign currency classified as available for sale 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 amortised cost are recognised in profit or loss, and other changes in carrying amount are recognised in other comprehensive income.

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

(iii) Interests in foreign operations

The results and financial position of all interests in foreign operations (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities are translated at the closing rate at the date of that balance sheet;
- income and expenses are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of the transactions); and
- all resulting exchange differences are recognised in other comprehensive income.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate. Exchange differences arising are recognised in other comprehensive income.

2.4 Sale 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.

2.5. Financial assets and liabilities

(i) Financial assets

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

— 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;
- 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 embedded derivatives 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'.

— Loans and receivables

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

- those that the group 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 group upon initial recognition designates as available-for-sale; or
- those for which the holder may not recover substantially all of its initial investment, other than because of credit deterioration.

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

— 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:

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

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

— Available-for-sale financial assets

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

Available-for-sale financial assets are initially recognised at fair value, which is the cash consideration including any transaction costs, and measured subsequently at fair value with gains and losses being recognised in other comprehensive income and cumulated in a separate reserve in equity, fair value 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.

(ii) Financial liabilities

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

(iii) Determination of fair value

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

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

For all other financial instruments, fair value is determined using valuation techniques. 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, using inputs (for example, LIBOR yield curve, FX rates, volatilities and counterparty spreads) existing at the reporting dates.

The Bank uses widely recognised valuation models for determining fair values of non-standardised financial instruments of lower complexity, such as options or interest rate and currency swaps. For these financial instruments, inputs into models are generally market-observable.

For more complex instruments, the Bank uses internally developed models, which are usually based on valuation methods and techniques generally recognised as standard within the industry. Valuation models such as present value techniques are used primarily to value derivatives transacted in the over-the-counter market, unlisted debt securities (including those with embedded derivatives) and other debt instruments for which markets were or have become illiquid. Some of the inputs to these models may not be market observable and are therefore estimated based on assumptions. The impact on net profit of financial instrument valuations reflecting non-market observable inputs (level 3 valuations) is disclosed in Note 4.

The Bank uses its own credit risk spreads in determining the current value for its derivative liabilities and all other liabilities for which it has elected the fair value option. When the Bank's credit spreads widen, the Bank recognises a gain on these liabilities because the value of the liabilities has decreased. When the Bank's credit spreads narrow, the Bank recognises a loss on these liabilities because the value of the liabilities has increased.

The output of a model is always an estimate or approximation of a value that cannot be determined with certainty, and valuation techniques employed may not fully reflect all factors relevant to the positions the Bank holds. Valuations are therefore adjusted, where appropriate, to allow for additional factors including model risks, liquidity risk and counterparty credit risk. Based on the established fair value model governance policies, related controls and procedures applied, the directors believe that these valuation adjustments are necessary and appropriate to fairly state the values of financial instruments carried at fair value. Price data and parameters used in the measurement procedures applied are generally reviewed carefully and adjusted, if necessary – particularly in view of the current market developments.

In cases when the fair value of unlisted equity instruments cannot be determined reliably, the instruments are carried at cost less impairment. The fair values of contingent liabilities and irrevocable loan commitments correspond to their carrying amounts.

(iv) De-recognition

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

(v) Reclassification of financial assets

The Bank may choose to reclassify a non-derivative financial asset held for trading out of the held-for-trading category if the financial asset is no longer held for the purpose of selling it in the near-term. Financial assets other than loans and receivables are permitted to be reclassified out of the held for trading category only in rare circumstances arising from a single event that is unusual and highly unlikely to recur in the near-term. In addition, the Bank may choose to reclassify financial assets that would meet the definition of loans and receivables out of the held-for-trading or available-for-sale categories if the Bank has the intention and ability to hold these financial assets for the foreseeable future or until maturity at the date of reclassification.

Reclassifications are made at fair value as of the reclassification date. Fair value becomes the new cost or amortised cost as applicable, and no reversals of fair value gains or losses recorded before reclassification date are subsequently made. Effective interest rates for financial assets reclassified to loans and receivables and held-to-maturity categories are determined at the reclassification date. Further increases in estimates of cash flows adjust effective interest rates prospectively.

On reclassification of a financial asset out of the 'at fair value through profit or loss' category, all embedded derivatives are re-assessed and, if necessary, separately accounted for.

(vi) Classes of financial instruments

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

Category (as defined by IAS 39)	Class (as determined by the Bank)	Subclasses
Financial assets available for sale	Unlisted equity securities	
Loans and receivables	Loans and advances to banks	
	Loans and advances to customers	SMEs Corporates Retail
	Investment securities - debt instruments	Listed Unlisted
Held-to-maturity Investments	Investment securities - debt securities	Listed Unlisted
	Investment securities - equity securities	Listed Unlisted
Financial liabilities at armortised cost	Deposits from banks	
	Deposits from customers	
Off-balance sheet financial Instruments	Loan commitments	
	Guarantees, acceptances and other financial facilities	

2.6. Impairment of financial assets

Assets carried at amortised cost

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

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

(a) significant financial difficulty of the issuer or obligor;

(b) a breach of contract, such as a default or delinquency in interest or principal payments;

(c) the lender, for economic or legal reasons relating to the borrower's financial difficulty, granting to the borrower a concession that the lender would not otherwise consider;

(d) it becomes probable that the borrower will enter bankruptcy or other financial reorganisation;

(e) the disappearance of an active market for that financial asset because of financial difficulties; or

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

i. adverse changes in the payment status of borrowers in the portfolio; and

ii. national or local economic conditions that correlate with defaults on the assets in the portfolio.

The estimated period between a loss occurring and its identification is determined by 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 collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

For the purposes of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics (that is, on the basis of the group'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.

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.

2.7 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 offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously.

2.8 Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held at call with banks and other short-term highly liquid investments with original maturities of three months or less.

2.9 Property and equipment

Land and buildings comprise mainly branches and offices. All equipment used by the Bank is stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

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 group and the cost of the item can be measured reliably. The carrying amount of the replaced part is de-recognised. All other repair and maintenance costs are charged to profit or loss during the financial period in which they are incurred.

Depreciation of other assets is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives, as follows:

BUILDINGS	15%
FIXTURES, FITTINGS AND EQUIPMENT	10,0% - 20,0%
MOTOR VEHICLES	33,3%

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period. Assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in 'other operating expenses' in profit or loss.

2.10. Intangible assets

Computer software

Costs associated with maintaining computer software programmes 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 capitalised as part of the software product include the software development employee costs and an appropriate portion of relevant overheads.

Other development expenditures that do not meet these criteria are recognised as an expense as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period.

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

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised on the basis of the expected useful lives. Software has a maximum expected useful life of 5 years.

2.11. Non-current asset held for sale

Non-current assets, or disposal groups comprising assets and liabilities, that are expected to be recovered primarily through sale rather than through continuing use, are classified as held for sale. Immediately before classification as held for sale, the assets, or components of a disposal group, are re-measured in accordance with the Bank's accounting policies. Thereafter, generally the assets, or disposal group, are measured at the lower of their carrying amount and fair value less cost to sell. For non-financial assets, fair value takes into account the highest and best use either on a standalone basis or in combination with other assets or other assets and liabilities. Any impairment loss on a disposal group is first allocated to goodwill, and then to remaining assets and liabilities on pro rata basis, except that no loss is allocated to financial assets, deferred tax assets and employee benefit assets which continue to be measured in accordance with the Bank's accounting policies. Impairment losses on initial classification as held for sale and subsequent gains or losses on re-measurement are recognised in profit or loss. Gains are not recognised in excess of any cumulative impairment loss.

2.12. Impairment of non-financial assets

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

2.13. Employee benefits

Pension obligations

The Bank operates a defined contribution retirement scheme, the assets of which are held in a separate trustee-administered fund. A defined contribution plan is a pension plan under which the group pays fixed contributions into a separate entity. For defined contribution plans, the group pays contributions to publicly or privately administered pension insurance plans on a mandatory, contractual or voluntary basis.

The Bank has no further payment obligations once the contributions have been paid. The contributions are recognised as employee benefit expense when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

Other entitlements

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

2.14. Provisions for liabilities

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.

2.15. Income tax

Current income tax

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

The current income tax charge is calculated on the basis of tax laws 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.

Deferred income tax

Deferred income tax is recognised 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 realised or the deferred income tax liability is settled.

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

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

2.16. Dividend payable

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

2.17. Acceptances and letters of credit

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

2.18. 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.

2.19. Leases

Leases are divided into finance leases and operating leases.

(i) Operating lease

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 (net of any incentives received from the lessor) 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 recognised as an expense in the period in which termination takes place.

(ii) Finance lease

Leases of assets where the Bank has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the lease's commencement at the lower of the fair value of the leased property and the present value of the minimum lease payments. Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. The corresponding rental obligations, net of finance charges, are included in deposits from banks or deposits from customers depending on the counter party. The interest element of the finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

The leases entered into by the Bank are primarily operating leases.

2.20. Interest income and expense

Interest income and expense for all interest-bearing financial instruments are recognised in profit or loss using the effective interest method.

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability.

When calculating the effective interest rate, the Bank estimates cash flows considering all contractual terms of the financial instrument (for example, prepayment options) but does not consider future credit losses. The calculation includes all fees and points 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.

2.21. Fee and commission income

Fees and commissions are 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. Loan syndication fees are recognised as revenue when the syndication has been completed and the group has retained no part of the loan package for itself or has retained a part at the same effective interest rate as the other participants. Commission and fees arising from negotiating, or participating in the negotiation of, a transaction for a third party – such as the arrangement of the acquisition of shares or other securities, or the purchase or sale of businesses – are recognised on completion of the underlying transaction. Portfolio and other management advisory and service fees are recognised based on the applicable service contracts, usually on a time-apportionate basis. Performance-linked fees or fee components are recognised when the performance criteria are fulfilled.

2.22. Dividend income

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

2.23. Fiduciary activities

Assets held for clients in an agency or fiduciary capacity by the Bank are not assets of the Bank and are not included in the statement of financial position.

3. 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 continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

3.1. Impairment losses on loans and advances

The Bank's loan impairment provisions are established to recognise incurred impairment losses either on specific loan assets or within a portfolio of loans and receivables. Impairment losses for specific loan assets are assessed either on an individual or on a portfolio basis. Individual impairment losses are determined as the difference between the loan carrying value and the present value of estimated future cash flows, discounted at the loans' original effective interest rate. Impairment losses determined on a portfolio basis are assessed based on the probability of default inherent within the portfolio of impaired loans or receivables.

Estimating the amount and timing of future recoveries involves significant judgment, and considers the level of arrears as well as the assessment of matters such as future economic conditions and the value of collateral, for which there may not be a readily accessible market. Loan losses that have been incurred but have not been separately identified at the reporting date are determined on a portfolio basis, which takes into account past loss experience and defaults based on portfolio trends. Actual losses identified could differ significantly from the impairment provisions reported as a result of uncertainties arising from the economic environment.

3.2. 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 group evaluates its intention and ability to hold such investments to maturity. If the group 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 group is required to reclassify the entire category as available-for-sale. Accordingly, the investments would be measured at fair value instead of amortised cost.

3.3. Fair value

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 company 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 used in Level 1 that are observable for the assets or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

Level 3 – fair values measurements are derived from valuation techniques that include inputs for assets or liabilities 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.

3.4. Taxes

Determining income tax liability involves judgment on the tax treatment of certain transactions. Deferred tax is recognised on temporary differences where it is probable that there will be taxable revenue against which these can be offset.

3.5. Depreciation of property and equipment

Critical estimates are made by the Directors in determining the useful lives of property and equipment.

4. Financial risk management

The Bank's business involves taking on risks in a targeted manner and managing them professionally. The effective management of risk within the stated risk appetite is fundamental to the banking activities of the Bank.

Risk management is at the core of the operating and management structures of the Bank and this involves managing and controlling of risks and in particular avoiding undue concentration of exposures, limiting potential losses from stress events and constraining profit or loss volatility. 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 overall responsibility for risk management within the Bank rests with the Board of Directors. Through the risk management structure, the Bank seeks to manage efficiently the core risks i.e credit, liquidity and market risks which arise directly through the Bank's commercial activities. Accountability for risk management resides at all levels within the Bank, from the Executive down through the organisation to each business manager and risk owner.

On a day to day basis, risks are managed through a number of management committees. Through this process the Bank's monitors compliance with overall risk management policies. The Bank's risk management policies are approved by the Board and they identify, analyse the risks faced by the Bank as well as the appropriate risk limits and controls.

The Bank's Risk Management Committees are responsible for monitoring compliance with the Bank's risk management policies and procedures and for reviewing the adequacy of the risk management framework in relation to the risks faced by the Bank. Risk Management information is provided on a regular basis to the Board Risk Management & Compliance Committee.

The Board Audit Committee is responsible for monitoring compliance with the Bank's risk management policies and procedures and for reviewing the robustness of the risk management framework in relation to the risks faced by the Bank.

4.1. Credit risk

Credit risk is the risk of suffering financial loss, should any of the Bank's customers, clients or market counterparties fail to fulfil their contractual obligations to the Bank. Credit risk arises mainly from commercial and consumer loans and advances, credit cards, and loan commitments arising from such lending activities, but can also arise from credit enhancement provided, financial guarantees, letters of credit, endorsements and acceptances.

4.1.1. Credit risk management

Credit risk is the single largest risk for the Bank's business; the Directors therefore carefully manage the exposure to credit risk. It is managed in accordance with the Bank's risk management control framework approved by the Board.

The Group's Credit Policy/Framework reflects the Bank's tolerance for risk i.e. credit risk appetite. This, as a minimum, reflects the Bank's strategy to grant credit based on various products, economic sectors, client segments, target markets giving due consideration to risks specific to each target market.

Exposure to credit risk is managed through regular analysis of the ability of borrowers and potential borrowers to meet interest and capital repayment obligations and by changing lending limits where appropriate. Exposure to credit risk is also managed in part by obtaining collateral against loans and advances in the form of mortgage interests over property, other registered securities over assets and guarantees.

4.1.2. Credit risk measurement

The Bank establishes, through charges against profit, impairment allowances and other credit provisions for the incurred loss inherent in the lending book. Under IFRS, impairment allowances are recognized where there is objective evidence of impairment as a result of one or more loss events that have occurred after initial recognition, and where these events have had an impact on the estimated cashflows of the financial asset or portfolio of financial assets.

Impairment of loans and receivables is measured as the difference between the carrying amount of present value of estimated cashflows discounted at the financial assets original effective interest rate. If the carrying amount is less than the discounted cash flows, then no further allowance is necessary.

4.1.3. Risk limit control and mitigation policies

The Bank manages, limits and controls concentrations of credit risk wherever they are identified in particular, to individual counterparties and banks, and to industries and countries.

The Bank structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers, and to geographical and industry segments. Limits on the level of credit risk by product, industry sector and country are approved quarterly by the Board of Directors.

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

Lending limits are reviewed in the light of changing market and economic conditions and periodic credit reviews and assessments of probability of default. Some other specific control and mitigation measures are outlined below:

a) 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.

Longer-term finance and lending to corporate entities are generally secured; revolving individual credit facilities are generally unsecured. In addition, in order to minimise 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.

b) Lending limits (for derivative and loan books)

The Bank maintains strict control limits on net open derivative positions (that is, the difference between purchase and sale contracts) by both amount and term. The amount subject to credit risk is limited to expected future net cash inflows of instruments, which in relation to derivatives are only a fraction of the contract, or notional values used to express the volume of instruments outstanding. This credit risk exposure is managed as part of the overall lending limits with customers, together with potential exposures from market movements. Collateral or other security is not always obtained for credit risk exposures on these instruments, except where the Bank requires margin deposits from counterparties.

Settlement risk arises in any situation where a payment in cash, securities or equities is made in the expectation of a corresponding receipt in cash, securities or equities. Daily settlement limits are established for each counterparty to cover the aggregate of all settlement risk arising from the Bank's market transactions on any single day.

c) Financial covenants (for credit related commitments and loan books)

The primary purpose of these instruments is to ensure that funds are available to a customer as required. Guarantees and standby letters of credit carry the same credit risk as loans. Documentary and commercial letters of credit – which are written undertakings by the Bank on behalf of a customer authorising a third party to draw drafts on the Bank up to a stipulated amount under specific terms and conditions – are collateralised by the underlying shipments of goods to which they relate and therefore carry less risk than a direct 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 (often referred to as financial covenants).

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.

4.1.4. Maximum exposure to credit risk before collateral held or other credit enhancements

All financial instruments' carrying amounts as per the statement of financial position represent the maximum exposure to credit risk without taking account of any collateral held or other credit enhancements.

Off balancesheet items carrying amounts represents the maximum exposure to credit risk without taking account of any collateral held or other credit enhancements as disclosed in Note 29.

66% of the total maximum exposure is derived from loans and advances to customers and due from banks (2015: 68%); 10% represents investments in securities (2015: 9%).

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

- 68% of the loans and advances portfolio are considered to be neither past due nor impaired (normal grade), (2015: 75%) and;
- More than 98% (2015: 98%) of the Investments securities are in Government securities which are deemed low risk.

(i) Other financial assets

NEITHER PAST DUE NOR IMPAIRED	2016 KSHS'000	2015 KSHS'000
CASH AND BANK BALANCES WITH CENTRAL BANK	6,392,943	5,953,628
DUE FROM OTHER BANKING INSTITUTIONS	3,240,179	7,986,755
DUE FROM GROUP BANKS	2,911,005	5,245,893
INVESTMENT SECURITIES – AVAILABLE FOR SALE	570,332	610,488
INVESTMENT SECURITIES - HELD TO MATURITY	5,293,768	6,487,110
OTHER ASSETS	158,704	112,097
TOTAL		

In the assessment of management, no credit exposure is expected on other financial assets.

(ii) Loans and advances analysis

Loans and advances are summarised as follows:

	2016 KSHS'000	2015 KSHS'000
NEITHER PAST DUE NOR IMPAIRED	24,567,881	31,006,191
PAST DUE BUT NOT IMPAIRED	946,823	614,066
INDIVIDUALLY IMPAIRED	10,794,042	9,743,665
GROSS	36,308,746	41,363,922
LESS: IMPAIRMENT OF LOANS AND ADVANCES (NOTE 17)	(4,766,787)	(3,565,231)
NET LOANS AND ADVANCES	31,542,959	37,798,691

No other financial assets are either past due or impaired.

Loans and advances neither past due nor impaired

	2016 KSHS'000	2015 KSHS'000
STANDARD (NORMAL GRADE)	24,567,881	31,006,191

Loans and advances less than 90 days past due are not considered impaired, unless other information is available to indicate the contrary. The gross amounts of loans and advances that were past due but not impaired were as follows:

	2016 KSHS'000	2015 KSHS'000
PAST DUE UP TO 30 DAYS	702,956	286,479
PAST DUE 31-60 DAYS	199,536	228,912
PAST DUE 61-90 DAYS	44,331	98,675
PAST DUE > 90 DAYS	-	-
TOTAL PAST DUE LOANS AND ADVANCES	946,823	614,066

Individually assessed impaired loans and advances comprising:

	2016 KSHS'000	2015 KSHS'000
- CORPORATE	7,040,263	6,640,631
- RETAIL	1,113,701	1,122,916
- SME	2,640,078	1,980,118
IMPAIRED LOANS AND ADVANCES	10,794,042	9,743,665

The bank's policy is to dispose of any repossessed collateral on the open market at market value.

Collateral repossessed

As at the reporting date, the Bank had possession of the following collateral:

	2016 KSHS'000	2015 KSHS'000
RESIDENTIAL PROPERTY	648,491	21,166
MOTOR VEHICLES	13,920	13,130
TOTAL COLLATERAL REPOSSESSED	662,411	34,296

Concentrations of risk

Economic sector risk concentrations within the customer loan portfolio were as follows:

BY ECONOMIC SECTOR	2016 KSHS'000	2015 KSHS'000
WHOLESALE/RETAIL	4,103,340	7,971,327
MANUFACTURING	6,543,292	6,780,888
AGRICULTURE	733,517	1,069,319
CONSTRUCTION	4,363,394	3,864,303
TRANSPORT	3,583,097	3,981,565
INDIVIDUAL/PERSONAL	6,951,876	8,822,812
SERVICES	800,417	2,348,846
FINANCIAL INSTITUTIONS	372,511	1,123,055
TOURISM	75,231	343,822
COMMUNICATION	1,134,278	1,180,034
HOSPITALITY	500,377	398,071
OTHERS	7,147,416	3,479,880
TOTAL ON BALANCE SHEET EXPOSURE	36,308,746	41,363,922
ACCEPTANCES AND LETTERS OF CREDIT	1,124,045	3,781,511
GUARANTEE AND PERFORMANCE BONDS	10,790,039	9,811,666
COMMITMENTS TO LEND	1,864,710	2,996,829
TOTAL NON-FUNDED EXPOSURE	13,778,794	16,590,006
TOTAL	50,087,540	57,953,928

4.2. 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.

4.2.1. Liquidity risk management process

The Bank's liquidity management process, as carried out within the Bank and monitored by the Assets & Liabilities Committee (ALCO) 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.

A key measure of liquidity risk is the ratio of net liquid assets to deposit liabilities. The Central Bank of Kenya requires banks to maintain a statutory minimum ratio of 20% of liquid assets to all its deposit liabilities. For this purpose, liquid assets comprise cash and balances with Central Bank of Kenya, net loans and advances with banks, treasury bonds and bills and net balances with banks abroad. Deposit liabilities comprise deposits from customers and other liabilities that have matured or maturing within 91 days.

The Bank also monitors on a regular basis the advances to deposits ratio. This is defined as the ratio of total loans and advances to customers relative to total customer deposits. A low advances to deposits ratio demonstrates that customer deposits exceed customer loans resulting from the emphasis placed on generating a high level of stable funding from customers.

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.

4.2.2. Non-derivative financial liabilities and assets held for managing liquidity risk

AT 31 DECEMBER 2016	UP TO 1 MONTH KSHS'000	1-3 MONTHS KSHS'000	3-12 MONTHS KSHS'000	1-5 YEARS KSHS'000	>5 YEARS KSHS'000	TOTAL KSHS'000
CUSTOMER DEPOSITS	24,035,865	5,211,666	5,212,292	3,884	-	34,463,707
DEPOSITS AND BALANCES DUE TO BANKING INSTITUTIONS	36,174	-	-	-	-	36,174
AMOUNTS DUE TO GROUP BANKS	2,150,867	729,329	-	-	-	2,880,196
BORROWINGS	-	-	6,351,289	2,558,237	806,088	9,715,614
OTHER LIABILITIES	536,586	-	-	-	-	536,586
TOTAL FINANCIAL LIABILITIES (CONTRACTUAL MATURITY DATES)	26,759,492	5,940,995	11,563,581	2,562,121	806,088	47,632,277
ASSETS HELD FOR MANAGING LIQUIDITY (CONTRACTUAL MATURITY DATES)	17,426,389	2,451,866	4,171,026	18,390,982	8,040,434	50,480,697

AT 31 DECEMBER 2015	UP TO 1 MONTH KSHS'000	1-3 MONTHS KSHS'000	3-12 MONTHS KSHS'000	1-5 YEARS KSHS'000	>5 YEARS KSHS'000	TOTAL KSHS'000
CUSTOMER DEPOSITS	24,473,453	12,949,269	10,542,543	1,843	20,067	47,987,175
DEPOSITS AND BALANCES DUE TO BANKING INSTITUTIONS	15,870	-	-	-	-	15,870
AMOUNTS DUE TO GROUP BANKS	2,454,630	1,354,232	1,871,699			5,680,561
LONG TERM LIABILITIES	-	-	478,021	6,169,372	1,087,475	7,734,868
OTHER LIABILITIES	362,977	-	-	-	-	362,977
TOTAL FINANCIAL LIABILITIES (CONTRACTUAL MATURITY DATES)	27,306,930	14,303,501	12,892,263	6,171,215	1,107,542	61,781,451
ASSETS HELD FOR MANAGING LIQUIDITY (CONTRACTUAL MATURITY DATES)	27,116,175	5,210,984	4,823,126	14,473,517	12,888,007	64,511,809

Assets held for managing liquidity risk

The Bank has access to a diverse funding base. Funds are raised using a broad range of instruments including deposits, other liabilities evidenced by paper and share capital. This enhances funding flexibility, limits dependence on any one source of funds. The Bank strives to maintain a balance between continuity of funding and flexibility through the use of liabilities with a range of maturities. The Bank continually assesses liquidity risk by identifying and monitoring changes in funding required to meet business goals and targets set in terms of the overall Bank strategy. In addition, the Bank holds a portfolio of liquid assets as part of its liquidity risk management strategy.

4.3. 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 market risks arising from trading and non-trading activities are concentrated with the Bank's Treasury and monitored by two teams separately. Regular reports are submitted to the Assets and Liabilities Committee (ALCO), Heads of each business unit and the Board of Directors.

Trading portfolios include those positions arising from market-making transactions where the Bank acts as principal with clients or with the market.

Non-trading portfolios primarily arise from the interest rate management of the entity's Retail and Enterprise banking assets and liabilities. Non-trading portfolios also consist of foreign exchange and equity risks arising from the Bank's held-to-maturity and available-for-sale financial assets.

Overall authority for market risk for both trading and non-trading portfolios is vested in Assets and Liabilities Committee (ALCO). The bank's Risk department is responsible for the development of detailed risk management policies (subject to review and approval by ALCO) and for the day-to-day review of their implementation.

4.3.1. Foreign exchange risk

The Bank takes on exposure to the effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. The Board sets limits on the level of exposure by currency and in total for both overnight and intra-day positions, which are monitored daily. The tables below summarises the Bank's exposure to foreign currency exchange rate risk as at 31 December 2016 and 2015. Included in the table are the Bank's financial instruments categorised by currency:

AT 31 DECEMBER 2016

	USD KSHS'000	GBP KSHS'000	EUR KSHS'000	OTHERS KSHS'000	TOTAL KSHS'000
ASSETS					
CASH AND BALANCES WITH CENTRAL BANK	763,154	94,539	83,018	1,724	942,435
PLACEMENTS WITH BANKS	2,113,972	16,288	140,031	36,476	2,306,767
AMOUNTS DUE FROM GROUP COMPANIES	256,728	-	1,091,014	3,939	1,351,681
LOANS AND ADVANCES	11,855,971	24,346	713,962	19,118	12,613,397
OTHER ASSETS	180,250	1	6,240	2,977	189,468
TOTAL FINANCIAL ASSETS	15,170,075	135,174	2,034,265	64,234	17,403,748
LIABILITIES					
CUSTOMER DEPOSITS	8,829,847	109,162	850,342	1,312	9,790,663
DEPOSITS AND BALANCES DUE TO BANKING INSTITUTIONS	-	-	-	36,174	36,174
AMOUNTS DUE TO GROUP BANKS	2,833,571	33,663	-	-	2,867,234
BORROWINGS	7,777,405	-	1,330,844	-	9,108,249
OTHER LIABILITIES	20,965	23	871	594	22,453
TOTAL FINANCIAL LIABILITIES	19,461,788	142,848	2,182,057	38,080	21,824,773
NET ON-BALANCE SHEET POSITION	(4,291,713)	(7,674)	(147,792)	26,154	(4,421,025)
NET OFF-BALANCE SHEET POSITION	4,219,589	-	3,312,329	270,526	7,802,444
NET OVERALL POSITION	(72,124)	(7,674)	3,164,537	296,680	3,381,419

AS AT 31 DECEMBER 2015

	USD KSHS'000	GBP KSHS'000	EUR KSHS'000	OTHERS KSHS'000	TOTAL KSHS'000
ASSETS					
CASH AND BALANCES WITH CENTRAL BANK	753,741	63,569	183,553	1,725	1,002,588
PLACEMENTS WITH BANKS	4,268,189	90,399	862,199	54,877	5,275,664
AMOUNTS DUE FROM GROUP COMPANIES	4,216,005	-	583,862	186,329	4,986,196
LOANS AND ADVANCES	14,863,716	26,311	859,721	36,498	15,786,246
OTHER ASSETS	41,116	-	9,308	10,472	60,896
TOTAL FINANCIAL ASSETS	24,142,767	180,279	2,498,643	289,901	27,111,590
LIABILITIES					
CUSTOMER DEPOSITS	13,333,913	187,209	854,062	7,559	14,382,743
DEPOSITS AND BALANCES DUE TO BANKING INSTITUTIONS	15,777	-	-	93	15,870
AMOUNTS DUE TO GROUP BANKS	5,364,185	-	57,549	236,829	5,658,563
BORROWINGS	5,425,759	-	1,368,666	-	6,794,425
OTHER LIABILITIES	12,319	140	43,304	627	56,390
TOTAL FINANCIAL LIABILITIES	24,151,953	187,349	2,323,581	245,108	26,907,991
NET ON-BALANCE SHEET POSITION	(9,186)	(7,070)	175,062	44,793	203,599
NET OFF-BALANCE SHEET POSITION	32,859	5,266	(173,444)	(92,072)	(227,390)
NET OVERALL POSITION	23,673	(1,804)	1,618	(47,279)	(23,791)

Foreign exchange risk sensitivity analysis

At 31 December 2016 if the shilling had strengthened or weakened by 5% against major trading currencies, with other variables held constant, the impact on after tax profit or loss / equity would have been as shown below. This analysis is performed on the same basis for 2015.

	2016	2015
	KSHS'000	KSHS'000
+ 5% MOVEMENT	154,736	(7,126)
- 5% MOVEMENT	(154,736)	7,126

5% sensitivity rate represents management's assessment of the reasonable possible change in foreign exchange rates.

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

The table below summarises the Bank's exposure to interest rate risks. Included in the table are the Bank's assets and liabilities at carrying amounts (non-derivatives), categorised by the earlier of contractual repricing or maturity dates. The Bank does not bear any interest rate risk on off balance sheet items.

AT 31 DECEMBER 2016

	EFFECTIVE INTEREST RATE	UP TO 1 KSHS'000	MONTHS 1-3 KSHS'000	MONTHS 3-12 KSHS'000	MONTHS > 12 KSHS'000	NON INTEREST BEARING KSHS'000	TOTAL KSHS'000
CASH AND BALANCES WITH CENTRAL BANK	-	-	-	-	-	6,392,943	6,392,943
INVESTMENT SECURITIES-HTM	7.61%	-	538,431	396,954	4,358,383	-	5,293,768
PLACEMENTS WITH BANKS	5.67%	3,240,179	-	-	-	-	3,240,179
AMOUNTS DUE FROM GROUP COMPANIES	2.51%	2,685,981	-	225,024	-	-	2,911,005
OTHER ASSETS	-	-	-	-	-	158,704	158,704
INVESTMENT SECURITIES	-	-	-	-	-	570,332	570,332
LOANS AND ADVANCES	14.83%	4,006,443	1,913,435	25,622,081	-	-	31,541,959
TOTAL FINANCIAL ASSETS		9,932,603	2,451,866	26,244,059	4,358,383	7,121,979	50,108,890
CUSTOMER DEPOSITS	6.52%	24,035,865	5,211,666	5,212,292	3,884	-	34,463,707
DEPOSITS AND BALANCES DUE TO BANKING INSTITUTIONS	-	36,174	-	-	-	-	36,174
AMOUNTS DUE TO GROUP BANKS	2.89%	2,150,867	724,480	-	-	-	2,875,347
BORROWINGS	4.98%	-	-	6,037,845	3,070,404	-	9,108,249
OTHER LIABILITIES	-	-	-	-	-	536,586	536,586
TOTAL FINANCIAL LIABILITIES		26,222,906	5,936,146	11,250,137	3,074,288	536,586	47,020,063
INTEREST SENSITIVITY GAP		(16,290,303)	(3,484,280)	14,993,922	1,284,095	6,585,393	3,088,827

AT 31 DECEMBER 2015

	EFFECTIVE INTEREST RATE	UP TO 1 KSHS'000	MONTHS 1-3 KSHS'000	MONTHS 3-12 KSHS'000	MONTHS > 12 KSHS'000	NON INTEREST BEARING KSHS'000	TOTAL KSHS'000
CASH AND BALANCES WITH CENTRAL BANK	-	-	-	-	-	5,953,628	5,953,628
INVESTMENT SECURITIES-HTM	7.46%	1,517,520	105,977	261,795	4,601,818	-	6,487,110
PLACEMENTS WITH BANKS	5.51%	7,986,755	-	-	-	-	7,986,755
AMOUNTS DUE FROM GROUP COMPANIES	2.74%	1,878,563	1,245,885	2,121,445	-	-	5,245,893
OTHER ASSETS	-	-	-	-	-	112,097	112,097
INVESTMENT SECURITIES	-	-	-	-	-	610,488	610,488
LOANS AND ADVANCES	14.45%	8,823,861	3,859,122	25,115,708	-	-	37,798,691
TOTAL FINANCIAL ASSETS		20,206,699	5,210,984	27,498,948	4,601,818	6,676,213	64,194,662
CUSTOMER DEPOSITS	7.40%	14,654,304	12,653,820	10,403,630	14,728	9,761,107	47,487,589
DEPOSITS AND BALANCES DUE TO BANKING INSTITUTIONS	-	15,870	-	-	-	-	15,870
AMOUNTS DUE TO GROUP BANKS	3.20%	2,452,997	1,348,350	1,861,881	-	-	5,663,228
BORROWINGS	4.55%	-	-	469,097	6,325,328	-	6,794,425
OTHER LIABILITIES	-	-	-	-	-	362,977	362,977
TOTAL FINANCIAL LIABILITIES		17,123,171	14,002,170	12,734,608	6,340,056	10,124,084	60,324,089
INTEREST SENSITIVITY GAP		3,083,528	(8,791,186)	14,764,340	(1,738,238)	(3,447,871)	3,870,573

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

Interest rate risk sensitivity analysis

At 31 December 2016 if interest rates were to increase or decrease by 2.5%, with other variables held constant, the impact on after tax profit or loss / equity would have been as shown below. This analysis is performed on the same basis for 2015.

	2016 KSHS'000	2015 KSHS'000
+ 2.5% MOVEMENT	61,190	128,073
- 2.5% MOVEMENT	(61,190)	(128,073)

4.4 Fair value of financial instruments

(a) Account classification and fair values

The table below sets out the Bank's classification of each class of financial assets and liabilities, and their fair values (excluding accrued interest):

		CARRYIING VALUES					FAIR VALUES HIERARCHY			
	NOTE	AVAILABLE FOR SALE KSHS 000	HELD TO MATURITY KSHS 000	LOAN AND RECEIVABLE KSHS 000	OTHER FINANCIAL LIABILITIES KSHS 000	TOTAL KSHS 000	LEVEL 1 KSHS 000	LEVEL 2 KSHS 000	LEVEL 3 KSHS 000	TOTAL KSHS 000
AT 31 DECEMBER 2016										
FINANCIAL ASSETS MEASURED AT FAIR VALUE										
INVESTMENT SECURITIES AVAILABLE FOR SALE	16 (A)	570,332	-	-	-	570,332	-	570,332	-	570,332
FINANCIAL ASSETS MEASURED AT FAIR VALUE		570,332	-	-	-	570,332	-	570,332	-	570,332
CASH AND BALANCES WITH CENTRAL BANK	14	-	-	6,392,943	-	6,392,943	-	6,392,943	-	6,392,943
DUE FROM OTHER BANKING INSTITUTIONS	15	-	-	3,240,179	-	3,240,179	-	3,240,179	-	3,240,179
INVESTMENTS IN GOVERNMENT SECURITIES	16 (B)	-	5,293,768	-	-	5,293,768	-	5,234,252	-	5,234,252
LOANS AND ADVANCES TO CUSTOMERS	17	-	-	31,541,959	-	31,541,959	-	31,541,959	-	31,541,959
OTHER ASSETS- UNCLEARED EFFECTS	19			158,704	-	158,704	-	158,704	-	158,704
DUE FROM GROUP BANKS	31 (A)	-	-	2,911,005	-	2,911,005	-	2,911,005	-	2,911,005
		-	5,293,768	44,244,790	-	49,538,558	-	49,479,042	-	49,479,042
TOTAL FINANCIAL ASSETS		570,332	5,293,768	44,244,790	-	50,108,890	-	50,049,374	-	50,049,374
FINANCIAL LIABILITIES NOT MEASURED AT FAIR VALUE										
CUSTOMER DEPOSITS	23	-	-	-	34,463,707	34,463,707	-	34,463,707	-	34,463,707
DUE TO OTHER BANKING INSTITUTIONS	24	-	-	-	36,174	36,174	-	36,174	-	36,174
DUE TO GROUP BANKS	31 (B)	-	-	-	2,875,347	2,875,347	-	2,875,347	-	2,875,347
BORROWINGS	33	-	-	-	9,108,249	9,108,249	-	9,089,260	-	9,089,260
OTHER LIABILITIES – BILLS PAYABLE	25	-	-	-	536,586	536,586	-	536,586	-	536,586
TOTAL FINANCIAL LIABILITIES		-	-	-	47,020,063	47,020,063	-	47,001,074	-	47,001,074

		CARRYIING VALUES					FAIR VALUES HIERARCHY			
	NOTES	AVAILABLE FOR SALE KSHS 000	HELD TO MATURITY KSHS 000	LOAN AND RECEIVABLE KSHS 000	OTHER FINANCIAL LIABILITIES KSHS 000	TOTAL KSHS 000	LEVEL 1 KSHS 000	LEVEL 2 KSHS 000	LEVEL 3 KSHS 000	TOTAL KSHS 000
AT 31 DECEMBER 2014										
FINANCIAL ASSETS MEASURED AT FAIR VALUE										
INVESTMENT SECURITIES AVAILABLE FOR SALE	16 (A)	610,488	-	-	-	610,488	-	610,488	-	610,488
TOTAL		610,488	-	-	-	610,488	-	610,488	-	610,488
FINANCIAL ASSETS NOT MEASURED AT FAIR VALUE										
CASH AND BALANCES WITH CENTRAL BANK	14	-	-	5,953,628	-	5,953,628	-	5,953,628	-	5,953,628
DUE FROM OTHER BANKING INSTITUTIONS	15	-	-	7,986,755	-	7,986,755	-	7,986,755	-	7,986,755
INVESTMENTS IN GOVERNMENT SECURITIES	16 (B)	-	6,487,110	-	-	6,487,110	-	6,443,225	-	6,443,225
LOANS AND ADVANCES TO CUSTOMERS	17	-	-	37,798,691	-	37,798,691	-	37,798,691	-	37,798,691
OTHER ASSETS- UNCLEARED EFFECTS	19	-	-	112,097	-	112,097	-	112,097	-	112,097
DUE FROM GROUP BANKS	31 (A)	-	-	5,245,893	-	5,245,893	-	5,245,893	-	5,245,893
		-	6,487,110	57,097,064	-	63,584,174	-	63,540,289	-	63,540,289
TOTAL FINANCIAL ASSETS		610,488	6,487,110	57,097,064	-	64,194,662	-	64,150,777	-	64,150,777
FINANCIAL LIABILITIES NOT MEASURED AT FAIR VALUE										
CUSTOMER DEPOSITS	23	-	-	-	47,487,589	47,487,589	-	47,487,589	-	47,487,589
DUE TO OTHER BANKING INSTITUTIONS	24	-	-	-	15,870	15,870	-	15,870	-	15,870
DUE TO GROUP BANKS	31 (B)	-	-	-	5,663,228	5,663,228	-	5,663,228	-	5,663,228
BORROWINGS	33	-	-	-	6,794,425	6,794,425	-	6,769,538	-	6,769,538
OTHER LIABILITIES – BILLS PAYABLE	25	-	-	-	362,977	362,977	-	362,977	-	362,977
TOTAL FINANCIAL LIABILITIES		-	-	-	60,324,089	60,324,089	-	60,299,202	-	60,299,202

(b) Measurement of fair values

The following table shows the valuation techniques used in measuring Level 2 fair values as well as the significant unobservable inputs used.

Financial instruments measured at fair value

TYPE	GOVERNMENT SECURITIES
VALUATION TECHNIQUE	MARKET COMPARISON TECHNIQUE: THE FAIR VALUES OF THE GOVERNMENT SECURITIES ARE BASED ON THE PRICE OF THE SECURITIES IN THE STOCK EXCHANGES.
SIGNIFICANT UNOBSERVABLE INPUTS	NOT APPLICABLE
INTER-RELATIONSHIP BETWEEN SIGNIFICANT UNOBSERVABLE INPUTS AND FAIR VALUE MEASUREMENT	NOT APPLICABLE

The fair value of financial instruments traded in active markets is based on quoted market prices at the reporting date. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry company, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis.

If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2. If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3.

Specific valuation techniques used to value financial instruments include:

- Quoted market prices or dealer quotes for similar instruments.
- Other techniques, such as discounted cash flow analysis, are used to determine fair value for the remaining financial instruments.

The following sets out the Bank's basis of establishing fair value of the financial instruments:

Cash and balances with Central Bank of Kenya

The fair value of cash and bank balances with the Central Bank of Kenya approximates their carrying amount.

Deposits and advances to banks

The fair value of floating rate placements and overnight deposits approximates their carrying amounts.

Loans and advances to customers

Loans and advances to customers are net of provisions for impairment. The estimated fair value of loans and advances represents the discounted amount of future cash flows expected to be received, including assumptions relating to prepayment rates. Expected cash flows are discounted at current market rates to determine fair value. A substantial proportion of loans and advances reprice within 12 months and hence the carrying amount is a good proxy of the fair value.

Investments in government securities

Investments in government securities are measured at amortised cost using the effective interest method. The estimated fair value represents the discounted amount of future cash flows expected to be received.

Deposits from banks and customers

The estimated fair value of deposits with no stated maturity is the amount repayable on demand. The estimated fair value of fixed interest bearing deposits without quoted market prices is based on discounting cash flows using the prevailing market.

A substantial proportion of deposits mature within 6 months and hence the carrying amount is a good proxy of the fair value.

4.5. Capital management

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

- to comply with the capital requirements set by the Central Bank of Kenya;
- to safeguard the Bank's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders;
- to maintain a strong capital base to support the development of its business.

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

The Central Bank of Kenya requires each bank to: (a) hold the minimum level of regulatory capital of KShs 1 Billion; (b) maintain a ratio of total regulatory capital to the risk-weighted assets plus risk-weighted off-balance sheet assets (the 'Basel ratio') at or above the required minimum of 10.5%; (c) maintain core capital of not less than 8% of total deposit liabilities; and (d) maintain total capital of not less than 14.5% of risk-weighted assets plus risk-weighted off-balance sheet items.

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

- Tier 1 capital (core capital): share capital, share premium, plus retained earnings.
- Tier 2 capital (supplementary capital): 25% (subject to prior approval) of revaluation reserves, subordinated debt not exceeding 50% of Tier 1 capital and hybrid capital instruments. Qualifying Tier 2 capital is limited to 100% of Tier 1 capital.

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

The table below summarises the composition of regulatory capital and the ratios of the Bank for the years ended 31 December 2016 and 2015. During those two years, the Bank complied with all of the externally imposed capital requirements to which it is subject to, except the ratio prescribed for investment in land and buildings.

	2016 KSHS '000	2015 KSHS '000
TIER 1 CAPITAL (CORE CAPITAL)		
SHARE CAPITAL	6,404,949	6,404,949
SHARE PREMIUM	1,980,356	1,980,356
RETAINED EARNINGS	(1,230,276)	155,024
INVESTMENT IN ASSOCIATE	(1,570,179)	(1,570,179)
TOTAL	5,584,850	6,970,150
TIER 2 CAPITAL		
SUBORDINATED DEBT	1,461,803	1,631,044
STATUTORY RESERVES	590,599	49,729
TOTAL	2,052,402	1,680,773
TOTAL REGULATORY CAPITAL	7,637,252	8,650,923
RISK WEIGHTED ASSETS		
ON BALANCE SHEET- CREDIT RISK	36,061,145	41,863,958
OFF BALANCE SHEET- CREDIT RISK	5,280,365	5,411,056
MARKET AND OPERATIONAL RISK	5,906,431	5,503,164
TOTAL RISK WEIGHTED ASSETS	47,247,941	52,778,178
DEPOSIT LIABILITIES	36,645,694	53,166,635
CAPITAL RATIOS		
CORE CAPITAL/TOTAL DEPOSIT LIABILITIES (CBK MINIMUM 8%) (2014: 8%)	15,2%	13.1%
CORE CAPITAL/TOTAL RISK WEIGHTED ASSETS (CBK MINIMUM 10.5%) (2014: 10.5%)	11,8%	13.2%
TOTAL REGULATORY CAPITAL/TOTAL RISK WEIGHTED ASSETS (CBK MINIMUM 14.5%) (2014: 14.5%)	16,2%	16.4%
INVESTMENT IN LAND AND BUILDINGS RATIO		
INVESTMENT IN LAND AND BUILDINGS/CORE CAPITAL (CBK MAXIMUM 20% (2015: 20%)	26,4%	20,0%

The Bank is working to ensure compliance with the investment in land and buildings ratio by mid 2017.

5. Interest income

	2016 KSHS '000	2015 KSHS '000
LOANS AND ADVANCES	5,795,061	5,945,696
GOVERNMENT AND OTHER SECURITIES	470,955	610,217
BALANCES WITH OTHER BANKING INSTITUTIONS	237,252	294,567
OTHER	11,991	64,155
TOTAL	6,515,259	6,914,635

Included in interest income on loans and advances is KShs 1,619 million (2015: KShs 659 million) interest accrued on impaired loans and advances.

6. Interest expense

	2016 KSHS '000	2015 KSHS '000
CUSTOMER DEPOSITS	2,500,379	3,110,671
DEPOSITS BY BANKS	153,058	223,238
LONG TERM LIABILITIES	420,758	219,509
SWAPS AND FORWARD CONTRACTS	418,508	210,877
TOTAL	3,492,703	3,764,295

7. Net fees and commission income

	2016 KSHS '000	2015 KSHS '000
CREDIT RELATED FEES AND COMMISSIONS	366,441	486,780
SERVICE RELATED FEES AND COMMISSIONS	333,814	326,663
FEE AND COMMISSION INCOME	700,255	813,443
FEES & COMMISSION PAID	(19,163)	(9,538)
NET FEE AND COMMISSION INCOME	681,092	803,905

8. Other operating income

	2016 KSHS '000	2015 KSHS '000
GAIN ON SALE OF PROPERTY AND EQUIPMENT	209	-
INSURANCE PROCEEDS	4,414	-
OTHER	3,893	-
TOTAL	8,516	-

9. Staff costs

	2016 KSHS '000	2015 KSHS '000
SALARIES AND WAGES	1,009,767	1,002,004
RETIREMENT BENEFIT COSTS		
– DEFINED CONTRIBUTION PENSION SCHEME	71,034	64,342
– NATIONAL SOCIAL SECURITY FUND	1,261	1,034
STAFF MEDICAL COSTS	68,178	55,266
STAFF TRAINING COSTS	40,817	31,285
OTHER STAFF COSTS	33,894	141,568
TOTAL	1,224,951	1,295,499

The number of employees of the Bank as at 31 December 2016 was 515 (2015: 513).

10. Depreciation and amortisation

	2016 KSHS '000	2015 KSHS '000
DEPRECIATION OF PROPERTY AND EQUIPMENT (NOTE 20)	183,985	186,243
AMORTISATION OF INTANGIBLE ASSETS (NOTE 21)	24,523	30,523
TOTAL	208,508	216,766

11. Other operating costs

DIRECTORS' EXPENSES	21,534	39,304
AUDITORS' REMUNERATION	6,000	5,250
MARKETING AND ADVERTISEMENT COSTS	155,122	136,897
PROPERTY OCCUPANCY COSTS	396,989	368,431
SOFTWARE SUBSCRIPTIONS AND LICENCE FEES	114,567	96,703
COMPUTER HARDWARE MAINTENANCE	13,093	13,317
DEPOSITORS' PROTECTION FUND PREMIUMS	70,692	67,665
COMMUNICATION COSTS	74,442	75,144
OPERATING LEASE RENTALS	18,140	16,708
OTHER COSTS*	601,458	579,962
TOTAL	1,472,037	1,399,381

*Other costs mainly consist of BOA group recharges, professional fees, operational losses, transport costs, and stationery costs.

12. Taxation

	2016 KSHS '000	2015 KSHS '000
CURRENT INCOME TAX:		
CURRENT INCOME TAX	452,561	197,496
PRIOR YEAR UNDER PROVISION CURRENT INCOME TAX	-	3
DEFERRED TAX:		
DEFERRED TAX (NOTE 18)	(479,528)	(608,326)
TOTAL	(26,967)	(410,827)

The effective rax rate (ETR) for the year ended 31 December 2016 is 163.5% (2015: 28.9%). The increase in the ETR is mainly attributed to the impact of tax allowable loan provisions.

CURRENT INCOME TAX PAYABLE / (RECOVERABLE)		
AT 1 JANUARY	17,206	141,197
CHARGE FOR THE YEAR	452,561	(197,496)
PRIOR YEAR UNDERPROVISION CURRENT INCOME TAX	-	(3)
TAX PAID	(227,787)	39,096
AT 31 DECEMBER	241,980	17,206

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

LOSS BEFORE INCOME TAX	(16,497)	(1,434,188)
TAX CALCULATED AT THE STATUTORY INCOME TAX RATE OF 30% (2015: 30%)	(4,949)	(430,256)
TAX EFFECT OF:		
INCOME NOT SUBJECT TO TAX	(55,840)	(31,810)
EXPENSES NOT DEDUCTIBLE FOR TAX PURPOSES	33,822	51,236
PRIOR YEAR UNDERPROVISION CURRENT INCOME TAX	-	3
INCOME TAX CREDIT	(26,967)	(410,827)

13. Dividends

At the next Annual General Meeting, no dividend in respect of the year ended 31 December 2016 is to be proposed (2015: Nil). Payment of dividends is subject to withholding tax at a rate of 5% for resident and 10% for non-resident shareholders.

14. Cash and balances with Central Bank

	2016 KSHS '000	2015 KSHS '000
CASH IN HAND	813,985	856,831
BALANCES WITH CENTRAL BANK:		
CASH RESERVE RATIO	1,636,694	2,173,046
OTHER CURRENT ACCOUNTS	3,942,264	2,923,751
TOTAL	6,392,943	5,953,628

The cash reserve ratio with Central Bank of Kenya (CBK) is non-interest earning and is based on the value of deposits as adjusted for CBK requirements. At 31 December 2016, the cash reserve ratio requirement was 5.25% of eligible deposits (2015: 5.25%). The Bank is free to deviate from the 5.25% requirement on any given day, but not to fall below 3%, provided that the overall average for the month will be at least 5.25%.

15. Due from other banking institutions

	2016 KSHS '000	2015 KSHS '000
PLACEMENTS	2,817,057	4,749,170
CURRENT ACCOUNT BALANCES DUE FROM OTHER BANKS	423,122	3,237,585
TOTAL	3,240,179	7,986,755
MATURING WITHIN 90 DAYS	3,240,179	7,986,755

16. Investment securities

(a) Unlisted equity securities - Available for sale

	2016 KSHS '000	2015 KSHS '000
AT START OF THE YEAR	610,488	83,884
DERECOGNITION OF ASSOCIATE AND RECOGNITION OF INVESTMENT SECURITIES (NOTE 32)	-	564,282
LOSS ON FAIR VALUE OF INVESTMENT SECURITIES	(40,156)	(37,678)
AT YEAR END	570,332	610,488

2016	BOA TANZANIA KSHS'000'	BOA FRANCE KSHS'000'	SWIFT SHARES KSHS'000'	TOTAL KSHS'000'
AT 1 JANUARY 2016	565,855	42,445	2,188	610,488
FAIR VALUE ADJUSTMENTS	(30,530)	(9,626)	-	(40,156)
AT 31 DECEMBER 2016	535,325	32,819	2,188	570,332

2015	BOA TANZANIA KSHS'000'	BOA FRANCE KSHS'000'	SWIFT SHARES KSHS'000'	TOTAL KSHS'000'
AT 1 JANUARY 2015	-	81,696	2,188	83,884
DERECOGNITION OF ASSOCIATE AND RECOGNITION OF INVESTMENT SECURITIES (NOTE 32)	564,282	-	-	564,282
FAIR VALUE ADJUSTMENTS	1,573	(39,251)	-	(37,678)
AT 31 DECEMBER 2015	565,855	42,445	2,188	610,488

(b) Bills and bonds - Held to maturity

	2016 KSHS '000	2015 KSHS '000
CORPORATE BONDS	112,346	143,924
TREASURY BILLS	828,729	794,438
TREASURY BONDS	4,352,693	5,548,748
TOTAL	5,293,768	6,487,110
MATURING WITHIN 91 DAYS OF ACQUISITION	-	794,438
MATURING AFTER 91 DAYS OF ACQUISITION	5,293,768	5,692,672
TOTAL	5,293,768	6,487,110
WEIGHTED AVERAGE EFFECTIVE INTEREST RATE:		
CORPORATE BONDS	12.85%	12.82%
TREASURY BILLS	10.40%	19.90%
TREASURY BONDS	7.29%	7.55%

The unamortised premium on treasury bonds as at 31 December 2016 was KShs 466 million (2015: KShs 579 million).

17. Loans and advances to customers

	2016 KSHS '000	2015 KSHS '000
OVERDRAFTS	9,960,424	10,827,347
PERSONAL LOANS	7,988,307	7,356,433
MORTGAGES	3,708,812	3,292,601
COMMERCIAL LOANS	14,115,506	18,775,689
DISCOUNTED BILLS	535,697	1,111,852
GROSS LOANS AND ADVANCES	36,308,746	41,363,922

LESS: PROVISION FOR IMPAIRMENT		
INDIVIDUALLY ASSESSED	(4,698,830)	(3,526,265)
COLLECTIVELY ASSESSED	(67,957)	(38,966)
TOTAL IMPAIRMENT	(4,766,787)	(3,565,231)
NET LOANS AND ADVANCES	31,541,959	37,798,691
WEIGHTED AVERAGE EFFECTIVE INTEREST RATE	14.83%	14.45%

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

	INDIVIDUALLY ASSESSED KSHS '000	COLLECTIVELY ASSESSED KSHS '000	TOTAL KSHS '000
31 DECEMBER 2016			
AT 1 JANUARY 2016	3,526,265	38,966	3,565,231
PROVISION RECOGNISED DURING THE YEAR	1,189,412	28,991	1,218,403
AMOUNTS WRITTEN OFF DURING THE YEAR	(16,847)	-	(16,847)
AT 31 DECEMBER 2016	4,698,830	67,957	4,766,787
31 DECEMBER 2015			
AT 1 JANUARY 2015	824,880	16,062	840,942
PROVISION RECOGNISED DURING THE YEAR	2,778,524	22,904	2,801,428
AMOUNTS WRITTEN OFF DURING THE YEAR	(77,139)	-	(77,139)
AT 31 DECEMBER 2015	3,526,265	38,966	3,565,231

Charge to profit or loss

	2016 KSHS '000	2015 KSHS '000
NET INCREASE IN IMPAIRMENT PROVISIONS:		
-INDIVIDUALLY ASSESSED	1,189,412	2,778,524
-COLLECTIVELY ASSESSED	28,991	22,904
RECOVERIES OF LOANS AND ADVANCES PREVIOUSLY WRITTEN OFF	(2,135)	(23,483)
NET PROVISIONS CHARGED TO PROFIT OR LOSS	1,216,268	2,777,945

All impaired loans have been written down to their estimated recoverable amount. The aggregate carrying amount of impaired loans at 31 December 2016 was KShs 10,794 million (2015: KShs 9,744 million).

18. Deferred income tax

The deferred income tax assets, deferred income tax charge/(credit) in the statement of profit or loss and deferred income tax charge/(credit) in other comprehensive income are attributable to the following items:

	1/01/2016 KSHS'000	RECOGNISED IN PROFIT OR LOSS KSHS'000	RECOGNISED IN OTHER COMPREHENSIVE KSHS'000	31/12/2016 KSHS'000
DEFERRED INCOME TAX ASSET				
PROVISIONS	(732,709)	(545,536)	-	(1,278,245)
PROPERTY AND EQUIPMENT	(34,306)	(66,008)	-	(31,702)
FAIR VALUE ON AVAILABLE FOR SALE INVESTMENTS	(1,884)	-	(2,008)	(3,892)
NET DEFERRED INCOME TAX ASSET	(768,899)	(479,528)	(2,008)	(1,250,435)
DEFERRED INCOME TAX ASSET				
PROVISIONS	(132,578)	(600,131)	-	(732,709)
PROPERTY AND EQUIPMENT	(26,111)	(8,195)	-	(34,306)
FAIR VALUE ON AVAILABLE FOR SALE INVESTMENTS	-	-	(1,884)	(1,884)
NET DEFFERED INCOME TAX ASSET	(158,689)	(608,326)	(1,884)	(768,899)

19. Other assets

	2016 KSHS '000	2015 KSHS '000
UNCLEARED EFFECTS	158,704	112,097
PREPAYMENTS	437,068	385,225
MOBILE BANKING AND MONEY TRANSFER RECEIVABLES	197,215	142,800
SECURITY DEPOSIT REFUNDABLE	86,003	55,250
GUARANTEE FEES RECEIVABLE	38,740	38,219
FINANCIAL DERIVATIVES	-	40,719
OTHER RECEIVABLES	183,113	181,538
TOTAL	1,100,843	955,848

20. Property and equipment

2016:	LAND AND BUILDINGS KSHS'000	MOTO VEHICLES KSHS'000	FIXTURES, FITTINGS AND EQUIPEMENT KSHS'000	WORK IN PROGRESS KSHS'000	TOTAL
COST:					
AT 1 JANUARY 2016	-	42,601	1,612,725	1,527,668	3,182,994
ADDITIONS	-	-	78,072	343,690	421,762
TRANSFERS TO PROPERTY AND EQUIPMENT	1,473,946	-	367,856	(1,841,802)	-
TRANSFERS TO INTANGIBLE ASSETS	-	-	-	(12,992)	(12,992)
DISPOSALS	-	-	(921)	-	(921)
WRITE OFFS	-	-	(4,858)	(1,683)	(6,541)
IMPAIRMENT OF FIXED ASSETS	-	-	(147,637)	-	(147,637)
TRANSFER TO NON-CURRENT ASSET HELD FOR SALE	-	-	(18,547)	-	(18,547)

AT 31 DECEMBER 2016	1,473,946	42,601	1,886,690	14,881	3,418,118
DEPRECIATION:					
AT 1 JANUARY 2016	-	27,239	823,271	-	850,510
CHARGE FOR THE YEAR	-	8,155	175,830	-	183,985
DISPOSALS	-	-	(503)	-	(503)
WRITE OFFS	-	-	(211)	-	(211)
IMPAIRMENT OF FIXED ASSETS	-	-	(62,962)	-	(62,962)
TRANSFER TO NON-CURRENT ASSET HELD FOR SALE	-	-	(14,197)	-	(14,197)
AT 31 DECEMBER 2016	-	35,394	921,228	-	956,622
NET CARRYING AMOUNT AT 31 DECEMBER 2016	1,473,946	7,207	965,462	14,881	2,461,496
2015:					
COST:					
AT 1 JANUARY 2015		28,548	1,454,291	36,222	1,519,061
ADDITIONS		14,053	95,552	1,572,058	1,681,663
TRANSFERS		-	62,896	(62,896)	-
DISPOSALS		-	(14)	-	(14)
WRITE OFFS		-	-	(17,716)	(17,716)
AT 31 DECEMBER 2015		42,601	1,612,725	1,527,668	3,182,994
DEPRECIATION:					
AT 1 JANUARY 2015		17,350	646,920	-	664,270
CHARGE FOR THE YEAR		9,889	176,354	-	186,243
DISPOSALS		-	(3)	-	(3)
AT 31 DECEMBER 2015		27,239	823,271	-	850,510
NET CARRYING AMOUNT AT 31 DECEMBER 2014		15,362	789,454	1,527,668	2,332,484

21. Intangible assets

SOFTWARE

	2016 KSHS '000	2015 KSHS '000
COST		
AT 1 JANUARY	277,440	260,389
ADDITIONS	13,040	17,051
TRANSFER FROM WORK IN PROCESS	12,992	
AT 31 DECEMBER	303,472	277,400
AMORTISATION:		
AT 1 JANUARY	216,781	186,258
CHARGE FOR THE YEAR	24,523	30,523
AT 31 DECEMBER	241,304	216,781
NET CARRYING AMOUNT		
AT 31 DECEMBER	62,168	60,659

22. Non-current asset held for sale

AT 1 JANUARY	
TRANSFER FROM PROPERTY AND EQUIPMENT	4,350
AS AT 31 DECEMBER	4,350

The non-current asset held for sale relates to the Bank's fixtures, fittings and equipment planned to be disposed in 2017. As at 31 December 2016, the Bank was at an advanced stage of disposing of the assets no longer required following relocation to the new Head Office building and subsequent purchase of new fixtures, fittings and equipment.

23. Customer deposits

	2016 KSHS '000	2015 KSHS '000
CURRENT AND DEMAND DEPOSITS	16,055,287	13,011,296
SAVINGS ACCOUNTS	1,796,642	1,363,432
FIXED DEPOSIT ACCOUNTS	16,097,031	33,048,516
MARGIN DEPOSITS	514,747	64,345
TOTAL	34,463,707	47,487,589
WEIGHTED AVERAGE INTEREST RATE	6.52%	7,40%

24. Due to other banking institutions

MATURING WITHIN 90 DAYS	36,174	15,870

25. Other liabilities

	2016 KSHS '000	2015 KSHS '000
DEFERRED INCOME	211,568	212,657
OUTSTANDING BANKERS CHEQUES	88,011	78,148
ACCRUED EXPENSES	46,414	246,245
INSURANCE PREMIUMS PAYABLE	7,885	15,089
PROVISIONS	271,474	130,189
DERIVATIVES	104,074	
OTHER PAYABLES	122,802	123,892
TOTAL	852,228	806,213

26. Share capital and share premium

	2016 KSHS '000	2015 KSHS '000
AUTHORISED, ISSUED AND FULLY PAID UP:		
6,404,949 (2015: 6,404,949) ORDINARY SHARES OF KSHS 1,000	6,404,949	6,404,949

Issued and fully paid up share capital:

The movement in issued and fully paid up share capital and shares awaiting allotment during the year was as follows;

AT 1 JANUARY	5,275,991	5,275,991
ISSUE OF SHARES	941,687	-
AT 31 DECEMBER 2016: 6,217,678 (2015: 5,275,991) ORDINARY SHARES OF KSHS 1,000 EACH	6,217,678	5,275,991

Unissued capital (Shares awaiting allotment):

AT 1 JANUARY	1,128,958	-
SUBSCRIPTION FOR SHARES	-	1,128,958
SHARES ALLOTED	(941,687)	-
AT 31 DECEMBER 2016: 187,271 (2015: 1,128,958) ORDINARY SHARES OF KSHS 1,000 EACH	187,271	1,128,958

Shares awaiting allotment relates to amounts paid by shareholders where allotment of the shares is pending Central Bank of Kenya (CBK) approval of the shareholder.

Share premium

AT 1 JANUARY	1,980,356	1,409,104
SUBSCRIPTION FOR SHARES	-	571,252
AT 31 DECEMBER	1,980,356	1,980,356

Share premium arises from issue of shares at a price higher than the par value of the shares. These are being applied in business expansion of the Bank.

27. Statutory credit risk reserve

	2016 KSHS '000	2015 KSHS '000
AT 1 JANUARY	49,729	347,356
TRANSFER (TO) / FROM RETAINED EARNINGS	1,395,770	(297,627)
AT 31 DECEMBER	1,445,499	49,729

The statutory credit risk reserve represents an appropriation from retained earnings to comply with Central Bank of Kenya Prudential Guidelines. The balance in the reserve represents the excess of impairment provisions determined in accordance with Central Bank Guidelines over the impairment provisions recognized in accordance with the International Financial Reporting Standards.

28. Other reserves

a) Fair value reserve

The fair value reserve comprises the cumulative net change in the fair value of available-for-sale and investment in associate financial assets until the investments are derecognized or the asset is impaired.

b) Foreign currency translation reserve

The foreign currency translation reserve represents translation differences on investments in foreign operations.

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

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

Contingent liabilities

	2016 KSHS '000	2015 KSHS '000
ACCEPTANCES AND LETTERS OF CREDIT	1,124,045	3,781,511
GUARANTEES AND PERFORMANCE BONDS	10,790,039	9,811,666
TOTAL	11,914,084	13,593,177

An acceptance is an undertaking by a bank to pay a bill of exchange drawn on a customer. The Bank expects most acceptances to be presented, and reimbursement by the customer is normally immediate.

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

Guarantees are generally written by a bank to support performance by a customer to third parties.

The Bank will only be required to meet these obligations in the event of the customer's default.

Commitments

	2016 KSHS '000	2015 KSHS '000
UNUTILIZED CREDIT LINES AND OTHER FACILITIES	1,864,710	2,996,829
CURRENCY FORWARDS	-	8,082
FOREIGN EXCHANGE SPOTS	36,547	14,484
TOTAL	1,901,257	3,019,395

Nature of commitments

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

Forward foreign exchange contracts are commitments to either purchase or sell a specified quantity of foreign currency at a specified future date at an agreed rate. The fair values of the respective currency forwards are carried under other assets or other liabilities as appropriate.

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

	2016 KSHS '000	2015 KSHS '000
CASH AND BALANCES WITH CENTRAL BANK (NOTE 14)	6,392,943	5,953,628
LESS: CASH RESERVE REQUIREMENT	(1,636,694)	(2,173,046)
INVESTMENT AND OTHER SECURITIES (NOTE 16 (B)	-	794,438
DEPOSITS DUE FROM OTHER BANKS (NOTE 15)	3,240,179	7,986,755
DUE TO BANKS AND NON-BANK FINANCIAL INSTITUTIONS (NOTE 24)	(36,174)	(15,870)
AMOUNTS DUE TO GROUP BANKS (NET) (NOTE 31)	(189,366)	(667,081)
AT END OF YEAR	7,770,888	11,878,824

For the purposes of the cash flow statement, cash and cash equivalents comprise balances with less than 90 days maturity from the date of acquisition including: cash and balances with Central Bank, treasury bills and other eligible bills, and amounts due from other banks. Cash and cash equivalents exclude the cash reserve requirement held with the Central Bank of Kenya.

31. Related party transactions

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operation decisions, or one party controls both. The Bank is controlled by BOA Group S.A. incorporated in Luxembourg with its ultimate parent being BMCE Bank incorporated in Morocco. There are other companies which are related to BANK OF AFRICA - KENYA Limited through common shareholdings or common directorships.

In the normal course of business, current accounts are operated and placement of foreign currency balances are made with the parent company and other group companies at interest rates in line with the market. The relevant balances are shown below:

(a) Amounts due from group banks

	2016 KSHS '000	2015 KSHS '000
BANK OF AFRICA UGANDA	3,152	185,911
BANK OF AFRICA TANZANIA	1,335,087	1,402,755
BANK OF AFRICA FRANCE	1,090,949	583,796
BANK OF AFRICA MER ROUGE	128	128
BANK OF AFRICA GHANA	-	2,813,554
BANK OF AFRICA MADAGASCAR	225,024	259,682
BMCE INTERNATIONAL	256,665	67
TOTAL	2,911,005	5,245,893
MATURING WITHIN 90 DAYS	2,685,981	3,124,448
MATURING AFTER 90 DAYS	225,024	2,121,445
TOTAL	2,911,005	5,245,893
INTEREST INCOME EARNED ON THE ABOVE	121,045	84,524
LEDGER FEES EARNED ON THE ABOVE	834	832

(b) Amounts due to group banks

	2016 KSHS '000	2015 KSHS '000
BANK OF AFRICA MADAGASCAR	2,003,253	1,890,813
BANK OF AFRICA UGANDA	5,143	238,871
BANK OF AFRICA TANZANIA	1,315	1,403,922
BANQUE DE CREDIT DE BUJUMBURA	53,064	333,918
BANK OF AFRICA COTE D'IVOIRE	365	368
BANK OF AFRICA RDC	589	588
BANK OF AFRICA GHANA	3,067	1,793,399
BANK OF AFRICA TOGO	6,395	-
BANK OF AFRICA FRANCE	76,364	-
BANK OF AFRICA MER ROUGE	724,480	-
LA CONGOLAISE DE BANQUE	1,312	1,349
TOTAL	2,875,347	5,663,228
MATURING WITHIN 90 DAYS	2,875,347	3,791,529
MATURING AFTER 90 DAYS	-	1,871,699
TOTAL	2,875,347	5,663,228
INTEREST EXPENSE INCURRED ON THE ABOVE	94,928	142,511

(c) Investments in group companies

BANK OF AFRICA TANZANIA (NOTE 16 (A))	535,325	565,855
BANK OF AFRICA UGANDA (NOTE 32)	1,166,193	1,079,812
BANK OF AFRICA FRANCE (NOTE 16 (A))	32,819	42,445
TOTAL	1,734,337	1,688,112

(d) Expenses incurred within the group

	2016 KSHS '000	2015 KSHS '000
TECHNICAL ASSISTANCE FEES PAID TO AFRICAN FINANCIAL HOLDINGS (AFH)	122,376	124,126
INFORMATION TECHNOLOGY FEES PAID TO AFRICAN INFORMATION SERVICES AND SOFTWARE ASSOCIATED (AISSA)	20,047	24,804
TOTAL	142,423	148,930

(e) Loans to key management and directors

	2016 KSHS '000	2015 KSHS '000
KEY MANAGEMENT	37,791	80,000
DIRECTORS	12,525	13,000

Advances to customers as at 31 December 2016 includes loans to key management amounting to KShs 38 million (2015: KShs 80 million).

Total loans to directors amounted to KShs 12.5 million as at 31 December 2016 (2015: KShs 13.0 million).

	2016 KSHS '000	2015 KSHS '000
INTEREST INCOME EARNED ON LOANS TO KEY MANAGEMENT	2,764	3,211

(f) Key management compensation

	2016 KSHS '000	2015 KSHS '000
SALARIES AND OTHER SHORT-TERM EMPLOYMENT BENEFITS	137,785	153,715

(g) Directors' remuneration

	2016 KSHS '000	2015 KSHS '000
SALARIES TO EXECUTIVE DIRECTORS (INCLUDED IN KEY MANAGEMENT COMPENSATION ABOVE)	40,230	36,323
OTHER COMPENSATION TO NON-EXECUTIVE DIRECTORS	15,181	19,642
	55,411	55,965

(h) Subordinated debt and borrowings

The disclosures on the subordinated debt from BOA Group S.A. and borrowings from BOA-MER ROUGE and BMCE Bank are included in Note 33.

31. Investment in associate companies

BANK OF AFRICA - TANZANIA

In September 2015, BANK OF AFRICA - KENYA Limited's (BOA-KENYA) shareholding in BANK OF AFRICA - TANZANIA Limited (BOA-TANZANIA) was diluted following a rights issue by BOA-TANZANIA that BOA Kenya did not participate in. Consequently, BOA-TANZANIA ceased being an Associate of BOA Kenya and became an investment security held as available for sale.

2016

	BOAU KSHS'000	BOA-TANZANIA KSHS'000	TOTAL KSHS'000
AT 1 JANUARY	1,079,812	-	1,079,812
SHARE OF PROFIT	136,453	-	136,453
EXCHANGE DIFFERENCE	(50,072)	-	(50,072)
TOTAL	1,166,193	-	1,166,193

2015

	BOAU KSHS'000	BOA-TANZANIA KSHS'000	TOTAL KSHS'000
AT 1 JANUARY	-	600,822	600,822
RECOGNITION OF BANK OF AFRICA UGANDA (BOAU)	1,020,879	-	1,020,879
ISSUE OF NEW SHARES	109,040	-	109,040
SHARE OF (LOSS) / PROFIT	(27,425)	30,983	3,558
EFFECT OF SHAREHOLDING DILUTION IN ASSOCIATES	35,846	-	35,846
DERECOGNITION OF ASSOCIATE	-	(631,805)	(631,805)
EXCHANGE DIFFERENCE	(58,528)	-	(58,528)
TOTAL	1,079,812	-	1,079,812

(LOSS) / GAIN ON SHAREHOLDING CHANGE TO PROFIT OR LOSS

	2016 KSHS '000	2015 KSHS '000
BOA-TANZANIA- AS AN ASSOCIATE	-	(67,523)
BOA-UGANDA - AS AN ASSOCIATE	-	35,846
- AS A SUBSIDIARY (NOTE 32)	-	11,413
TOTAL	-	(20,264)
BOA-TANZANIA:		
DERECOGNITION OF ASSOCIATE	-	(631,805)
RECOGNITION OF INVESTMENT SECURITIES AT FAIR VALUE (NOTE 16A)	-	564,282
LOSS ARISING ON LOSS OF CONTROL	-	(67,523)

Set out below are the Associates of the Bank, which in the opinion of the Directors, are material to the Bank. The Associates have share capital consisting solely of ordinary shares, which are held directly by the Bank; the country of incorporation or registration is also their principal place of business.

NAME OF ENTITY	PLACE OF BUSINESS/ COUNTRY OF INCORPORATION	% OF OWNERSHIP OWNERSHIP INTEREST	NATURE OF THE RELATIONSHIP	MEASUREMENT METHOD
BANK OF AFRICA-UGANDA	UGANDA	2016: 43.24%	BANKING SERVICES	EQUITY
		(2015: 43.24%)		

Summarised balance sheet

ASSETS	2016 KSHS'000	2015 KSHS'000
CASH AND BALANCES WITH BANKS	1,948,138	2,032,211
GOVERNMENT SECURITIES - HELD TO MATURITY	5,205,518	2,468,176
LOANS AND ADVANCES TO CUSTOMERS	8,386,319	7,982,920
OTHER ASSETS	3,982,645	6,503,613
TOTAL ASSETS	19,522,620	18,986,920
LIABILITIES		
CUSTOMER DEPOSITS	13,631,846	13,071,350
DEPOSITS FROM OTHER BANKS	2,426,743	2,291,878
OTHER LIABILITIES	767,005	1,126,439
TOTAL LIABILITES	16,825,594	16,489,667
NET ASSETS	2,697,026	2,497,253

Summarised income statement

ASSETS	2016 KSHS'000	2015 KSHS'000
TOTAL OPERATING INCOME	2,227,499	1,562,916
TOTAL OPERATING EXPENSES	(1,765,737)	(1,694,338)
PROFIT/ (LOSS) BEFORE INCOME TAX	461,762	(131,422)
INCOME TAX (CHARGE)/CREDIT	(146,190)	83,943
PROFIT/ (LOSS) FOR THE YEAR	315,572	(47,479)

Reconciliation of summarised financial information

OPENING NET ASSETS	2,497,253	2,087,559
ISSUE OF NEW SHARES	-	639,771
PROFIT/ (LOSS) FOR THE PERIOD	315,572	(47,479)
EXCHANGE DIFFERENCES	(115,799)	(182,598)
CLOSING NET ASSETS	2,697,026	2,497,253
INTEREST IN ASSOCIATE (2015: 43.24%)	1,166,193	1,079,812
CARRYING VALUE IN ASSOCIATES	1,166,193	1,079,812
DIFFERENCE	-	-

33. Borrowings

	2016 KSHS'000	2015 KSHS'000
BORROWINGS FROM:		
FMO	1,410,272	1,830,665
BOA MER ROUGE	4,491,996	2,939,150
BMCE BANK	1,545,850	-
TOTAL	7,448,118	4,769,815
SUBORDINATED DEBT		
INTERNATIONAL FINANCE CORPORATION	329,287	655,944
BOA GROUP S.A	1,330,844	1,368,666
TOTAL	1,660,131	2,024,610
TOTAL	9,108,249	6,794,425

	2016 KSHS'000	2015 KSHS'000
AT 1 JANUARY	6,794,425	4,150,013
ADDITIONS	3,386,899	2,914,125
REPAYMENTS	(1,108,450)	(583,151)
NET ACCRUED INTEREST	57,158	22,340
EXCHANGE DIFFERENCES	(21,783)	291,098
AT 31 DECEMBER	9,108,249	6,794,425

The fair values of borrowings are disclosed in Note 4.4. Fair values are based on discounted cash flows using a discount rate based upon the borrowing rate that the Directors expect would be available to the Bank at the year end date.

Borrowings by BANK OF AFRICA - KENYA Limited are;

- An unsecured 7 year term loan of USD 25 million from FMO for the development of bank's lending business in foreign currency. The loan was obtained on 28 March 2013 and has a maturity date of 10 April 2020. It bears an interest rate referenced to the Libor which is paid quarterly in arrears. The effective interest rate on the loan at 31 December 2016 was 5.26%. (2015: 5.23%). As at the end of the year, the Bank did not comply with the single group exposure ratio, cost to income ratio and related party lending ratio financial covenants on the FMO borrowing.

- Three unsecured 1 year and 5 days term loans of USD 43.0 million from BOA Mer Rouge for the development of the Bank's lending business in foreign currency. The loans were obtained in 2016 and are maturing in 2017. Interest is payable on maturity of the loan. The effective interest rate on the loans at 31 December 2016 was 4.13%. (2015: 4.20%).
- An unsecured 1 year and 30 days term loan of USD 15 million from BMCE Bank for the development of the Bank's lending business in foreign currency. The loan was obtained on 22 April 2016 and has maturity date of 22 May 2017. Interest is paid quarterly in arrears. The effective interest rate on the loan at 31 December 2016 was 4.39%.

The subordinated debt is made up of two facilities as below;

- An unsecured 7 year loan of USD 8 million issued by International Finance Corporation (IFC) to enhance the Banks capital base. The loan was obtained on 15 December 2010 and has a maturity date of 15 December 2017. The debt has an initial five year principal repayment moratorium. The debt obligation of the Bank ranks ahead of the interest of holders of equity and is redeemable on maturity. It bears an interest rate referenced to the Libor payable semi-annually in arrears. The effective interest rate on the subordinated debt as at 31 December 2016 was 5.61% (2015: 4.84%). The subordinated debt is treated as Tier 2 capital in line with Central Bank of Kenya Prudential Guidelines. As at the end of the year, the Bank did not comply with the economic group exposure ratio, open loan exposure ratio and related party lending ratio financial covenants on the IFC borrowing.
- A subordinated convertible loan as an unsecured 7 year loan of EUR 12.3 million issued by BOA Group S.A to enhance the Banks capital base. The loan was obtained on 31 December 2014 and has a maturity date of 31 December 2021.The debt has an initial five year principal repayment moratorium. It bears an interest rate referenced to the Euribor payable semi-annually in arrears. The effective interest rate on the subordinated debt as at 31 December 2016 was 5.81% (2015: 5.88%). The subordinated debt is treated as Tier 2 capital in line with Central Bank of Kenya Prudential Guidelines.

None of the borrowings were in default during the year.

34. Fiduciary activities

The Bank holds asset security documents on behalf of customers with a value of KShs 1,053 million (2015: KShs 779 million). These securities are held by the Custody Services department of the Bank. The assets held comprise of deposits, government securities, debentures, title deeds, quoted and unquoted shares.

35. Subsequent events

Subsequent to the year end, the Bank has announced plans to close twelve of its branches subject to Central Bank of Kenya approval. The closure of the branches is in line with the Bank's digitalisation strategy and is expected to be concluded in 2017. After the closures, the Bank will remain with thirty branches and two business centres.