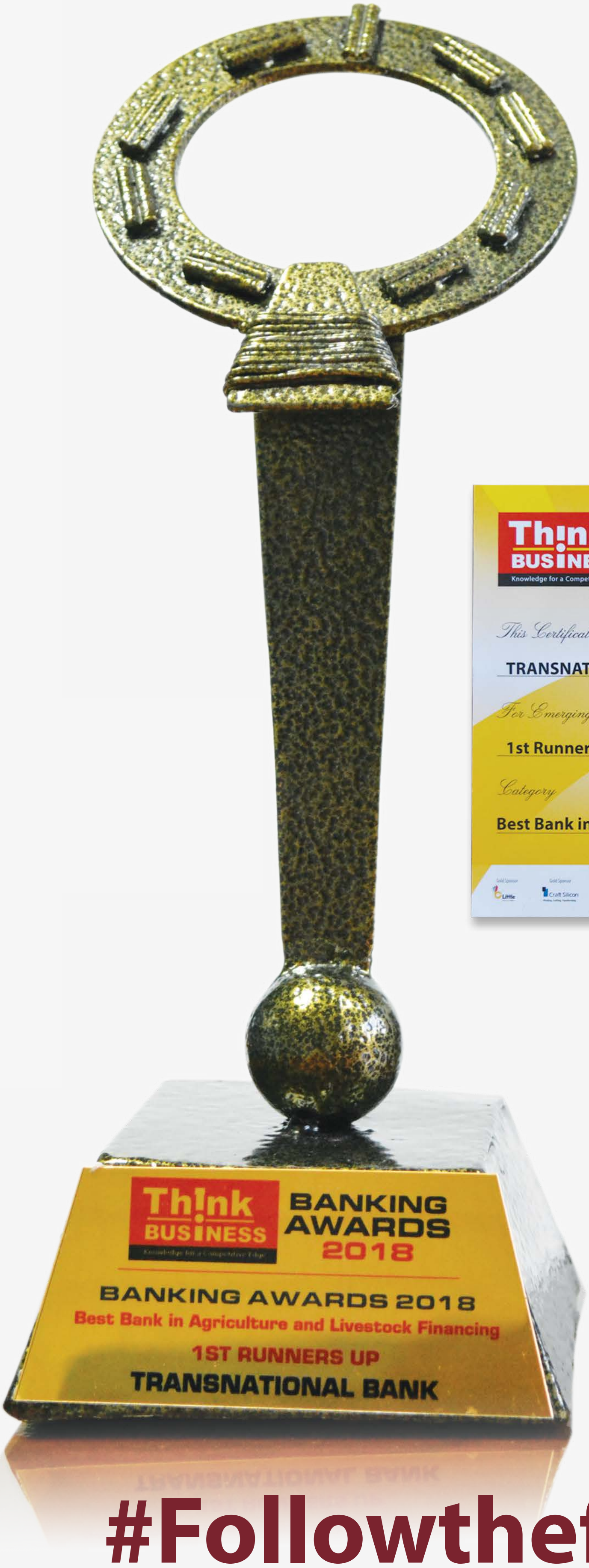
2017 Annual Report and Financial Statements

Trans National Bank

Best Bank in Kenya
Agriculture & Livestock Financing
1st Runners Up



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Corporate Information

Directors	Prof. Henry Kiplangat	**Chairman**
	Mr. Peter Kemei	
	Mr. John Kenduiwo	
	Mr. Andre DeSimone*	
	Prof. Daniel Rotich	
	Mrs. Hellena Cheserem	**Retired on 17th May 2017**
	Mr. Sammy Lang'at	
	**American*	
Chief Executive Officer	Mr. Sammy Lang'at	
Audit Committee	Mr. Peter Kemei	**Chairman**
	Mr. John Kenduiwo	
	Prof. Daniel Rotich	
	Christopher Lochuria	
Credit Committee	Prof. Daniel Rotich	**Chairman**
	Mrs. Hellena Cheserem	
	Mr. Andre DeSimone	
	Mr. Sammy Lang'at	
	Mr. Wilson Ruto	
Strategy and Finance Committee	Mr. Andre DeSimone	**Chairman**
	Mr. John Kenduiwo	
	Mr. Peter Kemei	
	Mr. Sammy Lang'at	
	Mr. Laban K. Molonko	
Risk and Compliance Committee	Mr. Peter Kemei	**Chairman**
	Mr. Andre DeSimone	
	Mrs. Hellena Cheserem	
	Prof. Daniel Rotich	
	Ms. Jacqueline Onsando	
	Mr. Joseph Seii	
Human Resources, Nomination and Renumeneration Committee	Mr. John Kenduiwo	**Chairman**
	Mrs. Hellenna Cheserem	
	Mr. Sammy Lang'at	
	Ms. Emmy Kiptugen	
Assets and Liability Management Committee (ALCO)	Mr. Sammy Lang'at	**Chairman**
	Mr. Farid Sheikh	
	Mr. Justus Kittony	
	Mr. Laban K. Molonko	
	Mr. Wilson Ruto	
	Ms. Faith Mutwiri	
	Mr. Joseph Seii	

SECRETARY

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

REGISTERED 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.

Chairman's Statement

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, 2017.

2017 OPERATING ENVIRONMENT

Kenya's economic growth slowed down in 2017 from 5.9% in 2016 to 4.9% in 2017. The growth in the year was largely driven by service oriented sectors while key sectors of the economy; Agriculture and Manufacturing recorded significant deceleration associated with prolonged electioneering year, adverse weather conditions and slowed uptake of credit facilities by the private sector.

Overall Inflation rose to 8.0% from 6.3% in December 2016 which was off Central Bank target range of 2.75% to 7.5%. During the year inflation rose as high as 11.7% in the month of May due to high food prices caused by prolonged drought.

The Foreign exchange market remained relatively stable supported by strong diaspora remittance, resilient tea and horticulture export and recovery in tourism.

DEVELOPMENT IN THE BANKING SECTOR

Kenyan banking sector aggregate balance sheet increased by 7.2 percent from Kshs. 3.76 trillion as at 31st December, 2016 to Kshs. 4.03 trillion in December 2017. Gross loans and advances were at Kshs. 2.45 trillion up from Kshs 2.33 trillion registered in 2016 (5.1 percent growth). Deposits grew by 11.3% from Kshs 2.65 trillion to Kshs 2.95 trillion.

Profit before tax for the sector as at 31st December, 2017 was at Kshs 142.52 billion, compared with prior year profit of Kshs 139.88 billion.

BANK'S PERFORMANCE

The impact of the upheavals witnessed in the year in the banking industry was felt across the sector. As at end of year, profit before tax stood at Kshs. 54.0 million a decline from Kshs. 160.0 million registered in the previous year.

The Bank's total assets were at Kshs 10.2 billion compared to Kshs 10.4 billion in 2016. Customer deposits dropped 1.3% from Kshs 8.0 billion to Kshs. 7.9 billion. Loans and advances grew 3.7% to Kshs 6.6 billion from Kshs 6.4 billion recorded in 2016.

Reflecting on this performance the Board of Directors do not recommend dividend payment for the year. In 2016, the Bank paid out Kshs. 40 million dividends.

FUTURE OUTLOOK

Despite challenges experienced in 2017, Kenya's economic growth is projected to rebound to 5.6% in 2018 and 6.2% in 2019, in line with Kenya's underlying growth potential and policy interventions of 2017 challenges.

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 shareholders' value. 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 good results under a difficult environment.

Thank You

Prof. Henry Kiplangat
Chairman Board of Directors

Transnational Bank PLC (formerly 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 is 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 1.

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 2017. 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 2017.

2. BOARD COMMITTEES

The Board has in place six main committees, namely the Risk and Compliance, Credit, Audit, Nomination and Remuneration, Asset and Liability Committee and Strategy and Finance. 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.

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 2017 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 seven meetings excluding the working committee meetings. The Board members attendance for 2017 was as follows;

Name	Number of attendance	Percentage Attendance
Prof. Henry Kiplangat	7	100
Mr. Peter Kemei	7	100
Mr. John Kenduiwo	7	100
Mrs. Hellena Cheserem	2	29
Prof. Daniel Rotich	7	100
Mr. Andre DeSimone	6	86
Ms. Jacqueline Onsando	6	86
Mr. Sammy Lang'at	7	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
Mr. Christopher Lochuria	5	100

(ii) Risk and Compliance Committee Meetings

Name	Number of attendance	Percentage Attendance
Mr. Andre DeSimone	2	67
Mr. Peter Kemei	3	100
Mrs. Hellena Cheserem	1	33
Prof. Daniel Rotich	3	100
Ms. Jacqueline Onsando	2	67
Mr. Sammy Lang'at	2	67

(iii) Credit Committee Meetings

Name	Number of attendance	Percentage Attendance
Prof. Daniel Rotich	6	100
Mrs. Hellena Cheserem	2	33
Mr. Andre DeSimone	5	83
Mr. Sammy Lang'at	6	100
Mr. Wilson Ruto	6	100

(iv) Strategy and Finance Committee Meetings

Name	Number of attendance	Percentage Attendance
Mr. Andre DeSimone	2	67
Mr. Peter Kemei	3	100
Mr. John Kenduiwo	3	100
Mr. Sammy Lang'at	3	100
Mr. Laban K. Molonko	3	100

(v) Nomination and Remuneration Committee Meetings

Name	Number of attendance	Percentage Attendance
Mr. John Kenduiwo	7	100
Mrs. Hellena Cheserem	1	14
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 2017, 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 2017.

Incorporation

The company is domiciled in Kenya where it is incorporated as a private company limited by shares under the Kenyan Companies Act, 2015. The address of the registered office is set out on page 1.

Directorate

The directors who held office during the year and to the date of this report are set out on page 1.

Principal activities

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

Recommended dividend

The directors do not recommend the payment of a dividend (2016: KShs 40 million).

Business review

The Bank's focus is to deliver value to our stakeholders, who consist of those who are affected by our business or whom our operations impact. TNB plays a crucial role in supporting economic development by offering banking products and services to both individuals and corporate entities, driving economic development and job creation in the country. The Bank's products and service offerings has enabled businesses flourish and protect our customers' wealth for the future. This is in line with the Bank's vision where we see enterprising people as we continuously seek to turn opportunities into successes.

TNB is committed to significant development and recognizes its social responsibility. The Bank's aim is to achieve sustainable growth and create added value for its customers, employees, investors and local communities surrounding its location. We have a stake in the communities we work with. We believe in finding ways to ensure mutually rewarding collaboration with our customers. We go beyond providing what customers need to anticipating what they imagine and working together with them to ensure success. We work with human face, a human character and we do this in a truly caring manner ensuring that we seek to serve the customers' interest with a human touch.

The Bank has seen growth in staff numbers in relation to increase in the branch network from sixteen in 2010 to twenty eight in 2017 largely in the rural areas of the country associated with emerging business opportunities in the devolved system of government. Associated with this growth, there has been need for skilled and experienced staff who excel in branch operations and service delivery, risk management and product development. The Bank's management is committed to developing its human capital. There is a continuing need to bolster the middle management so that their skill is set ready to be deployed in branches as well as people who can be promoted and moved up to senior management as part of succession planning. As for senior management, the Bank will continue to avail senior level strategic leadership training programs, which will help in team building as well as succession planning.

The Bank implemented the Banking (Amendment) Act 2016 in the last quarter of 2016 with its full impact recorded in 2017. The effect of the implementation of the Act was witnessed across the banking industry resulting in a plateaued growth. During the year, the Bank enhanced its credit standards and requirements for customers even as we embraced conservative lending in favour of investing in Treasury bills. The Bank will continue to invest in the future principally in its people, technology and innovation with a particular bias on new digital anchored channels, products and services so as to diversify its revenue base.

The Bank will adopt IFRS 9 effective January 2018. IFRS 9 is forward looking and requires recognition of full lifetime losses. Implementation of IFRS 9 will lead to an increase in provision levels and an expected increase in cost of risk over the medium to long term. The Bank has reviewed and revamped its internal models and processes in readiness for IFRS 9 compliance with effect from January 2018.

In line with banking business, the Bank is faced with a number of risks and challenges. Accordingly, the Bank has identified and taken full responsibility of these risks and uncertainties as detailed on Note 3, Risk Management Objectives and Policies of the Financial Report.

Statement as to disclosure to the company's auditor

With respect to each director at the time this report was approved:

a) there is, so far as the person is aware, no relevant audit information of which the company's auditor is unaware; and

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

Terms of appointment of the auditor

Ernst & Young LLP continues in office in accordance with the company's Articles of Association and Section 719 of the Companies Act, 2015. The directors monitor the effectiveness, objectivity and independence of the auditor. The directors also approve the annual audit engagement contract which sets out the terms of the auditor's appointment and the related fees. The agreed auditor's remuneration of Kshs. 6 million has been charged to profit or loss in the year.

By order of the Board

....

Director/Company Secretary

Nairobi 7th March, 2018

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 keeps proper accounting records that: (a) show and explain the transactions of the company; (b) disclose, with reasonable accuracy, the financial position of the company; and (c) enable the directors to ensure that every financial statement required to be prepared complies with the requirements of the Companies Act, 2015.

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 7th March, 2018 and signed on its behalf by:

....	....
Director	Director

Opinion

We have audited the accompanying financial statements of Transnational Bank PLC (formerly Transnational Bank Limited) set out on pages 16 to 76 which comprise the statement of financial position as at 31 December 2017, 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 PLC as at 31 December 2017, 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 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.

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 matters prescribed by the Kenyan Companies Act, 2015

In our opinion, the information given in the report of the directors on page 11 is consistent with the financial statements.

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

Nairobi, Kenya

29th March 2018

Statement of Profit or Loss and other Comprehensive Income for the year Ended 31 December 2017

	Notes	2017 KShs'000	2016 KShs'000
Interest income	5	1,122,276	1,429,814
Interest expense	6	(435,393)	(561,552)
NET INTEREST INCOME		686,883	868,262
Fees and commission income	7	231,634	186,035
NET FEES AND COMMISSION INCOME		231,634	186,035
Other income	8	53,529	31,722
OPERATING INCOME		972,046	1,086,019
Other operating expenses	9	(837,814)	(829,153)
Impairment losses on loans and advances	17	(80,248)	(96,842)
OPERATING EXPENSES		(918,062)	(925,995)
PROFIT BEFORE TAXATION		53,984	160,024
TAXATION CHARGE	11(a)	(17,551)	(50,894)
PROFIT FOR THE YEAR		36,433	109,130
OTHER COMPREHENSIVE INCOME		-	-
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		36,433	109,130
EARNINGS PER SHARE			
Basic and diluted earnings per share (KShs)	12	0.18	0.55

	Notes	2017 KShs'000	2016 KShs'000
ASSETS			
Cash and balances with Central Bank of Kenya	13	944,256	823,358
Deposits and balances due from banking institutions	14	480,749	464,889
Derivatives	15	215	58
Loans and advances to customers	16(a)	6,604,120	6,367,429
Government securities	18	1,630,439	1,932,498
Tax recoverable	11(c)	6,131	33,348
Other assets	19	236,100	417,938
Property and equipment	20	178,257	172,284
Intangible assets	21	38,370	66,165
Deferred tax asset	22	122,731	94,474
TOTAL ASSETS		10,241,368	10,372,441
LIABILITIES			
Due to banking institutions	23	51,625	102,500
Customer deposits	24	7,898,496	8,000,002
Other liabilities	25	212,895	188,020
TOTAL LIABILITIES		8,163,016	8,290,522
EQUITY			
Share capital	26	1,000,000	1,000,000
Share premium	27	42,236	42,236
Retained earnings		914,342	934,832
Statutory reserve	28	121,774	104,851
TOTAL EQUITY		2,078,352	2,081,919
TOTAL EQUITY AND LIABILITIES		10,241,368	10,372,441

The financial statements were approved and authorised for issue by the board of directors on 7th March, 2018 and were signed on its behalf by:

Director   Chief Executive Officer

Director   Company Secretary

Statement of Changes in Equity
for the year Ended 31 December 2017

	Note	Share Capital	Share premium	Retained earnings	Statutory reserve	Total
		Sh'000	Sh'000	Sh'000	Sh'000	Sh'000
At 1 January 2016		1,000,000	42,236	885,702	104,851	2,032,789
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
At 1 January 2017		1,000,000	42,236	934,832	104,851	2,081,919
Transfer to statutory reserve	28	-	-	(16,923)	16,923	-
2016 dividends declared	30	-	-	(40,000)	-	(40,000)
Total comprehensive income for the year		-	-	36,433	-	36,433
At 31 December 2017		1,000,000	42,236	914,342	121,774	2,078,352

* 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	2017 Sh'000	2016 Sh'000
Cash flows from operating activities			
Cash (used in)/generated from operating activities	29(a)	124,787	519,928
Tax paid	11(c)	(18,591)	(144,329)
Net cash flows from operating activities		106,196	375,599
INVESTING ACTIVITIES			
Purchase of equipment	20	(67,201)	(91,784)
Purchase of intangible assets	21	(12,768)	(9,727)
Maturity of held-to-maturity investments		208,332	199,787
Proceeds from disposal of equipment		310	85
Net cash flows from investing activities		128,673	98,361
FINANCING ACTIVITIES			
Dividends paid	30(a)	(40,000)	(61,353)
Net cash flows used in financing activities		(40,000)	(61,353)
Net movement in cash and cash equivalents		194,869	412,607
Cash and cash equivalents at the beginning of the year		763,840	351,233
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	29(b)	**958,709**	**763,840**

1. GENERAL INFORMATION

Transnational Bank PLC (formerly 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) and the requirements of the Kenyan Companies Act, 2015.

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 2017. 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 2017, 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:

IAS 7 Disclosure Initiative – Amendments to IAS 7

The amendments to IAS 7 Statement of Cash Flows are part of the IASB's Disclosure Initiative and help users of financial statements better understand changes in an entity's debt. The amendments require entities to provide disclosures about changes in their liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes (such as foreign exchange gains or losses).

On initial application of the amendment, entities are not required to provide comparative information for preceding periods. Early application is permitted.

The amendments are intended to provide information to help investors better understand changes in an entity's debt. The adoption of this amendment is not expected to have a material impact on the statement of cash flows.

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

The IASB issued the amendments to IAS 12 Income Taxes to clarify the accounting for deferred tax assets for unrealised losses on debt instruments measured at fair value.

The amendments clarify that an entity needs to consider whether tax law restricts the sources of taxable profits against which it may make deductions on the reversal of that deductible temporary difference. Furthermore, the amendments provide guidance on how an entity should determine future taxable profits and explain the circumstances in which taxable profit may include the recovery of some assets for more than their carrying amount

Entities are required to apply the amendments retrospectively. However, on initial application of the amendments, the change in the opening equity of the earliest comparative period may be recognised in opening retained earnings (or in another component of equity, as appropriate), without allocating the change between opening retained earnings and other components of equity. Entities applying this relief must disclose that fact. The amendments are intended to remove existing divergence in practice in recognising deferred tax assets for unrealised losses.

The Bank applied amendments retrospectively. However, their application has no effect on the Bank's financial position and performance as the Bank has no deductible temporary differences or assets that are in the scope of the amendments.

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

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

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

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

The new classification and measurement and impairment requirements will be applied by adjusting our statement of financial position on January 1, 2018, the date of initial application, with no restatement of comparative period financial information. Based on current estimates, the adoption of IFRS 9 is expected to result in a reduction to retained earnings as at January 1, 2018 of reasonable estimate range of KShs 48 million to KShs 183 million, net of taxes. Additionally, the adoption of IFRS 9 is expected to change our Capital Adequacy Ratios from 25% to 22.5%. We will continue to monitor and refine certain elements of our impairment process in advance of Q1 2018 reporting

Classification and measurement

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

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

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

Impairment

Overall comparison of the new impairment model and the current model

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

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

Scope

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

Measurement of expected credit losses

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

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

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

Stage 1- If, at the reporting date, the credit risk of non-impaired financial instruments has not increased significantly since initial recognition, these financial instruments are classified in Stage 1, and a loss allowance that is measured, at each reporting date, at an amount equal to 12-month expected credit losses is recorded.

Stage 2 - When there is a significant increase in credit risk since initial recognition, these non-impaired financial instruments are migrated to Stage 2, and a loss allowance that is measured, at each reporting date, at an amount equal to lifetime expected credit losses is recorded. In subsequent reporting periods, if the credit risk of the financial instrument improves such that there is no longer a significant increase in credit risk since initial recognition, the ECL model requires reverting to recognition of 12-month expected credit losses based on the Central Bank of Kenya and banks policy on curing of loans.

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

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

Assessment of significant increase in credit risk

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

Definition of default

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

Hedge accounting

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

IFRS 15 Revenue from Contracts with Customers

On May 28, 2014, the IASB issued IFRS 15 Revenue from Contracts with Customers, which replaces the previous revenue standard IAS 18 Revenue, and the related Interpretations on revenue recognition. The standard is a control-based model as compared to the existing revenue standard which is primarily focused on risks and rewards and provides a single principle based framework to be applied to all contracts with customers that are in scope of the standard. Under the new standard revenue is recognized when a customer obtains control of a good or service. Transfer of control occurs when the customer has the ability to direct the use of and obtain the benefits of the good or service. The standard introduces a new five step model to recognize revenue as performance obligations in a contract are satisfied. The standard scopes out contracts that are considered to be lease contracts, insurance contracts and financial instruments, and as such will impact businesses that earn fee and commission revenue.

On April 12, 2016, the IASB issued amendments to IFRS 15 Revenue from Contracts with Customers. The amendments provide additional clarification on the identification of a performance obligation in a contract, determining the principal and agent in an agreement, and determining whether licensing revenues should be recognized at a point in time or over a specific period. The amendments also provide additional practical expedients that can be used on transition to the standard. The standard does not apply to revenue associated with financial instruments, and therefore, will not impact the majority of the Bank's revenue, including interest income, interest expense, trading revenue and securities gains which are covered under IFRS 9 Financial Instruments. The areas of focus for the Bank's assessment of impact are fees and commission from banking services.

On transition, IFRS 15 permits entities to either restate prior periods or to apply the standard on a modified retrospective basis. The Bank plans to use the modified retrospective basis, recognizing the cumulative effect of initially applying the standard as an adjustment to the opening balance of retained earnings as at January 1, 2018, without restating comparative periods.

While the impact assessment is not complete, the Bank does not currently expect the adoption of IFRS 15 to have a significant impact on the financial statements. The Bank is continuing to review its revenue contracts that fall within the scope of IFRS 15 and to assess the impact of the new standard on its financial statements, including the additional disclosure requirements that may be relevant and required.

IFRS 16 Leases

IFRS 16 was issued in January 2016 and it replaces IAS 17 Leases, IFRIC 4 Determining whether an arrangement contains a Lease, SIC-15 Operating Leases-Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under IAS 17. The standard includes two recognition exemptions for lessees – leases of 'low-value' assets (e.g., personal computers) and short-term leases (i.e., leases with a lease term of 12 months or less). At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset.

Lessees will be also required to remeasure the lease liability upon the occurrence of certain events (e.g., a change in the lease term, a change in future lease payments resulting from a change in an index or rate used to determine those payments). The lessee will generally recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset.

Lessor accounting under IFRS 16 is substantially unchanged from today's accounting under IAS 17. Lessors will continue to classify all leases using the same classification principle as in IAS 17 and distinguish between two types of leases: operating and finance leases. IFRS 16 also requires lessees and lessors to make more extensive disclosures than under IAS 17. IFRS 16 is effective for annual periods beginning on or after 1 January 2019. Early application is permitted, but not before an entity applies IFRS 15. A lessee can choose to apply the standard using either a full retrospective or a modified retrospective approach. The standard's transition provisions permit certain reliefs. The Bank does not anticipate early adopting IFRS 16 and will continue to assess the potential effect on its financial statements.

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 amendment will not have an impact on the Bank as it does not have insurance contracts.

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 assessing the potential impact of the standard on the financial statements

IFRIC Interpretation 23 Uncertainty over Income Tax Treatments

Effective for annual periods beginning on or after 1 January 2019.
In June 2017, the IASB issued IFRIC Interpretation 23 Uncertainty over Income Tax Treatments which clarifies application of the recognition and measurement requirements in IAS 12 Income Taxes when there is uncertainty over income tax treatments.

The interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of IAS 12. The interpretation does not apply to taxes or levies outside the scope of IAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments.

The interpretation specifically addresses the following:
- Whether an entity considers uncertain tax treatments separately
- The assumptions an entity makes about the examination of tax treatments by taxation authorities
- How an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates
- How an entity considers changes in facts and circumstances

An entity has to determine whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments. The approach that better predicts the resolution of the uncertainty should be followed. The Bank is assessing the potential impact of the standard on the financial statements

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

In December 2015, the IASB decided to defer the effective date of the amendments until such time as it has finalised any amendments that result from its research project on the equity method. Early application of the amendments is still permitted.

The amendments address the conflict between IFRS 10 Consolidated Financial Statements and IAS 28 Investments in Associates and Joint Ventures 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 a full gain or loss is recognised when a transfer to an associate or joint venture involves a business as defined in IFRS 3 Business Combinations. Any gain or loss resulting from the sale or contribution of assets that does not constitute a business, however, is recognised only to the extent of unrelated investors' interests in the associate or joint venture.

The amendments are intended to eliminate diversity in practice and give preparers a consistent set of principles to apply for such transactions. However, the application of the definition of a business is judgemental and entities need to consider the definition carefully in such transactions. The Bank is assessing the potential impact of the standard on the financial statements

IFRIC Interpretation 23 Uncertainty over Income Tax Treatments

Applying the interpretation could be challenging for entities, particularly those that operate in more complex multinational tax environments. Entities may also need to evaluate whether they have established appropriate processes and procedures to obtain information on a timely basis that is necessary to apply the requirements in the interpretation and make the required disclosures. The Bank is currently evaluating its impact of the standard on the financial statements.

AIP IFRS 1 First-time Adoption of International Financial Reporting Standards - Deletion of shortterm 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. The standard is not expected to have any impact on the financial statements.

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 clarify 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. The Bank currently does not have Investments in Associates and Joint Ventures.

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.
The standard is not expected to have any impact on the financial statements of the Bank

IFRS 17 Insurance Contracts-

On May 18, 2017, the IASB issued IFRS 17 Insurance Contracts, which provides a comprehensive principle-based framework for the measurement and presentation of all insurance contracts. The new standard will replace IFRS 4 Insurance Contracts and requires insurance contracts to be measured using current fulfilment cash flows and for revenue to be recognized as the service is provided over the coverage period. The standard is effective for the Bank on November 1, 2021. The standard is not expected to have any impact on the financial statements of the Bank

AIP IFRS 3 Business Combinations- Previously held Interests in a joint operation

Previously held Interests in a joint operation

- The amendments clarify that, when an entity obtains control of a business that is a joint operation, it applies the requirements for a business combination achieved in stages, including remeasuring previously held interests in the assets and liabilities of the joint operation at fair value.
- In doing so, the acquirer remeasures its entire previously held interest in the joint operation.
- An entity applies those amendments to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 January 2019. Earlier application is permitted.

The standard is not expected to have any impact on the financial statements of the Bank

AIP IAS 12 Income Taxes- Income tax consequences of payments on financial instruments classified as equity

Income tax consequences of payments on financial instruments classified as equity

The amendments clarify that the income tax consequences of dividends are linked more directly to past transactions or events that generated distributable profits than to distributions to owners. Therefore, an entity recognises the income tax consequences of dividends in profit or loss, other comprehensive income or equity according to where the entity originally recognised those past transactions or events.

An entity applies those amendments for annual reporting periods beginning on or after 1 January 2019. Earlier application is permitted. When an entity first applies those amendments, it applies them to the income tax consequences of dividends recognised on or after the beginning of the earliest comparative period. The Bank is assessing the potential impact of the standard on the financial statements

AIP IFRS 11 Joint Arrangements- held Interests in a joint operation

A party that participates in, but does not have joint control of, a joint operation might obtain joint control of the joint operation in which the activity of the joint operation constitutes a business as defined in IFRS 3. The amendments clarify that the previously held interests in that joint operation are not remeasured.mAn entity applies those amendments to transactions in which it obtains joint control on or after the beginning of the first annual reporting period beginning on or after 1 January 2019. Earlier application is permitted. The standard is not expected to have any impact on the financial statements of the Bank

AIP IAS 28 Investments in Associates and Joint Ventures - Clarification that measuring investees at fair value through profit or loss is an investment - by -investment

The amendments clarify that an entity applies IFRS 9 Financial Instruments to long-term interests in an associate or joint venture to which the equity method is not applied but that, in substance, form part of the net investment in the associate or joint venture (long-term interests). Entities must apply the amendments retrospectively, with certain exceptions. Early application of the amendments is permitted and must be disclosed. The standard is not expected to have any impact on the financial statements of the Bank

AIP IAS 23 Borrowing Costs - Borrowing costs eligible for capitalisation

The amendments clarify that an entity treats as part of general borrowings any borrowing originally made to develop a qualifying asset when substantially all of the activities necessary to prepare that asset for its intended use or sale are complete.

An entity applies those amendments to borrowing costs incurred on or after the beginning of the annual reporting period in which the entity first applies those amendments.
An entity applies those amendments for annual reporting periods beginning on or after 1 January 2019. Earlier application is permitted. The Bank is assessing the potential impact of the standard on the financial statements

Prepayment Features with Negative Compensation Amendments to IFRS 9

Under IFRS 9, a debt instrument can be measured at amortised cost or at fair value through other comprehensive income, provided that the contractual cash flows are 'solely payments of principal and interest on the principal amount outstanding' (the SPPI criterion) and the instrument is held within the appropriate business model for that classification. The amendments to IFRS 9 clarify that a financial asset passes the SPPI criterion regardless of the event or circumstance that causes the early termination of the contract and irrespective of which party pays or receives reasonable compensation for the early termination of the contract.

The basis for conclusions to the amendments clarified that the early termination can result from a contractual term or from an event outside the control of the parties to the contract, such as a change in law or regulation leading to the early termination of the contract.

The amendments are intended to apply where the prepayment amount approximates to unpaid amounts of principal and interest plus or minus an amount that reflects the change in a benchmark interest rate. This implies that prepayments at current fair value or at an amount that includes the fair value of the cost to terminate an associated hedging instrument, will normally satisfy the SPPI criterion only if other elements of the change in fair value, such as the effects of credit risk or liquidity, are small. Most likely, the costs to terminate a 'plain vanilla' interest rate swap that is collateralised, so as to minimise the credit risks for the parties to the swap, will meet this requirement.

The amendments must be applied retrospectively; earlier application is permitted. The amendment provides specific transition provisions if it is only applied in 2019 rather than in 2018 with the remainder of IFRS 9. The Bank is assessing the potential impact of the standard on the financial statements

(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 3 (ii) (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 profits 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 and 22).

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 contingent liabilities, see Notes 2(m) and 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

For all financial instruments measured at amortised cost, interest bearing financial assets classified as available-for-sale and financial instruments designated at FVPL, interest income or expense is recorded using the effective interest rate (EIR). The EIR is the rate that exactly discounts the estimated future cash receipts over the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset. Interest income is included in profit or loss. The calculation takes into account all of the contractual terms of the financial instrument and includes any fees or incremental costs that are directly attributable to the instrument and are an integral part of the EIR, but not future credit losses.

When the recorded value of a financial asset or a group of similar financial assets has been reduced by an impairment loss, interest income continues to be recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

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 financial liabilities measured at amortised cost calculated on an effective interest basis.

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.

Fee and commission expenses relate 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 losses.

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 as follows:

Motor vehicles	25.0%
Computer hardware and software	30.0%
Equipment, furniture, fixtures and fittings	12.5%

Leasehold improvements are written off over their estimated useful life or the lease period, whichever is shorter.

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

An item of 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 income in the profit or loss 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 and are assessed for impairment whenever there is an indication that the intangible asset may be impaired. 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. An intangible asset initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal.

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the statement of profit or loss when the asset is derecognised.

(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 as a 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.

(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).

(i) 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 banks derivative instruments are included in this category.

(ii) 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.

(iv) 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 classified in 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) 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.

(j) 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.

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 advances, 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 merit, 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.

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.

(k) 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 from 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.

(l) 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.

(m) 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.

(n) 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.

(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 (2016: nil).

(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. The financial information presented in Kenya Shillings has been rounded to the nearest thousand (KShs'000), except where otherwise indicated.

(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 to the functional currency at the spot rate of exchange at the reporting date. All differences arising from settlement and translation of monetary items are recognised in other income in profit or loss.

Non-monetary items carried at fair value that are denominated in foreign currencies are translated 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 recognition. 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).

(p) 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's contributions to the scheme are charged to 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.

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.

(q) 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.

(r) 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 deposits and balances due to banks. Cash and cash equivalents are measured at amortised cost.

(s) Dividends

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

(t) 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 exceed the carrying amount that would have been determined, net of depreciation or amortisation, 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. However, it has 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 an 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.

(c) 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.

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.

(ii) 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

	2017 KShs'000	%	2016 KShs'000	%
Agriculture	1,566,188	24	1,966,831	31
Manufacturing	153,169	2	358,874	6
Wholesale and retail	371,876	6	79,902	1
Transport and communication	371,876	6	337,102	5
Real estate	671,977	10	642,525	10
Social community and personal services	202,707	3	440,859	7
Business services	101,587	1	103,868	2
Other	3,164,740	48	2,437,468	38
	6,604,120	100	6,367,429	100

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

	2017 KShs'000	%	2016 KShs'000	%
Agriculture	24,981	3	24,979	3
Manufacturing	30,961	5	14,010	2
Wholesale and retail	25,094	3	5,990	1
Transport and communication	154,804	20	162,348	22
Real estate	15,480	2	18,033	2
Social community and personal services	27,328	3	20,521	3
Business services	193,506	25	190,862	26
Other	301,869	39	298,033	41
	774,023	100	734,776	100

(ii) Maximum exposure to credit risk before collateral held

	2017 KShs'000	%	2016 KShs'000	%
Credit exposures:				
Items reported in the statement of financial position:				
Balances held with Central Bank of Kenya	524,657	5	513,566	5
Deposits and balances due from banking institutions	480,749	5	464,889	5
Loans and advances to customers – net	6,604,120	64	6,367,429	63
Government securities held to maturity	1,630,439	16	1,932,498	19
	9,239,965	90	9,278,382	92
Items not reported in the statement of financial position:				
Letters of credit	223,741	2	206,854	2
Letters of guarantees and performance bonds	550,281	5	527,922	5
Foreign exchange forward contracts	325,650	3	61,558	1
	1,099,672	10	796,334	8
	10,339,637	100	10,074,716	100

(iii) Classification of loans and advances

	2017 KShs'000	2016 KShs'000
Individually impaired		
Grade 5: Impaired (loss)	1,015,960	389,210
Grade 3 & 4: Impaired (substandard and doubtful)	579,287	346,931
Gross amount	1,595,247	736,141
Allowance for impairment (note 17)	(503,620)	(366,021)
Carrying amount	1,091,627	370,120
Past due but not impaired		
Watch (30-90 days)	1,962,540	3,452,744
Allowance for impairment (note 17)	(91,487)	(165,938)
	1,871,053	3,286,806
Neither past due nor impaired		
Grade 1: Normal	3,641,440	2,710,503
Total carrying amount	6,604,120	6,367,429

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.

	2017 KShs'000	2016 KShs'000
Renegotiated loans	372,065	817,382

(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'00
31 December 2017		
Grade 5: Individually impaired	1,015,960	422,496
Grade 3 & 4: Individually impaired	579,287	669,131
Total	1,595,247	1,091,627
31 December 2016		
Grade 5: Individually impaired	389,215	133,768
Grade 3 & 4: Individually impaired	346,931	236,352
Total	736,146	370,120

(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 2017.

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.

	2017 KShs'000	2016 KShs'00
Against individually impaired:		
Property	411,259	408,533
Other*	141,241	197,516
	552,500	606,049
Against collectively impaired:		
Property	4,202,801	3,083,408
Other*	512,050	216,427
	4,714,851	3,299,835
Against past due but not impaired		
Property	4,202,744	3,453,755
Other*	398,459	300,326
	4,601,203	3,754,081
Total	9,868,554	7,659,965

*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 counterparty 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:

	2017	2016
At 31 December	24%	24%
Average for the period	31%	29%
Maximum for the period	38%	39%
Minimum for the period	24%	22%
Statutory Minimum requirement	20%	20%

Liquidity risk based on undiscounted cash flows

The table below 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.

At 31 December 2017	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	6,007,484	1,595,698	338,998	-	-	-	7,942,180
Financial guarantee contracts	1,099,672	-	-	-	-	-	1,099,672
Other liabilities	126,043	-	-	-	-	-	126,043
Due to banking institutions	51,625	-	-	-	-	-	51,625
	7,284,824	1,595,698	338,998	-	-	-	9,219,520
FINANCIAL ASSETS							
Cash balances	419,599	-	-	-	-	-	419,599
Bank balances with the Central Bank of Kenya	524,657	-	-	-	-	-	524,657
Deposits and balances due from banking institutions	480,749	-	-	-	-	-	480,749
Financial derivatives	215	-	-	-	-	-	215
Loans and advances to customers	1,395,690	782,703	1,137,964	2,335,041	572,830	391,611	6,615,839
Other assets	97,266	-	-	-	-	-	97,266
Government securities	-	-	-	645,282	151,892	1,024,969	1,822,143
	2,918,176	782,703	1,137,964	2,980,323	724,722	1,416,580	9,960,468
Net liquidity gap	(4,366,648)	(812,995)	798,966	2,980,323	724,722	1,416,580	740,948
At 31 December 2016							
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 derivatives	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

(c) Market risks

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices, such as interest rates, equity prices, foreign exchange rates and credit spreads (not relating to changes in the obligor's / issuer's credit standing). 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 below 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.

At 31 December 2017	Upto 3 months KShs'000	3-6 months KShs'000	6-12 months KShs'000	1-3 years KShs'000	Over 3 years KShs'000	Non-interest bearing KShs'000	Total KShs'000
FINANCIAL ASSETS							
Cash balances	-	-	-	-	-	419,599	419,599
Bank balances with the Central Bank of Kenya	-	-	-	-	-	524,657	524,657
Deposits and balances due from banking institutions	480,749	-	-	-	-	-	480,749
Loans and advances to customers	1,395,690	782,703	1,137,964	2,335,041	952,722	-	6,604,120
Government securities	-	-	-	742,540	887,899	-	1,630,439
TOTAL FINANCIAL ASSETS	1,876,439	782,703	1,137,964	3,077,581	1,840,621	944,256	9,659,564
FINANCIAL LIABILITIES							
Customer deposits	3,474,981	1,595,698	295,314	-	-	2,532,503	7,898,496
Due to banking institutions	51,625	-	-	-	-	-	51,625
TOTAL FINANCIAL LIABILITIES	3,526,606	1,595,698	295,314	-	-	2,532,503	7,950,121
INTEREST SENSITIVITY GAP	(1,650,167)	(812,995)	842,650	3,077,581	1,840,621	(1,588,247)	1,709,443
At 31 December 2016							
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
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

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 on financial instruments with variable interest rates
- 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	**2017 Carrying amount KShs'000**	**1% increase**	**1% decrease**	**2016 Carrying amount KShs'000**	**1% increase**	**1% decrease**
Deposits and balances due from banks	480,749	4,808	(4,808)	464,889	4,649	(4,649)
Held to maturity investments	1,626,025	16,304	(16,304)	1,932,498	19,325	(19,325)
Loans and advances to customers	6,604,120	66,041	(66,041)	6,367,429	63,674	(63,674)
		87,153	(87,153)		87,648	(87,648)
LIABILITIES AND EQUITY						
Due to banking institutions	51,625	516	(516)	102,500	1,025	(1,025)
Customers deposits	5,409,677	54,097	(54,097)	5,396,007	53,960	(53,960)
		54,613	(54,613)		54,985	(54,985)
Effect on profit before tax		32,540	(32,540)		32,663	(32,663)
As percentage of profit before tax (%)		60%	(60%)		20%	(20%)
Effect on equity		22,778	(22,778)		22,864	(22,864)
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 2017	USD KShs'000	GBP KShs'000	EURO KShs'000	Others KShs'000	Total KShs'000
FINANCIAL ASSETS					
Cash balances	14,838	398	4,265	2,593	22,094
Bank balances with Central Bank of Kenya	1,115	5,600	7,782	669	15,166
Deposits and balances due from banking institutions	171,073	41,434	61,600	2,501	276,608
Loans and advances to customers	271,567	274	67,997	-	339,838
Total financial assets	458,593	47,706	141,644	5,763	653,706
FINANCIAL LIABILITIES					
Customer deposits	136,705	34,869	19,337	13	190,924
Total financial liabilities	136,705	34,869	19,337	13	190,924
Net items reported in statement of financial position	321,888	12,837	122,307	5,750	462,782
At 31 December 2016					
Total financial assets	518,763	57,408	192,072	99,275	867,518
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

Foreign currency risk stress test-appreciation/depreciation of Kenya shilling by 5%

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 table below summarises the estimated impact of a 5% decline/appreciation of the Kenya Shilling.

	2017			2016		
	Carrying amount KShs'000	5% appreciation	5% depreciation	Carrying amount KShs'000	5% appreciation	5% depreciation
Foreign Currency Assets:						
USD	458,593	(22,929)	22,929	518,763	(25,938)	25,938
GBP	47,706	(2,385)	2,385	57,408	(2,870)	2,870
EURO	141,644	(7,082)	7,082	192,072	(9,603)	9,603
Others	5,763	(288)	288	99,275	(4,963)	4,963
		(32,684)	32,684		(43,374)	(43,374)
Foreign Currency Liabilities:						
USD	136,705	6,835	(6,835)	353,540	17,677	(17,677)
GBP	34869	1,743	(1,743)	215	10	(10)
EURO	19,337	966	(966)	74,359	3,717	(3,717)
Others	13	-	-		-	-
		9,544	(9,544)		21,404	(21,404)
Effect on profit before tax		(23,140)	23,140		(21,970)	(64,778)
As percentage(%) of profit before tax		(35.75%)	35.75%		(13.73%)	13.73%
Effect on equity		(16,198)	16,198		(15,379)	15,379
As percentage(%) of equity		(0.77%)	0.77%		(0.73%)	0.63%
Adjusted core capital		2,090,456	2,122,852		2,066,540	2,097,298
Risk weighted assets (RWA)		10,133,908	10,166,304		10,357,062	10,387,820
Adjusted core capital to RWA		20.63%	20.88%		19.95%	20.19%

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 bank 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 of the bank's financial instruments:

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 equivalents	Discounted cash flow	Fixed rate and fixed time period
Loans and advances to customers	Discounted cash flow	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

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

As at 31 December 2017	**Level 1 KShs'000**	**Level 2 KShs'000**	**Level 3 KShs'000**	**Total KShs'000**
Financial assets fair value disclosures				
Cash and balances with Central Bank of Kenya		944,256		944,256
Cash balances and deposits in financial institutions		480,749	-	480,749
Derivatives	-	215	-	215
Loans and advances	-	6,615,839	-	6,615,839
Held-to-maturity-Treasury bonds	1,822,143	-	-	1,822,143
Other assets	-	97,266	-	97,266
Total financial assets at fair value	1,822,143	8,138,325	-	9,960,468
Financial liabilities fair value disclosures				
Deposits from customers	-	(7,942,180)	-	(7,942,180)
Other liabilities	-	(126,043)	-	(126,043)
Total liabilities at fair value	-	(8,068,223)	-	(8,068,223)

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
Other assets	-	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

There were no transfers between levels 1, 2 and 3 in the period (2016: Nil).

There were no financial assets or financial liabilities measured at fair value on level 3 fair value measurement (2016: 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 2017:	Held to maturity KShs'000	Loans and receivables 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	-	944,256	-	-	944,256
Deposits and balances due from banking institutions	-	480,749	-	-	480,749
Financial derivatives	-	-	215	-	215
Held to maturity investments	1,822,143	-		-	1,822,143
Loans and advances to customers		6,604,120		-	6,604,120
Other assets	-	97,266	-	-	97,266
Total assets	1,822,143	8,126,391	215	-	9,948,749
Liabilities					
Balances due to banks and financial institutions	-	-	-	51,625	51,625
Deposits from customers	-	-		7,942,180	7,942,180
Other liabilities	-	-	-	126,043	126,043
Total liabilities	-	-	-	8,119,848	8,119,848

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	-	-	-	102,726
Total assets	**1,932,498**	**7758402**	**-**	**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**

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 2017.
- 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:

	2017 KShs'000	2016 KShs'000
Tier 1 capital		
Total share capital	1,000,000	1,000,000
Share premium	42,236	42,236
Retained earnings	914,342	934,832
Total	1,956,578	1,977,068
Tier 2 capital		
Statutory reserve	121,774	104,851
Total regulatory capital	2,078,352	2,081,919
Risk-weighted assets		
Retail bank, corporate bank and central treasury	10,242,049	9,334,734
Total risk weighted assets	10,242,049	9,334,734
Capital ratios		
Total regulatory capital expressed as a percentage of total risk-weighted assets	20%	21%
Total tier 1 capital expressed as a percentage of total risk-weighted assets	19%	20%

	2017 KShs'000	2016 KShs'000
5. INTEREST INCOME		
Loans and advances	938,182	1,205,476
Government securities held to maturity	162,619	214,488
Deposits and balances due from banking institutions	21,475	9,850
	1,122,276	1,429,814
6. INTEREST EXPENSE		
Interest on customer deposits	425,501	520,116
Interest on deposits due to banking institutions	9,892	41,436
	435,393	561,552
7. FEES AND COMMISSION INCOME		
Commissions	202,880	160,072
Ledger related fees	28,754	25,963
	231,634	186,035
8. OTHER INCOME		
Gain on sale of treasury bonds	19,363	-
Gain on disposal of equipment	310	81
Miscellaneous income	3,534	1,769
Foreign exchange gains*	30,322	29,872
	53,529	31,722

*Foreign exchange gains arose from foreign currency transactions and translation of foreign currency monetary assets and liabilities.

9. OTHER OPERATING EXPENSES

	2017 KShs'000	2016 KShs'00
Staff costs (note 10)	406,420	392,055
Directors' emoluments – fees	7,117	8,147
Other emoluments	9,502	14,925
Other expenses	65,044	75,074
Rent and parking	80,735	88,910
Depreciation (note 20)	59,390	52,412
Computer maintenance	25,921	23,945
Security services	49,686	42,581
Amortisation of intangible assets (note 21)	40,563	42,649
Telephone, data and postage	36,568	29,476
Insurance	19,000	18,525
Advertising and marketing	8,429	13,792
Stationery and supplies	11,337	10,301
Information system audit	-	1,850
Auditor's remuneration	7,000	3,270
Contribution to Central Depository and Settlement Protection	11,102	11,241
	837,814	829,153

	2017 KShs'000	2016 KShs'000
10. STAFF COSTS		
Salaries and wages	332,960	326,741
Pension costs - defined contribution plan	21,283	19,862
Provision for leave pay	24,113	16,057
Medical expenses	14,484	13,633
National Social Security Fund contributions	626	558
Other staff costs*	4,951	8,779
Refreshments and entertainment	8,003	6,425
	406,420	392,055

*Other staff costs include cost incurred staff training, utilities and uniform

11. TAXATION

	2017 KShs'000	2016 KShs'000
(a) Taxation charge Current taxation based on the taxable profit for the year at 30%		
Current tax charge	43,208	84,173
Adjustment in respect of current year income tax of previous year	2,600	-
Deferred taxation credit (note 22)	(28,257)	(33,279)
Taxation charge	17,551	50,894
(b) Reconciliation of tax charge to the expected taxation based on accounting profit		
Profit before taxation	53,984	160,024
Tax at the applicable rate of 30%	16,195	48,007
Adjustment in respect of current income tax of prior years	2,600	-
Tax effect of expenses not deductible for tax purposes	3,533	11,104
Income not subject to tax	(4,777)	(8,217)
Taxation charge for the year	17,551	50,894
(c) Tax (recoverable) / payable		
At the beginning of the year	(33,348)	26,809
Charge for the year	43,208	84,172
Adjustment in respect of current income tax of prior years	2,600	-
Payments during the year	(18,591)	(144,329)
At end of the year	(6,131)	(33,348)

12. EARNINGS PER SHARE

	2017 KShs'000	2016 KShs'000
Profit attributable to owners of the Bank – KShs	36,433	109,130
Ordinary Shares At 1 January and 31 December (note 26)	200,000,000	200,000,000
Basic earnings per share – KShs	0.18	0.55

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 2017 and 31 December 2016, respectively.

13. CASH AND BALANCES WITH CENTRAL BANK OF KENYA

	2017 KShs'000	2016 KShs'000
Cash on hand	419,599	309,792
Balances with Central Bank of Kenya:		
Cash ratio requirement	413,918	411,663
Cash held under lien	11,357	10,245
Cash with Central Bank of Kenya	99,382	91,658
	524,657	513,566
	944,256	823,358

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 2017, the cash ratio requirement was 5.25% (2016 – 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 110,000 (2016 – USD 110,000). 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

	2017 KShs'000	2016 KShs'000
Current accounts due on demand	480,749	464,889

The weighted average effective interest rate on deposits with banking institutions as at 31 December 2017 was 6.59% (2016 – 6.51%) and nil for current account balances.

	2017 KShs'000	2016 KShs'000

15. DERIVATIVES

At 31 December 2017

Maturing within 3 months	Contract exchange rate 2017	Foreign currency 2017 $'000	Contract value 2017 KShs'000	Fair value asset 2017 KShs'000
Sell USD	103.20	250	25,800	(13)
	103.50	1,400	144,900	350
	103.05	500	51,525	(100)
	103.60	500	51,800	175
Sell EUR	122.40	200	51,625	(197)
			325,650	215

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	102.7	350	35,945	70
Sell USD	102.45	250	25,613	(12)
			61,558	58

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 103.25 to US Dollar and KShs 123.38 to EUROin 2017 (2016 - KShs 102.5 to 1 US Dollar).

16. LOANS AND ADVANCES TO CUSTOMERS

	2017 KShs'000	2016 KShs'000
(a) Loans and advances to customers	6,903,312	6,523,156
Staff loans (note 32(b)	295,915	376,232
	7,199,227	6,899,388
Less Impairment loss on loans and advances (note 17)	(595,107)	(531,959)
	6,604,120	6,367,429

(b Non performing loans and advances to customers

Included in net loans and advances of KShs 6,604,120,000 (2016 - KShs 6,367,429,000) are loans and advances amounting to KShs 1,091,627 (2016 - KShs 370,120,237), net of specific provisions, which have been classified as non-performing.

	2017 KShs'000	2016 KShs'000
(C) Maturity of gross loans and advances		
Maturing:		
Up to one month	1,129,445	1,629,772
1-3 months	549,386	947,961
3-6 months	891,602	425,073
6-12 months	1,225,083	1,322,601
1-3 years	2,373,931	1,391,010
3-5 years	622,224	817,592
Over 5 years	407,556	365,379
Loans and advances to customers (gross)	7,199,227	6,899,388

GROSS LOANS AND ADVANCES TO CUSTOMERS

Overdraft	1,563,879	1,571,299
Term loan	5,635,348	5,328,089
Loans and advances to customers (gross)	7,199,227	6,899,388

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 and policies.

17. IMPAIRMENT LOSSES ON LOANS AND ADVANCES

	2017 KShs'000	2016 KShs'000
At 1 January	531,959	439,210
Provisions in the year	80,248	96,842
Written off in the year	(17,100)	(4,093)
	595,107	531,959
Make up:		
Individually impaired	503,620	366,021
Past due but not impaired	91,487	165,938
	595,107	531,959

18. GOVERNMENT SECURITIES

	2017 KShs'000	2016 KShs'000
Treasury bonds – Held to maturity		
maturing within 90 days	-	171,377
maturing between 90 days to 1 year	-	36,961
maturing between 1 - 2 years	524,454	-
maturing after 2 years but within 5 years	127,449	737,126
maturing after 5 years	978,536	987,034
	1,630,439	1,932,498

The weighted average effective interest rate on held-to-maturity investments as at 31 December 2017 was 9.88% (2016 – 9.85%).

19. OTHER ASSETS

	2017 KShs'000	2016 KShs'000
Clearing and transit items	97,266	102,726
Deposits and prepayments	11,792	10,556
Interest receivable	29,152	101,504
Sundry debtors	97,134	151,439
Deposits	756	21,738
Other assets	-	29,975
	236,100	417,938

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 2017	205,958	331,826	12,536	550,320
Additions	30,648	36,553	-	67,201
Disposals	-	-	(650)	(650)
Transfers	-	(2,776)	-	(2,776)
At 31 December 2017	236,606	365,603	11,886	614,095
DEPRECIATION				
At 1 January 2017	140,636	226,620	10,780	378,036
Charge for the year	23,650	34,527	1,213	59,390
Disposals	-	-	(650)	(650)
Transfers	-	(938)	-	(938)
At 31 December 2017	164,286	260,209	11,343	435,838
NET CARRYING AMOUNT				
At 31 December 2017	72,320	105,394	543	178,257
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

Transfer relates to damaged ATM that had been erroneously capitalised. However the amount is receivable from the insurance company and the amount is included under other assets.

The bank has not pledged any property and equipment as security for liabilities.

21. INTANGIBLE ASSETS

	2017 KShs'000	2016 KShs'000
Computer Software		
COST		
At 1 January	205,298	195,571
Additions	12,768	9,727
At 31 December	218,066	205,298
AMORTISATION		
At 1 January	139,133	96,484
Charge for the year	40,563	42,649
At 31 December	179,696	139,133
NET CARRYING AMOUNT		
At 31 December	38,370	66,165

22. DEFERRED TAX ASSET

Movement in deferred tax asset is as follows:

	2017 KShs'000	2016 KShs'000
The deferred tax asset is attributable to the following items:		
Accelerated capital allowances	16,391	29,558
Provisions		
- Leave pay	1,938	2,658
- Legal fees	850	2,484
- Gratuity and union salary increment	1,246	600
- Other provisions	102,306	59,174
	122,731	94,474
The movement in deferred tax asset is as follows:		
At 1 January	94,474	61,195
Credit to profit or loss		
Credit to profit or loss - Note 11(a)	28,257	33,279
At 31 December	122,731	94,474

23. DEPOSITS AND BALANCES DUE TO OTHER BANKS

	2017 KShs'000	2016 KShs'000
Demand accounts	51,625	102,500

The average effective interest rate on deposits and balances due to banking institutions at 31 December 2017 was 4.5% (2016: 4%).

24. CUSTOMER DEPOSITS

	2017 KShs'000	2016 KShs'000
Current and demand accounts	2,992,210	2,603,995
Savings accounts	952,583	441,864
Fixed and call deposit accounts	3,953,703	4,954,143
	7,898,496	8,000,002

MATURITY ANALYSIS OF CUSTOMER DEPOSITS

	2017 KShs'000	2016 KShs'000
Repayable:		
Within one month	3,604,490	4,586,132
Within 1 - 3 months	2,402,994	2,204,841
Within 3 - 6 months	1,595,698	997,386
Within 6-12 months	295,314	211,643
Within 1-3 years	-	-
	7,898,496	8,000,002

The weighted average effective interest rate on interest bearing customer deposits at 31 December 2017 was 5.2% (2016 – 5.4%).

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

25. OTHER LIABILITIES

	2017 KShs'000	2016 KShs'000
Bankers cheques outstanding	73,521	69,661
Deposits for letters of credit and letters of guarantee	52,522	2,233
Provision for leave pay	10,113	9,280
Legal fees provision	2,826	8,280
Other liabilities and accruals	73,913	98,566
	212,895	188,020

Other liabilities and accruals relate to bills payable, sundry creditors and accruals. They are payable on demand and the balances are non-interest bearing.

26. SHARE CAPITAL

	2017 KShs'000	2016 KShs'000
Authorised :-		
230,000,000 (2016- 230,000,000) ordinary shares of KShs 5 each	1,150,000	1,150,000
Issued and fully paid:-		
200,000,000 (2016 - 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

The 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 each.

28. STATUTORY RESERVE

	2017 KShs'000	2016 KShs'000
At 1 January	104,851	104,851
Transfer from retained earnings	16,923	-
At 31 December	121,774	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 computed in accordance with IAS 39. The statutory reserve is not distributable.

29. NOTES TO THE STATEMENT OF CASH FLOWS

	Notes	2017 KShs'000	2016 KShs'000
(a) Reconciliation of profit before taxation to cash used in operating activities			
Profit before taxation		53,984	160,024
Depreciation	20	59,390	52,412
Amortisation of intangible assets	21	40,563	42,649
Provisions for leave pay	10	24,113	16,057
Gain on disposal of equipment		(310)	(85)
Impairment losses on loans and advances	17	80,248	96,842
Unrealised exchange differences		(18,596)	(18,267)
Cash flows from operating activities before changes in operating assets and liabilities		239,392	349,632
Changes in operating assets and liabilities			
Loans and advances to customers		(224,089)	189,328
Other assets		181,838	(118,689)
Customer deposits		(101,506)	248,256
Other liabilities		24,875	(130,589)
Financial liability – derivatives		157	4
Movement in restricted balances with Central Bank of Kenya			
Cash ratio requirement	13	3,008	(20,031)
Cash held under lien	13	1,112	2,017
Cash flows (used in)/generated from operating activities		124,787	519,928
(b) Analysis of cash and cash equivalents			
Cash on hand	13	419,599	309,792
Cash with Central Bank of Kenya	13	109,986	91,658
Deposits and balances due from banking institutions	13	480,749	464,889
Deposits and balances due to banks	23	(51,625)	(102,500)
Cash and cash equivalents		958,709	763,840

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. 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.

	2017 KShs'000	2016 KShs'000
At 1 January	-	1,353
Dividends declared	40,000	60,000
Dividends paid	(40,000)	(61,353)
At 31 December	-	-

(b) Proposed dividend

Proposed dividends are not accounted for until they have been ratified at the Annual General Meeting. The directors do not recommend the payment of a dividend (2016 - KShs 40 million). At the forthcoming annual general meeting, no dividend in respect of 2017 (2016: KShs 0.2 cents) is to be proposed.

31. CONTINGENT LIABILITIES AND COMMITMENTS INCLUDING OFF BALANCE SHEET ITEMS

	2017 KShs'000	2016 KShs'000
(a) Contingent liabilities		
Letters of credit	223,741	206,854
Guarantees	550,281	527,922
Forward exchange contracts	325,650	61,558
	1,099,672	796,334

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.

(b) Commitments

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

	2017 KShs'000	2016 KShs'000
(i) Capital: Authorised and contracted for	14,200	33,000
(ii) Capital: Authorised and not contracted for	83,400	104,000
(iii) Loans committed but not disbursed at year end	165,700	214,200

(c) Operating lease arrangements

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. During the year ended 31 December 2017, KShs 77,240,283 (2016: KShs 85,810,000) was recognised as an expense in profit or loss account in respect of operating leases. Future minimum rentals payable under non-cancellable operating leases as at 31st December are shown below.

	2017 KShs'000	2016 KShs'000
Within one year	78,982	71,998
Between 2 and 5 years	346,401	308,085
	425,383	380,083

(d) Litigations against the bank

Litigation against the bank relates to civil suits lodged against the Bank by customers and employees in the normal course of business. It is not possible to estimate the Bank's possible loss in relation to these matters, nor the effect that they might have upon operating results in any particular financial period. The Directors, however, do not anticipate that any liability will accrue from the pending suits

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 28,263,350 (2016 - KShs 26,063,948).

(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 for advances to directors, employees of the Bank and other related parties in the ordinary course of business is as follows :

	2017 KShs'000	2016 KShs'000
Directors and associate companies	609,811	740,925
Employees	295,915	376,232
	905,726	1,117,157
Interest earned		
Directors and associate companies	94,762	98,432
Employees	34,981	36,703
Weighted average interest rate	6.52%	6.58%

The loans are secured by property mortgage and are repayable in a period of 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 (2016-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 :

	2017 KShs'000	2016 KShs'000
Employees	34,672	30,411
Directors and associate companies	985,682	1,058,297
Interest expensed	16,356	17,372
Weighted average interest rate	6.89%	7.04%

(d) Compensation of key management personnel

	2017	2016
Directors' emoluments:		
-Fees	7,117	8,148
-Other Allowances*	9,502	14,926
	16,619	23,074
Senior Managers:		
-Short-term employee benefits	49,662	48,267
-Post-employment benefits	2,736	2,155
	52,398	50,422

*Relates to directors travel expenses, accommodations and AGM package

33. ASSET PLEDGED AS SECURITY

As at 31 December 2017, assets pledged as security comprised balances with the Central Bank of Kenya under lien for Domestic Foreign Currency clearing amounting to USD 110,000 (2016: USD 110,000).

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.

At 31 December 2017

	Within 12 months KShs '000	After 12 months KShs '000	2017 KShs'000
ASSETS			
Cash and balances with Central Bank of Kenya	944,256	-	944,256
Deposits and balances due from banking institutions	480,749	-	480,749
Financial derivatives	215	-	215
Loans and advances to customers	3,597,147	3,006,973	6,604,120
Government securities	-	1,630,439	1,630,439
Tax recoverable	6,131	-	6,131
Other assets	236,100	-	236,100
Property and equipment	-	178,257	178,257
Intangible assets	-	38,370	38,370
Deferred tax asset	-	122,731	122,731
TOTAL ASSETS	5,264,598	4,976,770	10,241,368
LIABILITIES			
Due to banking institutions	51,625	-	51,625
Customer deposits	7,898,496	-	7,898,496
Other liabilities	212,895	-	212,895
TOTAL LIABILITIES	8,163,016	-	8,163,016
NET ASSETS	(2,898,418)	4,976,770	2,078,352

At 31 December 2016

	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.

	2017 KShs'000	2016 KShs'000
Commissions – net of expenses	1,681	1,062

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, 2015 and domiciled in Kenya.

38. CURRENCY

The financial statements are presented in thousands of Kenya shillings (KShs'000), which is the Bank's functional and Institutional curency.

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