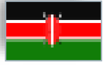
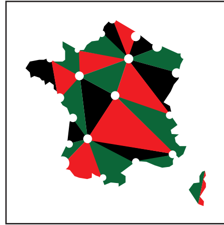
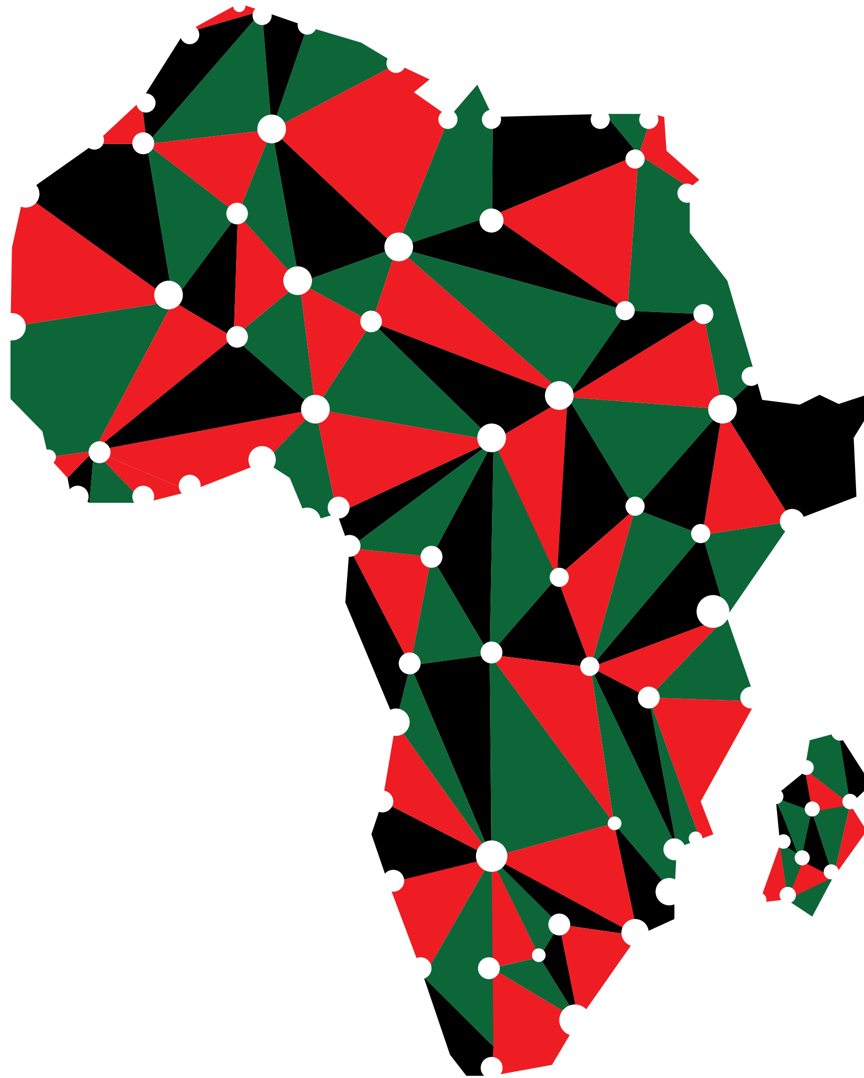


KENYA

FINANCIAL STATEMENTS 2017





BANK OF AFRICA

Groupe BMCE BANK

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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 31/12/2017

Kenyan Shillings (KES) 6.405 billion

Board of Directors as at 31/12/2017

Ambassador Dennis AWORI, Chairman

Amine BOUABID

Abdelkabir BENNANI

Kathleen Cornelia Paulina Jobina Josina GOENSE

Susan KASINGA

Eunice MBOGO

Ronald MARAMBII

Auditors

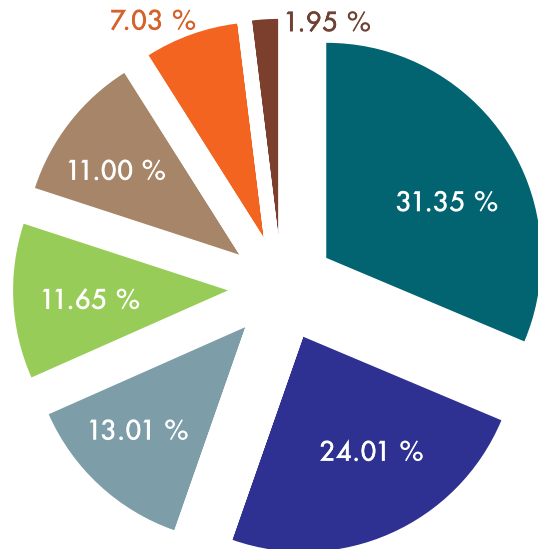
KPMG KENYA

Registered office

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

yoursay@boakenya.com
www.boakenya.com

Principal shareholders as at 31/12/2017



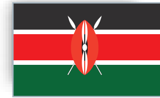
BANK OF AFRICA - BENIN
BOA GROUP S.A.
NETHERLANDS DEVELOPMENT FINANCE COMPANY (FMO)
BANK OF AFRICA - MADAGASCAR
BANK OF AFRICA - COTE D'IVOIRE
BANK OF AFRICA - MER ROUGE
AGORA S.A.

Financial analysis

In 2017, BANK OF AFRICA - KENYA (BOA-KENYA) recorded a **net profit of KES 67.6 million** compared to a net profit of KES 10.4 million in 2016. The key drivers of the improved performance were as follows:

- **Profit after tax grew** by 544% from Kes10.4m in 2016 to Kes 67.6m in 2017 largely attributed to increased trading income (Kes 510 in 2017 vs. Kes 257 in 2016) as well as increased income from investments in associates (Kes 229 in 2017 vs. Kes 136 in 2016).

- Further, **fees and commission income increased** from Kes 681m in 2016 to Kes 704m in 2017 attributed to an increase in facility processing



Key figures 2017 (in KES million)

Activity	2016	2017	Variation
Deposits	34,464	31,572	-8.4 %
Loans	31,542	27,388	-13.2 %
Number of branches	44	32	-27.3 %
Structure			
Total assets	55,996	54,191	-3.2 %
Shareholders' equity	8,418	8,468	0.6 %
Number of employees	515	417	-19.0 %
Income			
Total operating income	3,969	2,449	-38.3 %
Operating expenses (including depreciation and amortization)	2,905	2,637	-9.2 %
Gross operating profit	1,063	-188	-117.6 %
Cost of risk in value (*)	1,216	7	-99.4 %
Net Income	10	68	576.2 %
Operating ratio	73.2 %	107.7 %	
Cost of risk	3.1 %	0.0 %	
Return on Assets (ROA)		0.1 %	
Return on Equity (ROE)	1.0 %	0.8 %	
Capital adequacy ratio			
Tier 1	5,585	4,946	
Tier 2	2,052	2,040	
Risk Weighted Asset (RWA)	47,248	44,275	
Tier 1 + Tier 2 / RWA	16.2 %	15.8 %	

(*) Including general provision

-3.2 %
Total assets

Deposits
34,464 KES million
2016
31,572 KES million
2017

Loans
-13.2 %

Net operating income
-38.3 %

fees. The impact of increased non-funded income was however reduced by decreased net interest income due to reduced interest income from loans and advances after introduction of interest rate capping in September 2016.

- **Operating expenses dropped** by 9% in 2017 largely attributed to highest efficiencies by the bank in its operations through innovations and increased use of ICT solutions. Further reduction was attributed to reduced marketing costs through reduced media campaigns due to the prevailing conditions in the country.

Due to interest rate capping, the Bank took deliberate decision to slow down on lending after reviewing its business model to be in line with the new business environment. In 2017, the Bank made more emphasis in improving the quality of its loan book as it sought approval from CBK for new products that were more profitable. Consequently, the uptake of new loans has now increased, and the target is continuing to grow the loan book in 2018.

The results of the Bank therefore reflect the harsh operating environment which started in October 2015 following the collapse of Banks and continued in 2016 triggering 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”. In 2017, the elongated electioneering period also had a negative effect to the industry.

Reports of the Directors

For the year ended 31 December 2017

The Directors are pleased to submit their report together with the financial statements for the year ended 31 December 2017. 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 pages 14.

Dividend

The Directors do not recommend the payment of a dividend in respect of the year ended 31 December 2017 (2016: Nil).

Directors

The Directors who served during the year ended 31 December 2017 and up to the date of this report are as it follows.

Name	Position	Nationality
Ambassador Dennis Awori*	**Chairman**	**Kenyan**
Amine Bouabid		Moroccan
Vincent De Brouwer	(Resigned on 13 Nov. 2017)	Belgian
Alexandre Randrianasolo		Malagasy
Vincent De Brouwer		Belgian
Abdelkabir Bennani		Moroccan
Susan Kasinga*		Kenyan
Eunice Mbogo*		Kenyan
Kathleen Cornelia Paulina Jobina Josina Goense (Appointed 12 May 2017)		Dutch
Ronald Marambii	Managing Director	

*Independent Non-Executive Directors

Vincent De Brouwer resigned in accordance with the Articles of Associations and did not offer himself for reappointment due to personal engagements.

Company Secretary

Anne Wanjiru Gitau
CPS (K)
Reg No. 2497
BOA House
School Lane, Westlands
P.O. BOX 69562
00400 Nairobi, Tom Mboya

Registered Office

L. R. Nos 1870/III/313 and 1870/III/314
School Lane, Westlands

P.O. BOX 69562
00400 Nairobi, Tom Mboya
L. R. Nos 1870/III/313 and 1870/III/314
School Lane, Westlands
P.O. BOX 69562
00400 Nairobi, Tom Mboya

Independent Auditor

KPMG Kenya
8th Floor, ABC Towers
ABC Place, Waiyaki Way
P.O. BOX 40612
00100 Nairobi, GPO

Business review

Please see pages 6 to 9 for a detailed analysis of the above.

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 and authorised for issue at a meeting of the Board of Directors held on 14th February 2018.

BY ORDER OF THE BOARD
Anne Gitau
Company Secretary

Date: 14 February 2018

Corporate Governance Reports

For the year ended 31 December 2017

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 (BOA-KENYA) Limited is keen on ensuring the adoption of good corporate governance.

The Board

As at 31 December 2017, the Board of Directors comprised 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 2017

	8 Mar. 2017	20 Jun. 2017	15 Sept. 2017	8 Dec. 2017
Ambassador Dennis Awori	√	√	√	√
Amine Bouabid	√	√	√	√
Vincent de Brouwer	√	AP	√	N/A
Abdelkabir Bennani	√	√	√	√
Susan Kasinga	√	√	√	√
Eunice Mbogo	√	√	√	√
Kathleen Cornelia Paulina Jobina Josina Goense	N/A	√	√	√
Ronald Marambii	√	√	√	√

√ – 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:-

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. In the year 2017, the Members of this Committee were Ms. Susan Kasinga (Chairperson), Mr. Vincent de Brouwer (resigned on 13 November 2017), Mr. Abdelkabir

Bennani and Ms. Eunice Mbogo. Ms. Kathleen Cornelia Paulina Jobina Josina Goense was appointed a member of the Committee on the 15 of December 2017.

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. In the year 2017, the Members of this Committee were Ms. Susan Kasinga (Chairperson), Mr. Vincent de Brouwer (resigned on 13 November 2017) and Mr. Abdelkabir Bennani. Ms. Kathleen Cornelia Paulina Jobina Josina Goense was appointed a member of the Committee on the 15 of December 2017.

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. In the year 2017, the Members of this Committee were Ms. Eunice Mbogo (Chairperson), Mr. Vincent de Brouwer (resigned on 15 November 2017), Mr. Abdelkabir Bennani and Ms. Susan Kasinga. Ms. Kathleen Cornelia Paulina Jobina Josina Goense was appointed a member of the Committee on the 15 of December 2017.

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. In 2017,the Members of this Committee were Ms. Eunice Mbogo (Chairperson), Ms. Susan Kasinga and Mr. Abdelkabir Bennani. Ms. Kathleen Cornelia Paulina Jobina Josina Goense was appointed a member of the Committee on the 15 of December 2017.

The Board Head Office Project Committee, established by the Board of Directors to assist Management of the Bank in locating a suitable Head Office premises for the Company as well as fit out of the same was dissolved on 25 September 2017.

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 15 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 Board Chairman 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

2017 was conducted in the last quarter of 2017, 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 2018 were agreed on, and include Credit, with a focus on non-performing loans, review of company strategy in line with market conditions, Investment in technology and improvement of the Bank's ratios.

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.

Business performance review

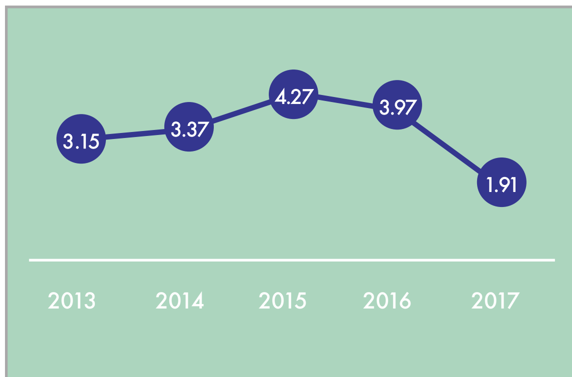
Statement of profit or loss

	31-DEC-13 KSHS'000 AUDITED	31-DEC-14 KSHS'000 AUDITED	31-DEC-15 KSHS'000 AUDITED	31-DEC-16 KSHS'000 AUDITED	31-DEC-17 KSHS'000 AUDITED
INTEREST INCOME	5,243,846	5,635,385	6,914,635	6,515,259	4,125,249
INTEREST EXPENSE	(3,108,995)	(3,157,464)	(3,764,295)	(3,492,703)	(2,870,214)
NET INTEREST INCOME	2,134,851	2,477,921	3,150,340	3,022,556	1,255,035
NON-INTEREST INCOME	1,013,886	888,365	1,121,769	946,258	1,194,388
OPERATING INCOME	3,148,737	3,366,286	4,272,109	3,968,814	1,910,410
EXPENSES	(2,037,747)	(2,639,073)	(2,911,646)	(2,905,496)	(2,636,926)
IMPAIRMENT LOSSES ON LOANS AND ADVANCES	(131,786)	(561,825)	(2,777,945)	(1,216,268)	(6,756)
OPERATING EXPENSES	(2,169,533)	(3,200,898)	(5,689,591)	(4,121,764)	(2,643,682)
PROFIT/ (LOSS) FROM OPERATIONS	979,204	165,388	(1,417,482)	(152,950)	(194,259)
SHARE OF PROFIT OF ASSOCIATES	49,100	47,218	3,558	136,453	229,444
LOSS ON LOSS OF CONTROL		(8,940)	(20,264)	-	-
PROFIT/ (LOSS) BEFORE INCOME TAX	1,028,304	203,666	(1,434,188)	(16,497)	35,185
INCOME TAX EXPENSE/CREDIT	(272,619)	(59,555)	410,827	26,967	32,433
PROFIT FOR THE YEAR	755,685	144,111	(1,023,361)	10,470	67,618

Statement of financial position

	31-DEC-13 KSHS'000 AUDITED	31-DEC-14 KSHS'000 AUDITED	31-DEC-15 KSHS'000 AUDITED	31-DEC-16 KSHS'000 AUDITED	31-DEC-17 KSHS'000 AUDITED
ASSETS					
GOVERNMENT SECURITIES AND OTHER SECURITIES	9,442,651	7,142,239	6,487,110	5,293,768	4,919,866
LOANS AND ADVANCES TO CUSTOMERS	31,091,347	38,463,876	37,798,691	31,541,959	27,388,460
OTHER ASSETS	11,407,358	15,676,604	22,601,323	16,636,280	19,478,963
PROPERTY AND EQUIPMENT	741,943	928,922	2,393,143	2,523,664	2,404,002
TOTAL ASSETS	52,683,299	62,211,641	69,280,267	55,995,671	54,191,291
LIABILITIES					
CUSTOMER DEPOSITS	36,740,085	41,670,812	47,487,589	34,463,707	31,572,432
DUE TO BANKS	5,872,021	8,028,520	5,679,098	2,911,521	7,898,519
BORROWED FUNDS	2,999,840	4,150,013	6,794,425	9,108,249	5,662,402
OTHER LIABILITIES	532,193	449,087	823,419	1,094,208	590,233
TOTAL EQUITY	6,539,160	7,913,209	8,495,736	8,417,986	8,467,705
TOTAL LIABILITIES AND EQUITY	52,683,299	62,211,641	69,280,267	55,995,671	54,191,291

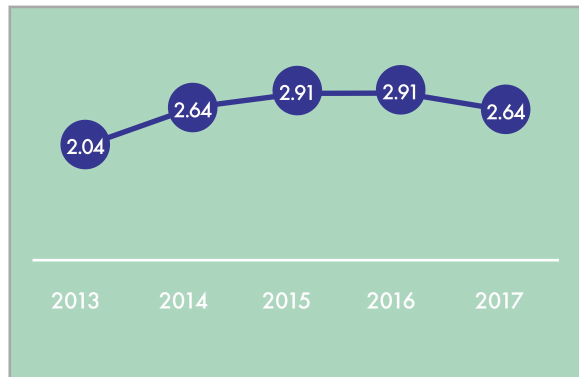
(i) Operating income



Operating income dropped by 52% in 2017 largely attributed to interest rate capping which came in to effect in 2017.

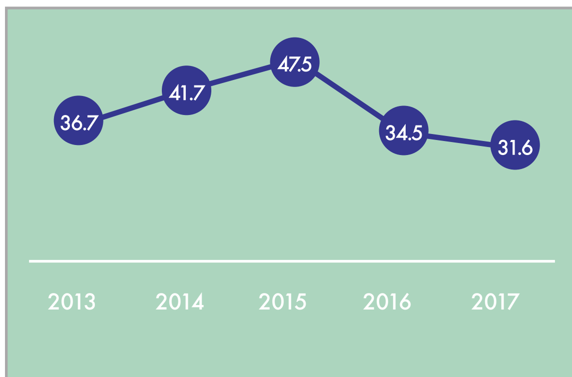
In 2018, the bank targets to grow its lending to increase interest income as well as fees and commissions.

(ii) Operating expenses



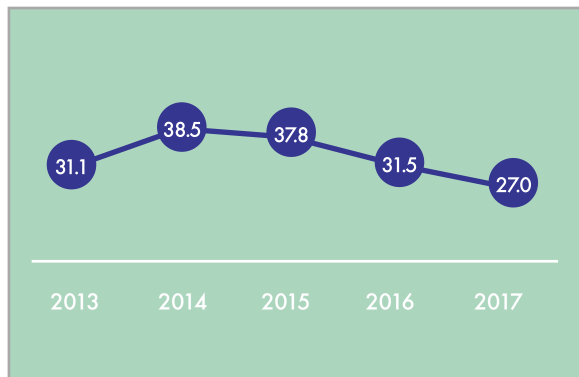
Operating expenses dropped by 9% in 2018 largely attributed to increased efficiencies by the bank's in its operations through innovations and increased use of ICT solutions. Further reduction was attributed to reduced marketing costs through reduced media campaigns due to the prevailing conditions in the country.

(iii) Customers deposits
(in billion of KShs)



There has been a drop from 2015 to 2017 due to the financial crisis in Kenya that happened in 2016 following the collapse of Chase Bank Ltd-IR and earlier on Imperial Bank-IR. There was a segmentation risk with Tier 2 and 3 Banks being affected.In addition,interest rate capping led to reduced demand for wholesale liabilities as Banks were unable to price for risk. With drop in private sector lending,there was need to shrink the balance sheet for optimization of assets and liabilities.

(iv) Loans and advances
(in billion of KShs)



Drop from 2015 to 2017 reflects the challenges in the operating environment after collapse of two Banks in tier 2 category and the passing of the interest capping law. There was need to recalibrate the deposit structure and shrink the balance sheet for better management of the assets and liabilities.

Potential threats

Description	Example	Mitigation Measures
Credit Risk Failure of an obligor of the bank to repay principal or interest at the stipulated time or failure of otherwise to perform as agreed.	Defualt on credit facilities	Monitoring and reporting of loan book, setting appetite limits,sector concentration limits, risk adjusted loan pricing, calculating the basel II capital adequacy requirements for credit risk and core risk models.
Cyber Risk Cyber risk' means any risk of financial loss, disruption or damage to the reputation of an organisation from some sort of failure of its information technology systems.	Cyber security attack	Cyber Security Policy and framework,increase awareness and train and retrain staff, monitor anti-virus and anti-malware software, put in place security controls to avert penetration and to constantly test and monitor.
Information Risk Risk arising from weaknesses in the ICT environment, system availability or data integrity.	Data fraud, phishing and privacy breaches Stringent information protection processes and policies	IT security policy, IT operations and monitoring firewalls, strong BCP, stringent information protection processes and policies.BOA Group oversight and monitoring.
Market Risk Market risk at BOA includes: Interest rate risk, foreign exchange risk, investment risk, settlement risk, liquidity risk and country risk, this poses a potential loss of earning or economic value due to sudden shifts in financial and economic factors.	Loss in economic value due to shift in interest rate	Regular monitoring of BOA-KENYA's risk profile against risk appetite limits e.g Exposure and risk limits, liquidity and solvency ratios which are contained In the market risk framework. BOA Group oversight and monitoring through group middle office.
Compliance Risk Failure to adhere to prudential guidelines, new or existing legislation, tax legislation as well as internal compliance policies	Introduction of new or changes to existing legislation, regulation and prudential	Gap analysis and enhancement of the internal policy environment Identifcation of changes to the regutory environment. Internal compliance checks and assessments. AML, FT, FATCA etc policies.
Reputational Risk Potential that negative publicity regarding BOA-KENYA's business practices, whether true or not, will cause a decline in the customer confidence, costly litigation or revenue reductions. This risk may be due to the failure of the bank to effectively manage all the other risks.	Negative publicity	Senior management oversight,effective and efficient complaint management system, monitoring print, electronic and social media and resolution of issues. Strong risk management and ethics culture.

Description	Example	Mitigation Measures
Operational Risk This is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events.	Inadequate/insufficient documentation of processes or procedures. Lack of inbuilt controls in procedures. Health and safety issues.	Robust operations risk management framework that ensures operational risks are identified, measure and corrective action taken.

Employee relations

Learning and Development

The Bank is very keen in empowering employees to ensure that they deliver on our promises to our customers. Several learning and development programmes have been put in place to ensure that staff continuously enhance their skills. In the current financial year, the bank has enrolled teams from business and credit to the globally reputed Omega Performance Credit course which will culminate in international accreditation. This course develops high performing commercial lenders, credit analysts, underwriters and loan reviewers.

The bank also held SME trainings for the business teams and customer service trainings to Customer Service Managers and Customer Service Officers.

Employee wellness

Employee wellness remains a critical component of a healthy and productive workforce. The Bank has put in place several initiatives to improve employee wellness and the general wellbeing. In 2017, the bank held a medical wellness clinic to sensitise staff on the need for healthy living. In additional, the Bank organised various team building activities to help build teamwork and cohesiveness among the staff.

Awards and recognition

BANK OF AFRICA – KENYA (BOA-KENYA) has been participating in BOA Group S.A. campaigns where the Bank competes against other banks within the group. In 2017 we had a number of group campaigns that took place where BOA-KENYA won awards in “BOA SME campaign 2017”. A number of BOA-KENYA branches also topped their categories in different group campaigns held last year which included “Celebrate with BOA 2017 campaign” and “BOA SME campaign 2017”.

The Bank also seeks to recognise staff who have been exemplary in their service to both external and internal customers. This is done quarterly where staff who have performed well are recognised and rewarded.

Social and environmental management

The Bank offers financial solutions that are aimed at socio-economic empowerment of stakeholders while protecting the environment. We create long term relationships with our clients and provide them with innovative and inclusive products which are matched to their needs in order to create sustainable value that can be preserved for future generations.

The bank through engagement with clients has developed effective policies and risk assessment procedures that seek to mitigate social and environment risks associated with the activities financed. On resource optimization, the bank has established systems aimed at promoting paperless banking as well as energy saving. The bank's governance structure fosters ethical practices, efficiency and productivity across its network in conducting business.

The Directors are responsible for the preparation and presentation of the financial statements of BANK OF AFRICA - KENYA Limited set out on pages 15 to 80 which comprise the statement of financial position at 31 December 2017, 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 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 and authorised for issue by the Board of Directors on 14 February 2018 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 the BANK OF AFRICA KENYA

Report on the audit of the financial statements

Opinion

We have audited the financial statements of BANK OF AFRICA - KENYA Limited set out on pages 15 to 80, which comprise the statement of financial position as at 31 December 2017, 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 2017, 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. We have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other information

The Directors are responsible for other information. The other information comprises the Corporate Governance Report and the Directors' Report.

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 10, 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, in our opinion, the information given in the Directors' report for the year ended 31 December 2017 on page 2 is consistent with the separate financial statements.

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

Date: 9 March 2018

Financial Statements

For the year ended 31 december 2017

Statement of profit or loss and other comprehensive income

	NOTE	2017 KSHS 000	2016 KSHS 000
INTEREST INCOME	5	4,125,249	6,515,259
INTEREST EXPENSE	6	(2,870,214)	(3,492,703)
NET INTEREST INCOME		1,255,035	3,022,556
FEE AND COMMISSION INCOME	7	710,344	700,255
FEE AND COMMISSION EXPENSE	7	(5,772)	(19,163)
NET FEE AND COMMISSION INCOME		704,572	681,092
NET FOREIGN EXCHANGE INCOME		510,022	256,650
OTHER OPERATING (LOSS) /INCOME	8	(20,206)	8,516
TOTAL INCOME		2,449,423	3,968,814
IMPAIRMENT LOSSES ON LOANS AND ADVANCES	16	(6,756)	(1,216,268)
NET OPERATING INCOME		2,442,667	2,752,546
STAFF COSTS	9	(1,207,969)	(1,224,951)
DEPRECIATION AND AMORTISATION	10	(246,310)	(208,508)
OTHER OPERATING COSTS	11	(1,182,647)	(1,472,037)
TOTAL OPERATING EXPENSES		(2,636,926)	(2,905,496)
LOSS FROM OPERATIONS		(194,259)	(152,950)
SHARE OF PROFIT OF ASSOCIATES	18	229,444	136,453
PROFIT/(LOSS) BEFORE INCOME TAX		35,185	(16,497)
INCOME TAX CREDIT	12	32,433	26,967
PROFIT FOR THE YEAR		67,618	10,470
OTHER COMPREHENSIVE INCOME			
ITEMS THAT MAY SUBSEQUENTLY BE RECLASSIFIED TO PROFIT OR LOSS			
NET CHANGES IN FAIR VALUE OF AVAILABLE FOR SALE INVESTMENTS	17(A)	(2,345)	(40,156)
DEFERRED TAX ON FAIR VALUE ON AVAILABLE FOR SALE INVESTMENTS	22	117	2,008
FOREIGN CURRENCY TRANSLATION DIFFERENCES FOR INVESTMENTS IN FOREIGN OPERATIONS	18	(15,671)	(50,072)
OTHER COMPREHENSIVE INCOME, NET OF TAX		(17,899)	(88,220)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		49,719	(77,750)

The notes on pages 22 to 73 are an integral part of these financial statements.

Statement of financial position

	NOTE	2017 KSHS 000	2016 KSHS 000
ASSETS			
CASH AND BALANCES WITH CENTRAL BANK	13	5,152,891	6,392,943
DUE FROM OTHER BANKING INSTITUTIONS	14	6,597,236	3,240,179
DUE FROM GROUP BANKS	15(A)	2,959,913	2,911,005
LOANS AND ADVANCES TO CUSTOMERS	16	27,388,460	31,541,959
INVESTMENT SECURITIES- AVAILABLE FOR SALE	17(A)	567,987	570,332
INVESTMENT SECURITIES- HELD TO MATURITY	17(B)	4,919,866	5,293,768
INVESTMENT IN ASSOCIATE	18	1,318,576	1,166,193
CURRENT INCOME TAX	12	98,594	-
PROPERTY AND EQUIPMENT	19	2,353,256	2,461,496
NON- CURRENT ASSET HELD FOR SALE	20	107,843	4,350
INTANGIBLE ASSETS	21	50,746	62,168
DEFERRED INCOME TAX	22	1,682,208	1,250,435
OTHER ASSETS	23	993,715	1,100,843
TOTAL ASSETS		**54,191,291**	**55,995,671**
LIABILITIES			
DUE TO GROUP BANKS	15 (B)	6,136,430	2,875,347
DUE TO OTHER BANKING INSTITUTIONS	24	1,762,089	36,174
CUSTOMER DEPOSITS	25	31,572,432	34,463,707
CURRENT INCOME TAX PAYABLE	12	-	241,980
BORROWINGS	26	5,662,402	9,108,249
OTHER LIABILITIES	27	590,233	852,228
TOTAL LIABILITIES		**45,723,586**	**47,577,685**
SHAREHOLDERS' EQUITY			
SHARE CAPITAL	28	6,404,949	6,217,678
UNISSUED CAPITAL	28	-	187,271
SHARE PREMIUM	28	1,980,356	1,980,356
STATUTORY CREDIT RISK RESERVE	29	2,152,182	1,445,499
FAIR VALUE RESERVE	30 (A)	(76,170)	(73,942)
FOREIGN CURRENCY TRANSLATION RESERVE	30 (B)	(124,271)	(108,600)
RETAINED EARNINGS		(1,869,341)	(1,230,276)
TOTAL SHAREHOLDERS' EQUITY		**8,467,705**	**8,417,986**
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**54,191,291**	**55,995,671**

The financial statements on pages 14 to 80 were approved and authorised for issue by the Board of Directors on 14 February 2018 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 22 to 73 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 TRANSLATION RESERVE KSHS 000	RETAINED EARNINGS KSHS 000	TOTAL EQUITY KSHS 000
AT 1 JANUARY 2017		6,217,678	187,271	1,980,356	1,445,499	(73,942)	(108,600)	(1,230,276)	8,417,986
TOTAL COMPREHENSIVE INCOME		-	-	-	-	-	-	-	-
PROFIT FOR THE YEAR		-	-	-	-	-		67,618	67,618
TRANSFER TO STATUTORY CREDIT RISK RESERVE	29	-	-	-	706,683	-	-	(706,683)	-
NET CHANGE IN FAIR VALUE ON AFS FINANCIAL ASSETS, NET OF DEFERRED TAX	17(A)	-	-	-	-	(2,228)	-	-	(2,228)
FOREIGN CURRENCY TRANSLATION DIFFERENCES ON INVESTMENTS IN FOREIGN OPERATIONS	18	-	-	-	-	-	(15,671)	-	(15,671)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		-	-	-	706,683	(2,228)	(15,671)	(639,065)	49,719
TRANSACTIONS WITH OWNERS, RECORDED DIRECTLY IN EQUITY									
ISSUE OF SHARES/(SHARE ALLOTMENT)	28	187,271	(187,271)	-	-	-	-	-	-
TOTAL CONTRIBUTIONS BY AND DISTRIBUTIONS TO OWNERS		187,271	(187,271)	-	-	-	-	-	-
AT 31 DECEMBER 2017		6,404,949	-	1,980,356	2,152,182	(76,170)	(124,271)	(1,869,341)	8,467,705
AT 1 JANUARY 2016		5,275,991	1,128,958	1,980,356	49,729	(35,794)	(58,528)	155,024	8,495,736
PROFIT FOR THE YEAR		-	-	-	-	-		10,470	10,470
TRANSFER FROM RETAINED EARNINGS	29	-	-	-	1,395,770	-	-	(1,395,770)	-
NET CHANGE IN FAIR VALUE ON AFS FINANCIAL ASSETS, NET OF DEFERRED TAX	17(A)	-	-	-	-	(38,148)	-	-	(38,148)
FOREIGN CURRENCY TRANSLATION DIFFERENCES ON INVESTMENTS IN FOREIGN OPERATIONS	18	-	-	-	-	-	(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/(SHARE ALLOTMENT)	28	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

The notes on pages 22 to 73 are an integral part of these financial statements.

Statement of cash flows

	NOTE	2017 KSHS 000	2016 KSHS 000
CASH FLOWS FROM OPERATING ACTIVITIES			
NET PROFIT/(LOSS) BEFORE TAXATION		35,185	(16,497)
ADJUSTMENTS FOR:			
DEPRECIATION AND AMORTIZATION	10	246,310	208,508
PROFIT ON DISPOSAL OF PROPERTY AND EQUIPMENT	8	(53)	(209)
SHARE OF PROFIT OF ASSOCIATE	18	(229,444)	(136,453)
IMPAIRMENT OF FIXED ASSETS	19	-	84,675
IMPAIRMENT OF NON-CURRENT ASSETS	20	79,748	-
WRITE OFF OF FIXED ASSETS	19	-	6,330
WRITE OFF OF INTANGIBLE ASSETS	21	241	-
TOTAL		131,987	146,354
CHANGES IN:			
LOANS AND ADVANCES TO CUSTOMERS	16	4,153,499	6,256,732
CASH RESERVE REQUIREMENT	13	45,794	536,352
OTHER ASSETS	23	107,128	(144,995)
CUSTOMER DEPOSITS	25	(2,891,275)	(13,023,882
AMOUNTS DUE FROM GROUP COMPANIES	15(A)	(2,103,110)	1,896,421
AMOUNTS DUE TO GROUP COMPANIES	15(B)	1,810,383	(1,871,699)
INCREASE IN OTHER LIABILITIES	27	(261,995)	46,015
TOTAL		860,424	(6,305,056)
INCOME TAX PAID	12	(739,797)	(227,787)
NET FROM / (USED IN) OPERATING ACTIVITIES		252,614	(6,386,489)
CASH FLOWS FROM INVESTING ACTIVITIES			
ACQUISITION OF PROPERTY AND EQUIPMENT	19	(297,279)	(421,762)
ACQUISITION OF INTANGIBLE ASSETS	21	(12,879)	(13,040)
PROCEEDS FROM SALE OF PROPERTY AND EQUIPMENT		81	627
MATURING OF INVESTMENT SECURITIES – BILLS AND BONDS	17(B)	618,241	398,904
DIVIDENDS RECEIVED	18	61,390	-
NET CASH GENERATED/(USED) IN INVESTING ACTIVITIES		369,554	(35,271)
CASH FLOWS FROM FINANCING ACTIVITIES			
NET (REPAYMENTS)/PROCEEDS FROM BORROWINGS	26	(3,445,847)	2,313,824
NET CASH GENERATED FROM FINANCING ACTIVITIES		(3,445,847)	2,313,824
NET DECREASE IN CASH AND CASH EQUIVALENTS		(2,823,679)	(4,107,936)
CASH AND CASH EQUIVALENT AT 1 JANUARY		7,770,888	11,878,824
CASH AND CASH EQUIVALENT AT 31 DECEMBER	32	4,947,209	7,770,888

The notes on pages 22 to 73 are an integral part of these financial statements.

Notes to the Financial Statements

For the year ended 31 December 2017

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, Tom Mboya

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.

(d) Borrowing costs

Borrowing costs, net of any temporary investment income on those borrowings, that are attributable to acquisition, construction or production of a qualifying asset are capitalised as part of the asset. The net borrowing cost capitalised is either the actual borrowing cost incurred on the amount borrowed specifically to finance the asset; or in the case of general borrowings, the borrowing cost is determined using the overall weighted average cost of the borrowings on all outstanding borrowings during the year less any specific borrowings directly attributable to the asset and applying this rate to the borrowing attributable to the asset. Capitalisation of borrowing costs ceases when all activities necessary to prepare the qualifying asset for its intended use or sale are complete.

2.2. Consolidation

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.

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	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	1.5%
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. Proposed dividends are not recognised until they have been declared at an annual general meeting.

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 premium

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.

2.24 New standards, amendments and interpretations

(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 2017, including consequential amendments to other standards with the date of initial application by the Bank being 1 January 2017. The nature and effects of the changes are as explained here in.

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

New standard or amendments	Effective for annual periods beginning on or after
– Disclosure Initiative (Amendments to IAS 7)	1 January 2017
– Recognition of Deferred Tax Assets for Unrealised Losses (Amendments to IAS 12)	1 January 2017

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 a 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 apply for annual periods beginning on or after 1st January 2017 and early application is permitted.

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

Recognition of Deferred Tax Assets for Unrealised Losses (Amendments to IAS 12)

The amendments in Recognition of Deferred Tax Assets for Unrealised Losses clarify the following aspects:

- Unrealised losses on debt instruments measured at fair value and measured at cost for tax purposes give rise to a deductible temporary difference regardless of whether the debt instrument's holder expects to recover the carrying amount of the debt instrument by sale or by use.
- The carrying amount of an asset does not limit the estimation of probable future taxable profits.
- Estimates for future taxable profits exclude tax deductions resulting from the reversal of deductible temporary differences.
- An entity assesses a deferred tax asset in combination with other deferred tax assets. Where tax law restricts the utilisation of tax losses, an entity would assess a deferred tax asset in combination with other deferred tax assets of the same type.

The standard was effective for annual periods beginning on or after 1st January 2017 with early application permitted. As transition relief, an entity may recognise the change in the opening equity of the earliest comparative period in opening retained earnings on initial application without allocating the change between opening retained earnings and other components of equity. The Board has not added additional transition

relief for first-time adopters.

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

Annual improvements cycle (2014-2016)

Standard	Amendments
IFRS 12 Employee Benefits	**Disclosure of Interests in Other Entities** Clarifies that the disclosure requirements for interests in other entities also apply to interests that are classified as held for sale or distribution.

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

(ii) New standards, amendments and interpretations in issue but not yet effective for the year ended 31 December 2017

A number of new standards, amendments to standards and interpretations are not yet effective for the year ended 31 December 2017, and have not been applied in preparing these financial statements.

The Company does not plan to adopt these standards early. These are summarised below:

Standard	Amendments
IFRS 15 Revenue from Contracts with Customers	1st January 2018
IFRS 9 Financial Instruments (2014)	1 st January 2018
Classification and Measurement of Share-based	
Payment Transactions (Amendments to IFRS 2)	1st January 2018
Applying IFRS 9 Financial Instruments with IFRS 4	
Insurance Contracts (Amendments to IFRS 4)	1st January 2018
IFRIC 22 Foreign Currency Transactions and Advance Consideration	1st January 2018
IAS 40 Transfers of Investment Property	1st January 2018
IFRS 16 Leases	1st January 2019
IFRIC 23 Income tax exposures	1st January 2019
IFRS 9 Prepayment Features with Negative Compensation	1st January 2019
IAS 28 Long-term Interests in Associates and Joint Ventures	1st January 2019
IFRS 17 Insurance contracts	1st January 2021
Sale or Contribution of Assets between an Investor and its Associate or Company (Amendments to IFRS 10 and IAS 28).	To be determined

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 (IFRS 9)

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

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

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

The adoption of IFRS 9 is expected to result in a reduction to retained earnings as at 1 January 2018 of approximately 20% to 25%. The primary impact is attributable to increases in the allowance for credit losses of approximately 37% to 52% under the new impairment requirements.

Classification and measurement

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

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

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

Impairment

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

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

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

Scope

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

Measurement of Expected Credit Losses

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

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

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

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

– When one or more events that have a detrimental impact on the estimated future cash flows of a financial asset have occurred, the financial asset is considered credit-impaired and is migrated to Stage 3, and an allowance equal to lifetime expected losses continues to be recorded or the financial asset is written off.

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

Assessment of Significant Increase in Credit Risk

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

Definition of Default

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

Hedge Accounting

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

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 is 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's financial statements.

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.

IFRIC Interpretation 22 Foreign Currency Transactions and Advance Consideration

This Interpretation applies to a foreign currency transaction (or part of it) when an entity recognises a non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration before the entity recognises the related asset, expense or income (or part of it).

This Interpretation stipulates that the date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part of it) is the date on which an entity initially recognises the non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration.

This Interpretation does not apply to income taxes, insurance contracts and circumstances when an entity measures the related asset, expense or income on initial recognition:

(a) at fair value; or

(b) at the fair value of the consideration paid or received at a date other than the date of initial recognition of the non-monetary asset or non-monetary liability arising from advance consideration (for example, the measurement of goodwill applying IFRS 3 Business Combinations).

The amendments apply retrospectively for annual periods beginning on or after 1 January 2018, with early application permitted.

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

Transfers of Investment property (Amendments to IAS 40)

The IASB has amended the requirements in IAS 40 Investment property on when a company should transfer a property asset to, or from, investment property.

The adoption of these standard will not have an impact on the financial statements of the Bank.

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 1st 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.

IFRIC 23 Clarification on accounting for Income tax exposures

IFRIC 23 clarifies the accounting for income tax treatments that have yet to be accepted by tax authorities, whilst also aiming to enhance transparency.

IFRIC 23 explains how to recognise and measure deferred and current income tax assets and liabilities where there is uncertainty over a tax treatment.

An uncertain tax treatment is any tax treatment applied by an entity where there is uncertainty over whether that treatment will be accepted by the tax authority.

If an entity concludes that it is probable that the tax authority will accept an uncertain tax treatment that has been taken or is expected to be taken on a tax return, it should determine its accounting for income taxes consistently with that tax treatment. If an entity concludes that it is not probable that the treatment will be accepted, it should reflect the effect of the uncertainty in its income tax accounting in the period in which that determination is made. Uncertainty is reflected in the overall measurement of tax and separate provision is not allowed.

The entity is required to measure the impact of the uncertainty using the method that best predicts the resolution of the uncertainty (that is, the entity should use either the most likely amount method or the expected value method when measuring an uncertainty).

The entity will also need to provide disclosures, under existing disclosure requirements, about

(a) judgments made;

(b) assumptions and other estimates used; and

(c) potential impact of uncertainties not reflected.

Prepayment Features with Negative Compensation (Amendments to IFRS 9)

The amendments clarify that financial assets containing prepayment features with negative compensation can now be measured at amortised cost or at fair value through other comprehensive income (FVOCI) if they meet the other relevant requirements of IFRS 9.

Management is currently evaluating the impact of the new standard to the Company's financial statements.

The amendments apply for annual periods beginning on or after 1st January 2019 with retrospective application, early adoption is permitted.

Long-term Interests in Associates and Joint Ventures (Amendment to IAS 28)

The amendments clarify that an entity applies IFRS 9 to long-term interests in an associate and joint venture that form part of the net investment in the associate or joint venture but to which the equity method is not applied.

Management is currently evaluating the impact of the new standard to the Company's financial statements.

The amendments apply for annual periods beginning on or after 1st January 2019. Early adoption is permitted.

IFRS 17 Insurance Contracts

IFRS 17 Insurance Contracts sets out the requirements that an entity should apply in reporting information

about insurance contracts it issues and reinsurance contracts it holds. An entity shall apply IFRS 17 Insurance Contracts to:

(a) insurance contracts, including reinsurance contracts, it issues;

(b) reinsurance contracts it holds; and

(c) investment contracts with discretionary participation features it issues, provided the entity also issues insurance contracts

IFRS 17 requires an entity that issues insurance contracts to report them on the statement of financial position as the total of:

(a) the fulfilment cash flows—the current estimates of amounts that the entity expects to collect from premiums and pay out for claims, benefits and expenses, including an adjustment for the timing and risk of those amounts; and

(b) the contractual service margin—the expected profit for providing insurance coverage. The expected profit for providing insurance coverage is recognised in profit or loss over time as the insurance coverage is provided.

IFRS 17 requires an entity to recognise profits as it delivers insurance services, rather than when it receives premiums, as well as to provide information about insurance contract profits that the Company expects to recognise in the future. IFRS 17 requires an entity to distinguish between groups of contracts expected to be profit making and groups of contracts expected to be loss making. Any expected losses arising from loss-making, or onerous, contracts are accounted for in profit or loss as soon as the Company determines that losses are expected. IFRS 17 requires the entity to update the fulfilment cash flows at each reporting date, using current estimates of the amount, timing and uncertainty of cash flows and of discount rates. The entity:

(a) accounts for changes to estimates of future cash flows from one reporting date to another either as an amount in profit or loss or as an adjustment to the expected profit for providing insurance coverage, depending on the type of change and the reason for it; and

(b) chooses where to present the effects of some changes in discount rates-either in profit or loss or in other comprehensive income.

IFRS 17 also requires disclosures to enable users of financial statements to understand the amounts recognised in the entity's statement of financial position and statement of profit or loss and other comprehensive income, and to assess the risks the Company faces from issuing insurance contracts.

IFRS 17 replaces IFRS 4 Insurance Contracts. IFRS 17 is effective for financial periods commencing on or after 1 January 2021. An entity shall apply the standard retrospectively unless impracticable. A Company can choose to apply IFRS 17 before that date, but only if it also applies IFRS 9 Financial Instruments and IFRS 15 Revenue from Contracts with Customers.

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

Sale or Contribution of Assets between an Investor and its Associate or Company (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 Company 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 Company 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 affect the amounts and disclosures of the Bank's financial statements.

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.

ii) 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.

iii) 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 31.

66% of the total maximum exposure is derived from loans and advances to customers and due from banks (2016: 68%); 10% represents investments in securities (2016: 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), (2016: 75%) and;
- More than 98% (2016: 98%) of the Investments securities are in Government securities which are deemed low risk.

(i) Other financial assets

	2017 KSHS'000	2016 KSHS'000
CASH AND BANK BALANCES WITH CENTRAL BANK (NOTE 13)	5,152,891	6,392,943
DUE FROM OTHER BANKING INSTITUTIONS (NOTE 14)	6,597,236	3,240,179
DUE FROM GROUP BANKS (NOTE 15(A))	2,959,913	2,911,005
INVESTMENT SECURITIES – AVAILABLE FOR SALE (NOTE 17(A))	567,987	570,332
INVESTMENT SECURITIES - HELD TO MATURITY (NOTE 17(B))	4,919,866	5,293,768
OTHER ASSETS (NOTE 23)	588,670	663,775

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:

	2017 KSHS'000	2016 KSHS'000
NEITHER PAST DUE NOR IMPAIRED	18,852,065	24,567,881
PAST DUE BUT NOT IMPAIRED	2,199,292	946,823
INDIVIDUALLY IMPAIRED	10,571,028	10,794,042
GROSS	31,622,385	36,308,746
LESS: IMPAIRMENT OF LOANS AND ADVANCES (NOTE 16)	(4,233,925)	(4,766,787)
NET LOANS AND ADVANCES	27,388,460	31,541,959

No other financial assets are either past due or impaired.

Loans and advances neither past due nor impaired

	2017 KSHS'000	2016 KSHS'000
STANDARD (NORMAL GRADE)	18,852,065	24,567,881

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

	2017 KSHS'000	2016 KSHS'000
PAST DUE 31-60 DAYS	1,074,984	902,492
PAST DUE 61-90 DAYS	1,124,308	44,331
PAST DUE > 90 DAYS	-	-
TOTAL PAST DUE LOANS AND ADVANCES	2,199,292	946,823

Individually assessed impaired loans and advances comprising:

	2017 KSHS'000	2016 KSHS'000
- CORPORATE	6,770,555	7,040,263
- RETAIL	1,046,325	1,113,701
- SME	2,754,148	2,640,078
IMPAIRED LOANS AND ADVANCES	10,571,028	10,794,042

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:

	2017 KSHS'000	2016 KSHS'000
RESIDENTIAL PROPERTY	482,304	648,491
MOTOR VEHICLES	13,430	13,920
TOTAL COLLATERAL REPOSSESSED	495,734	662,411

Concentrations of risk

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

BY ECONOMIC SECTOR	2017 KSHS'000	2016 KSHS'000
WHOLESALE/RETAIL	3,665,747	4,103,340
MANUFACTURING	5,247,762	6,543,292
AGRICULTURE	544,671	733,517
CONSTRUCTION	4,793,211	4,363,394
TRANSPORT	2,636,571	3,583,097
INDIVIDUAL/PERSONAL	4,573,579	6,951,876
SERVICES	640,684	800,417
FINANCIAL INSTITUTIONS	47,423	372,511
TOURISM	62,962	75,231
COMMUNICATION	1,066,125	1,134,278
HOSPITALITY	308,561.	500,377
OTHERS	8,035,089	7,147,416
TOTAL ON BALANCE SHEET EXPOSURE	31,622,385	36,308,746
ACCEPTANCES AND LETTERS OF CREDIT	406,142	1,124,045
GUARANTEE AND PERFORMANCE BONDS	9,541,433	10,790,039
COMMITMENTS TO LEND	4,090,390	1,864,710
TOTAL NON-FUNDED EXPOSURE	14,037,965	13,778,794
TOTAL	45,660,350	50,087,540

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.

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 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 (NOTE 25)	22,227,525	6,431,234	2,906,790	7,245	-	31,572,432
DEPOSITS AND BALANCES DUE TO BANKING INSTITUTIONS (NOTE 24)	1,762,089	-	-	-	-	1,762,089
INTEREST PAYABLE ON DEPOSITS AND BALANCES DUE TO BANKING INSTTUTIONS	1,341	-	-	-	-	1,341
AMOUNTS DUE TO GROUP BANKS (NOTE 15 (B))	4,326,047	-	1,810,383	-	-	6,136,430
INTEREST PAYABLE ON AMOUNTS DUE TO GROUP BANKS	-	-	9,549	-	-	9,549
BORROWINGS (NOTE 26)	-	98,336	295,008	5,269,058	-	5,662,402
INTEREST PAYABLE ON BORROWINGS	1,694	-	111,126	400,177	-	512,997
OTHER LIABILITIES (NOTE 27)	426,728	-	-	-	-	426,728
TOTAL FINANCIAL LIABILITIES (CONTRACTUAL MATURITY DATES)	28,745,424	6,529,570	5,132,856	5,676,480	-	46,083,330
ASSETS HELD FOR MANAGING LIQUIDITY (CONTRACTUAL MATURITY DATES)	18,910,571	2,678,229	5,242,216	16,498,251	4,682,814	48,012,081

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 (NOTE 25)	24,035,865	5,211,666	5,212,292	4,127	-	34,463,950
DEPOSITS AND BALANCES DUE TO BANKING INSTITUTIONS (NOTE 24)	36,174	-	-	-	-	36,174
AMOUNTS DUE TO GROUP BANKS (NOTE 15 (B))	2,150,867	724,480	-	-	-	2,875,347
INTEREST PAYABLE ON AMOUNTS DUE TO GROUP BANKS		4,849	-	-	-	4,849
BORROWINGS (NOTE 26)	-	-	6,210,969	2,271,897	625,383	9,108,249
INTEREST PAYABLE ON BORROWINGS	2,163	-	138,157	286,340	180,705	607,365
OTHER LIABILITIES (NOTE 27)	536,586	-	-	-	-	536,586
TOTAL FINANCIAL LIABILITIES (CONTRACTUAL MATURITY DATES)	26,761,655	5,940,995	11,561,418	2,562,364	806,088	47,632,520
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

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.

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 2017 and 2016. Included in the table are the Bank's financial instruments categorised by currency:

AT 31 DECEMBER 2017

	USD KSHS'000	GBP KSHS'000	EUR KSHS'000	OTHERS KSHS'000	TOTAL KSHS'000
ASSETS					
ASSETS					
CASH AND BALANCES WITH CENTRAL BANK	507,900	43,113	98,954	779	650,746
PLACEMENTS WITH BANKS	5,065,858	224,701	56,163	149,736	5,496,458
AMOUNTS DUE FROM GROUP COMPANIES	2,102,052	-	379,605	251,773	2,733,430
LOANS AND ADVANCES	9,907,938	12,675	1,327,317	1	11,247,931
OTHER ASSETS	501,107	1	19,064	1,359	521,531
TOTAL FINANCIAL ASSETS	18,084,855	280,490	1,881,103	403,648	20,650,096
LIABILITIES					
CUSTOMER DEPOSITS	4,905,262	71,170	634,988	874,414	6,485,834
DEPOSITS AND BALANCES DUE TO BANKING INSTITUTIONS	1,761,181	-	-	907	1,762,088
AMOUNTS DUE TO GROUP BANKS	6,089,353	-	39,477	-	6,128,830
BORROWINGS	4,903,412	-	1,568,990	-	6,472,402
OTHER LIABILITIES	17,749	10	1,301	525	19,585
TOTAL FINANCIAL LIABILITIES	17,676,957	71,180	2,244,756	875,846	20,868,739
NET ON-BALANCE SHEET POSITION	407,898	209,310	(363,653)	(472,198)	(218,643)
NET OFF-BALANCE SHEET POSITION	3,228,377	-	2,349,931	558,202	6,136,510
NET OVERALL POSITION	3,636,275	209,310	1,986,278	86,004	5,917,867

AS 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
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

Foreign exchange risk sensitivity analysis

At 31 December 2017 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 2016.

	2017	2016
	KSHS'000	KSHS'000
+ 5% MOVEMENT	7,653	154,736
5% MOVEMENT	(7,653)	(154,736)

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

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 2017

	EFFECTIVE BALANCE RATE	UP TO 1 KSHS'000	MONTHS 1-3 KSHS'000	3-12 KSHS'000	> 12 KSHS'000	NON INTEREST BEARING KSHS'000	TOTAL KSHS'000
CASH AND BALANCES WITH CENTRAL BANK	-	-	-	-	-	5,152,891	5,152,891
INVESTMENT SECURITIES-HTM	9.29%	-	244,339	1,297,420	3,378,107	-	4,919,866
PLACEMENTS WITH BANKS (NOTE 14)	3.07%	6,597,236	-	-	-	-	6,597,236
AMOUNTS DUE FROM GROUP COMPANIES (NOTE 15(A)	4.02%	631,779	-	2,328,134	-	-	2,959,913
OTHER ASSETS (NOTE 23)	-	-	-	-	-	588,670	588,670
INVESTMENT SECURITIES (NOTE 17 (A)	-	-	-	-	-	567,987	567,987
LOANS AND ADVANCES (NOTE 16)	9.89%	5,534,950	2,433,890	19,419,620	-	-	27,388,460
TOTAL FINANCIAL ASSETS		12,763,965	2,678,229	23,045,174	3,378,107	6,309,548	48,175,023
CUSTOMER DEPOSITS (NOTE 25)	5.26%	22,227,525	6,431,234	2,906,790	6,883	-	31,572,432
DEPOSITS AND BALANCES DUE TO BANKING INSTITUTIONS (NOTE 24)	3.02%	1,762,089	-	-	-	-	1,762,089
AMOUNTS DUE TO GROUP BANKS (NOTE 15(B)	2.20%	4,326,047	-	1,810,383	-	-	6,136,430
BORROWINGS (NOTE 26)	4.88%	-	98,336	295,008	5,269,058	-	5,662,402
OTHER LIABILITIES (NOTE 27)	-	-	-	-	-	426,728	426,728
TOTAL FINANCIAL LIABILITIES		28,315,661	6,529,570	5,012,181	5,275,941	426,728	45,560,081
INTEREST SENSITIVITY GAP		(15,551,696)	(3,851,341)	18,032,993	(1,897,834)	5,882,820	2,614,942

BALANCE AT 31 DECEMBER 2016

	EFFECTIVE BALANCE RATE	UP TO 1 KSHS'000	MONTHS 1-3 KSHS'000	3-12 KSHS'000	> 12 KSHS'000	NON INTEREST BEARING KSHS'000	TOTAL KSHS'000
CASH AND BALANCES WITH CENTRAL BANK (NOTE 13)	-	-	-	-	-	6,392,943	6,392,943
INVESTMENT SECURITIES-HTM (NOTE 17(B))	7.61%	-	538,431	396,954	4,358,383	-	5,293,768
PLACEMENTS WITH BANKS (NOTE 14)	5.67%	3,240,179	-	-	-	-	3,240,179
AMOUNTS DUE FROM GROUP COMPANIES (NOTE 15(A))	2.51%	2,685,981	-	225,024	-	-	2,911,005
OTHER ASSETS (NOTE 23)	-	-	-	-	-	663,775	663,775
INVESTMENT SECURITIES (NOTE 17 (A))	-	-	-	-	-	570,332	570,332
LOANS AND ADVANCES(NOTE 16)	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	7,627,050	50,613,961
CUSTOMER DEPOSITS (NOTE 25)	6.52%	24,035,865	5,211,666	5,212,292	3,884	-	34,463,707
DEPOSITS AND BALANCES DUE TO BANKING INSTITUTIONS (NOTE 24)	-	36,174	-	-	-	-	36,174
AMOUNTS DUE TO GROUP BANKS (NOTE 15(B))	2.89%	2,150,867	724,480	-	-	-	2,875,347
BORROWINGS (NOTE 26)	4.98%	-	-	6,037,845	3,070,404	-	9,108,249
OTHER LIABILITIES (NOTE 27)	-	-	-	-	-	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	7,090,464	3,593,898

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 2017 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 2016.

	2017 KSHS'000	2016 KSHS'000
+ 2.5% MOVEMENT	57,188	61,190
2.5% MOVEMENT	(57,188)	(61,10)

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			
	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
AT 31 DECEMBER 2017										
FINANCIAL ASSETS MEASURED AT FAIR VALUE										
INVESTMENT SECURITIES AVAILABLE FOR SALE	17 (A)	567,987				567,987		567,987		567,987
		567,987				567,987		567,987		567,987
FFINANCIAL ASSETS NOT MEASURED AT FAIR VALUE										
CASH AND BALANCES WITH CENTRAL BANK	13	-	-	5,152,891	-	5,152,891	-	5,152,891	-	5,152,891
DUE FROM OTHER BANKING INSTITUTIONS	14	-	-	6,597,236	-	6,597,236	-	6,597,236	-	6,597,236
INVESTMENTS IN GOVERNMENT SECURITIES	17 (B)	-	4,919,866	-	-	4,919,866	-	4,861,653	-	4,861,653
LOANS AND ADVANCES TO CUSTOMERS	16	-	-	27,388,460	-	27,388,460	-	27,388,460	-	27,388,460
OTHER ASSETS	23			588,670	-	588,670	-	588,670	-	588,670
DUE FROM GROUP BANKS	15 (A)	-	-	2,959,913	-	2,959,913	-	2,959,913	-	2,959,913
		-	4,919,866	42,687,170	-	47,607,036	-	47,548,823	-	47,548,823
TOTAL FINANCIAL ASSETS		567,987	4,919,866	42,687,170	-	48,175,023	-	48,116,810	-	48,116,810
FINANCIAL LIABILITIES NOT MEASURED AT FAIR VALUE										
CUSTOMER DEPOSITS	25	-	-	-	31,572,432	31,572,432	-	31,572,432	-	31,572,432
DUE TO OTHER BANKING INSTITUTIONS	24	-	-	-	1,762,089	1,762,089	-	1,762,089	-	1,762,089
DUE TO GROUP BANKS	15 (B)	-	-	-	6,136,430	6,136,430	-	6,136,430	-	6,136,430
BORROWINGS	26	-	-	-	5,662,402	5,662,402	-	5,653,084	-	5,653,084
OTHER LIABILITIES – BILLS PAYABLE	27	-	-	-	426,728	426,728	-	426,728	-	426,728
TOTAL FINANCIAL LIABILITIES		-	-	-	45,560,081	45,560,081	-	45,550,763	-	45,550,763

		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
AT 31 DECEMBER 2016										
FINANCIAL ASSETS MEASURED AT FAIR VALUE										
INVESTMENT SECURITIES AVAILABLE FOR SALE	17 (A)	570,332	-	-	-	570,332	-	570,332	-	570,332
		570,332	-	-	-	570,332	-	570,332	-	570,332
FINANCIAL ASSETS NOT MEASURED AT FAIR VALUE										
CASH AND BALANCES WITH CENTRAL BANK	13	-	-	6,392,943	-	6,392,943	-	6,392,943	-	6,392,943
DUE FROM OTHER BANKING INSTITUTIONS	14	-	-	3,240,179	-	3,240,179	-	3,240,179	-	3,240,179
INVESTMENTS IN GOVERNMENT SECURITIES	17 (B)	-	5,293,768	-	-	5,293,768	-	5,234,252	-	5,234,252
LOANS AND ADVANCES TO CUSTOMERS	16	-	-	31,541,959	-	31,541,959	-	31,541,959	-	31,541,959
OTHER ASSETS- UNCLEARED EFFECTS	23			663,775	-	663,775	-	663,775	-	663,775
DUE FROM GROUP BANKS	15 (A)	-	-	2,911,005	-	2,911,005	-	2,911,005	-	2,911,005
		-	5,293,768	44,749,861	-	50,043,629	-	51,193,086	-	51,193,086
TOTAL FINANCIAL ASSETS		570,332	5,293,768	44,749,861	-	50,613,961	-	51,763,418	-	51,763,418
FINANCIAL LIABILITIES NOT MEASURED AT FAIR VALUE										
CUSTOMER DEPOSITS	25	-	-	-	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	15 (B)	-	-	-	2,875,347	2,875,347	-	2,875,347	-	2,875,347
BORROWINGS	26	-	-	-	9,108,249	9,108,249	-	9,089,260	-	9,089,260
OTHER LIABILITIES – BILLS PAYABLE	27	-	-	-	536,586	536,586	-	536,586	-	536,586
TOTAL FINANCIAL LIABILITIES		-	-	-	47,020,063	47,020,063	-	47,001,074	-	47,001,074

(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 2017 and 2016. 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.

	2017 KSHS '000	2016 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	(1,869,341)	(1,230,276)
INVESTMENT IN ASSOCIATE	(1,570,179)	(1,570,179)
TOTAL	4,945,785	5,584,850
TIER 2 CAPITAL		
SUBORDINATED DEBT	1,487,065	1,461,803
STATUTORY RESERVES	553,433	590,599
TOTAL	2,040,498	2,052,402
TOTAL REGULATORY CAPITAL	6,986,284	7,637,252
RISK WEIGHTED ASSETS		
ON BALANCE SHEET- CREDIT RISK	32,465,289	36,061,145
OFF BALANCE SHEET- CREDIT RISK	5,970,607	5,280,365
MARKET AND OPERATIONAL RISK	5,838,720	5,906,431
TOTAL RISK WEIGHTED ASSETS	44,274,616	47,247,941
DEPOSIT LIABILITIES	35,898,519	36,645,694
CAPITAL RATIOS		
CORE CAPITAL/TOTAL DEPOSIT LIABILITIES (CBK MINIMUM 8%) (2016: 8%)	13.8%	15.2%
CORE CAPITAL/TOTAL RISK WEIGHTED ASSETS (CBK MINIMUM 10.5%) (2016: 10.5%)	11.2%	11.8%
TOTAL REGULATORY CAPITAL/TOTAL RISK WEIGHTED ASSETS (CBK MINIMUM 14.5%) (2016: 14.5%)	15.8%	16.2%
INVESTMENT IN LAND AND BUILDINGS RATIO		
INVESTMENT IN LAND AND BUILDINGS/CORE CAPITAL (CBK MAXIMUM 20% (2016: 20%)	29.8%	26.4%

The Bank is working to ensure compliance with the investment in land and buildings ratio within 2018 financial year.

5. Interest income

	2017 KSHS '000	2016 KSHS '000
LOANS AND ADVANCES	3,359,127	5,795,061
GOVERNMENT AND OTHER SECURITIES	474,418	470,955
BALANCES WITH OTHER BANKING INSTITUTIONS	269,096	237,252
OTHER	22,608	11,991
TOTAL	4,125,249	6,515,259

Included in interest income on loans and advances is KShs 282 million (2016: KShs 1,619 million) interest accrued on impaired loans and advances.

6. Interest expense

	2017 KSHS '000	2016 KSHS '000
CUSTOMER DEPOSITS	1,735,681	2,500,379
DEPOSITS BY BANKS	126,263	153,058
LONG TERM LIABILITIES	360,314	420,758
SWAPS AND FORWARD CONTRACTS	647,956	418,508
TOTAL	2,870,214	3,492,703

7. Fees and commission income

	2017 KSHS '000	2016 KSHS '000
CREDIT RELATED FEES AND COMMISSIONS	389,257	366,441
SERVICE RELATED FEES AND COMMISSIONS	321,087	333,814
FEE AND COMMISSION INCOME	710,344	700,255
FEES AND COMMISSION PAID	(5,772)	(19,163)
NET FEE AND COMMISSION INCOME	704,572	681,092

8. Other operating income

	2017 KSHS '000	2016 KSHS '000
GAIN ON SALE OF PROPERTY AND EQUIPMENT	53	209
INSURANCE PROCEEDS	-	4,414
OTHER	(20,259)	3,893
TOTAL	(20,206)	8,516

9. Staff costs

	2017 KSHS '000	2016 KSHS '000
STAFF COSTS		
SALARIES AND WAGES	912,391	1,009,767
RETIREMENT BENEFIT COSTS		
– DEFINED CONTRIBUTION PENSION SCHEME	62,951	71,034
– NATIONAL SOCIAL SECURITY FUND	1,177	1,261
STAFF MEDICAL COSTS	77,193	68,178
STAFF TRAINING COSTS	14,994	40,817
OTHER STAFF COSTS	139,263	33,894
TOTAL	1,207,969	1,224,951

The number of employees of the Bank as at 31 December 2017 was 417 (2016: 515). Other staff costs comprises of staff welfare costs, leave provisions, performance based incentives among others.

10. Depreciation and amortisation

	2017 KSHS '000	2016 KSHS '000
DEPRECIATION OF PROPERTY AND EQUIPMENT (NOTE 20)	222,250	183,985
AMORTISATION OF INTANGIBLE ASSETS (NOTE 21)	24,060	24,523
TOTAL	246,310	208,508

11. Other operating costs

DIRECTORS' EXPENSES	34,238	21,534
AUDITORS' REMUNERATION	6,420	6,000
MARKETING AND ADVERTISEMENT COSTS	54,877	155,122
PROPERTY OCCUPANCY COSTS	379,794	396,989
SOFTWARE SUBSCRIPTIONS AND LICENCE FEES	99,255	114,567
COMPUTER HARDWARE MAINTENANCE	13,666	13,093
DEPOSITORS' PROTECTION FUND PREMIUMS	64,711	70,692
COMMUNICATION COSTS	68,205	74,442
OPERATING LEASE RENTALS	17,940	18,140
OTHER COSTS*	443,541	601,458
TOTAL	1,182,647	1,472,037

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

12. Taxation

	2017 KSHS '000	2016 KSHS '000
CURRENT INCOME TAX:		
CURRENT INCOME TAX	399,223	452,561
DEFERRED TAX:		
DEFERRED TAX (NOTE 22)	(431,656)	(479,528)
TOTAL	(32,433)	(26,967)

The effective rax rate (ETR) for the year ended 31 December 2017 is 92.2% (2016: 163.5%). The decrease in the ETR is mainly attributed to the impact of tax allowable loan provisions.

CURRENT INCOME TAX PAYABLE/(RECOVERABLE)	2017 KSHS '000	2016 KSHS '000
BALANCE AT 1 JANUARY	241,980	17,206
CHARGE FOR THE YEAR	399,223	452,561
TAX PAID	(739,797)	(227,787)
BALANCE AT 31 DECEMBER	(98,594)	241,980

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:

PROFIT/ (LOSS) BEFORE INCOME TAX	35,185	(16,497)
TAX CALCULATED AT THE STATUTORY INCOME TAX RATE OF 30% (2016: 30%)	10,556	(4,949)
TAX EFFECT OF:		
INCOME NOT SUBJECT TO TAX	(88,026)	(55,840)
EXPENSES NOT DEDUCTIBLE FOR TAX PURPOSES	45,037	33,822
INCOME TAX (CREDIT) / EXPENSE	(32,433)	(26,967)

13. Cash and balances with Central Bank

	2017 KSHS '000	2016 KSHS '000
CASH IN HAND	787,076	813,985
BALANCES WITH CENTRAL BANK:		
CASH RESERVE RATIO	1,590,900	1,636,694
OTHER CURRENT ACCOUNTS	2,774,915	3,942,264
TOTAL	5,152,891	6,392,943

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 2017, the cash reserve ratio requirement was 5.25% of eligible deposits (2016: 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%.

14. Due from other banking institutions

	2017 KSHS '000	2016 KSHS '000
PLACEMENTS	1,100,719	2,817,057
CURRENT ACCOUNT BALANCES DUE FROM OTHER BANKS	5,496,517	423,122
TOTAL	6,597,236	3,240,179
MATURING WITHIN 90 DAYS	7,986,755	2,553,552
MATURING AFTER 90 DAYS	6,597,236	3,240,179

15. 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 (BOA-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

	2017 KSHS '000	2016 KSHS '000
BOA-UGANDA	386,288	3,152
BOA-TANZANIA	157,689	1,335,087
BOA-FRANCE	340,192	1,090,949
BOA-MER ROUGE	-	128
BOA-GHANA	1,810,249	
BOA-MADAGASCAR	226,082	225,024
BMCE INTERNATIONAL	25,349	256,665
BOA-TOGO	14,064	
TOTAL	2,959,913	2,911,005
MATURING WITHIN 90 DAYS	631,779	2,685,981
MATURING AFTER 90 DAYS	2,328,134	225,024
INTEREST INCOME EARNED ON THE ABOVE	117,876	121,045
LEDGER FEES EARNED ON THE ABOVE	1,014	834

(b) Amounts due to group banks

	2017 KSHS '000	2016 KSHS '000
BOA-MADAGASCAR	1,956,433	2,003,253
BOA-UGANDA	693	5,143
BOA-TANZANIA	47	1,315
BCB	40,815	53,064
BOA-COTE D'IVOIRE	425	365
BOA-RDC	594	589
BOA-GHANA	1,813,757	3,067
BOA-TOGO	23,006	6,395
BOA-FRANCE	23	76,364
BOA-MER ROUGE	2,300,637	724,480
LA CONGOLAISE DE BANQUE		1,312
TOTAL	6,136,430	2,875,347
MATURING WITHIN 90 DAYS	4,326,047	2,875,347
MATURING AFTER 90 DAYS	1,810,383	-
TOTAL	6,136,430	2,875,347
INTEREST EXPENSE INCURRED ON THE ABOVE	99,135	94,928

(c) Investments in group companies

	2017 KSHS '000	2016 KSHS '000
BOA-TANZANIA (NOTE 17 (A))	533,709	535,325
BOA-UGANDA (NOTE 18)	1,318,576	1,166,193
BOA-FRANCE (NOTE 17 (A))	32,090	32,819
TOTAL	1,884,375	1,734,337

(d) Expenses incurred within the group

	2017 KSHS '000	2016 KSHS '000
TECHNICAL ASSISTANCE FEES PAID TO AFRICAN FINANCIAL HOLDINGS (AFH)	120,510	122,376
INFORMATION TECHNOLOGY FEES PAID TO AFRICAN INFORMATION SERVICES AND SOFTWARE ASSOCIATED (AISSA)	22,070	20,047
TOTAL	142,580	142,423

(e) Loans to key management and directors

	2017 KSHS '000	2016 KSHS '000
KEY MANAGEMENT	45,176	37,791
DIRECTORS	12,025	12,525

Advances to customers as at 31 December 2017 includes loans to key management amounting to KShs 45 million (2016: KShs 38 million).

Total loans to directors amounted to KShs 12 million as at 31 December 2017 (2016: KShs 12.5 million).

	2017 KSHS '000	2016 KSHS '000
INTEREST INCOME EARNED ON LOANS TO KEY MANAGEMENT	3,575	2,764

(f) Key management compensation

	2017 KSHS '000	2016 KSHS '000
SALARIES AND OTHER SHORT-TERM EMPLOYMENT BENEFITS	96,225	137,785

(g) Directors' remuneration

	2017 KSHS '000	2016 KSHS '000
SALARIES TO EXECUTIVE DIRECTORS (INCLUDED IN KEY MANAGEMENT COMPENSATION ABOVE)	43,699	40,230
OTHER COMPENSATION TO NON-EXECUTIVE DIRECTORS	17,803	15,181
TOTAL	61,502	55,411

(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 26.

16. Loans and advances to customers

	2017 KSHS '000	2016 KSHS '000
OVERDRAFTS	5,205,645	9,960,424
PERSONAL LOANS	6,326,401	7,988,307
MORTGAGES	3,937,587	3,708,812
COMMERCIAL LOANS	15,581,912	14,115,506
DISCOUNTED BILLS	570,840	535,697
GROSS LOANS AND ADVANCES	31,622,385	36,308,746
LESS: PROVISION FOR IMPAIRMENT		
INDIVIDUALLY ASSESSED	(4,177,557)	(4,698,830)
COLLECTIVELY ASSESSED	(56,368)	(67,957)
TOTAL IMPAIRMENT	(4,233,925)	(4,766,787)
NET LOANS AND ADVANCES	27,388,460	31,541,959
WEIGHTED AVERAGE EFFECTIVE INTEREST RATE	9.89%	14.83%

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 2017			
BALANCE AT 1 JANUARY 2016	4,698,830	67,957	4,766,787
PROVISIONS RECOGNISED DURING THE YEAR	768,335		768,335
RECOVERIES ON PROVISIONS NO LONGER REQUIRED	(736,630)	(11,589)	(748,219)
NET INCREASE/ (DECREASE) IN IMPAIRMENT	31,705	(11,589)	20,116
AMOUNTS WRITTEN OFF DURING THE YEAR	(552,978)		(552,978)
BALANCE AT 31 DECEMBER 2017	4,177,557	56,368	4,233,925
31 DECEMBER 2016			
BALANCE AT 1 JANUARY 2016	3,526,265	38,966	3,565,231
PROVISION RECOGNISED DURING THE YEAR	2,496,838	28,991	2,496,829
RECOVERIES ON PROVISIONS NO LONGER REQUIRED	(1,278,426)		(1,278,426)
TOTAL	1,189,412	28,991	1,218,403
AMOUNTS WRITTEN OFF DURING THE YEAR	(16,847)		(16,847)
BALANCE AT 31 DECEMBER 2016	4,698,830	67,957	4,766,787

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

Charge to profit or loss

	2017 KSHS '000	2016 KSHS '000
NET INCREASE IN IMPAIRMENT PROVISIONS:		
- INDIVIDUALLY ASSESSED	31,705	1,189,412
- COLLECTIVELY ASSESSED	(11,589)	28,991
RECOVERIES OF LOANS AND ADVANCES PREVIOUSLY WRITTEN OFF	(13,360)	(2,135)
NET PROVISIONS CHARGED TO PROFIT OR LOSS	6,756	1,216,268

All impaired loans have been written down to their estimated recoverable amount. The aggregate carrying amount of impaired loans at 31 December 2017 was KShs 10,571 million (2016: KShs 10,794 million).

17. Investment securities

(a) Unlisted equity securities - Available for sale

	2017 KSHS '000	2016 KSHS '000
AT START OF THE YEAR	570,332	610,488
LOSS ON FAIR VALUE OF INVESTMENT SECURITIES	(2,345)	(40,156)
AT YEAR END	567,987	570,332

2017	BOA TANZANIA KSHS'000	BOA FRANCE KSHS'000	SWIFT SHARES KSHS'000	TOTAL KSHS'000
BALANCE AT 1 JANUARY 2017	535,325	32,819	2,188	570,332
FAIR VALUE ADJUSTMENTS	(1,616)	(729)	-	(2,345)
BALANCE AT 31 DECEMBER 2017	533,709	32,090	2,188	567,987
2016				
BALANCE AT 1 JANUARY 2016	565,855	42,445	2,188	610,488
FAIR VALUE ADJUSTMENTS	(30,530)	(9,626)	-	(40,156)
BALANCE AT 31 DECEMBER 2016	535,325	32,819	2,188	570,332

(b) Bills and bonds - Held to maturity

	2017 KSHS '000	2016 KSHS '000
CORPORATE BONDS	77,823	112,346
TREASURY BILLS	829,694	828,729
TREASURY BONDS	4,012,349	4,352,693
TOTAL	4,919,866	5,293,768
MATURING WITHIN 90 DAYS OF ACQUISITION	244,339	-
MATURING AFTER 90 DAYS OF ACQUISITION	4,675,527	5,293,768
TOTAL	4,919,866	5,293,768
WEIGHTED AVERAGE EFFECTIVE INTEREST RATE:		
CORPORATE BONDS	12.85%	12.85%
TREASURY BILLS	10.46%	10.40%
TREASURY BONDS	7.35%	7.29%

The unamortised premium on treasury bonds as at 31 December 2017 was KShs 353 million (2016: KShs 466 million).

18. Investment in associate companies

	2017 KSHS '000	2016 KSHS '000
AT 1 JANUARY	1,166,193	1,079,812
PRIOR YEAR UNDERSTATED SHARE OF PROFITS	19,038	-
CURRENT YEAR SHARE OF PROFIT	210,406	136,453
DIVIDENDS RECEIVED	(61,390)	-
EXCHANGE DIFFERENCE	(15,671)	(50,072)
TOTAL	1,318,576	1,166,193

KShs 229,444 in the current year includes Kes 19,038 understatement from 2016.

Set out below is the Associate of the Bank, which in the opinion of the Directors, is material to the Bank. The Associate has 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.

PLACE OF BUSINESS/ NAME OF ENTITY	% OF OWNERSHIP COUNTRY OF INCORPORATION	NATURE OF THE INTEREST	MEASUREMENT RELATIONSHIP	METHOD
BANK OF AFRICA - UGANDA	UGANDA	2017: 43.24% (2016: 43.24%)	BANKING SERVICES	EQUITY

Summarised balance sheet

SUMMARISED BALANCE SHEET	2017 KSHS '000	2016 KSHS '000
ASSETS		
CASH AND BALANCES WITH BANKS	3,159,748	1,948,138
GOVERNMENT SECURITIES - HELD TO MATURITY	4,634,954	5,205,518
LOANS AND ADVANCES TO CUSTOMERS	9,201,209	8,386,319
OTHER ASSETS	4,554,653	3,982,645
TOTAL ASSETS	21,550,564	19,522,620
LIABILITIES		
CUSTOMER DEPOSITS	15,435,609	13,631,846
DEPOSITS FROM OTHER BANKS	2,343,488	2,426,743
OTHER LIABILITIES	722,031	767,005
TOTAL LIABILITIES	18,501,128	16,825,594
NET ASSETS	3,049,436	2,697,026
SUMMARISED INCOME STATEMENT		
TOTAL OPERATING INCOME	2,355,911	2,227,499
TOTAL OPERATING EXPENSES	(1,722,230)	(1,765,737)
PROFIT BEFORE INCOME TAX	633,681	461,762
INCOME TAX (CHARGE)/CREDIT	(147,081)	(146,190)
PROFIT/(LOSS) FOR THE YEAR	486,600	315,572
RECONCILIATION OF SUMMARISED FINANCIAL INFORMATION		
OPENING NET ASSETS	2,697,026	2,497,253
PROFIT/ (LOSS) FOR THE PERIOD	486,600	315,572
EXCHANGE DIFFERENCES	(134,190)	(115,799)
CLOSING NET ASSETS	3,049,436	2,697,026
INTEREST IN ASSOCIATE (43.24%; 2016: 43.24%)	1,318,576	1,166,193
CARRYING VALUE IN ASSOCIATES	1,318,576	1,166,193
DIFFERENCE	-	-

19. Property and equipment

2017	LAND AND BUILDINGS KSHS'000	MOTOR VEHICLES KSHS'000	FIXTURES, FITTINGS AND EQUIPMENT KSHS'000	WORK IN PROGRESS KSHS'000	TOTAL KSHS'000
COST:					
BALANCE AT 1 JANUARY 2017	1,473,946	42,601	1,886,690	14,881	3,418,118
ADDITIONS	-	6,755	140,894	149,630	297,279
TRANSFERS TO PROPERTY AND EQUIPMENT	-	-	2,219	(2,219)	-
DISPOSALS	-	-	(42)	-	(42)
WRITE OFFS	-	-	(29,022)	-	(29,022)
TRANSFER TO NON-CURRENT ASSET HELD FOR SALE (NOTE 20)	-	-	(319,734)	-	(319,734)
BALANCE AT 31 DECEMBER 2017	1,473,946	49,356	1,681,005	162,292	3,366,599
DEPRECIATION:					
BALANCE AT 1 JANUARY 2017	-	35,394	921,228	-	956,622
CHARGE FOR THE YEAR	22,109	5,118	195,023	-	222,250
DISPOSALS	-	-	(14)	-	(14)
WRITE OFFS	-	-	(29,022)	-	(29,022)
TRANSFER TO NON-CURRENT ASSET HELD FOR SALE (NOTE 20)	-	-	(136,493)	-	(136,493)
BALANCE AT 31 DECEMBER 2017	22,109	40,512	950,722	-	1,013,343
NET CARRYING AMOUNT AT 31 DECEMBER 2017	1,451,837	8,844	730,283	162,292	2,353,256

2016	LAND AND BUILDINGS KSHS'000	MOTOR VEHICLES KSHS'000	FIXTURES, FITTINGS AND EQUIPMENT KSHS'000	WORK IN PROGRESS KSHS'000	TOTAL KSHS'000
COST:					
BALANCE 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 (NOTE 21)	-	-	-	(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 (NOTE 20)	-	-	(18,547)	-	(18,547)
BALANCE AT 31 DECEMBER 2016	1,473,946	42,601	1,886,690	14,881	3,418,118
DEPRECIATION:					
BALANCE 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 (NOTE 20)	-	-	(14,197)	-	(14,197)
BALANCE 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

20. Non-current asset held for sale

	2017 KSHS '000	2016 KSHS '000
BALANCE AT 1 JANUARY	4,350	-
TRANSFER FROM PROPERTY AND EQUIPMENT (NBV) (NOTE 19)	183,241	4,350
IMPAIRMENT OF FIXED ASSETS	(79,748)	-
BALANCE AT 31 DECEMBER	107,843	4,350

The non-current asset held for sale relates to the Bank's fixtures, fittings and equipment planned to be disposed in 2018. As at 31 December 2017, the Bank was at an advanced stage of disposing of the assets no longer required following relocation of 5 branches and closure of 7 branches.

21. Intangible assets

SOFTWARE

	2017 KSHS '000	2016 KSHS '000
BALANCE AT 1 JANUARY	303,472	277,440
ADDITIONS	12,879	13,040
TRANSFERS FROM WORK IN PROGRESS (NOTE 19)	-	12,992
WRITE OFFS	(7,136)	-
BALANCE AT 31 DECEMBER	309,215	303,472
AMORTISATION:		
BALANCE AT 1 JANUARY	241,304	216,781
CHARGE FOR THE YEAR	24,060	24,523
WRITE OFFS	(6,895)	-
BALANCE AT 31 DECEMBER	258,469	241,304
NET CARRYING AMOUNT		
BALANCE AT 31 DECEMBER	50,746	62,168

22. 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:

DEFERRED INCOME TAX ASSET	1.1.2017 KSHS '000	RECOGNISED IN PROFIT OR LOSS KSHS '000	RECOGNISED IN OTHER INCOME KSHS '000	31.12.2017 KSHS '000
PROVISIONS	(1,278,245)	(496,419)	-	(1,774,664)
PROPERTY AND EQUIPMENT	31,702	64,763	-	96,465
FAIR VALUE ON AVAILABLE FOR SALE INVESTMENTS	(3,892)	-	(117)	(4,009)
NET DEFERRED INCOME TAX ASSET	(1,250,435)	(431,656)	(117)	(1682,208)
DEFERRED INCOME TAX ASSET	KSHS'000	KSHS'000	KSHS'000	KSHS'000
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)

23. Other assets

	2017 KSHS '000	2016 KSHS '000
UNCLEARED EFFECTS	164,770	158,704
PREPAYMENTS	405,045	437,068
MOBILE BANKING AND MONEY TRANSFER RECEIVABLES	199,129	197,215
SECURITY DEPOSIT REFUNDABLE	80,028	86,003
GUARANTEE FEES RECEIVABLE	5,110	38,740
OTHER RECEIVABLES	139,633	183,113
TOTAL	993,715	1,100,843

24. Due to other banking institutions

MATURING WITHIN 90 DAYS	1,762,089	36,174
TOTAL	1,762,089	36,174

Other banking institutions include both local and foreign non-group banks.

25. Customer deposits

	2017 KSHS '000	2016 KSHS '000
CURRENT AND DEMAND DEPOSITS	16,793,614	16,055,287
SAVINGS ACCOUNTS	1,807,803	1,796,642
FIXED DEPOSIT ACCOUNTS	12,782,248	16,097,031
MARGIN DEPOSITS	188,767	514,747
TOTAL	31,572,432	34,463,707
WEIGHTED AVERAGE INTEREST RATE	5.26%	6.52%

26. Borrowings

BORROWINGS FROM:		
FMO	983,360	1,410,272
BOA-MER ROUGE	3,110,052	4,491,996
BMCE BANK	-	1,545,850
TOTAL	4,093,412	7,448,118
SUBORDINATED DEBT		
INTERNATIONAL FINANCE CORPORATION	-	329,287
BOA GROUP S.A.	1,568,990	1,330,844
	1,568,990	1,660,131
	5,662,402	9,108,249
BALANCE AT 1 JANUARY	9,108,249	6,794,425
ADDITIONS	3,101,751	3,386,899
REPAYMENTS	(6,711,473)	(1,108,450)
NET ACCRUED INTEREST	(38,101)	57,158
EXCHANGE DIFFERENCES	201,976	(21,783)
BALANCE AT 31 DECEMBER	5,662,402	9,108,249

The fair values of borrowings are disclosed in Note 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 2017 was 6.28%. (2016: 5.26%). As at the end of the year, the Bank did not comply with the open loan exposure ratio, cost to income ratio and related party lending ratio financial covenants on the FMO borrowing. Upon application by the Bank, FMO has granted waivers on non compliant ratios.
- An unsecured 1 year and 30 days term loans of USD 30.0 million from BOA-MER ROUGE for the development of the Bank's lending business in foreign currency. The loans were obtained in 2017 and are maturing in 2019. Interest is payable on maturity of the loan. The effective interest rate on the loans at 31 December 2017 was 4.59%. (2016: 4.13%).

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

- 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 2017 was 5.57% (2016: 5.81%). 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.

27. Other liabilities

	2017 KSHS '000	2016 KSHS '000
DEFERRED INCOME	129,410	211,568
OUTSTANDING BANKERS CHEQUES	61,869	88,011
ACCRUED EXPENSES	88,730	46,414
INSURANCE PREMIUMS PAYABLE	5,351	7,885
PROVISIONS	117,984	271,474
DERIVATIVES	34,095	104,074
OTHER PAYABLES	152,794	122,802
TOTAL	590,233	852,228

The types of derivatives used by the bank are set out below.The table analyses the notional principal amounts and the positive (assets) and negative (liabilities) fair values of the derivative financial instruments. Notional principal amounts are the amount of principal underlying the contract at the reporting date.

2017	NATIONAL PRINCIPAL AMOUNTS KSHS '000	ASSETS KSHS '000	LIABILITIES KSHS '000
INTEREST RATE DERIVATIVE CONTRACTS	41,444	2,063,455	(2,022,011)
FORWARD EXCHANGE CONTRACTS	(75,539)	5,180,052	(5,255,591)
TOTAL	(34,095)	7,243,507	(7,277,602)

2016	NATIONAL PRINCIPAL AMOUNTS KSHS '000	ASSETS KSHS '000	LIABILITIES KSHS '000
INTEREST RATE DERIVATIVE CONTRACTS	36,547	3,198,706	(3,162,159)
FORWARD EXCHANGE CONTRACTS	(140,621)	13,124,011	(13,264,632)
TOTAL	(104,074)	16,322,717	(16,426,791)

28. Share capital and share premium

Authorised share capital

	2017 KSHS '000	2016 KSHS '000
6,404,949 (2016: 6,404,949) ORDINARY SHARES OF KSHS 1,000 EACH	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;

BALANCE AT 1 JANUARY	6,217,678	5,275,991
SHARES ALLOTTED/ ISSUE OF SHARES	187,271	941,687
BALANCE AT 31 DECEMBER 2017: 6,404,949 (2016: 6,217,678) ORDINARY SHARES OF KSHS 1,000 EACH)	6,404,949	6,217,678

Unissued capital (Shares awaiting allotment)

BALANCE AT 1 JANUARY	187,271	1,128,958
SUBSCRIPTION FOR SHARES	-	-
SHARES ALLOTED	(187,271)	(941,687)
BALANCE AT 31 DECEMBER 2017: NIL (2016: 187,271) ORDINARY SHARES OF KSHS 1,000 EACH	-	187,271

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

BALANCE 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.

29. Statutory credit risk reserve

	2017 KSHS '000	2016 KSHS '000
BALANCE AT 1 JANUARY	1,445,499	49,729
TRANSFER FROM RETAINED EARNINGS	706,683	1,395,770
BALANCE AT 31 DECEMBER	2,152,182	1,445,499

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.

30. 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.

31. 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

	2017 KSHS '000	2016 KSHS '000
ACCEPTANCES AND LETTERS OF CREDIT	406,142	1,124,045
GUARANTEES AND PERFORMANCE BONDS	9,541,433	10,790,039
TOTAL	9,947,575	11,914,084

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

	2017 KSHS '000	2016 KSHS '000
UNUTILIZED CREDIT LINES AND OTHER FACILITIES	4,090,390	1,864,710
FOREIGN EXCHANGE SPOTS	41,444	36,547
TOTAL	4,131,834	1,901,257

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.

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

	2017 KSHS '000	2015 KSHS '000
CASH AND BALANCES WITH CENTRAL BANK (NOTE 13)	5,152,891	6,392,943
LESS: CASH RESERVE REQUIREMENT (NOTE 13)	(1,590,900)	(1,636,694)
INVESTMENT AND OTHER SECURITIES (NOTE 17 (B))	244,339	-
DEPOSITS DUE FROM OTHER BANKS (NOTE 14)	6,597,236	3,240,179
DUE TO BANKS AND NON-BANK FINANCIAL INSTITUTIONS (NOTE 24)	(1,762,089)	(36,174)
AMOUNTS DUE TO GROUP BANKS (NET) (NOTE 15)	(3,694,268)	(189,366)
AT END OF YEAR	4,947,209	7,770,888

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.

33. Dividends

At the next Annual General Meeting, no dividend in respect of the year ended 31 December 2017 is to be proposed (2016: Nil). Payment of dividends is subject to withholding tax at a rate of 5% for resident and 10% for non-resident shareholders.

34. Fiduciary activities

The Bank holds asset security documents on behalf of customers with a value of KShs 1,543 million (2016: KShs 1,053 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 sell three floors of the Head office building to BOA Group S.A.