2016 Annual Report and Financial Statements

Trans National Bank

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Corporate Information

DIRECTORS	Dr. Henry Kiplangat Mr. Peter Kemei Mr. John Kenduiwo Mr. Andre DeSimone* Prof. Daniel Rotich Mrs. Hellena Cheserem Mr. Sammy Lang'at * American	**Chairman**
CHIEF EXECUTIVE OFFICER	Mr. Sammy Lang'at	
AUDIT COMMITTEE	Mr. Peter Kemei Mr. John Kenduiwo Prof. Daniel Rotich	**Chairman**
CREDIT COMMITTEE	Prof. Daniel Rotich Mrs. Hellenna Cheserem Mr. Andre DeSimone Mr. Sammy Lang'at	**Chairman**
STRATEGY AND FINANCE COMMITTEE	Mr. Andree DeSimone Mr. John Kenduiwo Mr. Peter Kemei Mr. Sammy Lang'at Mr. Laban Molonko	**Chairman**
RISK AND COMPLIANCE COMMITTEE	Mrs. Hellenna Cheserem Mr. Andre DeSimone Mr. Peter Kemei Prof. Daniel Rotich Ms. Jacqueline Onsando	**Chairperson**
HUMAN RESOURCES, NOMINATION AND RENUMENERATION COMMITTEE (HRNRC)	Mr. John Kenduiwo Mrs. Hellenna Cheserem Mr. Sammy Lang'at Ms. Emmy Kiptugen	**Chairman**
ASSETS AND LIABILITY MANAGEMENT COMMITTEE (ALCO)	Mr. Sammy Lang'at Mr. Farid Sheikh Mr. Justus Kittony Mr. Laban Molonko Ms. Alphina Kiplangat Ms. Faith Mutwiri Mr. Joseph Seii	**Chairman**

COMPANY SECRETARY

Jacqueline Onsando
Certified Public Secretary (Kenya)
P O Box 72133 - 00200
Nairobi

REGISTERED OFFICE AND HEAD OFFICE

Trans National Plaza
City Hall Way
P O Box 75840 - 00200
Nairobi

AUDITORS

Ernst & Young LLP
Kenya-Re Towers, Upper-hill
Off Ragati Road
P.O. Box 44286 – 00100,
NAIROBI

ADVOCATES

Cheptumo & Company Advocates
P O Box 35556 - 00200
Nairobi

Ochieng Onyango Kibet & Ohaga Advocates
P O Box 43170 - 00100
Nairobi

Karimbux - Effendy & Company
P O Box 43356 - 00100
Nairobi

Mukite Musangi & Co Advocates
P O Box 149 - 20100
Nairobi

I am pleased, on behalf of the Board of Directors to present Transnational Bank's Annual Report and Financial Statements for the year ended 31st December, 2016.

The Bank once again performed well in an eventful year that presented unique challenges globally, nationally and also to the banking industry in which we operate.

2016 OPERATING ENVIRONMENT

Consistent with its robust performance in recent years, once again economic growth in Kenya was solid in 2016, coming in at an estimated 5.9%. This was on the back of stable macroeconomic environment, low oil prices rebound in tourism and strong remittance inflows.

Inflation rate was at 6.4% which was within Central Bank target of 7.5% while the USD/ KES exchange rate remained relatively stable during the period to close at Kshs 102.6 compared to Kshs 102.4 in 2015.

DEVELOPMENT IN THE BANKING SECTOR

The banking environment was characterized by heightened uncertainty. This follows placement of three commercial banks under statutory management and effects of interest capping regulation. This resulted to credit contraction to private sector, bear run on the Stock markets and skewed liquidity amongst banks.

Accordingly, the Kenyan banking sector recorded marginal growth in the year. Total assets stood at Kshs. 3.76 trillion as at 31st December, 2016 compared to Kshs. 3.70 trillion in December 2015. Gross loans and advances were at Kshs. 2.33 trillion up from Kshs 2.30 trillion registered in 2015. Deposits grew marginally from Kshs 2.62 trillion to Kshs 2.65 trillion.

Profit before tax for the sector as at 31st December, 2016 was at Kshs 139.88billion, 5% lower than prior year profit of Kshs 144.90 billion on higher costs and a lower income.

BANK'S PERFORMANCE

The Bank's total assets were at Kshs 10.4 billion compared to Kshs 10.5 billion in 2015. Customer deposits were up 5% from Kshs 7.6billion to Kshs. 8.0 billion while Loans and advances to customers were at Kshs 6.4billion compared to Kshs 6.6billion in 2015.

Profit before tax was at Kshs 160.0million compared to 2015 profit of Kshs. 251.6 million.

Reflecting on this performance and our confidence in the future, the Board of Directors recommends dividend payment of Kshs 20 cents per share amounting to Kshs 40,000,000.

FUTURE OUTLOOK

Kenya's economic growth is projected to grow at a lower rate of 5.5% in 2017 associated with the ongoing drought, slowdown in credit growth to the private sector and increase in oil prices. However, in the medium term, economic growth is projected to rebound to 5.8% in 2018 and 6.1% in 2019, consistent with Kenya's underlying growth potential.

As a Board, we are committed to working with the Management and Staff in all efforts to serve our customers' needs, grow the Bank and our shareholder value. Our faith in Management and Staff, which has in the last year delivered good results, continues to underpin our commitment to support them fully in their innovation and development of the Bank.

We will however remain resolute in our focus on targeted growth, prudent risk management and sound corporate governance.

APPRECIATION

Finally, I take this opportunity to extend my appreciation to our esteemed customers and partners for their continued support and the confidence they have demonstrated to us over the years. I also wish to thank my fellow Directors, Management and Staff of the Bank for their able stewardship without which it would have been difficult to achieve such great results under a difficult environment.

Thank You.

Dr. Henry Kiplangat
Chairman Board of Directors

Transnational Bank Limited (the "Bank") is fully committed to the principles of transparency, integrity and accountability. The Directors of the Bank are ultimately accountable to all stakeholders for ensuring that the Bank's business is conducted in accordance with high standards of corporate governance. Of particular importance to the Bank are the observance of shareholders' interest, efficient practices and open corporate communication systems.

1. BOARD OF DIRECTORS

The names of the directors who held office at the date of this report are set out on page 2.

The Board is responsible for formulating the Bank's policies and strategies and ensuring that business objectives, aimed at promoting and protecting shareholder value, are achieved. The Board also retains the overall responsibility for effective control of the Bank and implements corporate governance policies of the Bank.

The Board comprises six non-executive directors and one executive director. The directors have diverse skills and are drawn from various sectors of the economy. The Chairmen of the Board and the Board committees, respectively, are non-executive directors.

A timetable of calendar dates for Board meetings to be held in the following year is fixed in advance by the Board. The notice of Board meetings is given in advance in accordance with the Bank's Articles of Association and is distributed together with the agenda and board papers to all the directors beforehand. The Board meets regularly and at least eight times annually. In accordance with the Bank's practice, one Board meeting is normally scheduled to coincide with the occasion of the Annual General Meeting.

The Bank's Secretary is always available to the Board of Directors.

(a) Directors' Emoluments and Loans

The aggregate amount of emoluments paid to directors for services rendered during the financial year is disclosed in Note 32(d) to the financial statements for the year ended 31 December 2016. The Bank advances loans to directors and their associated companies as disclosed in Note 32(c).

(b) Related Party Transactions

There have been no related party transactions, pecuniary transactions or relationships between the Bank and its directors or management, except those disclosed in Note 32 to the financial statements for the year ended 31 December 2016.

2. BOARD COMMITTEES

The Board has in place six main committees, namely the Risk and Compliance, Credit, Audit, Nomination and Remuneration and Finance and Strategy. These committees assist the Board in ensuring that proper policies, strategies, internal controls, and organizational structures are in place to achieve the Bank's objectives and obligations to its stakeholders.

All the committees have detailed terms of reference and hold meetings as necessary. The Board may delegate some of its powers to any committee and may appoint any other committee, including ad hoc task forces, as and when it is deemed necessary.

(a) Risk and Compliance Committee

The committee is chaired by a non-executive director and meets quarterly. It is responsible for overseeing the implementation of the Bank's risk management framework and policies to ensure that all current and potential significant risks are identified and effectively managed. The committee considers both internal and external sources of information regarding risk to keep abreast with new developments and their potential impact on the Bank's business. The committee receives periodic reports from the risk and compliance function relating to the Bank's strategic risk, credit risk, market risk (interest rate risk, price risk and foreign exchange risk), operational risk, regulatory risk, reputational risk and liquidity risk.

(b) Credit Committee

The committee is chaired by a non-executive director and meets at least once per quarter to review the overall lending policy. It also meets at least once in a month to consider and approve loan applications beyond the credit management approval limits, to review and consider all issues that may materially impact on the present and future quality of the institution's credit management and ensuring that the credit policy and risk lending limits of the Bank are reviewed where appropriate. Periodically, it reviews the credit policy of the Bank.

(c) Nomination and Remuneration Committee

The committee is responsible for providing policy guidelines on Human Resources (HR) practices of recruitment, training, remuneration and compensation, disciplinary actions and manpower quality across the Bank, review system of performance management, job grading, skills gaps, principles of rationalising etc. The committee is responsible for study of productivity levels across the Bank and addressing anomaly in staff productivity. The committee assists the Board in providing efficient, productive and quality organisation structures for the Bank. The committee is responsible for approval of candidates for appointment to the Board. The committee also reviews and approves recommendations from the Bank's management for appointment of the Bank's senior managers.

(d) Audit Committee

The Audit Committee is chaired by a non-executive director. All the other members are non-executive directors in addition to the Internal Audit Manager. The Committee meets on a quarterly basis and is responsible for ensuring that the systems, procedures and policies of the Bank are properly established, monitored and reported on. The Committee receives reports from both external and internal auditors, and also monitors implementation of audit recommendations, on behalf of the Board. The Audit committee is also responsible for monitoring and providing effective supervision of the management's financial reporting process to ensure accurate and timely financial reporting. Additionally, the Committee is responsible for ensuring entrenchment of good corporate governance practices in the Bank.

(e) Strategy and Finance Committee

The committee comprises three directors, the Chief Executive Officer and the Head of Finance. The Strategy and Finance Committee's roles and responsibilities include an analysis of the Bank's strategy and more specifically; Oversight of the implementation of the strategy approved by the Board and review of progress on a regular basis, design of action plans per business unit to ensure that objectives are met while factoring in organisational, human, technical and financial aspects, analysis of any investment/capital expenditure programme prior to its submission to the Board and design and submission to the Board of the main strategic orientations of the Bank. The Committee meets on a quarterly basis.

(f) Asset and Liability Committee (ALCO)

The Investment/Assest and Liability Committee of the Bank is responsible for recommending to the Board of Directors investment policies and procedures/guidelines and to supervise investment activity, while striving to maximize portfolio performance and to keep the management of the portfolio within the bounds of good banking and satisfy the liquidity and legal requirements of the bank. The committee comprises the Chief Executive Officer, General Manager Business Support, General Manager Business, Head of Finance and Administration, Head of Risk and Compliance, Head of Credit, and Head of Treasury. ALCO meets monthly if not on a more frequent basis.

3. RISK MANAGEMENT AND INTERNAL CONTROL

Management, in consultation with the Board Committees, is responsible for the Bank's day-to-day overall risk management to minimize potential adverse effects on its financial performance while the Board is responsible for the Bank's system of internal control and for reviewing its effectiveness. The Bank has an on-going process of identifying, evaluating and managing significant risks inherent in its business, through the Risk Management department. This process is also reviewed by the Internal Auditor. The Bank has in place a chain of controls which include, but are not limited to, an annual strategic planning and budgeting process, a regular review of strategic initiatives, a well-defined organizational structure which is kept under regular review by the Board, clearly laid down authority levels, and a review of quarterly financial and operating information by Management and the Board.

4. BUSINESS ETHICS

The Bank conducts its business in compliance with high ethical standards of business practice. In this respect, transactions with its clients, intermediaries, insiders, employees and other stakeholders are conducted at arm's length, with integrity and transparency. The business is conducted with high levels of transparency and accountability.

5. RESPONSIBILITY FOR STAFF WELFARE AND TRAINING

As part of its policy, the Bank recognizes the need for diversity, equal opportunities, gender sensitivity and provision of a safe and conducive work environment for all its staff. The Bank assists its staff to undertake continuous professional and development training programmes to fulfil their potential. This process is appropriately managed to align staff development with the Bank's strategic and business goals and objectives, and is reinforced with appropriate remuneration and incentive systems.

6. SHAREHOLDERS

The list of shareholders and their individual holdings as at 31 December 2016 was as follows:

No. of Shares		%
Archers and Wilcock Limited	47,492,155	23.75
Sovereign Trust Limited	46,056,845	23.03
Duggan Limited	31,069,078	15.53
Pyramid Trustee Limited	30,237,545	15.12
November Nominees Limited	14,552,857	7.28
Simbi Investors	8,217,059	4.11
Losupuk Limited	5,579,844	2.79
Kenyerere Limited	4,291,381	2.15
Lohan Investments Limited	2,899,916	1.45
Others	9,603,590	4.8
TOTAL	**200,000,000**	**100**

7. BOARD PERFORMANCE EVALUATION

The chairman conducts evaluations of the performance of the Board, individual directors and Board Committee's annually. In addition, the Board and its Committees undertake an annual evaluation of their performance and report their findings and any resulting recommendations to the Board. The Board also undertakes an evaluation of the performance of the Chairman. The Board discusses the results of its evaluations and uses the process to constructively improve the effectiveness of the Board. The results of this evaluation are submitted to Central Bank of Kenya as required under the Prudential Guidelines for institutions licensed under the Banking Act.

8. BOARD AND COMMITTEE MEETINGS ATTENDANCE

(a) Board Meetings

During the year under review, the Board held nine meetings excluding the working committee meetings. The Board members attendance for 2016 was as follows;

Name	Number of attendance	Percentage attendance
Dr. Henry Kiplangat	8	89
Mr. Peter Kemei	8	89
Mr. John Kenduiwo	9	100
Mrs. Hellena Cheserem	8	89
Prof. Daniel Rotich	8	89
Mr. Andre DeSimone	8	89
Ms. Jacqueline Onsando	7	78
Mr. Sammy Lang'at	9	100

(b) Committee Meetings

(i) Audit Committee Meetings

Name	Number of attendance	Percentage attendance
Mr. Peter Kemei	5	100
Mr. John Kenduiwo	5	100
Prof. Daniel Rotich	5	100

(ii) Risk and Compliance Committee Meetings

Name	Number of attendance	Percentage attendance
Mr. Andre DeSimone	3	75
Mr. Peter Kemei	4	100
Mrs. Hellena Cheserem	4	100
Prof. Daniel Rotich	4	100
Ms. Jacqueline Onsando	3	75
Mr. Sammy Lang'at	4	100

(iii) Credit Committee Meetings

Name	Number of attendance	Percentage attendance
Prof. Daniel Rotich	6	100
Mrs. Helena Cheserem	5	83
Mr. Andre DeSimone	4	67
Mr. Sammy Lang'at	5	83
Mrs. Alphina Kiplangat	6	100

(iv) Strategy and Finance Committee Meetings

Name	Number of attendance	Percentage attendance
Mr. Andre DeSimone	3	100
Mr. Peter Kemei	3	100
Mr. John Kenduiwo	3	100
Mr. Sammy Lang'at	3	100
Mr. Laban K. Molonko	3	100

(v) Human Resources, Nomination & Remuneration Committee Meetings

Name	Number of attendance	Percentage attendance
Mr. John Kenduiwo	7	100
Mrs. Helena Cheserem	6	86
Mr. Sammy Lang'at	6	86
Ms. Emmy Kiptugen	7	100

9. DIRECTORS' EXTERNAL ACTIVITIES AND CONFLICTS OF INTEREST

Directors have a statutory duty to avoid situations in which they have or may have interests that conflict with those of the Bank.

Business transactions with all parties, directors or their related parties are carried out at arm's length. In 2016, the directors submitted their annual declarations of interests which included:-

- An acknowledgement that should it come to the attention of a director that a matter concerning the Bank may result in a conflict of interest, they are obliged to declare the same and will exclude themselves from any discussion or decision over the matter in question.
- An acknowledgement that should the director be appointed to the Board or acquire a significant interest in a business competing with the bank, the director will be obliged to offer their resignation.
- An acknowledgement that the foregoing also applies to interests of the immediate family members of the directors.

Business transactions with the directors or their related parties are disclosed in Note 32.

10. COMPLIANCE

The Bank operates within the requirements of the Banking Act, among other Acts, and adopts certain universally accepted principles in the areas of human rights, labour standards in its commitment to best practice. Additionally, the Bank prepares its financial statements in accordance with International Financial Reporting Standards (IFRS) and the requirements of the Kenyan Companies Act, 2015.

Director

Director

The directors submit their report together with the audited financial statements for the year ended 31 December 2016. In accordance with Section 42 of the Sixth Schedule, Transitional and Saving Provisions, of the Kenyan Companies Act, 2015, this report has been prepared in accordance with Section 157 of the repealed Companies Act, as if that repeal had not taken effect.

1. PRINCIPAL ACTIVITIES

The principal activities of the Bank are the provision of banking, financial and related services.

BANK RESULTS	**2016** KShs'000	**2015** KShs'000
Profit before taxation	160,024	251,623
Taxation charge	(50,894)	(83,593)
Profit for the year	109,130	168,030

2. DIVIDENDS

The directors recommend the payment of KShs 40 million as dividend for the year ended 31 December 2016 (2015: KShs 60 million).

3. DIRECTORS

The current directors are listed on page 2

4. AUDITORS

The company's auditors, Ernst & Young LLP, have expressed their willingness to continue in office in accordance with the Kenyan Companies Act, 2015.

BY ORDER OF THE BOARD

SECRETARY
15th March, 2017

Nairobi

The Kenyan Companies Act, 2015 requires the directors to prepare financial statements for each financial year that give a true and fair view of the financial position of the company as at the end of the financial year and of its profit or loss for that year. It also requires the directors to ensure that the company maintains proper accounting records that are sufficient to show and explain the transactions of the company and disclose, with reasonable accuracy, the financial position of the company. The directors are also responsible for safeguarding the assets of the company, and for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors accept responsibility for the preparation and presentation of these financial statements in accordance with International Financial Reporting Standards and in the manner required by the Kenyan Companies Act, 2015. They also accept responsibility for:

(i) designing, implementing and maintaining such internal control as they determine necessary to enable the presentation of financial statements that are free from material misstatement, whether due to fraud or error;

(ii) selecting suitable accounting policies and applying them consistently; and

(iii) making accounting estimates and judgements that are reasonable in the circumstances.

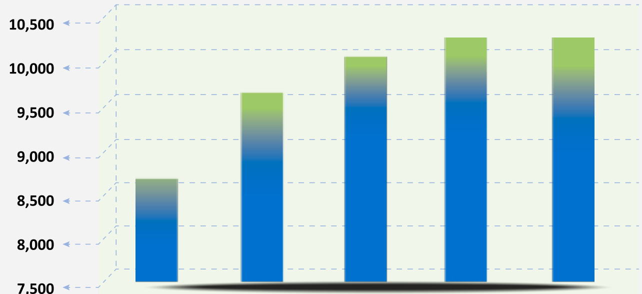
Having made an assessment of the company's ability to continue as a going concern, the directors are not aware of any material uncertainties related to events or conditions that may cast doubt upon the company's ability to continue as a going concern.

The directors acknowledge that the independent audit of the financial statements does not relieve them of their responsibilities.

Approved by the board of directors on 15th March, 2017 and signed on its behalf by:

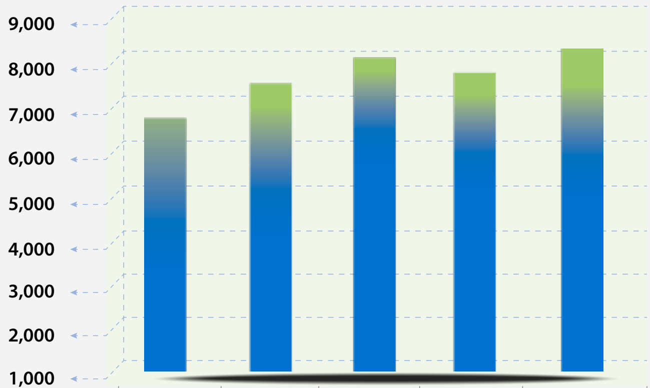
Director Director

Total Assets (Kshs M')



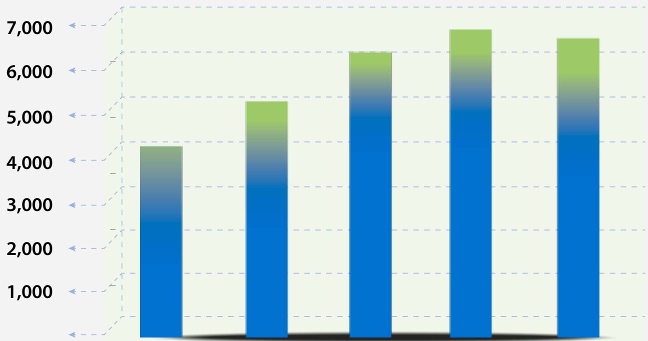
2012	2013	2014	2015	2016
8,801	9,658	10,240	10,453	10,372

Customer Deposits (Kshs M')



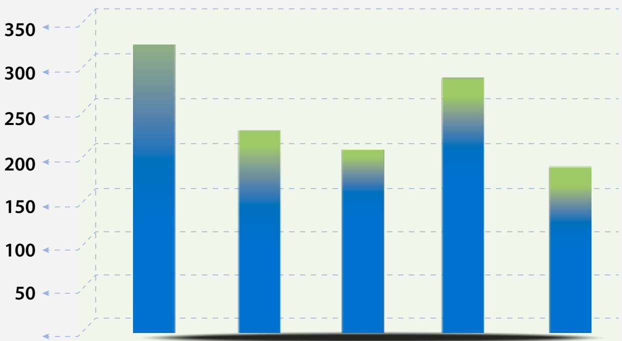
2012	2013	2014	2015	2016
6,452	7,097	7,660	7,583	8,000

Loans & Advances (Kshs M')



2012	2013	2014	2015	2016
4,239	5,145	6,009	6,650	6,367

Profit Before Tax (Kshs M')



2012	2013	2014	2015	2016
322	225	191	252	160

Opinion

We have audited the accompanying financial statements of Transnational Bank Limited set out on pages 12 to 76 which comprise the statement of financial position as at 31 December 2016, and the 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 notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of Transnational Bank Limited as at 31 December 2016, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Kenyan Companies Act, 2015*.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code). We have fulfilled our other ethical responsibilities in accordance with the IESBA Code, and in accordance with other ethical requirements applicable to performing audits of financial statements in Kenya. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other Matter

The financial statements of Transnational Bank Limited for the year ended 31 December 2015, were audited by another auditor who expressed an unmodified opinion on those statements on 31 March 2016.

Other Information

The directors are responsible for the other information. The other information comprises the Directors' Report as required by the Kenyan Companies Act, 2015. The other information does not include the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and we do not express an audit opinion or 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 we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Directors for the Financial Statements

The directors are responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards and the requirements of the Kenyan Companies Act, 2015, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error. In preparing the financial statements, the directors are responsible for assessing the company'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 company or to cease operations, or have no realistic alternative but to do so.

The directors are responsible for overseeing the company's financial reporting processes.

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the company'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 company 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 Requirements

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

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

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

iii) the bank's statement of financial position (balance sheet) and statement of profit or loss and other comprehensive income (profit and loss account) are in agreement with the books of account.

The engagement partner responsible for the audit resulting in this independent auditor's report is CPA Joseph K Cheboror P/No. 1145.

Nairobi, Kenya

31st March, 2017

*In accordance with Section 42 of the Sixth Schedule, Transitional and Saving Provisions, of the Kenyan Companies Act, 2015, the company's financial statements and this report have been prepared in accordance with Sections 147 to 163 of the repealed Companies Act, as if that repeal had not taken effect.

Statement of Profit or Loss and other Comprehensive Income for the Year Ended 31st December, 2016

	Notes	2016 KShs'000	2015 KShs'000
Interest income	5	1,429,814	1,445,363
Interest expense	6	(561,552)	(584,214)
NET INTEREST INCOME		868,262	861,149
Fees and commission income	7	186,035	180,991
Fees and commission expense		-	-
NET FEES AND COMMISSION INCOME		186,035	180,991
Other income	8	31,722	44,459
OPERATING INCOME		1,086,019	1,086,599
Other operating expenses	9	(829,153)	(758,476)
Impairment losses on loans and advances	17	(96,842)	(76,500)
OPERATING EXPENSES		(925,995)	(834,976)
PROFIT BEFORE TAXATION		160,024	251,623
TAXATION CHARGE	11(a)	(50,894)	(83,593)
PROFIT FOR THE YEAR		109,130	168,030
OTHER COMPREHENSIVE INCOME		-	-
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		109,130	168,030
EARNINGS PER SHARE			
Basic and diluted earnings per share (KShs)	12	0.55	0.84

	Notes	2016 KShs'000	2015 KShs'000
ASSETS			
Cash and balances with Central Bank of Kenya	13	823,358	1,018,562
Deposits and balances due from banking institutions	14	464,889	73,624
Financial derivatives	15	58	54
Loans and advances to customers	16(a)	6,367,429	6,649,506
Government securities	18	1,932,498	2,118,498
Tax recoverable	11(c)	33,348	-
Other assets	19	417,938	299,249
Property and equipment	20	172,284	132,916
Intangible assets	21	66,165	99,087
Deferred tax asset	22	94,474	61,195
TOTAL ASSETS		**10,372,441**	**10,452,691**
LIABILITIES			
Due to banking institutions	23	102,500	491,905
Customer deposits	24	8,000,002	7,582,579
Other liabilities	25	188,020	318,609
Tax payable	11(c)	-	26,809
TOTAL LIABILITIES		8,290,522	8,419,902
EQUITY			
Share capital	26	1,000,000	1,000,000
Share premium	27	42,236	42,236
Retained earnings		934,832	885,702
Statutory reserve	28	104,851	104,851
TOTAL EQUITY		2,081,919	2,032,789
TOTAL EQUITY AND LIABILITIES		**10,372,441**	**10,452,691**

The financial statements were approved and authorised for issue by the board of directors on 15th March, 2017 and were signed on its behalf by:

Director

Chief Executive Officer

Director

Company Secretary

	Notes	Share capital KShs'000	Share premium KShs'000	Retained earnings KShs'000	Statutory reserve * KShs'000	Total KShs'000
At 1 January 2015		1,000,000	42,236	771,950	100,573	1,914,759
Transfer to statutory reserve	28	-	-	(4,278)	4,278	-
2014 dividends declared	30	-	-	(50,000)	-	(50,000)
Total comprehensive income for the year		-	-	168,030	-	168,030
At 31 December 2015		1,000,000	42,236	885,702	104,851	2,032,789
At 1 January 2016		1,000,000	42,236	885,702	104,851	2,032,789
Transfer to statutory reserve	28	-	-	-	-	-
2015 dividends declared	30	-	-	(60,000)	-	(60,000)
Total comprehensive income for the year		-	-	109,130	-	109,130
At 31 December 2016		1,000,000	42,236	934,832	104,851	2,081,919

* Statutory reserve relates to extra provisions made in regard to non-performing loans in compliance with the Central Bank of Kenya Prudential Guidelines and is not distributable.

	Notes	2016 KShs'000	2015 KShs'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash generated from operating activities	29(a)	691,304	(368,852)
Tax paid	11(c)	(144,329)	(94,592)
Net cash flows generated from operating activities		**546,975**	**(463,444)**
INVESTING ACTIVITIES			
Purchase of equipment	20	(91,785)	(56,712)
Purchase of intangible assets	21	(9,727)	(89,650)
Maturity of held-to-maturity investments		199,788	178,744
Proceeds from disposal of equipment		85	8
Net cash flows used in investing activities		**98,361**	**32,390**
FINANCING ACTIVITIES:-			
Dividends paid	30(a)	(61,353)	(49,828)
Net cash flows used in financing activities		(61,353)	(49,828)
Net movement in cash and cash equivalents		583,983	(480,882)
Cash and cash equivalents at the beginning of the year		351,233	832,115
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	**29(b)**	**935,216**	**351,233**

1. GENERAL INFORMATION

Transnational Bank Limited (the "Bank") provides commercial banking services. The bank is incorporated in Kenya under the Kenyan Companies Act, 2015, licensed under the Kenyan Banking Act, (chapter 488) and is domiciled in Kenya.

2. 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.

(a) Basis of preparation

The financial statements have been prepared in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board (IASB).

For purposes of reporting under the Kenyan Companies Act, 2015, the balance sheet in these financial statements 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) Changes in accounting policies and disclosures

New and amended standards and interpretations

The Bank applied for the first time certain standards and amendments, which are effective for annual periods beginning on or after 1 January 2016. The Bank has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

The nature and the effect of these changes are disclosed below. Although these new standards and amendments applied for the first time in 2016, they did not have a material impact on the annual financial statements of the Bank. The nature and the impact of each new standard or amendment is described below:

IFRS 14 Regulatory Deferral Accounts

IFRS 14 is an optional standard that allows an entity, whose activities are subject to rate-regulation, to continue applying most of its existing accounting policies for regulatory deferral account balances upon its first-time adoption of IFRS. Entities that adopt IFRS 14 must present the regulatory deferral accounts as separate line items on the statement of financial position and present movements in these account balances as separate line items in the statement of profit or loss and OCI. The standard requires disclosure of the nature of, and risks associated with, the entity's rate-regulation and the effects of that rate-regulation on its financial statements. Since the Bank is an existing IFRS preparer and is not involved in any rate-regulated activities, this standard does not apply.

Amendments to IFRS 11 Joint Arrangements: Accounting for Acquisitions of Interests in Joint Operations

The amendments to IFRS 11 require that a joint operator accounting for the acquisition of an interest in a joint operation, in which the activity of the joint operation constitutes a business, must apply the relevant IFRS 3 Business Combinations principles for business combination accounting. The amendments also clarify that a previously held interest in a joint operation is not remeasured on the acquisition of an additional interest in the same joint operation if joint control is retained.

In addition, a scope exclusion has been added to IFRS 11 to specify that the amendments do not apply when the parties sharing joint control, including the reporting entity, are under common control of the same ultimate controlling party. The amendments apply to both the acquisition of the initial interest in a joint operation and the acquisition of any additional interests in the same joint operation and are applied prospectively. These amendments do not have any impact on the Bank as it does not have any interest in a joint operation.

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

The amendments clarify the principle in IAS 16 Property, Plant and Equipment and IAS 38 Intangible Assets that revenue reflects a pattern of economic benefits that are generated from operating a business (of which the asset is a part) rather than the economic benefits that are consumed through use of the asset. As a result, a revenue-based method cannot be used to depreciate property, plant and equipment and may only be used in very limited circumstances to amortise intangible assets. The amendments are applied prospectively and do not have any impact on the Bank, given that it has not used a revenue-based method to depreciate its non-current assets.

Amendments to IAS 16 and IAS 41 Agriculture: Bearer Plants

The amendments change the accounting requirements for biological assets that meet the definition of bearer plants. Under the amendments, biological assets that meet the definition of bearer plants will no longer be within the scope of IAS 41 Agriculture. Instead, IAS 16 will apply. After initial recognition, bearer plants will be measured under IAS 16 at accumulated cost (before maturity) and using either the cost model or revaluation model (after maturity). The amendments also require that produce that grows on bearer plants will remain in the scope of IAS 41 measured at fair value less costs to sell. For government grants related to bearer plants, IAS 20 Accounting for Government Grants and Disclosure of Government Assistance will apply. The amendments are applied retrospectively and do not have any impact on the Bank as it does not have any bearer plants.

Amendments to IAS 27: Equity Method in Separate Financial Statements

The amendments allow entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements. Entities already applying IFRS and electing to change to the equity method in their separate financial statements have to apply that change retrospectively. These amendments do not have any impact on the Bank's financial statements.

Annual Improvements 2012-2014 Cycle

IFRS 5 Non-current Assets Held for Sale and Discontinued Operations

Assets (or disposal groups) are generally disposed of either through sale or distribution to the owners. The amendment clarifies that changing from one of these disposal methods to the other would not be considered a new plan of disposal, rather it is a continuation of the original plan. There is, therefore, no interruption of the application of the requirements in IFRS 5. This amendment is applied prospectively.

IFRS 7 Financial Instruments: Disclosures

(i) Servicing contracts - The amendment clarifies that a servicing contract that includes a fee can constitute continuing involvement in a financial asset. An entity must assess the nature of the fee and the arrangement against the guidance for continuing involvement in IFRS 7 in order to assess whether the disclosures are required. The assessment of which servicing contracts constitute continuing involvement must be done retrospectively. However, the required disclosures need not be provided for any period beginning before the annual period in which the entity first applies the amendments.

(ii) Applicability of the amendments to IFRS 7 to condensed interim financial statements
The amendment clarifies that the offsetting disclosure requirements do not apply to condensed interim financial statements, unless such disclosures provide a significant update to the information reported in the most recent annual report. This amendment is applied retrospectively.

IAS 19 Employee Benefits

The amendment clarifies that market depth of high quality corporate bonds is assessed based on the currency in which the obligation is denominated, rather than the country where the obligation is located. When there is no deep market for high quality corporate bonds in that currency, government bond rates must be used. This amendment is applied prospectively.

IAS 34 Interim Financial Reporting

The amendment clarifies that the required interim disclosures must either be in the interim financial statements or incorporated by cross-reference between the interim financial statements and wherever they are included within the interim financial report (e.g., in the management commentary or risk report). The other information within the interim financial report must be available to users on the same terms as the interim financial statements and at the same time. This amendment is applied retrospectively.

These amendments do not have any impact on the Bank financial statements.

Amendments to IAS 1 Disclosure Initiative

The amendments to IAS 1 clarify, rather than significantly change, existing IAS 1 requirements. The amendments clarify:

- The materiality requirements in IAS 1
- That specific line items in the statement(s) of profit or loss and OCI and the statement of financial position may be disaggregated
- That entities have flexibility as to the order in which they present the notes to financial statements
- That the share of OCI of associates and joint ventures accounted for using the equity method must be presented in aggregate as a single line item, and classified between those items that will or will not be subsequently reclassified to profit or loss.

Furthermore, the amendments clarify the requirements that apply when additional subtotals are presented in the statement of financial position and the statement(s) of profit or loss and OCI. These amendments do not have any impact on the Bank.

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

The amendments address issues that have arisen in applying the investment entities exception under IFRS 10 Consolidated Financial Statements. The amendments to IFRS 10 clarify that the exemption from presenting consolidated financial statements applies to a parent entity that is a subsidiary of an investment entity, when the investment entity measures all of its subsidiaries at fair value. Furthermore, the amendments to IFRS 10 clarify that only a subsidiary of an investment entity that is not an investment entity itself and that provides support services to the investment entity is consolidated. All other subsidiaries of an investment entity are measured at fair value. The amendments to IAS 28 Investments in Associates and Joint Ventures allow the investor, when applying the equity method, to retain the fair value measurement applied by the investment entity associate or joint venture to its interests in subsidiaries. These amendments are applied retrospectively and do not have any impact on the Bank as the Bank does not have subsidiaries or interests in associates and joint ventures.

Standards issued but not yet effective

The standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Bank's financial statements are disclosed below. The Bank intends to adopt these standards, if applicable, when they become effective.

IFRS 9 Financial Instruments

Introduction
In July 2014, the IASB issued IFRS 9 Financial Instruments, the standard that will replace IAS 39 for annual periods on or after 1 January 2018, with early adoption permitted.

Classification and measurement
From a classification and measurement perspective, the new standard will require all financial assets, except equity instruments and derivatives, to be assessed based on a combination of the entity's business model for managing the assets and the instruments' contractual cash flow characteristics.

The IAS 39 measurement categories will be replaced by: fair Value through profit or loss (FVPL), fair value through other comprehensive income (FVOCI), and amortised cost. IFRS 9 will also allow entities to continue to irrevocably designate instruments that qualify for amortised cost or fair value through OCI instruments as FVPL, if doing so eliminates or significantly reduces a measurement or recognition inconsistency. Equity instruments that are not held for trading may be irrevocably designated as FVOCI, with no subsequent reclassification of gains or losses to profit or loss.

The accounting for financial liabilities will largely be the same as the requirements of IAS 39, except for the treatment of gains or losses arising from an entity's own credit risk relating to liabilities designated at FVPL. Such movements will be presented in OCI with no subsequent reclassification to profit or loss, unless an accounting mismatch in profit or loss would arise.

Having completed its initial assessment, the Bank has concluded that:

- The majority of loans and advances to banks, loans and advances to customers, cash collateral for reverse repo agreements and cash settlement balances with clearing houses that are classified as loans and receivables under IAS 39 are expected to be measured at amortised cost under IFRS 9
- Debt securities classified as held to maturity are expected to continue to be measured at amortised cost.

Hedge accounting
IFRS 9 allows entities to continue with the hedge accounting under IAS 39 even when other elements of IFRS become mandatory on 1 January 2018. The Bank does not have any hedge instruments.

Impairment of financial assets

Overview
IFRS 9 will also fundamentally change the loan loss impairment methodology. The standard will replaceIAS 39's incurred loss approach with a forward-looking expected loss (ECL) approach. The Bank will be required to record an allowance for expected losses for all loans and other debt financial assets not held at FVPL, together with loan commitments and financial guarantee contracts. The allowance is based on the expected credit losses associated with the probability of default in the next twelve months unless there has been a significant increase in credit risk since origination, in which case, the allowance is based on the probability of default over the life of the asset.

The Bank has established a policy to perform an assessment at the end of each reporting period of whether credit risk has increased significantly since initial recognition by considering the change in the risk of default occurring over the remaining life of the financial instrument.

- To calculate ECL, the Bank will estimate the risk of a default occurring on the financial instrument during its expected life. ECLs are estimated based on the present value of all cash shortfalls over the remaining expected life of the financial asset, i.e., the difference between: the contractual cash flows that are due to the Bank under the contract; and,
- The cash flows that the Bank expects to receive, discounted at the effective interest rate of the loan.

In comparison to IAS 39, the Bank expects the impairment charge under IFRS 9 to be more volatile than under IAS 39 and to result in an increase in the total level of current impairment allowances.

Forward looking information
The Bank will incorporate forward-looking information in both the assessment of significant increase in credit risk and the measurement of ECLs. The Bank considers forward-looking information such as macroeconomic factors (e.g., unemployment, GDP growth, interest rates and house prices) and economic forecasts. To evaluate a range of possible outcomes, the bank intends to formulate three scenarios: a base case, a worse case and a better case. The base case scenario represents the more likely outcome resulting from the bank's normal financial planning and budgeting process, while the better and worse case scenarios represent more optimistic or pessimistic outcomes. For each scenario, the Bank will derive an ECL and apply a probability weighted approach to determine the impairment allowance. The Bank will use internal information coming from internal economic experts, combined with published external information from government and private economic forecasting services . Both the Risk and Finance management teams will need to approve the forward-looking assumptions before they are applied for different scenarios.

Limitation of estimation techniques
The models that will be applied by the Bank may not always capture all characteristics of the market at a point in time as they cannot be recalibrated at the same pace as changes in market conditions. Interim adjustments are expected to need to be made until the base models are updated. Although the Bank will use data that is as current as possible, models used to calculate ECLs will be based on data that is one month in arrears and adjustments will be made for significant events occurring prior to the reporting date.

Amendments to IAS 12 Income Taxes

In January 2016, through issuing amendments to IAS 12, the IASB clarified the accounting treatment of deferred tax assets of debt instruments measured at fair value for accounting, but measured at cost for tax purposes. The amendment is effective from 1 January 2017. The Bank is currently evaluating the impact, but does not anticipate that adopting the amendments would have a material impact on its financial statements.

IFRS 15 Revenue from Contracts with Customers

In May 2014, the IASB issued IFRS 15 Revenue from Contracts with Customers, effective for periods beginning on 1 January 2018 with early adoption permitted. IFRS 15 defines principles for recognising revenue and will be applicable to all contracts with customers. However, interest and fee income integral to financial instruments and leases will continue to fall outside the scope of IFRS 15 and will be regulated by the other applicable standards (e.g., IFRS 9, and IFRS 16 Leases).

Revenue under IFRS 15 will need to be recognised as goods and services are transferred, to the extent that the transferor anticipates entitlement to goods and services. The standard will also specify a comprehensive set of disclosure requirements regarding the nature, extent and timing as well as any uncertainty of revenue and corresponding cash flows with customers.

The Bank does not anticipate early adopting IFRS 15 and is currently evaluating its impact.

IFRS 16 Leases

The IASB issued the new standard for accounting for leases - IFRS 16 Leases in January 2016. The new standard does not significantly change the accounting for leases for lessors. However, it does require lessees to recognise most leases on their balance sheets as lease liabilities, with the corresponding right of use assets. Lessees must apply a single model for all recognised leases, but will have the option not to recognise 'short-term' leases and leases of 'low-value' assets. Generally, the profit or loss recognition pattern for recognised leases will be similar to today's finance lease accounting, with interest and depreciation expense recognised separately in profit or loss. IFRS 16 is effective for annual periods beginning on or after 1 January 2019. Early application is permitted provided the new revenue standard, IFRS 15, is applied on the same date. Lessees must adopt IFRS 16 using either a full retrospective or a modified retrospective approach.

The Bank does not anticipate early adopting IFRS 16 and is currently evaluating its impact.

Amendments to IAS 7 Statement of Cash Flows

In January 2016, the IASB issued amendments to IAS 7 Statement of Cash Flows with the intention to improve disclosures of financing activities and help users to better understand the reporting entities' liquidity positions. Under the new requirements, entities will need to disclose changes in their financial liabilities as a result of financing activities such as changes from cash flows and non-cash items (e.g., gains and losses due to foreign currency movements). The amendment is effective from 1 January 2017. The Bank is currently evaluating the impact.

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

The amendments address the conflict between IFRS 10 and IAS 28 in dealing with the loss of control of a subsidiary that is sold or contributed to an associate or joint venture. The amendments clarify that the gain or loss resulting from the sale or contribution of assets that constitute a business, as defined in IFRS 3, between an investor and its associate or joint venture, is recognised in full. Any gain or loss resulting from the sale or contribution of assets that do not constitute a business, however, is recognised only to the extent of unrelated investors' interests in the associate or joint venture. The IASB has deferred the effective date of these amendments indefinitely, but an entity that early adopts the amendments must apply them prospectively.

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

The IASB issued amendments to IFRS 2 Share-based Payment that address three main areas: the effects of vesting conditions on the measurement of a cash-settled share-based payment transaction; the classification of a share-based payment transaction with net settlement features for withholding tax obligations; and accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash settled to equity settled. On adoption, entities are required to apply the amendments without restating prior periods, but retrospective application is permitted if elected for all three amendments and other criteria are met. The amendments are effective for annual periods beginning on or after 1 January 2018, with early application permitted. The amendment has no effect on Bank's financial statements.

Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts - Amendments to IFRS 4

The amendments introduce two options for entities issuing insurance contracts: a temporary exemption from applying IFRS 9 and an overlay approach.

Temporary exemption from IFRS 9
The optional temporary exemption from IFRS 9 is available to entities whose activities are predominantly

connected with insurance. The temporary exemption permits such entities to continue to apply IAS 39 Financial Instruments: Recognition and Measurement while they defer the application of IFRS 9 until 1 January 2021 at the latest. Predominance must be initially assessed at the annual reporting date that immediately precedes 1 April 2016 and before IFRS 9 is implemented. Also the evaluation of predominance can only be reassessed in rare cases. Entities applying the temporary exemption will be required to make additional disclosures.

The overlay approach
The overlay approach is an option for entities that adopt IFRS 9 and issue insurance contracts, to adjust profit or loss for eligible financial assets; effectively resulting in IAS 39 accounting for those designated financial assets. The adjustment eliminates accounting volatility that may arise from applying IFRS 9 without the new insurance contracts standard. Under this approach, an entity is permitted to reclassify amounts between profit or loss and other comprehensive income (OCI) for designated financial assets. An entity must present a separate line item for the amount of the overlay adjustment in profit or loss, as well as a separate line item for the corresponding adjustment in OCI.

The temporary exemption is first applied for reporting periods beginning on or after 1 January 2018. An entity may elect the overlay approach when it first applies IFRS 9 and apply that approach retrospectively to financial assets designated on transition to IFRS 9. The entity restates comparative information reflecting the overlay approach if, and only if, the entity restates comparative information when applying IFRS 9. The overlay approach requires an entity to remove from profit or loss additional volatility that may arise if IFRS 9 is applied with IFRS 4. When applying the temporary exemption, entities must still provide extensive disclosure that require the application of some aspects of IFRS 9. The amendment is effective from 1 January 2018. The Bank will not have an impact on the Bank as it does not have insurance contracts.

Transfers of Investment Property (Amendments to IAS 40)

The amendments clarify when an entity should transfer property, including property under construction or development into, or out of investment property. The amendments state that a change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. A mere change in management's intentions for the use of a property does not provide evidence of a change in use. Entities should apply the amendments prospectively to changes in use that occur on or after the beginning of the annual reporting period in which the entity first applies the amendments. An entity should reassess the classification of property held at that date and, if applicable, reclassify property to reflect the conditions that exist at that date. Retrospective application in accordance with IAS 8 is only permitted if that is possible without the use of hindsight. Early application of the amendments is permitted and must be disclosed. The amendment is effective from 1 January 2018. The Bank currently does not have investment properties.

IFRIC Interpretation 22 Foreign Currency Transactions and Advance Consideration

The interpretation clarifies that in determining the spot exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the derecognition of a non-monetary asset or non-monetary liability relating to advance consideration, the date of the transaction is the date on which an entity initially recognises the nonmonetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, then the entity must determine a date of the transactions for each payment or receipt of advance consideration. The amendment is effective from 1 January 2018. The Bank is currently evaluating the impact.

Annual Improvements 2014-2016 cycle

IFRS 1 First-time Adoption of International Financial Reporting Standards

Deletion of short-term exemptions for first-time adopters - Short-term exemptions in paragraphs E3–E7 of

IFRS 1 were deleted because they have now served their intended purpose. The amendment is effective from 1 January 2018.

IAS 28 Investments in Associates and Joint Ventures

Clarification that measuring investees at fair value through profit or loss is an investment-by investment choice - The amendments clarifies that an entity that is a venture capital organisation, or other qualifying entity, may elect, at initial recognition on an investment-by-investment basis, to measure its investments in associates and joint ventures at fair value through profit or loss. If an entity that is not itself an investment entity has an interest in an associate or joint venture that is an investment entity, the entity may, when applying the equity method, elect to retain the fair value measurement applied by that investment entity associate or joint venture to the investment entity associate's or joint venture's interests in subsidiaries. This election is made separately for each investment entity associate or joint venture, at the later of the date on which (a) the investment entity associate or joint venture is initially recognised; (b) the associate or joint venture becomes an investment entity; and (c) the investment entity associate or joint venture first becomes a parent. The amendments should be applied retrospectively and are effective from 1 January 2018, with earlier application permitted. If an entity applies those amendments for an earlier period, it must disclose that fact.

IFRS 12 Disclosure of Interests in Other Entities

Clarification of the scope of the disclosure requirements in IFRS 12 - The amendments clarify that the disclosure requirements in IFRS 12, other than those in paragraphs B10–B16, apply to an entity's interest in a subsidiary, a joint venture or an associate (or a portion of its interest in a joint venture or an associate) that is classified (or included in a disposal group that is classified) as held for sale. The amendments are effective from 1 January 2017 and must be applied retrospectively.

(c) Significant accounting estimates and assumptions

The preparation of the Bank's financial statements requires management to make judgements, estimates and assumptions that affect the reported amount of revenues, expenses, assets and liabilities, and the accompanying disclosures, as well as the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amounts of assets or liabilities affected in future periods.

Estimates and assumptions
The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below. The Bank based its assumptions and estimates on parameters available when the financial statements were prepared. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances beyond the control of the Bank. Such changes are reflected in the assumptions when they occur.

Going concern
The Bank's management has made an assessment of its ability to continue as a going concern and is satisfied that it has the resources to continue in business for the foreseeable future. Furthermore, management is not aware of any material uncertainties that may cast significant doubt upon the Bank's ability to continue as a going concern. Therefore, the financial statements continue to be prepared on the going concern basis.

Fair value of financial instruments
Where the fair values of financial assets and financial liabilities recorded on the statement of financial position cannot be measured based on quoted prices in active markets, their fair value is determined using a variety of valuation techniques that include the use of mathematical models. The inputs to these models are derived from observable market data where possible, but if this is not available, judgement is required to establish fair

values. The judgements include considerations of liquidity and model inputs such as volatility for longer–dated derivatives and discount rates, prepayment rates and default rate assumptions for asset-backed securities. The valuation of financial instruments is described in more detail in Note 4 (d).

Impairment losses on loans and advances
The Bank reviews its individually significant loans and advances at each reporting date to assess whether an impairment loss should be recorded in profit or loss. In particular, management's judgement is required in the estimation of the amount and timing of future cash flows when determining the impairment loss. These estimates are based on assumptions about a number of factors and actual results may differ, resulting in future changes to the allowance (See Note 3 (a)).

Loans and advances that have been assessed individually (and found not to be impaired) are assessed together with all individually insignificant loans and advances in groups of assets with similar risk characteristics. This is to determine whether provision should be made due to incurred loss events for which there is objective evidence, but the effects of which are not yet evident. The collective assessment takes account of data from the loan portfolio (such as levels of arrears, credit utilisation, loan-to-collateral ratios, etc.), and judgements on the effect of concentrations of risks and economic data (including levels of unemployment, real estate price indices, country risk and the performance of different individual groups).

Deferred tax assets
Deferred tax assets are recognised in respect of tax losses to the extent that it is probable that future taxable profit will be available against which the losses can be utilised. Judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits, together with future tax-planning strategies (see Note 11).

Provisions and contingent liabilities
The Bank operates in a regulatory and legal environment that, by nature, has a heightened element of litigation risk inherent to its operations. As a result, it is involved in various litigation, arbitration and regulatory investigations and proceedings arising in the ordinary course of the Bank's business.

When the Bank can reliably measure the outflow of economic benefits in relation to a specific case and considers such outflows to be probable, the Bank records a provision against the case. Where the probability of outflow is considered to be remote, or probable, but a reliable estimate cannot be made, a contingent liability is disclosed.

However, when the Bank is of the opinion that disclosing these estimates on a case-by-case basis would prejudice their outcome, then the Bank does not include detailed, case-specific disclosures in its financial statements.

Given the subjectivity and uncertainty of determining the probability and amount of losses, the Bank takes into account a number of factors including legal advice, the stage of the matter and historical evidence from similar incidents. Significant judgement is required to conclude on these estimates.

For further details on provisions and other contingencies see Note 2(m) of the Summary of significant accounting policies and note 31.

(d) Recognition of income and expenses

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the bank and the revenue can be reliably measured. The following specific criteria must be met before revenue is recognised:

i) Interest and similar income and expenses
Interest income and expense are recognised in profit or loss on the accrual basis. Interest income and

expense presented in the statement of profit or loss and other comprehensive income include:

- Interest on financial assets and liabilities on the accrual basis taking into account the effective interest basis and interest on available-for-sale debt instruments on an effective interest basis.
- Interest on financial assets and liabilities are considered to be the Company's trading operations and are presented together with all other changes in the fair value of trading assets and liabilities in net trading income.

ii) Fee and commission income
Fee and commission income including account servicing fees, investment management fees, placement fees and syndication fees, are recognised as the related services are performed. Other fee and commission expense relates mainly to transaction and service fees, which are expensed as the services are received.

iii) Other trading income
Net trading income comprises gains less losses related to trading assets and liabilities, and includes all realised and unrealised fair value changes, interest, and foreign exchange differences.

(e) Property and equipment

Property and equipment is stated at cost excluding the costs of day–to–day servicing, less accumulated depreciation and accumulated impairment in value.

Depreciation
Depreciation is calculated on a straight-line basis at annual rates estimated to write off the cost of the property and equipment over their expected useful lives. The annual rates generally in use are:

Leasehold improvements	20%
Motor vehicles	25%
Computer hardware and software	30%
Equipment, furniture, fixtures and fittings	12.5%

The residual values, useful lives and methods of depreciation of property, plant and equipment are reviewed at each financial year-end and adjusted prospectively, if appropriate.

Property and equipment is derecognised on disposal or when no future economic benefits are expected from its use. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is recognised in other operating income in the income statement in the year the asset is derecognised.

(f) Intangible assets

The Bank's intangible assets include the value of computer software licences.

An intangible asset is recognised only when its cost can be measured reliably and it is probable that the expected future economic benefits that are attributable to it will flow to the Bank.

Intangible assets acquired separately are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses.

The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortised over the useful economic life. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year-end.

Changes in the expected useful life, or the expected pattern of consumption of future economic benefits embodied in the asset, are accounted for by changing the amortisation period or methodology, as appropriate, which are then treated as changes in accounting estimates. Currently, software costs are amortised over three years.

(g) Operating leases

The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement at inception date. The arrangement is, or contains, a lease if fulfilment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset (or assets).

Bank is the lessee
Leases, where substantially all the risk and rewards of ownership are retained by the lessor, are classified as operating leases. The total payments due under operating leases are charged to profit or loss 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.

Bank is the lessor
Leases where the bank does not transfer substantially all the risk and benefits of ownership of the asset are classified as operating leases. Initial direct costs incurred in negotiating operating leases are added to the carrying amount of the leased asset and recognised over the lease term on the same basis as rental income. Contingent rents are recognised as revenue in the period in which they are earned. The bank was not a lessor in the year.

(h) Financial assets

All financial assets are initially recognised on the trade date, i.e., the date that the bank becomes a party to the contractual provisions of the instrument. This includes "regular way trades": purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the market place.

The classification of financial assets at initial recognition depends on the purpose and the management's intention for which the financial assets were acquired and their characteristics. All financial assets are measured initially at their fair value plus directly attributable transaction costs, except in the case of financial assets recorded at fair value through profit or loss (which include financial assets held-for-trading).

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

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 it in the near term or if it is part of a portfolio of identified financial assets that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking.

Subsequent to initial recognition, financial assets at fair value through profit or loss are re-measured at fair value. Gains and losses arising from changes in fair value are included directly in profit or loss. Interest income and expense and dividend income and expenses on financial assets held-for-trading are also included in profit or loss. The bank did not have financial assets held for trading in the current financial year.

(b) Held-to-maturity financial assets

Non-derivative financial assets with fixed or determinable payments and fixed maturities are classified as held-to-maturity when the bank has the positive intention and ability to hold to maturity. After initial measurement held-to-maturity investments are measured at amortised cost using the effective interest method. Gains and losses are recognised in profit or loss when the investments are derecognised or impaired, as well as through the amortisation process. The bank's held-to maturity investments are treasury bonds.

(c) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement loans and receivables are carried at amortised cost using the effective interest method less any allowance for impairment, except when the Bank chooses to carry the loans and receivables at fair value through profit or loss. The losses arising from the impairment are recognised in profit or loss. There are no loans and receivables carried at fair value through the profit or loss during the year. Financial assets held under this category include loans and advances to customers, other receivables and cash and bank balances

Derecognition of financial assets

A financial asset is derecognised when:

- the rights to receive cash flows from the asset have expired.
- the bank has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass–through' arrangement; and either:
- the bank has transferred substantially all the risks and rewards of the asset, or
- the bank has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the bank has transferred its rights to receive cash flows from an asset or has entered into a pass–through arrangement, and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the bank's continuing involvement in the asset. In that case, the bank also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the bank has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the bank could be required to repay.

(i) 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.

The bank's fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability, or
- In the absence of a principal market, in the most advantageous market for the asset or liability

The principal or the most advantageous market must be accessible to by the bank.
The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The bank uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 — Quoted (unadjusted) market prices in active markets for identical assets or liabilities
- Level 2 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
- Level 3 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognised in the financial statements on a recurring basis, the bank determines whether transfers have occurred between levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

External valuers are involved for valuation of significant assets, such as properties.

(j) Derivative financial instruments

At their inception, derivatives often involve only a mutual exchange of promises with little or no transfer of consideration. However, these instruments frequently involve a high degree of leverage and are very volatile. A relatively small movement in the value of the asset, rate or index underlying a derivative contract may have a significant impact on the profit or loss of the bank. Over–the–counter derivatives may expose the bank to the risks associated with the absence of an exchange market on which to close out an open position. The bank's exposure under derivative contracts is closely monitored as part of the overall management of its market risk.

Changes in fair value of any derivative instruments are recognised immediately in profit or loss. Derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into. Subsequent to initial recognition, derivative financial instruments are measured at fair value. Derivatives are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative. Fair values are obtained from quoted market prices in active markets, including recent market transactions. The gain or loss on re-measurement to fair value is recognised immediately in profit or loss.

The notional amounts of certain types of financial instruments provide a basis for comparison with instruments recognised on the statement of financial position but do not necessarily indicate the amounts of future cash flows involved or the current fair value of the instruments and, therefore , do not indicate the Bank's exposure to credit or price risks. The derivative instruments become assets or liabilities as a result of fluctuations in foreign exchange rates relative to their terms.

The Bank uses the following derivative instruments:

Currency Forwards
Forward contracts are contractual agreements to buy or sell a specified financial instrument at a specific price and date in the future. Forwards are customised contracts transacted in the over–the–counter market. The Bank has credit exposure to the counterparties of forward contracts. Forward contracts are settled gross and result in market risk exposure.

Swaps
Swaps are contractual agreements between two parties to exchange streams of payments over time based on specified notional amounts, in relation to movements in a specified underlying index such as a foreign currency rate. In a currency swap, the Bank pays a specified amount in one currency and receives a specified amount in another currency.

(k) Impairment of financial assets

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

Evidence of impairment may include indications that the borrower or a group of borrowers is experiencing significant financial difficulty, the probability that they will enter bankruptcy or other financial reorganisation, default or delinquency in interest or principal payments and where observable data indicates that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

(1) Financial assets carried at amortised cost

Financial assets carried at amortised cost include amounts due from banks, loans and advances to customers as well as held-to-maturity investments.

For loans and advance impairment losses are computed based on:

(i) Central Bank of Kenya Prudential Guidelines
The bank reviews its loans and advances at each reporting date to assess whether an allowance for impairment should be recognised in the profit or loss. In particular, judgement by the directors is required in the estimation of the amount and timing of future cash flows when determining the level of allowance required. Such estimates are based on the assumptions about a number of factors and actual results may differ, resulting in future changes in the allowance.

In addition to specific allowances against individual significant loans and advances, the bank makes a collective impairment allowance against exposures which, although not specifically identified as requiring a specific allowance, have a greater risk of default than when originally granted. This takes into consideration such factors as any deterioration in industry, technological obsolescence, as well as identified structural weaknesses or deterioration in cash flows.

A collective allowance for impairment is made at the rate of 1% of loans and advances classified under normal and 3% for watch categories as per the Central Bank Kenya Prudential Guidelines. Advances are written off/down when the directors are of the opinion that their recoverability will not materialise.

(ii) International Accounting Standard (IAS) 39
Financial assets accounted for at amortised cost are assessed for objective evidence of impairment and required allowances are estimated in accordance with IAS 39. Impairment exists if the carrying amount of a loan or a portfolio of loans exceeds the present value of the cash flows actually expected in future periods discounted at the financial asset's original effective interest rate. These cash flows include scheduled interest payments, principal repayments, or other payments due (for example from guarantees), including liquidation of collateral where available.

The total allowance for recognised financial assets consists of two components: specific counterparty impairment losses and collectively assessed impairment losses. The specific counterparty component applies to claims evaluated individually for impairment and is based upon directors' best estimate of the present value of the cash flows which are expected to be received. In estimating these cash flows, directors make judgments about counterparty's financial situation and the net realizable value of any underlying collateral or guarantees in the bank's favour.

Each impaired financial asset is assessed on its merits, and the workout strategy and estimate of cash flows considered recoverable are independently approved by the Credit Department. Collectively assessed impairment losses on loans and advances cover credit losses inherent in portfolios of loans with similar economic characteristics where there is objective evidence to suggest that they contain impaired loans but the individual impaired items cannot yet be identified. In assessing the need for collective allowance on impairment losses, directors consider factors such as credit quality, portfolio size, concentrations, and economic factors.

In order to estimate the required allowance for impairment, assumptions are made to define inherent losses model and to determine the required input parameters, based on historical experience and current economic conditions. The accuracy of the allowance for impairment made depends on how well estimates are made for future cash flows for specific allowances for impairment and the model assumptions and parameters used in determining collective allowances for impairment. While this necessarily involves judgment, directors believe that their impairment allowances are reasonable and supportable.

If impairment allowances computed under International Accounting Standard (IAS) 39 are lower than allowances required under CBK Prudential Guidelines, the excess allowances are treated as appropriations of retained earnings and not expenses in determining profit or loss. Similarly, any credits resulting from the reduction of such amounts results in an increase in retained earnings and are not included in the determination of profits or loss. Where the impairment allowances computed under IAS 39 are higher than allowances required under the CBK guidelines, the impairment allowances are considered adequate as per Prudential Guidelines.

2 Renegotiated loans

Where possible, the Bank seeks to restructure loans rather than to take possession of collateral. This may involve extending the payment arrangements and the agreement of new loan conditions. Once the terms have been renegotiated any impairment is measured using the original effective interest rate as calculated before the modification of terms and the loan is no longer considered past due. Management continuously reviews renegotiated loans to ensure that all criteria are met and that future payments are likely to occur. The loans continue to be subject to an individual or collective impairment assessment, calculated using the loan's original effective interest rate.

(l) Financial liabilities

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings or payables as appropriate.

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs.

Subsequent measurement

The measurement of financial liabilities depends on their classification, as described below:

Financial liabilities at amortised cost

(a) Customer deposits

Customer deposits include call, fixed, current account and savings deposits. The fair value of savings, deposits and current accounts with no specific maturity is assumed to be the amount payable on demand at end of the reporting period, i.e. their carrying amounts at this date. The fair values of term deposits are estimated using discounted cash flow calculations based upon interest rates currently being offered for similar contracts with maturities consistent with those being valued. The carrying amounts of variable-rate deposits approximate their fair values at the reporting date.

(b) Deposits to other banks

Deposits from other banks include inter-bank placements and deposits. The fair value of floating rate placements and overnight deposits is their carrying amount. The estimated fair value of fixed interest bearing deposits is based on discounted cash flows using prevailing money market interest rates for debts with similar credit risk and remaining maturity.

(c) Financial guarantee contracts

In the ordinary course of business, the Bank gives financial guarantees, consisting of letters of credit, guarantees and acceptances. These are written by the bank to support performance by a customer to third parties. The bank will only be required to meet these obligations in the event the customer defaults. Financial guarantee contracts are initially recognised at their fair value, and the initial fair value is amortised over the life of the financial guarantee. The financial guarantee contracts are subsequently carried at the higher of the amortised amount and the present value of any expected payment when a payment under the guarantee has become probable. These obligations are not accounted for in the statement of financial position but are disclosed as contingent liabilities unless the payment has become probable in which case the provision will be included in provisions on the statement of financial position.

Derecognition

The Bank derecognises a financial liability when the obligation under the liability is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and recognition of new liability. The difference between carrying amount of the original liability and the consideration paid is recognised in profit or loss.

(m) Provisions

A provision is recognised if, as a result of a past event, the bank has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation.

(n) Offsetting

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

(o) Repossessed property

In certain circumstances, property is repossessed following the foreclosure on loans that are in default. Repossessed properties are measured at the lower of carrying amount and fair value less costs to sell and reported within 'Non-current assets held for sale'. The bank did not have repossessed assets in the current year (2015: nil).

(p) Foreign currency

(i) Functional and presentation currency

The financial statements of the Bank are measured using the currency of the primary economic environment in which it operates (the "functional currency"). The financial statements are presented in Kenya Shillings, which is the Bank's functional and presentation currency. Except as indicated, financial information presented in Kenya Shillings has been rounded to the nearest thousand.

(ii) Transactions and balances

Transactions in foreign currencies are initially recorded by the Bank in the functional currency at the spot rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated into the functional currency at the spot rate of exchange at the reporting date. All differences arising from non-trading activities are taken to other income in profit or loss.

Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated using the exchange rates at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of initial transaction. The gain or loss arising on translation of non-monetary items measured at fair value is treated in line with the recognition of the gain or loss on the change in fair value of the item (i.e., translation differences on items whose fair value gain or loss is recognised in OCI or profit or loss are also recognised in OCI or profit or loss, respectively).

(q) Employee benefits

The bank operates a defined contribution retirement scheme for its employees. The assets of the scheme are held in a separate trustee administered fund which is funded by contributions from both the bank and employees. The bank contributions to the scheme are charged to the profit or loss in the year to which they relate. The bank also contributes to a statutory defined contribution pension scheme, the National Social Security Fund (NSSF). Contributions are determined by local statute and are currently limited to KShs 200 per employee per month. The Bank does not operate a defined benefit plan.

Short-term benefits consist of salaries, bonuses and any non-monetary benefits such as medical aid contributions and free services.

Employee entitlements to annual leave are recognised when they accrue to employees. The monetary liability for employees' accrued annual leave entitlement at the end of reporting period is recognised as an expense accrual

(r) Taxes

Current tax
Current income tax assets and liabilities are measured at the amounts expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted at the reporting date. Current income tax relating to items recognised outside profit or loss is recognised outside profit or loss. Current income tax items are recognised in correlation to the underlying transaction either in profit or loss, other comprehensive income or directly in equity.

Deferred income tax
Deferred income tax is provided using the liability method on temporary differences between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes at the reporting date. Deferred tax liabilities are recognised for all taxable temporary differences, except:

(i) where the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
(ii) in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred income tax assets are recognised for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilised except:

(i) where the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
(iii) in respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are recognised only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at each reporting date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the end of reporting period. Deferred income tax relating to items recognised outside profit or loss is recognised outside profit or loss. Deferred tax items are recognised in correlation to the underlying transaction either in profit or loss, other comprehensive income or directly in equity.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Value Added Tax
Revenues, expenses and assets are recognised net of the amount of value added tax except where the value added tax incurred on a purchase of assets or services is not recoverable from the Kenya Revenue Authority (KRA), in which case the value added tax is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable; and receivables and payables that are stated with the amount of value added tax included.

The net amount of value added tax recoverable from, or payable to tax authorities is included as part of receivables or payables in the statement of financial position.

(s) Cash and cash equivalents

Cash and cash equivalents comprise balances with maturities of less than 91 days from the date of acquisition and include cash and balances with Central Bank of Kenya (excluding restricted balances - cash reserve ratio), items in the course of collection, government securities and deposits and balances due from banking institutions. For the purpose of the statement of cash flows, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts. Cash and cash equivalents are measured at amortised cost.

(t) Dividends

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

(u) Impairment of non-financial assets

The carrying amounts of the bank's non-financial assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists then the asset's recoverable amount is estimated.

For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows (cash-generating units).An asset's recoverable amount is the higher of an asset's or cash-generating unit's (CGU) fair value less costs of disposal and its value in use.

Where the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.
In determining fair value less costs of disposal, recent market transactions are taken into account. If no such transactions can be identified, an appropriate valuation model is used.
Impairment losses are recognised in profit or loss in those expense categories consistent with the function of the impaired asset.

For assets other than goodwill an assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the bank estimates the asset's or CGU's recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceeds the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in profit or loss.

3. RISK MANAGEMENT OBJECTIVES AND POLICIES

Risk management framework

The Board of Directors (the "Board") has overall responsibility for the establishment and oversight of the Bank's risk management framework. The Board has established the Asset and Liability Committee (ALCO) and the Credit and Risk and Compliance committees, which are responsible for developing and monitoring the Bank's risk management policies in their specified areas. All board committees have both executive and non-executive members and report regularly to the Board of Directors on their activities. The Board has set up an independent compliance function reporting to the Board.

The Bank's risk management policies are established to identify and analyse the risks faced by the Bank, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions, products and services offered. The Bank, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment, in which all employees understand their roles and obligations.

The Audit committee is 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. The Audit committee is assisted in these functions by internal audit. Internal audit undertakes both regular and ad-hoc reviews of risk management controls and procedures, the results of which are reported to the audit committee.

The Bank's overall financial risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on financial performance.

(i) Non-Financial Risk Management disclosures:

(a) Strategic risk

Strategic risk is the potential for loss arising from ineffective business strategies, improper implementation of strategies, sudden unexpected changes in the Bank's environment, or from lack of adequate responsiveness to changes in the business environment.

The Bank faces several strategic risks from its environment which include:

- Macro-economic changes.
- Competition from the financial industry and organisations providing similar services.
- Technological changes.
- Key legislative and regulatory changes.
- Major political events.
- Human capital or social/demographic trends and changes.

Who manages strategic risk

The Board of Directors is responsible for the overall direction and implementation of the Bank's strategy for purposes of enhancing shareholders' value. It has however delegated the implementation aspects to the Chief Executive Officer (CEO) and the Senior Management team who execute strategy.

Additionally, the Board of Directors, with support from CEO and Senior Management, develops and implements a new strategic cycle every 3 years to cater for the next plan period for the bank.

Managing strategic risk

The CEO supported by Senior Management executes the approved strategic objectives on a day to day basis and actively monitors business performance against these objectives through periodic reviews. The business carries out business performance reviews periodically but at a minimum on a monthly basis against pre-determined milestones and key performance indicators. The reviews are reported to the Bank's Strategy Committee for information and advice, or action where significant deviations occur. These reports include identifying the key risks faced by the Bank and how they are being managed.

The Bank's CEO co-ordinates an annual strategic planning process for Senior Management intended to align individual business strategies to overall enterprise level strategies as approved by the Board of Directors. They include a comprehensive review and evaluation of the business strategies, competitive positioning, financial performance, initiatives of strategic executions and key business risks.

Each head of department is responsible for directing strategies in their respective departments and ensure such strategies are aligned to the overall strategy of the Bank. They are also responsible for monitoring, managing and reporting on the effectiveness of their departmental strategic objectives, and the progress they have made towards achieving these. They oversee the direction and trends of significant current and emerging risks related to their departments and that mitigating actions are taken where appropriate.

The Bank's financial and non-financial performance, including its key risks, is reported to the Board of Directors on a quarterly basis for review and action, where necessary.

(b) Operational risk

Operational risk is the potential for loss arising from inadequate or failed processes, systems, people or external events. Operational risk is embedded in all business activities including the practices for managing other risks e.g. credit, market and liquidity risks and arises in the normal course of business. The impact of these risks can result in significant financial loss, reputational harm or regulatory censure and penalties.

The Bank categorizes its operational risk into the following seven loss event categories.

- Internal frauds-Losses due to acts of a type intended to defraud, misappropriate property or circumvent regulations, the law or Bank policy, excluding diversity and discrimination events, which involves at least one internal party.
- External risks-Losses due to acts of a type intended to defraud, misappropriate property or circumvent the law, by a third party.
- Employment Practices and workplace safety-Losses arising from acts inconsistent with employment, health or safety laws or agreements, from payment of personal injury claims, or from diversity and discrimination events.
- Clients, products and business practices- Losses arising from an unintentional or negligent failure to meet a professional obligation to specific clients (including fiduciary and suitability requirements), or from improper business or market practices, from product flaws, or from disputes over performance of advisory activities.
- Damage to physical assets -Losses arising from loss or damage to physical assets from natural disaster or external events such as terrorism or vandalism.
- Business disruptions and system failures- Losses arising from disruption of business or system failures (i.e. hardware, software, network, telecommunication).
- Execution, delivery and process management- Losses from failed transaction processing or process management.

Who manages operational risk

The Board of Directors and the CEO have direct responsibility for the management and control of operational risk throughout the Bank. Bank Management and the Risk and Compliance Committee of the Board coordinate, facilitate, and oversee the effectiveness and integrity of the Bank's operational risk management framework while Internal Audit and the Bank's external auditors provide independent assurance and challenge across all business functions in respect of the integrity and effectiveness of this framework.

The staff and management working within or managing operational branch are responsible for the day-to-day management and control of operational risk within their businesses.

The Bank's structure is designed with operational risk in mind. As an example, the Bank maintains specialised functions that manage business continuity, human resources, compliance, administration and procurement, security services and organisational change management.

Senior Management in turn reports to the Risk and Compliance Committee on all the key risks detailing corrective action initiatives to address the risks.

How the Bank manages operational risk

The Bank's operational risk management framework is designed to ensure key risk exposures are proactively managed within acceptable levels. It incorporates best practice and meets regulatory guidelines through:

(i) Governance and Policy: Management reporting and organisational structures emphasise accountability, ownership and effective oversight of each business unit's operational risk exposures. Furthermore, the Board Risk and Compliance Committee and Senior Management's expectations are guided by the Bank's policies.

(ii) Risk and Control Self Assessment: Through quarterly comprehensive assessments of the Bank's key operational risk exposures and internal control environments, Senior Management is able to evaluate its effectiveness and implement appropriate additional corrective actions where needed, to offset or reduce unacceptable risks.

(iii) Operational Risk Event Monitoring: The Bank's policies require that internal and industry-wide operational risk events are identified, tracked, and reported to the right levels to ensure they are analysed appropriately and corrective action taken in a timely manner.

(iv) Risk Reporting: Significant operational risk issues together with measures to address them are tracked, assessed and reported to Senior Management and the Board of Directors to ensure accountability is maintained over current and emerging risks.

(v) Insurance: A comprehensive portfolio of insurance and other risk mitigating arrangements are maintained with the type and level of insurance coverage continually assessed to ensure both risk tolerance and statutory requirements are met. This includes identifying opportunities for transferring our risks to third parties where appropriate.

(vi) Technology and Information: The key risks here revolve around our reliance on technology and information and their impact on operational availability, integrity and security of our information data and systems / infrastructure. Our risk framework and programs use best practice and include robust threat and vulnerability assessments, as well as security and change management practices.

(vii) Business Continuity Management: Business Continuity Management supports the ability of Senior Management to continue to operate their businesses, and provide customer access to products and services in times of disruptions. This program includes formal crisis management protocols and continuity strategies. All key functions of the Bank are regularly tested to confirm their contingency plan designs are able to respond to a broad range of potentially disruptive scenarios.

(viii) Project Management: We have a disciplined project management program to ensure projects are implemented successfully in a planned and systematic manner and are monitored by Senior Management.

(ix) Financial Crime: Safeguarding customers, employees, assets, information, and preventing plus detecting fraud as well as other forms of financial crime.

(b) Compliance (policy/legal/regulatory) risk:

Compliance risk refers to the potential of loss arising from non-compliance with laws, rules, regulations, obligatory practices/standards, contractual agreements, or other legal requirements including the effectiveness of preventing and handling litigation. It is not actively or deliberately pursued in the expectation of a return but occurs in the normal course of our business operations.

The Bank strives for high standards of compliance with policy, legal and regulatory requirements in all business dealings and transactions. As a result of high financial business regulation, the Bank is exposed to regulatory and legal risks in virtually all our activities including those from the regulator (Central Bank of Kenya). Failure to comply with regulation not only poses a risk of censure and litigation but may lead to serious reputational risks. Financial penalties and costs related to litigation may also substantially erode the Bank's earnings.

Who manages regulatory and legal risk
Business unit heads have the responsibility and accountability of managing regulatory and legal risks relating to their units on a day to day basis with assistance/advice and oversight from Legal and Risk & Compliance Departments. The Compliance Department identifies and monitors the key risks and is responsible for ensuring that the day to day business controls comply with applicable legislation and are in line with best practice. Internal and external legal counsel work closely with business units to identify areas of existing and potential regulatory/legal risks and actively manage them to reduce the Bank's exposures.

Senior Management and the Board Risk and Compliance Committee receive the Risk and Compliance Department's opinions/reports on the strength of the Bank's Compliance Risk Framework to enable them to determine whether it is under control and where not, tracks significant corrective actions to finality. Additionally, significant exposures under "for or against" litigation are reviewed periodically.

How the Bank manages regulatory and legal risks
The Board of Directors and Senior Management through the Bank's Code of Conduct sets the "tone at the top" for a culture of integrity beginning with concern for what is right (including compliance to policy and the law) in all our business considerations, decisions and actions. All employees are required to attest to this Code when they join the Bank and thereafter periodically, indicating that they have understood it and that they have complied with its provisions.

Departmental Heads manage day-to-day regulatory and legal risk primarily by implementing appropriate policies, procedures and controls already in place. The Legal and Risk and Compliance departments assist them by:

(i) Communicating and advising on regulatory and legal requirements, and emerging compliance obligations to each business unit as required.

(ii) Implementing or assisting with reviews of policies, procedures and training. They do this by independently monitoring and testing for adherence to certain regulatory and legal requirements, as well as the effectiveness of associated key internal controls.

(iii) Tracking, escalating and reporting significant issues and findings to Senior Management and the Board of Directors.

(iv) Liaising with regulators, as appropriate, regarding new or revised legislation, regulatory guidelines or regulatory examinations.

(c) Compliance (policy/legal/regulatory) risk

The Bank has developed robust policies, programs and systems designed to manage the Know Your Customer (KYC) and Anti-Money Laundering (AML) risks as envisaged in the Proceeds of Crime & Anti-Money Laundering Act and Regulation. The Bank has upgraded account opening requirements and customer transaction screening procedures to meet the stringent requirements stipulated therein. Reporting of suspicious and other transactions is done as required by the law and policy standards. Appropriate periodic due diligence is carried out on correspondent banking counterparties, and KYC/AML obligations to them are met continuously. All staff are trained when they join the Bank and periodically certified as such in line with the law.

(d) Reputational risk

Reputational risk is the potential that negative stakeholder impressions or perceptions, whether true or not, regarding the Bank's business practices, actions or inactions, will or may cause a decline in its value, brand, liquidity or customer base. It is a resultant effect of all other risks highlighted in this report and therefore cannot be managed in isolation. Therefore, when all the other risks are managed well, this risk is substantially minimised. The Bank's reputation is an invaluable business asset essential for optimising shareholder value, hence it is constantly under threat. Our services and activities, including new ones, ensure the Bank's good reputation is always maintained or enhanced.

Who manages reputational risk
Ultimate responsibility for this risk rests with the Board of Directors and Senior Management who examine the Bank's reputational risk as part of their regular mandate. Their purpose is to ensure that all products, services, and activities meet the Bank's reputational risk objectives in line with the Board of Director's approved appetite. Nonetheless, every employee and representative of the Bank has a responsibility to contribute positively to our reputation. Senior Management and the Board of Directors receive periodic reports on the assessment of the Bank's reputational risk exposures that arise from its business (including sales and service) activities so as to form a view on associated risks and implement corrective actions.

How the Bank manages reputational risk
Every employee and representative of the Bank has a responsibility to contribute in a positive way towards our reputation. This is through ensuring ethical practices are always adhered to, interactions with all stakeholders are positive, and the Bank complies with applicable policies, legislation, and regulations. Reputational risk is most effectively managed when every individual works continuously to protect and enhance the Bank's reputation.

(i) Financial Risk Management disclosures:

The Bank has exposure to credit risk, liquidity risk and market risks from its use of financial instruments.

(a) Credit risk

Credit risk is the risk of financial loss to the Bank if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Bank's loans and advances to customers and other banks and investment securities. For risk management reporting purposes, the Bank considers and consolidates all elements of credit risk exposure.

(i) Management of credit risk

The Board of Directors has delegated responsibility for the management of credit risk to the credit committee. A separate credit department, reporting to the credit committee, is responsible for oversight of the Bank's credit risk, including:

- Formulating credit policies in consultation with business units, covering collateral requirements, credit assessment, risk grading and reporting, documentary and legal procedures, and compliance with regulatory and statutory requirements.
- Establishing the authorisation structure for the approval and renewal of credit facilities. Authorisation limits are allocated to business unit Managers. Larger facilities require approval by head office credit committee or the Board of Directors, as appropriate.
- Reviewing and assessing credit risk. Credit risk function assesses all credit exposures in excess of designated limits, prior to facilities being committed to customers by the business unit concerned. Renewals and reviews of facilities are subject to the same review process.
- Limiting concentrations of loans and advances to counterparties, geographies and business sectors and by issuer, credit rating band, market liquidity and country (for investment securities).
- Developing and maintaining the Bank's risk gradings in order to categorise exposures according to the degree of risk of financial loss faced and to focus management on the attendant risks. The risk grading system is used in determining where impairment provisions may be required against specific credit exposures. The current risk grading framework consists of five grades reflecting varying degrees of risk of default and the availability of collateral or other credit risk mitigation. The responsibility for setting risk grades lies with the final approving executive/committee as appropriate. Risk grades are subject to regular reviews by credit risk management department.
- Reviewing compliance of business units with agreed exposure limits, including those for selected industries, country risk and product types. Regular reports are provided to credit committee on the credit quality of local portfolios and appropriate corrective action is taken.
- Providing advice, guidance and specialist skills to business units to promote best practice throughout the Bank in the management of credit risk.

The Bank monitors concentration of risk by economic sector in line with the Bank's set limits per the sector. An analysis of concentrations within the loans and advances to customers, and off balance sheet items is as follows:

(a) Loans and advances to customers – net

	2016		2015	
	KShs'000	**%**	**KShs'000**	**%**
Agriculture	1,966,831	31	1,647,370	25
Manufacturing	358,874	6	321,165	5
Wholesale and retail	79,902	1	620,093	9
Transport and communication	337,102	5	540,324	8
Real estate	642,525	10	888,736	13
Social community and personal services	440,859	7	725,197	11
Business services	103,868	2	341,198	6
Other	2,437,468	38	1,565,423	23
	6,367,429	100	6,649,506	100

(b) Items not reported in statement of financial position (letters of credit and guarantees)

	2016 KShs'000	%	2015 KShs'000	%
Agriculture	24,979	3	15,155	2
Manufacturing	14,010	2	8,500	2
Wholesale and retail	5,990	1	3,634	1
Transport and communication	162,348	22	98,500	19
Real estate	18,033	2	10,941	2
Social community and personal services	20,520	3	12,450	2
Business services	190,862	26	115,800	40
Other	298,033	41	180,823	33
	734,775	100	445,803	100

(ii) Maximum exposure to credit risk before collateral held

	2016 KShs'000	%	2015 KShs'000	%
Credit exposures:				
Items reported in the statement of financial position:				
Balances held with Central bank	513,566	5	732,220	7
Deposits and balances due from banking institutions	464,889	4	73,624	1
Loans and advances to customers - net	6,899,388	66	6,649,506	66
Government securities held to maturity	1,932,498	18	2,118,498	22
	9,810,341	93	9,573,848	96
Items not reported in the statement of financial position:				
Letters of credit	206,854	2	24,441	-
Letters of guarantees and performance bonds	527,922	5	372,522	4
Foreign exchange forward contracts	61,558	-	48,840	-
	796,334	7	445,803	4
	10,606,675	100	10,019,651	100

(iii) Classification of loans and advances

	2016 KShs'000	2015 KShs'000
Individually impaired		
Grade 5: Impaired (loss)	389,210	324,445
Grade 3 & 4: Impaired ((substandard and doubtful)	346,931	408,963
Gross amount	736,141	639,988
Allowance for impairment (note 17)	(366,021)	(417,999)
Carrying amount	370,120	221,989

	2016 KShs'000	2015 KShs'000
Past due but not impaired		
Watch (30-90 days)	3,452,744	2,191,179
Allowance for impairment (note 17)	(165,938)	(21,211)
	3,286,806	2,169,968
Neither past due nor impaired		
Grade 1: Normal	2,710,503	4,257,549
Total carrying amount	6,367,429	6,649,506

Impaired loans and advances

Impaired loans and securities are loans and advances for which the Bank determines that it is probable that it will be unable to collect a part/whole of principal and interest due according to the contractual terms of the loan/securities agreement(s). These loans are graded 3, 4 and 5 in the Bank's internal credit risk grading system.

Past due but not impaired loans

Loans and securities where contractual interest or principal payments are past due but the Bank believes that impairment is not appropriate on the basis of the level of security/collateral available and or the stage of collection of amounts owed to the Bank. These exposures are categorised as watch accounts in line with Central Bank of Kenya prudential guidelines and a general provision at 3% is made and appropriated under statutory reserves.

Loans and advances that are neither past due nor impaired.

The Bank classifies loans and advances under this category for those exposures that are upto date and in line with contractual agreements. Such loans would have demonstrated financial conditions, risk factors and capacity to repay that are acceptable. These exposures will normally be maintained largely within approved product programs and with no signs of impairment or distress. These exposures are categorised as normal accounts in line with Central Bank of Kenya (CBK) prudential guidelines and a general provision at 1% is made and appropriated under statutory reserves.

Loans with renegotiated terms

Loans with renegotiated terms are loans that have been restructured due to deterioration in the borrower's financial position and where the Bank has made concessions that it would not otherwise consider. Once the loan is restructured it remains in this category independent of satisfactory performance after restructuring.

	2016 KShs'000	2015 KShs'000
Renegotiated loans	817,382	136,942

(iv) Allowances for impairment

The Bank sets aside from its income an allowance for impairment losses that represents its estimate of incurred losses in its loan portfolio. The main components of this allowance are a specific loss component that relates to each defaulting borrower, and a collective loan loss allowance established for groups of homogeneous assets in respect of losses that have been incurred but have not been identified on loans subject to individual assessment for impairment.

(v) Write-off policy

The Bank writes off a loan/security balance (and any related allowances for impairment losses) when the credit committee determines that the loans/securities are uncollectible. This determination is reached after considering information such as the occurrence of significant changes in the borrower/issuer's financial position such that the borrower/issuer can no longer pay the obligation, or that proceeds from collateral will not be sufficient to pay back the entire exposure. For smaller balance standardised loans, charge off decisions generally are based on a product specific past due status.

Set out below is an analysis of the gross and net (of allowances for impairment) amounts of individually impaired assets by risk grade.

	Loans and advances to customers	
	Gross KShs'000	**Net KShs'000**
31 December 2016		
Grade 5: Individually impaired	389,215	133,768
Grade 3 & 4: Individually impaired	346,931	236,353
Total	736,146	370,125
31 December 2015		
Grade 5: Individually impaired	324,445	37,510
Grade 3 & 4: Individually impaired	408,963	184,479
Total	733,408	221,989

(vi) Collateral held on loans and advances

The Bank holds collateral against loans and advances to customers, non-insiders as well as insiders in the form of mortgage interests over property, other registered securities over assets, and guarantees. Estimates of fair value are based on the value of collateral assessed at the time of borrowing, and generally are not updated except when a loan is individually assessed as impaired. Collateral generally is not held over loans and advances to Banks, except when securities are held as part of reverse repurchase and securities borrowing activity. Collateral usually is not held against investment securities, and no such collateral was held at 31 December 2016.

An estimate of the fair value of collateral and other security enhancements held against past due and impaired loans and advances is shown below. The bank has the obligation to return the securities to the customers upon settlement of the obligation. There are no other significant terms and conditions associated with the use of the collateral.

Collateral held on loans and advances

	2016 KShs'000	2015 KShs'000
Against individually impaired		
Property	408,533	293,500
Other*	197,516	302,637
	606,049	596,137
Against collectively impaired		
Property	3,083,408	3,391,749
Other*	216,427	194,784
	3,299,835	3,586,533
Against past due but not impaired		
Property	3,453,755	2,342,536
Other*	300,326	523,900
	3,474,081	2,866,436
Total	7,379,965	7,049,106

*Other includes log books, cash cover, debentures and directors' guarantees.

(vii) Settlement risk

The Bank's activities may give rise to risk at the time of settlement of transactions and trades. Settlement risk is the risk of loss due to the failure of a Bank to honour its obligations to deliver cash, securities or other assets as contractually agreed.

For certain types of transactions the Bank mitigates this risk by conducting settlements through a Settlement/ clearing agent to ensure that a trade is settled only when both parties have fulfilled their contractual settlement obligations. Settlement limits form part of the credit approval/limit monitoring process described earlier. Acceptance of settlement risk on free settlement trades requires transaction specific or counterparty specific approvals from the Bank's board of directors.

(b) Liquidity risk

The Bank is exposed to the risk that it will encounter difficulty in raising funds to meet commitments associated with customer requirements. Liquidity risk is addressed through the following measures:

(i) Management of liquidity risk

The Bank's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Bank's reputation. The Asset and Liability Committee (ALCO), a management committee, is tasked with the responsibility of ensuring that all foreseeable funding commitments and deposits withdrawals can be met when due and that no difficulties in meeting financial liabilities as they fall due are encountered.

The Bank's Treasury department maintains a portfolio of short-term liquid assets, largely made up of short-term liquid investment securities, loans and advances to banks and other inter-bank facilities, to ensure that sufficient liquidity is maintained within the Bank as a whole.

(ii) Source of funding

The Bank has an aggressive strategy aimed at increasing the customer base and maintains a diversified and stable base comprising retail and corporate customers. The Bank also borrows from the interbank market through transactions with other Banks and from the wholesale market through transactions with pension funds and insurance companies for short term liquidity requirements.

(iii) Exposure to liquidity risk

The key measure used by the Bank for managing liquidity risk is the ratio of net liquid assets to deposits from customers. For this purpose, net liquid assets are considered as including cash and cash equivalents and investment grade debt securities for which there is an active and liquid market less any deposits from banks, debt securities issued, other borrowings and commitments maturing within the next month.

Details of the reported Bank's ratios of net liquid assets to customer deposits at the reporting date and during the reporting period were as follows:

	2016	2015
At 31 December	24%	34%
Average for the period	29%	36%
Maximum for the period	39%	41%
Minimum for the period	22%	29%
Statutory Minimum requirement	20%	20%

Liquidity risk based on undiscounted cash flows

The table overleaf represents the cash flows payable by the Bank under non-derivative financial instruments by remaining contractual maturities at the reporting date. The amounts disclosed in the table are the contractual undiscounted cash flows, since the Bank manages the inherent liquidity risk based on expected undiscounted cash inflows.

Liquidity risk based on undiscounted cash flows

At 31 December 2016	Upto 3 months KShs'000	3-6 months KShs'000	6-12 months KShs'000	'1-3 years KShs'000	3-5 years KShs'000	Over 5 years KShs'000	Total KShs'000
FINANCIAL LIABILITIES							
Customer deposits	6,098,029	1,653,513	316,398	-	-	-	8,067,940
Financial guarantee contracts	796,334	-	-	-	-	-	796,334
Other liabilities	71,894	-	-	-	-	-	71,894
Due to banking institutions	102,500	-	-	-	-	-	102,500
	7,068,757	1,653,513	316,398	-	-	-	9,038,668
FINANCIAL ASSETS							
Cash balances	309,792	-	-	-	-	-	309,792
Bank balances with the Central Bank of Kenya	513,568	-	-	-	-	-	513,568
Deposits and balances due from banking institutions	464,889	-	-	-	-	-	464,889
Financial Derivative	58	-	-	-	-	-	58
Loans and advances to customers	2,362,502	404,466	1,221,752	1,646,822	1,017,977	347,666	7,001,185
Other assets	102,726	-	-	-	-	-	102,726
Government securities	171,377	67,528	-	-	893,890	923,331	2,056,126
	3,924,912	471,994	1,221,752	1,646,822	1,911,867	1,270,997	10,448,344
Net liquidity gap	(3,143,845)	(1,181,519)	905,354	1,646,822	1,911,867	1,270,997	1,409,676
At 31 December 2015							
FINANCIAL LIABILITIES							
Customer deposits	6,479,633	956,114	200,400	200	-	-	7,636,347
Other liabilities	86,839	-	-	-	-	-	86,839
Financial guarantee contracts	445,803	-	-	-	-	-	445,803
Due to banking institutions	491,905	-	-	-	-	-	491,905
	7,504,180	956,114	200,400	200	-	-	8,660,894
FINANCIAL ASSETS							
Cash balances	286,342	-	-	-	-	-	286,342
Bank balances with the Central Bank of Kenya	732,220	-	-	-	-	-	732,220
Financial Derivative	54	-	-	-	-	-	54
Deposits and balances due from banking institutions	73,624	-	-	-	-	-	73,624
Other assets	288,648	-	-	-	-	-	288,648
Loans and advances to customers	2,692,655	418,474	1,550,221	1,417,701	804,899	359,707	7,243,657
Government securities	154,846	29,051	-	430,953	965,920	730,802	2,311,572
	4,228,389	447,525	1,550,221	1,848,654	1,770,819	1,090,509	10,936,117
Net liquidity gap	(3,275,791)	(508,589)	1,349,821	1,848,454	1,770,819	1,090,509	2,275,223

(c) Market risks

Market risk is the risk that changes in market prices, such as interest rate, equity prices, foreign exchange rates and credit spreads (not relating to changes in the obligor's / issuer's credit standing) will affect the Bank's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return on risk.

Management of market risks

Overall authority for market risk is vested in Asset and Liability Committee. The senior management is responsible for the development of detailed risk management policies (subject to review and approval by the Board) and for the day-to-day review of their implementation.

Exposure to interest rate risk – non-trading portfolios

The Bank is exposed to various risks associated with the effects of fluctuation in the prevailing levels of market interest rates on financial position and cash flows. The assets and liability committee closely monitors the interest rates trends to minimize the potential adverse impact of interest rate changes. The table overleaf summarizes the exposure of interest rate risk at the reporting date. The Bank maintains an appropriate mix of fixed and floating rates deposit base. Interest rates on advances to customers and other risk assets are either pegged to the Bank's base lending rate or Treasury bill rate. The base rate is adjusted from time to time to reflect the cost of deposits.

Interest rates on customer deposits are negotiated between the Bank and the customer with the Bank retaining the discretion to adjust the rates in line with changes in market trends. The interest rates, therefore, fluctuate depending on the movement in the market interest rates. The Bank also invests in fixed interest rate instruments issued by the Government of Kenya through the Central Bank of Kenya.

The matching and controlled mismatching of the maturities and interest rate of assets and liabilities is fundamental to the management of the Bank. It is unusual for a Bank's assets and liabilities to be completely matched due to the nature of business terms and types.

The Bank is exposed to various risks associated with the effects of fluctuation in the prevailing levels of market interest rates on its financial position and cash flows.

Interest rate risks

The Assets and Liability Committee closely monitors the interest rate trends to minimize the potential adverse impact of interest rate changes. The table overleaf summarises the exposure to interest rate risk at the reporting date whereby financial assets and liabilities at carrying amounts are categorized by the earlier of contractual re-pricing and maturity dates.

Interest rate risks

At 31 December 2016	Upto 3 months KShs'000	3-6 months KShs'000	6-12 months KShs'000	'1-3 years KShs'000	3-5 years KShs'000	Over 5 years KShs'000	Total KShs'000
FINANCIAL LIABILITIES							
FINANCIAL ASSETS	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000
Cash balances	-	-	-	-	-	309,792	309,792
Bank balances with the Central Bank of Kenya	-	-	-	-	-	513,568	513,568
Deposits and balances due from banking institutions	464,889	-	-	-	-	-	464,889
Loans and advances to customers	2,577,733	425,073	1,322,601	1,391,010	1,182,971	-	6,899,388
Government securities	171,377	36,961	-	737,126	987,034	-	1,932,498
Total financial assets	3,213,999	462,034	1,322,601	2,128,136	2,170,005	823,360	10,120,135
FINANCIAL LIABILITIES							
Customer deposits	3,451,611	1,640,745	303,651	-	-	2,603,995	8,000,002
Due to banking institutions	102,500	-	-	-	-	-	102,500
Total financial liabilities	3,554,111	1,640,745	303,651	-	-	2,603,995	8,102,502
Interest sensitivity gap	(340,112)	(1,178,711)	1,018,950	2,128,136	2,170,005	(1,780,635)	2,017,633
At 31 December 2015							
FINANCIAL ASSETS							
Cash balances	-	-	-	-	-	286,342	286,342
Bank balances with the Central Bank of Kenya	-	-	-	-	-	732,220	732,220
Deposits and balances due from banking institutions	73,624	-	-	-	-	-	73,624
Loans and advances to customers	2,692,655	418,474	1,550,221	1,417,701	1,164,606	-	7,243,657
Government securities	154846	9051	-	1,288,953	665,648	-	2,118,498
Total financial assets	2,921,125	427,525	1,550,221	2,706,654	1,830,254	1,018,562	10,454,341
FINANCIAL LIABILITIES							
Customer deposits	4,632,603	945,345	200,400	200	-	1,804,030	7,582,578
Due to banking institutions	491,905	-	-	-	-	-	491,905
Total financial liabilities	5,124,508	945,345	200,400	200	-	1,804,030	8,074,483
Interest sensitivity gap	(2,203,383)	(517,820)	1,349,821	2,706,454	1,830,254	(785,468)	2,379,858

Interest rate risk stress test - Increase/decrease of 1% in Net Interest Margin

Interest rate risk sensitivity analysis is based on the following assumptions

- Changes in the market interest rates affect the interest income or expenses of variable financial instruments.
- Changes in market interest rates only affect interest income or expenses in relation to financial instruments with fixed rates if these are recognised at fair value.
- The interest rate changes will have significant effect on interest sensitive assets and liabilities and hence simulation modelling is applied to net interest margins.
- Interest rates of all maturities move by the same amount and, therefore, do not reflect the potential impact on net income of some rates changing while others remain unchanged.
- The projections make other assumptions including that all positions are held to maturity.

With all other variables held constant, the effect of 1% increase or decrease in interest rates on financial assets and liabilities on the profit before tax and equity would be as follows:

ASSETS	2016 Carrying amount KShs'000	1% increase	1% decrease	2015 Carrying amount KShs'000	1% increase	1% decrease
Deposits and balances due from banks	464,889	4,649	(4,649)	73,624	736	(736)
Held to maturity investments	1,932,498	19,325	(19,325)	2,118,498	21,185	(21,185)
Loans and advances to customers	6,367,429	63,674	(63,674)	6,649,506	66,495	(66,495)
		87,648	(87,648)		88,416	(88,416)
LIABILITIES & EQUITY						
Deposits and balances due to banks	102,500	1,025	(1,025)	491,905	4,919	(4,919)
Customers' deposits	5,396,007	53,960	(53,960)	5,778,549	57,785	(57,785)
		54,985	(54,985)		62,704	(62,704)
Effect on profit before tax		32,663	(32,663)		25,712	(25,712)
As percentage of profit before tax (%)		20%	(20%)		10%	(10%)
Effect on equity		22,864	(22,864)		17,998	(17,998)
As percentage of equity (%)		1%	(-1%)		1%	(-1%)

Overall non-trading interest rate risk positions are managed by treasury, which uses investment securities, advances to banks, deposits from banks and derivative instruments to manage the overall position arising from the Bank's non-trading activities.

Currency risk

The Bank operates wholly in Kenya and its assets and liabilities are reported in the local currency. The Bank's currency risk is managed within the Central Bank of Kenya exposure guideline of 20% of core capital. The Bank's management monitors foreign currency exposure on a daily basis.

The table below summarises the Bank's exposure to foreign currency exchange rate risk at 31 December. Included in the table below are the Bank's financial instruments at carrying amounts categorised by currency.

At 31 December 2016	**USD KShs'000**	**GBP KShs'000**	**EURO KShs'000**	**Others KShs'000**	**Total KShs'000**
FINANCIAL ASSETS					
Cash balances	10,251	477	2,609	6,212	19,549
Bank balances with Central Bank of Kenya	33,898	1,665	7,615	659	43,837
Deposits and balances due from banking institutions	192,790	55,162	117,915	92,404	458,271
Loans and advances	281,824	104	63,933	-	345,861
Total financial assets	518,763	57,408	192,072	99,275	867,518
FINANCIAL LIABILITIES					
Customer deposits	353,540	215	74,359	-	428,114
Total financial liabilities	353,540	215	74,359	-	428,114
Net items reported in statement of financial position	165,223	57,193	117,713	99,275	439,404
At 31 December 2015					
Total financial assets	326,967	12,193	80,717	17,179	437,056
Total financial liabilities	194,426	1,314	44,665	20	240,425
Net items reported in statement of financial position	(29,203)	55,879	73,048	99,255	198,979

Foreign currency risk stress test-appreciation/depreciation of Kenya shilling by 10%

The foreign exchange risks sensitivity analysis is based on the following assumptions:

- Foreign exchange exposures represent net currency positions of all currencies other than the Kenya shilling
- The currency risk sensitivity analysis is based on the assumption that all net currency positions are highly effective.
- The base currency in which Transnational Bank's business is transacted is Kenya shilling.

The next table summarises the estimated impact of a 10% decline/appreciation of the Kenya Shilling.

Impact of a 10% decline/appreciation of the Kenya Shilling

	2016 Carrying amount KShs'000	2016 10% appreciation	2016 10% depreciation	2015 Carrying amount KShs'000	2015 10% appreciation	2015 10% depreciation
Foreign Currency Assets:						
USD	518,763	(51,876)	51,876	326,967	(32,697)	32,697
GBP	57,408	(5,741)	5,741	12,193	(1,219)	1,219
EURO	192,072	(19,207)	19,207	80,717	(8,072)	8,072
Others	99,275	(9,928)	9,928	17,179	(1,718)	1,718
		-86,752	86,752		(43,706)	43,706
Foreign Currency Liabilities:						
USD	353,540	35,354	(35,354)	194,426	19,443	(19,443)
GBP	215	22	(22)	1,314	131	(131)
EURO	74,359	7,436	(7,436)	44,665	4,467	(4,467)
Others		-	-	20	2	(2)
		42,812	(42,812)		24,043	(24,043)
Effect on profit before tax		(43,940)	43,940		(19,663)	19,663
As percentage(%) of profit before tax		(27.70%)	27.70%		(7.80%)	7.80%
Effect on equity		(30,758)	30,758		(13,764)	13,754
As percentage(%) of equity		(1.48%)	1.48%		(0.68%)	0.68%
Adjusted core capital		2,051,161	2,112,677		2,019,025	2,046,553
Risk weighted assets (RWA)		10,341,684	10,403,200		10,438,927	10,466,455
Adjusted core capital to RWA		20.0%	20.3%		19.4%	19.6%
Adjusted core capital		2,068,737	2,095,101		2,026,890	2,038,688

Exposure to other market risks – non-trading portfolios

Credit spread risk (not relating to changes in the obligor/issuer's credit standing) on debt securities held by treasury and equity price risk is subject to regular monitoring by ALCO but is not currently significant in relation to the overall results and financial position of the Bank.

(d) Fair value of financial assets and liabilities

(i) Fair value hierarchy

The uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique

- Level 1 – Quoted prices in active markets for identical assets or liabilities. This level includes equity securities and debt instruments listed on the Nairobi Securities exchange.
- Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly as prices or indirectly as derived from prices.
- Level 3 – inputs for the assets or liabilities that are not based on observable market data (unobservable inputs). This level includes equity investments and debt instruments with significant unobservable components

The following describes the methodologies and assumptions used to determine fair values for those financial instruments which are not already recorded at fair value in the financial statements:

Type of Financial Instrument	Valuation technique	Significant Observable Input
Level 1		
Investment securities-Held to maturity-Treasury bonds	Fair value at closing rate	Quoted prices in active market
Level 2		
Cash and cash equivalent	Discounted cash flows	Fixed rate and fixed time period
Loans and advances to customers	Discounted cash flows	Market interest rate
Financial derivatives	Forward pricing model	Fixed rate and fixed time period
Financial liabilities		
Deposits from customers-	Discounted cash flow	Fixed rate and fixed time period

(ii) Fair value hierarchy

The following table shows an analysis of financial instruments recorded at fair value by level of the fair value hierarchy.

As at 31 December 2016	Level 1 KShs'000	Level 2 KShs'000	Level 3 KShs'000	Total KShs'000
Financial assets fair value disclosures				
Cash balances and deposits in financial institutions	-	464,889		464,889
Derivatives	-	58	-	58
Loans and advances		7,001,185		7,001,185
Held-to-maturity-Treasury bonds	2,056,126	-	-	2,056,126
Accounts receivable	-	102,726	-	102,726
Total financial assets at fair value	2,056,126	7,568,858	-	9,624,984
Financial liabilities fair value disclosures				
Deposits from customers	-	(8,067,940)	-	(8,067,940)
Other liabilities	-	(71,894)	-	(71,894)
Total liabilities at fair value	-	(8,139,834)	-	(8,139,834)
As at 31 December 2015				
Cash balances and deposits in financial institutions	-	73,624	-	73,624
Derivatives	-	54	-	54
Loans and advances	-	7,243,657	-	7,243,657
Held-to-maturity-Treasury bonds	2,311,572	-	-	2,311,572
Accounts receivable	-	288,648	-	288,648
Total financial assets at fair value	2,311,572	7,605,983	-	9,917,555
Financial liabilities fair value disclosures				
Deposits from customers	-	(7,636,347)	-	(7,636,347)
Other liabilities	-	(86,839)	-	(86,839)
Total liabilities at fair value	-	(7,723,186)	-	(7,723,186)

There were no transfers between levels 1, 2 and 3 in the period (2015: Nil).

Valuation methods and assumptions
The fair value of the financial assets and liabilities is included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.

The following methods and assumptions were used to estimate the fair values. The fair values of the quoted notes and bonds are based on price quotations at the reporting date. The fair value of unquoted instruments, loans from banks and other financial liabilities, obligations under finance leases, as well as other non-current financial liabilities is estimated by discounting future cash flows using rates currently available for debt on similar terms, credit risk and remaining maturities. In addition to being sensitive to a reasonably possible change in the forecast cash flows or the discount rate, the fair value of the equity instruments is also sensitive to a reasonably possible change in the growth rates.

There were no financial assets or financial liabilities measured at fair value on level 3 fair value measurement (2015: none).

(e) Classification of financial instruments

The table below sets out the Bank's classification of each class of financial assets and liabilities. The amounts in the table are the carrying amounts of the financial instruments at the reporting date

At 31 December 2016:	**Held to maturity KShs'000**	**Loans and receivables KShs'000**	**Available for sale financial assets KShs'000**	**Fair value through profit or loss KShs'000**	**Other liabilities at amortized cost KShs'000**	**Carrying amount KShs'000**
Assets						
Cash and balances with Central Bank of Kenya	-	823,358	-	-	-	823,358
Deposits and balances due from banking institutions	-	464,889	-	-	-	464,889
Financial derivatives	-	-	-	58	-	58
Held to maturity investments	1,932,498	-	-	-	-	1,932,498
Loans and advances to customers	-	6,367,429	-		-	6,367,429
Other assets	-	102,726	-	-	-	102,766
Total assets	1,932,498	7,758,402	-	58	-	9,690,958
Liabilities						
Balances due to banks and financial institutions	-	-	-	-	102,501	102,501
Deposits from customers	-	-	-		8,000,002	8,000,002
Other liabilities	-	-	-	-	71,894	71,894
Total liabilities	-	-	-	-	8,174,397	8,174,397

At 31 December 2015:	Held to maturity KShs'000	Loans and receivables KShs'000	Available for sale financial assets KShs'000	Fair value through profit or loss KShs'000	Other liabilities at amortized cost KShs'000	Carrying amount KShs'000
Cash and balances with Central Bank of Kenya	-	1,018,562	-	-	-	1,018,562
Deposits and balances due from banking institutions	-	73,624	-		-	73,624
Financial derivatives	-	-	-	54	-	54
Held to maturity investments	2,118,498	-	-		-	2,118,498
Loans and advances to customers	-	6,649,506	-		-	6,649,506
Other assets	-	288,648	-	-	-	288,648
Total assets	2,118,498	8,030,340	-	54	-	10,148,892
Liabilities						
Balances due to banks and financial institutions	-	-	-	-	491,905	491,905
Deposits from customers	-	-	-		7,582,579	7,582,579
Other liabilities	-	-	-	-	86,839	86,839
Total liabilities	-	-	-	-	8,161,323	8,161,323

4. CAPITAL MANAGEMENT

Regulatory capital

The Central Bank of Kenya sets and monitors capital requirements for the Bank as a whole.

In implementing current capital requirements the Central Bank of Kenya requires the Bank to maintain a prescribed ratio of total capital to total risk-weighted assets. The Bank calculates requirements for operations risk and market risk for internal monitoring purposes.

The Bank's regulatory capital is analysed into two tiers:

- Tier 1 capital, which includes ordinary share capital, share premium, perpetual bonds (which are classified as innovative Tier 1 securities), retained earnings and translation reserve after deductions for intangible assets, and other regulatory adjustments relating to items that are included in equity but are treated differently for capital adequacy purposes.

- Tier 2 capital, which includes qualifying subordinated liabilities, collective impairment allowances and the element of the fair value reserve relating to unrealised gains on equity instruments classified as available-for-sale.

Various limits are applied to elements of the capital base. The amount of innovative tier 1 securities cannot exceed 15 percent of total tier 1 capital; qualifying tier 2 capital cannot exceed tier 1 capital; and qualifying term subordinated loan capital may not exceed 50 percent of tier 1 capital. There also are restrictions on the amount of collective impairment allowances that may be included as part of tier 2 capital. Other deductions from capital include the carrying amounts of investments in subsidiaries that are not included in the regulatory consolidation, investments in the capital of banks and certain other regulatory items.

Banking operations are categorised as either trading book or banking book, and risk-weighted assets are determined according to specified requirements that seek to reflect the varying levels of risk attached to assets and off-balance sheet exposures.

The Bank's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The impact of the level of capital on shareholders' return is also recognised and the Bank recognises the need to maintain a balance between the higher returns that might be possible with greater gearing and the advantages and security afforded by a sound capital position.

In implementing current capital requirements, the Central Bank of Kenya requires each Bank to maintain;

- A minimum level of regulatory capital of KShs 1 billion as at 31 December 2016.
- A ratio of core capital to the risk–weighted assets plus risk-weighted off-balance sheet assets at or above the required minimum of 10.5%.
- Core capital of not less than 10.5% of total deposit liabilities.
- Total capital of not less than 14.5% of risk-weighted assets plus risk-weighted off-balance sheet items.

The Bank has complied with all externally imposed capital requirements throughout the year.
There have been no material changes in the Bank's management of capital during the year.

The Bank's regulatory capital position at 31 December was as follows:

	2016 KShs'000	2015 KShs'000
Tier 1 capital		
Total share capital	1,000,000	1,000,000
Share premium	42,236	42,236
Retained earnings	934,832	885,702
Total	1,977,068	1,927,938
Tier 2 capital		
Statutory reserve	104,851	104,851
Total regulatory capital	2,081,919	2,032,789
Risk-weighted assets		
Retail bank, corporate bank and central treasury	9,334,734	9,392,602
Total risk weighted assets	9,334,734	9,392,602
Capital ratios		
Total regulatory capital expressed as a percentage of total risk-weighted assets	21%	26%
Total tier 1 capital expressed as a percentage of total risk-weighted assets	20%	25%

	2016 KShs'000	2015 KShs'000

5. INTEREST INCOME

	2016 KShs'000	2015 KShs'000
Loans and advances	1,205,476	1,235,809
Government securities held to maturity	214,488	198,698
Deposits and balances due from banking institutions	9,850	10,856
	1,429,814	1,445,363

6. INTEREST EXPENSE

	2016 KShs'000	2015 KShs'000
Interest on customer deposits	520,116	547,003
Interest on deposits due to banking institutions	41,436	37,211
	561,552	584,214

7. FEES AND COMMISSION INCOME

	2016 KShs'000	2015 KShs'000
Commissions	160,072	153,332
Ledger related fees	25,963	27,659
	186,035	180,991

8. OTHER INCOME

	2016 KShs'000	2015 KShs'000
Gain on sale of treasury bonds	-	1,806
Gain on disposal of equipment	81	8
Miscellaneous income	1,769	6,710
Foreign exchange gains*	29,872	35,935
	31,722	44,459

* Foreign exchange gains arose from trading in foreign currency transactions and also on the translation of foreign currency monetary assets and liabilities.

9. OTHER OPERATING EXPENSES

	2016 KShs'000	2015 KShs'000
Staff costs (note 10)	392,055	367,387
Directors' emoluments – fees	8,147	9,343
other emoluments	14,925	12,676
Other expenses	75,074	100,030
Rent and parking	88,910	62,165
Depreciation (note 20)	52,412	41,911
Computer maintenance	23,945	20,372
Security services	42,581	34,895
Amortisation of intangible assets (note 21)	42,649	27,903
Telephone, data and postage	29,476	22,944
Insurance	18,525	17,587
Advertising and marketing	13,792	16,500
Stationery and supplies	10,301	8,223
Information system Audit	1,850	1,600
Auditors' remuneration	3,270	3,722
Contribution to Deposit Protection Fund	11,241	11,218
	829,153	758,476

10. STAFF COSTS

	2016 KShs'000	2015 KShs'000
Salaries and wages	326,741	315,154
Pension costs - defined contribution plan	19,862	19,832
Provision for leave pay	16,057	13,833
Medical expenses	13,633	9,799
National Social Security Fund contributions	558	509
Other staff costs	8,779	2,412
Refreshments and entertainment	6,425	5,848
	392,055	367,387

11. TAXATION

(a) Taxation charge
Current taxation based on the taxable profit for the year at 30%

	2016 KShs'000	2015 KShs'000
Current tax charge	84,173	108,409
Deferred taxation credit (note 22)	(33,279)	(24,816)
Taxation charge	50,894	83,593

(b) Reconciliation of taxation charge to the expected taxation based on profit before taxation

	2016 KShs'000	2015 KShs'000
Profit before taxation	160,024	251,623
Tax at the applicable rate of 30%	48,007	75,487
Tax effect of expenses not deductible for tax purposes	2,592	8,106
Income not subject to tax	(8,217)	-
Prior year deferred tax under provision	8,512	-
Taxation charge for the year	**50,894**	**83,593**

	2016 KShs'000	2015 KShs'000
(c)Tax (recoverable) / payable		
At the beginning of the year	26,809	12,992
Charge for the year	84,172	108,409
Payments during the year	(144,329)	(94,592)
At end of the year	(33,348)	26,809

12. EARNINGS PER SHARE

	2016 KShs'000	2015 KShs'000
Profit attributable to owners of the Bank – KShs'000	109,130	168,030
At 1 January and 31 December (note 26)	200,000,000	200,000,000
Basic earnings per share – KShs	0.55	0.84

The basic earnings per share is the same as the diluted earnings per share as there were no potentially dilutive shares as at 31 December 2016 and 31 December 2015, respectively.

13. CASH AND BALANCES WITH CENTRAL BANK OF KENYA

	2016 KShs'000	2015 KShs'000
Cash on hand	309,792	286,342
Balances with Central Bank of Kenya:		
Cash ratio requirement	411,663	391,632
Cash held under lien	10,245	12,262
Cash with central bank	91,658	328,326
	823,358	1,018,562

The cash ratio requirement balance is non-interest earning and is based on the value of customer deposits as adjusted by the Central Bank of Kenya requirements. As at 31 December 2016, the cash ratio requirement was 5.25% (2015 – 5.25%) of all customer deposits. These funds are not available to finance the Bank's day-to-day operations. The cash held under lien comprises USD 100,000 (2015 – USD 100,000). This amount is held by the Central Bank of Kenya for domestic and foreign currency clearing and thus is not available for the Bank's use (note 29(b)).

14.DEPOSITS AND BALANCES DUE FROM BANKING INSTITUTIONS

	2016 KShs'000	2015 KShs'000
Current accounts due on demand	464,889	73,624

The weighted average effective interest rate on deposits with banking institutions as at 31 December 2016 was 6.51% (2015 – 7.91%) and nil for current account balances.

15. FINANCIAL DERIVATIVES

At 31 December 2016

Maturing within 3 months	**Contract exchange rate 2016**	**Foreign currency 2016 $'000**	**Contract value 2016 KShs'000**	**Fair value asset 2016 KShs'000**
Sell USD	102.70	350	35,945	70
Sell USD	102.45	250	25,613	(12)
			61,558	58

At 31 December 2015

Maturing within 3 months	**Contract exchange rate 2015**	**Foreign currency 2015 $'000**	**Contract value 2015 KShs'000**	**Fair value asset 2015 KShs'000**
Sell Euros	111.47	438	48,824	54
				54

The Bank enters into forward foreign exchange contracts to cover specific exposure generated from payments and receipts of foreign currency. The fair value is the difference between the contract value and the foreign currency at the closing rate of KShs 102.5 to US Dollar in 2016 (2015 - KShs 102.3 to US Dollar 1 and KShs 110.12 to Euro 1).

16. LOANS AND ADVANCES TO CUSTOMERS

	2016 KShs'000	**2015 KSh'000**
(a) Loans and advances to customers	6,523,156	6,722,292
Staff loans (note 32(b))	376,232	366,424
	6,899,388	7,088,716
Less Impairment loss on loans and advances (note 17)	(531,959)	(439,210)
	6,367,429	6,649,506

(b Non performing loans and advances to customers

Included in net loans and advances of KShs 6,469,226,000 (2015 - KShs 6,649,506,000) are loans and advances amounting to KShs 370,120,000 (2015 - KShs 144,178,000), net of specific provisions, which have been classified as non-performing.

(C) maturity of gross loans and advances

	2016 KShs'000	2015 KShs'000
Maturing:		
Up to one month	1,629,772	1,604,471
1-3 months	947,961	933,244
3-6 months	425,073	418,474
6-12 months	1,322,601	1,550,221
1-3 years	1,391,010	1,417,701
3-5 years	817,592	804,899
Over 5 years	365,379	359,707
Loans and advances to customers (gross)	6,899,388	7,088,717

Gross Loans and Advances to Customers

	2016 KShs'000	2015 KShs'000
Overdraft	1,571,299	1,644,063
Term loan	5,328,089	5,444,654
Loans and advances to customers (gross)	6,899,388	7,088,717

The related party transactions and balances are covered under note 32 and concentration of advances to customers is covered under note (3 (ii)(a)) on financial risk management objectives d policies.

17. IMPAIRMENT LOSS ON LOANS AND ADVANCES

	2016 KShs'000	2015 KShs'000
At 1 January	439,210	375,202
Provisions in the year	96,842	76,500
Recoveries in the year	-	-
Written off in the year	(4,093)	(12,491)
	531,959	439,210
Make up:		
Individually impaired	366,021	417,999
Past due but not impaired	165,938	21,211
	531,959	439,210

18.GOVERNMENT SECURITIES

	2016 KShs'000	2015 KShs'000
Treasury bonds – Held to maturity		
maturing within 90 days	171,377	154,846
maturing between 90 days to 1 year	36,961	9,051
maturing between 1 - 2 years	-	-
maturing after 2 years but within 5 years	737,126	1,288,953
maturing after 5 years	987,034	665,648
	1,932,498	2,118,498

The weighted average effective interest rate on held-to-maturity investments as at 31 December 2016 was 9.85% (2015 – 10.41%).

19. OTHER ASSETS

	2016 KShs'000	2015 KShs'000
Clearing and transit items	102,726	83,421
Deposits and prepayments	10,556	19,472
Interest receivable	101,504	154,940
Sundry debtors	151,439	6,800
Deposits	21,738	10,601
Other assets	29,975	24,015
	417,938	299,249

Other assets are settled no more than 12 months after the reporting date. All the balances are non-interest bearing.

20. PROPERTY AND EQUIPMENT

COST	Leasehold improvements KShs'000	Furniture, fittings and equipment, computer hardware KShs'000	Motor vehicles KShs'000	Total KShs'000
At 1 January 2016	170,548	275,937	12,536	459,021
Additions	35,410	56,374		91,784
Disposals	-	(485)	-	(485)
At 31 December 2016	205,958	331,826	12,536	550,320
DEPRECIATION				
At 1 January 2016	121,138	195,399	9,568	326,105
Charge for the year	19,498	31,702	1,212	52,412
Disposals	-	(481)	-	(481)
At 31 December 2016	140,636	226,620	10,780	378,036
NET CARRYING AMOUNT				
At 31 December 2016	65,322	105,206	1,756	172,284
At 1 January 2015	150,597	240,337	11,383	402,317
Additions	19,951	35,608	1,153	56,712
Disposals	-	(8)	-	(8)
At 31 December 2015	170,548	275,937	12,536	459,021
DEPRECIATION				
At 1 January 2015	104,898	171,024	8,280	284,202
Charge for the year	16,240	24,383	1,288	41,911
Disposals	-	(8)	-	(8)
At 31 December 2015	121,138	195,399	9,568	326,105
NET CARRYING AMOUNT				
At 31 December 2015	49,410	80,538	2,968	132,916

21. INTANGIBLE ASSETS (Computer Software)

	2016 KShs'000	2015 KShs'000
Computer Software		
COST		
At 1 January 2016	195,571	105,921
Additions	9,727	89,650
At 31 December 2016	205,298	195,571
AMORTISATION		
At 1 January 2016	96,484	68,581
Charge for the year	42,649	27,903
At 31 December 2016	139,133	96,484
NET CARRYING AMOUNT		
At 31 December	66,165	99,087

22. DEFERRED TAX ASSET

Movement in deferred tax asset is as follows:

	2016 KShs'000	2015 KShs'000
The deferred tax asset is attributable to the following items:		
Accelerated capital allowances	29,558	21,190
Provisions		
- Leave pay	2,658	2,255
- Legal fees	2,484	3,007
- Gratuity and union salary increment	600	1,073
- Other provisions	59,174	33,670
	94,474	61,195
Movement in deferred tax asset is as follows:		
At 1 January	61,195	36,379
Profit and loss credit/(charge):		
Current year credit	24,767	24,816
Prior year under provision	8,512	-
Profit and loss credit - Note 11(a)	33,279	24,816
At 31 December	94,474	61,195

23. DEPOSITS AND BALANCES DUE TO BANKS

	2016 KShs'000	2015 KShs'000
Demand accounts	102,500	491,905

The average effective interest rate on deposits and balances due to banking institutions at 31 December 2016 was 4.22% (2015: 7.72%).

24. CUSTOMER DEPOSITS

	2016 KShs'000	2015 KShs'000
Current and demand accounts	2,603,995	1,804,030
Savings accounts	441,864	866,750
Fixed and call deposit accounts	4,954,143	4,911,799
	8,000,002	7,582,579

MATURITY ANALYSIS OF CUSTOMER DEPOSITS

	2016 KShs'000	2015 KShs'000
Repayable:		
Within one month	4,586,132	4,346,837
Within 1 - 3 months	2,204,841	2,089,797
Within 3 - 6 months	997,386	945,345
Within 6-12 months	211,643	200,400
Within 1-3 years	-	200
	8,000,002	7,582,579

The weighted average effective interest rate on interest bearing customer deposits at 31 December 2016 was 5.4% (2015 – 10.50%).

The related party transactions and balances are disclosed under note 32.

25.OTHER LIABILITIES

	2016 KShs'000	2016 KShs'000
Bankers cheques outstanding	69,661	76,237
Deposits for letters of credit and letters of guarantee	2,233	10,602
Provision for leave pay	7,280	7,515
Legal fees provision	8,280	10,025
Bonus	2,000	2,800
Dividends payable (note 30(a))	-	1,353
Other liabilities and accruals	98,566	210,077
	188,020	318,609

Other liabilities are settled no more than 12 months after reporting date. All the balances are non-interest bearing.

26. SHARE CAPITAL

	2016 KShs'000	2015 KShs'000
Authorised :-		
230,000,000 (2015- 200,000,000) ordinary shares of KShs 5 each	1,150,000	1,150,000
Issued and fully paid:-		
200,000,000 (2015 - 200,000,000) ordinary shares of KShs 5 each	1,000,000	1,000,000

27. SHARE PREMIUM

At 1 January	42,236	42,236

These premium arose in 2010 when the Bank issued 6,142,908 new shares. The shares, with a par value of KShs 5 were issued at KShs 11.88.

28. STATUTORY RESERVE

	2016 KShs'000	2015 KShs'000
At 1 January	104,851	200,573
Transfer from retained earnings	-	4,278
At 31 December	104,851	104,851

The statutory reserve represents an appropriation from retained earnings to comply with Central Bank of Kenya's prudential guidelines on impairment of loans and advances. It represents the excess of loan provisions as computed in accordance with the Central Bank of Kenya prudential guidelines over the impairment of loans and receivables as computed per IAS 39. The statutory reserve is not distributable.

29. NOTES TO THE STATEMENT OF CASH FLOWS

(a) Cash flows from operating activities

OPERATING ACTIVITIES:-	2016 KShs'000	2015 KShs'000
Profit before tax	160,024	251,623
Adjustments for:-		
Depreciation (note 20)	52,412	41,911
Amortisation of intangible assets (note 21)	42,649	27,903
Provision for non-performing loans	96,842	76,500
Gain on disposal of property and equipment	(85)	(8)
Provisions for leave pay	16,057	13,833
Cash flows from operating activities before changes in operating assets and liabilities	367,899	411,762
Advances to customers	189,328	(716,579)
Other assets	(118,689)	16,775
Deposits from customers	417,423	(77,092)
Other liabilities	(146,647)	10,278
Derivative financial instruments	4	(983)
Movement in restricted balances with Central Bank of Kenya:		
Cash ratio requirement (note 13)	(20,031)	(10,717)
Cash held under lien (note 13)	2,017	(2,296)
Cash flows generated from operating activities	691,304	(368,852)

(b) Analysis of cash and cash equivalents

	Notes	2016 KShs'000	2015 KShs'000
Cash on hand	13	309,792	286,342
Cash with Central Bank of Kenya	13	91,658	328,326
Deposits and balances due from banking institutions	13	464,889	73,624
Deposits and balances due to banks	23	(102,500)	(491,905)
Government securities maturing within 90 days	18	171,377	154846
Cash and cash equivalents		935,216	351,233

For the purposes of the statement of cash flows, cash equivalents include short term liquid investments which are readily convertible into known amounts of cash and which were within three months of maturity when acquired, less advances from banks repayable within three months from the date of the advance.

30. PROPOSED DIVIDENDS AND DIVIDENDS PER SHARE

(a) Dividends payable

Dividends payable relate to dividends declared in the current and previous year by the Bank but not collected by the shareholders or their representatives. The dividends payable have been included in other liabilities.

	2016 KShs'000	2015 KShs'000
At 1 January	1,353	1,181
Dividends Declared	60,000	50,000
Dividends paid	(61,353)	(49,828)
At 31 December	-	1,353

(b) Proposed dividend

Proposed dividends are not accounted for until they have been ratified at the Annual General Meeting. A first and final dividend for the year ended 31 December 2016 has been proposed as follows:-

Dividend per share KShs	Total dividend KShs'000
0.2	40,000

The financial statements for the year ended 31 December 2016 do not reflect this resolution which will be accounted for in equity as an appropriation of retained profits in the year ending 31 December 2016 after ratification by the shareholders at the Annual General Meeting.

Payment of dividends is subject to withholding tax at a rate of 5% for resident shareholders and 10% for non-resident shareholders.

31. CONTINGENCIES AND COMMITMENTS INCLUDING OFF BALANCE SHEET ITEMS

(a) Not recognised in statement of financial position	2016 KShs'000	2015 KShs'000
Letters of credit	206,854	24,441
Guarantees	527,922	372,522
Forward exchange contracts	61,558	48,840
-	796,334	445,803

(b) Contingent liabilities

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

Letters of guarantee and performance bonds are issued by the Bank, on behalf of customers, to guarantee performance by customers to third parties. The Bank will only be required to meet these obligations in the event of default by the customers.

The Bank enters into forward foreign exchange contracts to cover specific exposure generated from payments and receipts of foreign currency.

(c) Commitments

Commitments contracted for at the reporting date but not recognised in the financial statements were as follows:

	2016 KShs'000	2015 KShs'000
(i) Capital: Authorised and contracted for	33,360	33,400
(ii) Capital: Authorised and not contracted for	104,720	229,683
(iii) Loans committed but not disbursed at year end	214,200	248,219

(d) Operating lease arrangements

The Bank leases its branches premises under operating leases. During the year ended 31 December 2016, KShs 85,810,000 (2015: KShs 59,438,000) was recognised as an expense in the profit or loss account in respect of operating leases.

The Bank as a lessee

The bank has entered into commercial property leases on a number of branches and office premises under operating leases. These non-cancellable leases have remaining terms of between one and five years. All leases include a clause that enables upward revision of the rental charges on an agreed basis according to prevailing market conditions. Future minimum rentals payable under non-cancellable operating leases as at 31st December are shown below.

	2016 KShs'000	2015 KShs'000
Within One year	71,998	65,668
Between 2 and 5 years	308,085	289,864
	-	-
	380,083	355,532

32. 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 operational decisions.

(a) The Bank leases office and parking space from Autosilo (Queensway) Ltd, a company with common directorship. Payments during the year amounted to KShs 27,063,948 (2015 - KShs 27,466,000).

(b) Loans due from directors, employees and other related parties:-
In addition to transactions with key management, the Bank enters into transactions with entities that have significant influence over it. Balances outstanding at the close of period as advanced to directors, employees of the Bank and other related parties in the ordinary course of business is as follows :

	2016 KShs'000	2015 KShs'000
Directors and Associated Companies	740,925	734,193
Employees	376,232	366,424
	1,117,157	1,100,617
Interest earned		
Directors and associate companies	98,432	92,764
Employees	36,703	34,355
Weighted average interest rate	6.58%	5.59%

The loans are secured by property mortgage and are repayable in a period less than 30 years. No impairment losses have been recorded against balances outstanding during the period and no specific allowance has been made for impairment losses on balances at period end (2015-Nil) as staff and directors are all active and currently in-service for the bank and recoveries are made directly through the payroll.

(c) Deposits received from directors, employees and other related parties:-

Balances held at the close of period as received from directors, employees of the Bank and other related parties in the ordinary course of business is as follows :

	2016 KShs'000	2015 KShs'000
Employees	30,411	18,242
Directors and Associate companies	1,058,297	1,079,977
Interest expensed	17,372	48,220
Weighted average interest rate	7.04%	4.85%

(d) Compensation of key management personnel

Directors' emoluments:		
-Fees	8,148	9,343
-Others	14,926	12,676
	23,074	22,019
Senior Managers:		
-Short-term employee benefits	48,267	43,337
-Post-employment pension	2,155	2,134
	450,422	45,471

33. ASSET PLEDGED AS SECURITY

As at 31 December 2016, assets pledged as security comprised balances with the Central Bank of Kenya under lien for Domestic Foreign Currency clearing amounting to USD 100,000 (2015: USD 100,000).

34. MATURITY ANALYSIS OF ASSETS AND LIABILITIES

The table below shows an analysis of assets and liabilities analyzed according to when they are expected to be recovered or settled.

As at 31 December 2016

	Within 12 months KShs '000	After 12 months KShs '000	2016 KShs'000
ASSETS			
Cash and balances with Central Bank of Kenya	823,358	-	823,358
Deposits and balances due from banking institutions	464,889	-	464,889
Financial derivatives	58		58
Loans and advances to customers	4,059,427	2,308,002	6,367,429
Government securities	208,338	1,724,160	1,932,498
Tax recoverable	33,348	-	33,348
Other assets	417,938	-	417,938
Property and equipment	-	172,284	172,284
Intangible assets	-	66,165	66,165
Deferred tax asset	-	94,475	94,475
TOTAL ASSETS	6,007,356	4,365,086	10,372,442
LIABILITIES			
Due to banking institutions	102,500	-	102,500
Customer deposits	8,000,002	-	8,000,002
Other liabilities	188,020	-	188,020
TOTAL LIABILITIES	8,290,522	-	8,290,522
NET ASSETS	(2,283,166)	4,365,086	2,081,920

	Within 12 months KShs '000	After 12 months KShs '000	2015 KShs'000
ASSETS			
Cash and balances with Central Bank of Kenya	1,018,562	-	1,018,562
Deposits and balances due from banking institutions	73,624	-	73,624
Financial derivatives	54	-	54
Loans and advances to customers	4,067,199	2,582,307	6,649,506
Government securities	163,897	1,954,601	2,118,498
Other assets	299,249		299,249
Property and equipment	-	132,916	132,916
Intangible assets	-	99,087	99,087
Deferred tax asset	-	61,195	61,195
TOTAL ASSETS	5,622,585	4,830,106	10,452,691
LIABILITIES			
Due to banking institutions	491,905	-	491,905
Customer deposits	7,582,579	-	7,582,579
Other liabilities	318,609	-	318,609
Tax payable	26,809	-	26,809
TOTAL LIABILITIES	8,419,902	-	8,419,902
NET ASSETS	-2,797,317	4,830,106	2,032,789

35. INCIDENTAL BUSINESS ACTIVITIES

The Bank is in partnership with Liaison Group (I.B) Limited to offer Bancassurance services to both Transnational Bank internal and external customers. As per the agreement, the commissions on underwritten business are to be shared on a ratio 50:50 between the Bank and Liaison Group (I.B) Limited. The commission shared are net of expenses and are included in fees and commission income on the statement of profit or loss and other comprehensive income.

	2016 KShs'000	2015 KShs'000
Commissions – net of expenses	1,062	460

36. EVENTS AFTER THE REPORTING PERIOD

No significant events have come to the attention of the Directors after the reporting date that require adjustment to, or disclosure in, these financial statements.

37. COUNTRY OF INCORPORATION

The Bank is incorporated under the Kenyan Companies Act and domiciled in Kenya.

38. CURRENCY

The financial statements are presented in thousands of Kenya shillings (KShs'000), the Bank's functional and presentation currency.

ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN THAT THE ANNUAL GENERAL MEETING OF THE COMPANY WILL BE HELD ON 17TH MAY 2017 AT 10.00 AM, AT JACARANDA HOTEL, WOODVALE GROVE, NAIROBI, TO CONDUCT THE FOLLOWING BUSINESS:-

1. To read the notice convening the meeting, which is issued in accordance with Article 36 of the Articles of the Company.

2. Ordinary Business

2.1 To confirm minutes of the last Annual General Meeting held on 20th May 2016.

2.2 Matters arising there from

2.3 To receive, consider and if approved, adopt the Directors' Report and Auditor's Report and the audited Accounts for the year ended 31st December 2016.

2.4 To declare and approve a final dividend of Kenya Shillings Twenty Cents (0.20) per share for the financial year ended 31st December 2016 payable to shareholders on the Register of Members as at 31st December 2016.

2.5 To elect Directors in accordance with section 24 of the Company's Articles of Association whereby Mrs. Helena Cheserem hereby retires and does not offer herself for re-election and Mr. Peter Kemei hereby retires, and being eligible, offers himself for re-election.

2.6 To approve the Directors' remuneration for the year ended 31st December 2016.

2.7 To appoint the Auditors and to authorize the Directors to fix their remuneration.

2.9 Any other transaction of the ordinary business of the Company for which appropriate notice has been issued and received

By Order of the Board

JACQUELINE ONSANDO
COMPANY SECRETARY

DATED

18TH APRIL 2017

Note:

1. A member entitled to attend and vote at the above meeting is entitled to appoint a proxy to attend and vote in his stead. If the member is a corporation, the proxy shall be appointed in accordance with the Articles of the Company, or be represented in accordance with the Articles. Such a proxy need not be a member.

A proxy form is attached herewith, and if used, shall be deposited with the Secretary of the Company at the Company's registered office no later than 48 hours before the time appointed for holding the meeting.

2. Any member may, by written notice duly signed by him or her and delivered to the Secretary at the Company's registered office or on email address companysecretary@tnbl.co.ke not less than 14 days or not more than 35 days before the date appointed for the Annual General Meeting, nominate a person for appointment as a director, and must include a statement signed by the person nominated indicating that person's willingness to be appointed a director.
3. A copy of the company's annual Accounts may be viewed on the Company's website on www.tnbl.co.ke .

PROXY FORM

TRANSNATIONAL BANK LIMITED

I/WE……………………………………………………………………………………..

Of…………………………………………………………………………………….

being a member of the above named Company, hereby appoint

…………………………………………………………………….

Of…………………………………………………………………….

……………………………………………………………………

Whom failing
…………………………………………………………………….

Of
…………………………………………………………………….

or failing him, the Chairman of the meeting, as our/my proxy; to vote for us/me and on our/my behalf at the Annual General Meeting of the Company to be held in Nairobi on Wedsnesday 17th May 2017 at 10.00 am and at any adjournment thereof.

As witness under our/my hand this ....day of……………..2017

Signed

……………………………………………………………………………………..

Note:

1.A member entitled to attend and vote is entitled to appoint a proxy to attend and vote in his stead and a proxy need not be a member of the company.

2.In case of a member being a corporation, this form must be completed under its common seal, or under the hand of an officer or attorney duly authorised in writing.

#Followthefarmerke

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