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PRINCIPAL SHAREHOLDER	Bank of Baroda, India - 86.70%
Country of incorporation and domicile	Kenya

PRINCIPAL OFFICERS

Mr. Saravanakumar A.	Managing Director
Mr. Yogendra Singh Saini	Director -Executive & Head - Operations
Mr. Philip Burh	Branch Head -Industrial Area, Nairobi
Mr. Akshay Goyal	Head Risk Management / Compliance
Mr. Andrew W. Lukuyani	Head - Credit
Mr. Winston Sore	Head - Internal Audit
Mr. Bhavik S. Trivedi	Head - Treasury
Ms. Maria Gorett Makokha	Head - Treasury (Back Office)
Mr. Patrick Sila	Head - Finance
Mr. Lusiji Patrick Kombe	Head - Information Technology
Mr. Dhirajlal N. Shah	Manager - Marketing
Mr. Mukesh Kumar	Branch Head - Digo Rd Branch, Mombasa
Mr. Gopal Saxena	Branch Head - Thika Branch
Mr. Suneel Karanam	Branch Head - Kisumu Branch
Mr. Ajeet Kumar	Branch Head - Sarit Centre Branch
Mr. Digvijay Singh Rawat	Branch Head - Eldoret Branch
Mr. Sanjay Pratap	Branch Head - Nakuru branch
Mr. Anoop Sharma	Branch Head - Nairobi Main Branch, Koinange Street
Mr. Paul M. Kairu	Branch Head - Kakamega Branch
Ms. Neela K. Raj	Branch Head - Nyali Branch, Mombasa
Mr. Elias K. Karanu	Branch Head - Meru Branch
Sri. Krishna VSN Raja	Branch Head - Diamond Plaza, Nairobi
Mr. Prasanta Kumar Padhi	Branch Head - Mombasa Road Branch, Nairobi

REGISTERED OFFICE

Location:	Baroda House, 29 Koinange Street
Postal address:	P.O. Box 30033-00100, Nairobi - Kenya
Telephone:	(020) 2248402, 2248412, 2226416
Fax:	(020) 316070/310439
E-Mail:	kenya@bankofbaroda.com
	ho.kenya@bankofbaroda.com

PRINCIPAL CORRESPONDENT BANKS

Bank of Baroda	Mumbai, india
Bank of Baroda	New York, U.S.A.
Bank of Baroda	London, U.K.
Bank of Baroda	Brussels, Belgium
NedBank Ltd	Johannesburg, South Africa
Bank of Baroda	Sydney, Australia
Bank of India	Tokyo, Japan
Bank of Montreal	Toronto, Canada
Union Bank of Switzerland	Zurich, Switzerland

INDEPENDENT AUDITOR

Grant Thornton
Certified Public Accountants (Kenya)
5th Floor, Avocado Towers
Muthithi Road, Westlands
P.O. Box 46986-00100
Nairobi - Kenya

PRINCIPAL VALUERS

Njihia Njoroge & Co
Crystal Valuers Limited
Datoo Kithiku Limited
Coral Properties Limited
Daytons Valuers Limited

LEGAL ADVISORS

Hamilton Harrison & Mathews Advocates
A.B. Patel & Patel Advocates
Mwaura & Wachira Advocates
Patel & Patel Advocates
Gathaiya & Associates

COMPANY SECRETARIES

Africa Registrars
Certified Public Secretaries
Kenya-Re Towers, Upperhill
P. O. Box 1243-00100
Nairobi

HEAD OFFICE

Baroda House, 29 Koinange Street
P.O. Box 30033, 00100, Nairobi, Kenya
Telephone: (020) 2248402 / 2248412 / 2226416
Fax: (020) 316070/310439
E-mail: kenya@bankofbaroda.com; ho.kenya@bankofbaroda.com

BRANCH NETWORK

Digo Road, Mombasa Branch
Plot No. XXV/61, Kizingo
P.O. Box 90260, 80100
MOMBASA
Telephone: (041) 224507/8, 2226211
Fax: (041) 228607
E-mail: digoro@bankofbaroda.com

Thika Branch
Kenyatta Avenue
P.O. Box 794, 01000
THIKA
Telephone: (067) 2222379, 2230048
Fax: (067) 2230048
E-mail: thika@bankofbaroda.com

Kisumu Branch
Central Square
P.O. Box 966, 40100
KISUMU
Telephone: (057) 2021768/74, 2020303
Fax: (057) 2024375
E-mail: kisumu@bankofbaroda.com

Eldoret Branch
Charotar Patel Plaza, Moi Street
P.O. Box 1517, 30100
ELDORET
Telephone: (053) 2063341
Fax: (053) 2063540
E-mail: eldoret@bankofbaroda.com

Nairobi Main Branch, Koinange Street
Baroda House, 29 Koinange Street
P.O. Box 30033, 00100
NAIROBI
Telephone: (020) 2248402/12
Fax: (020) 310439
E-mail: nairobi@bankofbaroda.com

Industrial Area Branch
Enterprise Road
P.O. Box 18269, 00500
NAIROBI
Telephone: (020) 555971/2/3
Fax: (020) 555943
E-mail: indust.nairobi@bankofbaroda.com

Sarit Centre, Westlands Branch
Lower Ground Floor, Sarit Centre
P.O. Box 886, 00606
NAIROBI
Telephone: (020) 3752590/91
Fax: (020) 3752592
E-mail: sarit@bankofbaroda.com

Diamond Plaza Branch
First Floor, Diamond Plaza
P.O. Box 13709, 00800
NAIROBI
Telephone: (020) 3742257
Fax: (020) 3742263
E-mail: dp.nairobi@bankofbaroda.com

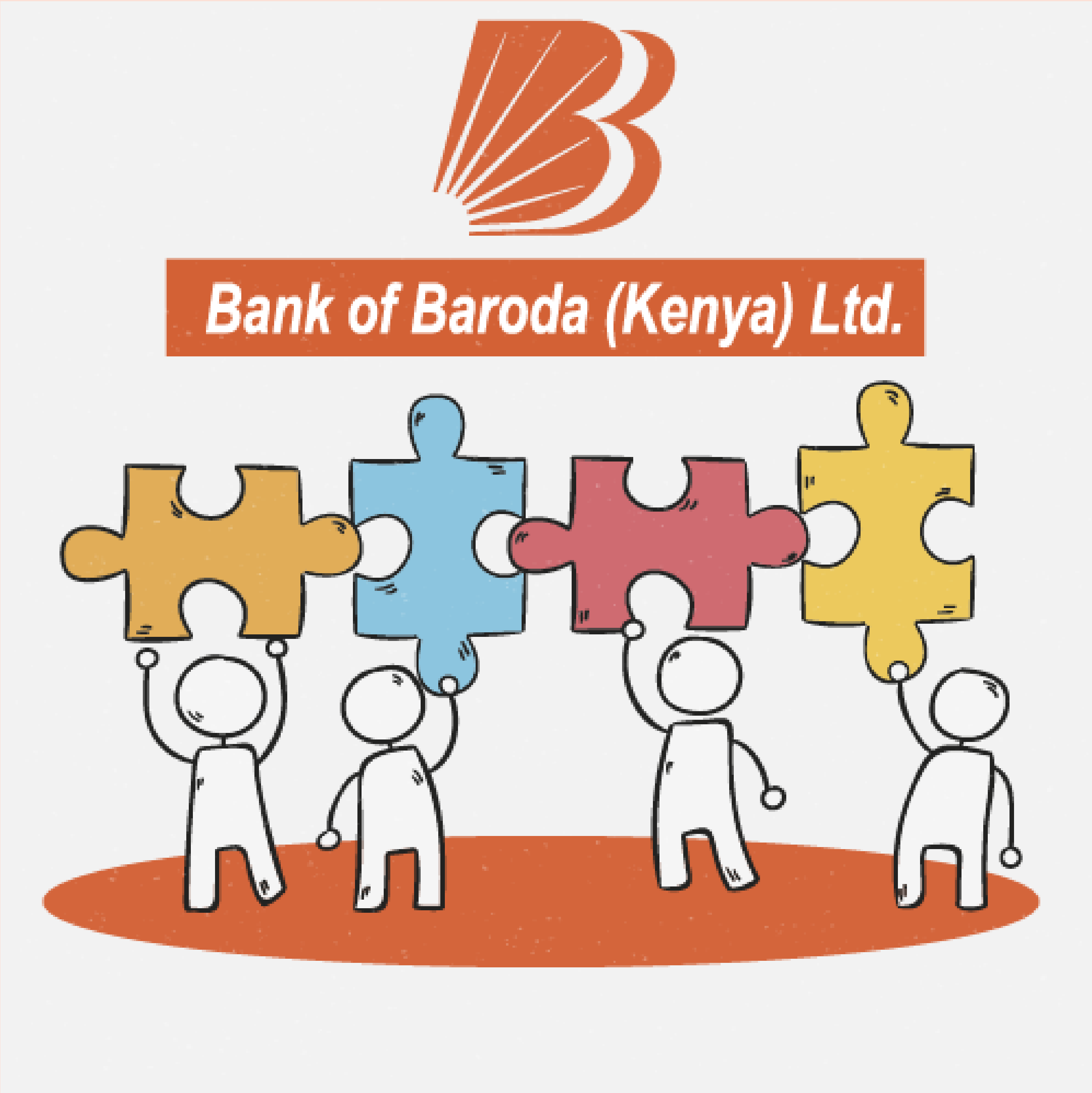
Mombasa Road Branch
P.O. Box 18948, 00500
NAIROBI
Telephone: (020) 6829118/9,6829444
E-mail: mombasaroad@bankofbaroda.com

Kakamega Branch
Kenyatta Avenue
P.O. Box 2873
KAKAMEGA
Telephone: (020) 2111777
Fax: (056) 31766
E-mail: kakamega@bankofbaroda.com

Meru Branch
Brown Rock Building, Njuri Ncheke Street
P.O. Box 2762, 60200
MERU
Telephone: (064) 2341342
Fax: (064) 30623
E-mail: meru@bankofbaroda.com

Nakuru Branch
Vickers House, Kenyatta Avenue
P.O. Box 12408, 20100
NAKURU
Telephone: (051) 2211718
Fax: (051) 2211719
E-mail: nakuru@bankofbaroda.com

Nyali, Mombasa Branch
Texas Road, Texas Towers
P.O. Box 95450, 80106
MOMBASA
Telephone: (041) 4471103
Fax: (041) 4471104
E-mail: nyali@bankofbaroda.com



Bank of Baroda, one of the most prominent banks in India, commenced it's first overseas operations in Kenya during the country's pre-independence era, by opening it's first branch in Makadara Street in Mombasa on 14th December, 1953. While the bank was operating successfully in Kenya, in order to provide further autonomy for better business growth and to participate actively in the overall economic growth of the country, the bank decided to convert it's presence into a subsidiary of the Bank in the name of Bank of Baroda (Kenya) Ltd. in 1992. The bank has since been operating as a full-fledged and self-sufficient entity in the country. While the parent bank continues to be a major shareholder with 86.70% holding in this subsidiary, rest of the shareholding is privately placed with local shareholders.

Over the years, the bank has substantiallystrengthened its position in the Industry and presently operating with more than 100bn. business from it's 13 branches located at all the major and important business centers in the country, viz. Nairobi, Mombasa, Kisumu, Eldoret, Nakuru, Thika, Kakamega and Meru. The focus of the bank is customer centric and to ensure that the interests of all stakeholders are protected in the best possible way. Bank sees huge business potential and opportunities in the country with the fast development program embarked upon by the Government of Kenya and it would be our constant and ardent endeavor to participate whole heartedly in the progress of the country by following the principles of ethical, honest and transparent banking.

BOARD COMMITTEES

The board committee as at the date of this report comprise:

Board Audit Committee	Board Credit Committee	Board Risk Management Committee
Composition		
Three Directors (Non-Executive)	Two Directors (Executive) and Three Directors (Non-Executive)	One Director (Executive) and Three Directors Non-Executive
Main Function		
Strengthening the control environment, financial reporting and auditing function	Appraisal and approval of credit applications and reviewing credit portfolio	Ensuring quality, integrity and reliability of the Bank's risk management function
Frequency of meetings per annum (minimum)		
Quarterly	Quarterly	Quarterly
Chairperson		
Mr. Patrick K. Njoroge	Mr. Eric Francis Tucker	Mr. Patrick K. Njoroge
Members		
Mr. Eric Francis Tucker Mr. Ramesh Chunilal Mehta	Mr. Patrick K. Njoroge Mr. Saravanakumar A. Mr. Ramesh Chunilal Mehta Mr. Yogendra Singh Saini	Mr. Eric Francis Tucker Mr. Saravanakumar A. Dr. Winfred N. Karugu

Dear Stakeholders,

I have the pleasure to present the Bank's Annual Audited Report and Financial Statements for the year ended December 31, 2017.

KENYAN ECONOMY & BANKING SECTOR

Subsequent to a prolonged presidential poll in 2017 that delayed investment decisions in the backdrop of a biting drought that hurt farming as also slow credit offtake, the Kenyan economy is estimated to have expanded by 4.8 per cent in the year 2017. Annual average inflation jumped to 7.98% in 2017 compared to 6.3% in 2016. The Kenya Shilling remained stable against convertible currencies as well as regional currencies in the month of December, 2017.

IFRS 9 replaced IAS 39 effective from January 01, 2018. Implementation of IFRS 9 significantly impacts Banks' Financial Statements, the greatest impact being the calculation of impairments. IFRS 9 aligns measurement of financial assets with the Bank's Business Model. In addition, the IFRS 9 provision framework will enable Banks to evaluate the effect of economic and credit changes on the Bank's Business Model, Capital and the Provision levels under various scenarios.

PERFORMANCE OF THE BANK

As at the end of the year 2017, Deposits stood at Kshs 73.01 Billion vis-a-vis Kshs 64.87 billion as at December 31, 2016 translating to a growth of 12.53%, while Advances closed at Kshs 43.94 billion vis-à-vis Kshs 38.09 billion as at December 31, 2016 translating to a growth of 15.36%. Growth of 30.15% was recorded in Profit before Tax, with the PBT at Kshs 5.05 Billion vis-à-vis Kshs 3.88 billion as at December 31, 2016. The Non-Interest income increased by Ksh 322 million on account of profit on sale of Bank's property at Tom Mboya Street during the year. The ratio of Gross NPA to Total Advances stood at 6.07% as at December 31, 2017, down from 8.91% as at December 2016 while the Net NPA ratio stood at 2.26%, down from 4.47% in 2016.

ACHIEVEMENTS

During the year, the Bank introduced various new IT initiatives such as SMS alert, Mpass book and E-banking for enhanced customer service. A Customer Care Centre was established for blocking of Debit Cards. Mobile Banking is also to be launched shortly. The construction of Baroda Head Office Block along Muthithi Road is in progress and is scheduled to be completed by February 2019. Additionally, Bank has introduced the school fee module to facilitate fee payments. Bank distributed wall clocks to churches and donated computers to schools during the year, as a part of Corporate Social Responsibility initiatives.

WAY FORWARD

The Bank will continue to explore the economy for opportunities for dynamic business growth. Efforts shall be continued to enhance alternate delivery channels to further penetrate hitherto untapped market areas. The Bank will also continue to actively focus on the under - privileged section of the society by undertaking Corporate Social Responsibility (CSR) initiatives and look for opportunities to participate in developmental activities for the benefit of the society at large.

ACKNOWLEDGEMENTS

I take this opportunity to thank the Regulatory and Government Authorities for unstinting support to our Bank as also the esteemed customers for their continued patronage. I also express gratitude to my fellow Directors for their continued and timely guidance. The dedication of the Management and the staff which resulted in sustained increase in the business and the bottom line of the Bank during the year deserves a special acknowledgment.

Last but not the least, we thank you, the shareholders, for the unflinching confidence and trust bestowed on the Bank, and look forward to working together towards meeting and exceeding customers' and shareholders' expectations in the coming year.

Yours truly

Ashok Kumar Garg
Chairman
Bank of Baroda (Kenya) Ltd.

BOARD OF DIRECTORS

MR. ASHOK KUMAR GARG
M.Com, CAIIB, LLB

Age: 59

Nationality: Indian

Position:

Chairman

Date of Appointment:

July 31, 2017

Other Directorships:

Bank of Baroda (India) -Executive Director

MR. ERIC FRANCIS TUCKER
B. Com (Hons), CAIIB

Age: 59

Nationality: Indian

Position:

Director Non-Executive

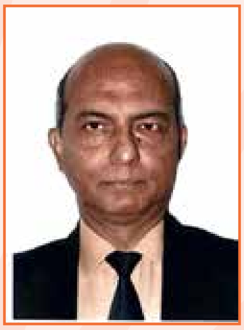
Date of Appointment:

January 4, 2017

Other Directorships:

First Life Insurance Co. Ltd -India

Baroda Pioneer Trustee Pvt. Co. Ltd -India'



MR. YATISH C. TEWARI
B. Sc, JAIIB

Age: 59

Nationality: Indian

Position:

Managing Director*

Date of Appointment:

December 7, 2013

Other Directorships:

None

**Date of Resignation - December 8, 2017*

MR. SARAVANAKUMAR A
B. E (Agr), DCO, MBA -Banking & Finance, CAIIB, PGOFM, DTIRM.

Age: 47

Nationality: Indian

Position:

Managing Director

Date of Appointment:

December 8, 2017

Other Directorships:

None

MR. PHILIP BURH

B.A, MBA, JAIIB,

Age: 57

Nationality: Indian

Position:

Director Executive*

Date of Appointment:

March 17, 2014

Other Directorships:

None

**Date of Resignation - January 15, 2018*

MR. YOGENDRA SINGH SAINI

B.Sc ; B.Ed, CAIIB, Diploma in Home Loan Advising

Age: 51

Nationality: Indian

Position:

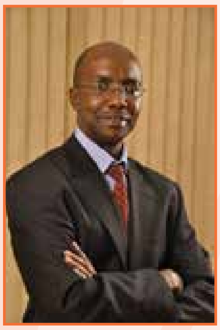
Director Executive

Date of Appointment:

March 1, 2018

Other Directorships:

None



MR. PATRICK K. NJOROGE

ICPAK, ACIB, MBA,

Institute of Directors

Age: 51

Nationality: Kenyan

Position:

Director Non-Executive

Date of Appointment:

August 18, 2014

Other Directorships:

Kenya Association of Investments Group

East Africa Capital Consultants

Algorithm Limited

Amalgamated Chama Limited

DR. WINFRED N. KARUGU

Phd. Economics, Msc. Agriculture (Econ), Bsc. Agriculture

Age: 60

Nationality: Kenyan

Position:

Director Non-Executive

Date of Appointment:

June 3, 2016

Other Directorships:

Kargua Construction

Mirie Cousins Ltd

Erian Heights Ltd

MR. RAMESH CHUNILAL MEHTA

BBM

Age: 71

Nationality: Kenyan

Position:

Director Non-Executive

Date of Appointment:

March 28, 2017

The Bank places strong importance on maintaining a sound control environment and applying the highest standards to continue its business integrity and professionalism in all areas of activities. It shall continue its endeavour to enhance shareholders' value by protecting their interests and defend their rights by ensuring performance at all levels and maximizing returns with minimal use of resources in its pursuit of excellence in corporate life.

1. RESPECTIVE RESPONSIBILITIES

The shareholders' role is to appoint the Board of Directors and the external auditors. This role is extended to holding the Board accountable and responsible for efficient and effective governance.
The Board of Directors is responsible for the governance of the Bank, and to conduct the business and operations of the Bank with integrity and in accordance with generally accepted corporate practices, in a manner based on transparency, accountability and responsibility.

2. BOARD OF DIRECTORS

The composition of the Board is set out on page 8 & 9. The Board is chaired by Director (Non-Executive) and comprises of the Managing Director, one other Director (Executive) and Four Directors (Non-Executive).

All Directors (Non-Executive) are independent of management. The Board has varied and extensive skills in the areas of banking, business management, accountancy and information communication and technology. The Directors' responsibilities are set out in the Statement of Directors Responsibilities on page 14. The Directors are responsible for the development of internal financial controls which provide safeguard against material misstatements and fraud and also for the fair presentation of the financial statements.

The board meets on a quarterly basis and has a formal schedule of matters reserved for discussion.
During the year under review, the Board meetings were held on the following dates:

- March 27, 2017
- June 23, 2017
- September 20, 2017
- December 8, 2017

The attendance of individual directors is as follows:

Name of director	Period	Meetings held during their tenure	Meetings attended
Mr. Ashok Kumar Garg	01 January 2017 to 31 December 2017	2	2
Mr. Eric Francis Tucker	01 January 2017 to 31 December 2017	4	4
Mr. Yatish C Tewari	01 January 2017 to 31 December 2017	4	4
Mr. Saravanakumar A.	01 January 2017 to 31 December 2017	1	1
Mr. Philip Burh	01 January 2017 to 31 December 2017	4	4
Mr. Patrick K Njoroge	01 January 2017 to 31 December 2017	4	4
Dr. Winfred N. Karugu	01 January 2017 to 31 December 2017	4	4
Mr. Ramesh Chunilal Mehta	01 January 2017 to 31 December 2017	3	3

The board has appointed various sub-committees to which it has delegated certain responsibilities with the chairperson of the sub-committee reporting to the board. The composition of the sub-committee is set out on page 11.

3. BOARD EVALUATION

In compliance with the Prudential Guidelines issued by the Central Bank of Kenya and also part of good Corporate Governance, each member of the Board including the Chairman conducted a peer evaluation exercise for the year 2017. This involved a self review of the Board's capacity, functionality and effectiveness of performance against its set objectives. This enabled the Board to assess its areas of strengths and weakness and then know how to balance its skills, expertise and knowledge.

The Board Performance evaluation covered the following:

(a) The Board Self Evaluation

The Board's performance during the year was evaluated by each member where members were allowed to give their opinion on how the Board had performed. Members were satisfied that the Board had performed to their expectations.

(b) The Director Peer Evaluation

A Directors' Peer evaluation exercise was conducted for each member. Each director was required to give the ratings on the performance of each member of the Board.

(c) The Board chairman's Evaluation

The Board members assessed the Chairman's performance and noted that the Board managed to achieve its business targets for year 2017 under his Chairmanship. The Chairman was effective during the year.

4. BOARD COMMITTEES

Board Audit Committee

The committee comprises three Directors (Non-Executive). The committee meets on a quarterly basis and its functions include:

- Monitoring and strengthening the effectiveness of management information and internal control systems.
- Review of financial information and improving the quality of financial reporting.
- Strengthening the effectiveness of internal and external audit functions, and deliberating on significant issues arising from internal and external audits, and inspections carried out by the Bank Supervision Department of Central Bank of Kenya.
- Increasing the stakeholders' confidence in the credibility and stability of the institution.
- Monitoring instances of non-compliance with the International Financial Reporting Standards, applicable legislation and the Central Bank of Kenya Prudential Regulations and other pronouncements.

Board Credit Committee

The committee is chaired by a Director (Non-Executive) and comprises of the two Executive Directors, two Non-Executive Director and the Head of Credit as convener. It meets at least once in a quarter. The functions of the committee include Credit monitoring, appraisal and approval of credit applications based on limits set by the Board. The committee also monitors and reviews non-performing advances and ensures that adequate loan loss provisions are held against delinquent accounts in accordance with the guidelines issued by the Central Bank of Kenya and International Accounting Standards Board.

Board Risk Management Committee.

The committee, chaired by a Director (Non - Executive) and comprising Managing Director and two other Directors (Non-Executive), meets on a quarterly basis to ensure quality, integrity and reliability of Risk Management function and programme by way of assisting the Board of Directors in the discharge of duties relating to the corporate accountability, reviewing the integrity of the risk control systems, monitoring external developments relating to the practice of corporate accountability and providing independent and objective oversight.

5. MANAGEMENT COMMITTEES

Asset and Liability Committee (ALCO)

The committee, chaired by the Managing Director, comprising Director (Executive) and various departmental heads, meets on a monthly basis to discuss operational issues and to monitor and manage the statement of financial position to ensure that adequate resources are available to meet anticipated fund demands and to monitor compliance with all statutory requirements. The committee is also responsible for developing a framework for monitoring the banking risks including operational, liquidity, maturity, interest rate and exchange rate risks.

Executive Committee (EC)

The committee, chaired by Director (Executive) and comprising various departmental heads, meets at least three times a year to implement operational plans, annual budgeting, periodic reviews of operations, strategic plans, ALCO strategies, identification and management of key risks and opportunities.

Business Continuity Planning Committee (BCPC)

The committee, chaired by the Managing Director, comprising of Director (Executive) and various departmental heads, meets on half yearly basis to identify business function groups, Business Impact Analysis (BIA), Prioritization, fixation of Recovery Time Objectives (RTO) / Recovery Point Objective (RPO) for the function groups and identifcation of the threats to which the Business Processes are exposed and the assessment of the potential damage and disruption associated with these threats realised.

Information & Communication Technology Committee (ICTC)

The committee, chaired by the Managing Director, comprising of Director (Executive) and various departmental heads, meets on half yearly basis to oversee and report the effectiveness of strategic Information & Communication Technology (ICT) planning, the ICT Budget and actual expenditure, and the overall ICT perfromacne to the Board of Directors and Senior Management periodically.

Directors' Remuneration

The remuneration to all Directors is based on the responsibilities allocated to the Directors, and is subject to regular review to ensure that it adequately compensates them for the time spent on the affairs of the Bank.

Relationship with Shareholders

The bank is a private limited liability company with the details of the main shareholder set out on the General Information page. Shareholders have full access through the Managing Director to all information they require in respect of the bank and its affairs. In accordance with the guidelines issued by the Central Bank of Kenya, the bank publishes quarterly accounts in the local newspapers.

Mr. Saravanakumar A.
Managing Director

The directors have pleasure in submitting their report on the financial statements of Bank of Baroda (Kenya) Limited for the year ended 31 December 2017.

1. Principal activity

The bank is licensed under the Banking Act and provides banking, financial and related services.
There have been no material changes to the nature of the bank's business from the prior year.

2. Review of financial results and activities

The financial statements have been prepared in accordance with International Financial Reporting Standards and the requirements of the Kenyan Companies Act, 2015. The accounting policies have been applied consistently compared to the prior year.

Despite the interest cap law and difficulty turbulence experienced in the industry during the year ended December 31, 2017, we have managed to sail through and improve in all aspects of business level and profitability

3. Dividends

The directors propose a final dividend of K Sh 20.00 per share (2016: K Sh 10.00 per share) amounting to K Sh 989.716 million (2016: Kshs. 494.858 million).

4. Directors

The Directors of the bank during the year and to the date of this report are as follows:
Mr. Yatish C. Tewari (Resigned w.e.f 08.12.2017)
Mr. Saravanakumar A. (Appointed w.e.f 08.12.2017)
Mr. Philip Burh (Resigned w.e.f 15.01.2018)
Mr. Patrick K. Njoroge
Mr. Yogendra Singh Saini (appointed w.e.f 01.03.2018)
Dr. Winfred N. Karugu
Mr. Ashok Kumar Garg (Appointed during 2017)
Mr. Eric Francis Tucker (Appointed during 2017)
Mr. Ramesh Chunilal Mehta (Appointed during 2017)

5. Events after the reporting period

The directors are not aware of any material event which occurred after the reporting date and up to the date of this report.

6. Independent auditor

The Auditors, Messers Grant Thornton, continue in office in accordance with Section 719(2) of the Kenyan Companies Act, 2015 and subject to Section 24(1) of the Banking Act (Cap. 488).

7. Relevant audit information

The directors in office at the date of this report confirm that;
a) There is no relevant audit information of which the company's auditor is unaware; and
b) Each of the directors has taken all the steps that they ought to take as a director so as to be aware of any relevant information and to establish that the company's auditor is aware of that information.

8. Business overview

Deposits stood at Kshs 73.01 Billion (increase by Kshs 8.13 Bn) and grew by 12.53%.
Advances (Gross) stood at Kshs 43.94 Billion (increase by Kshs 5.85 Bn) and grew by 15.37%.
Total Business stood at Kshs 116.95 Billion (increase by Kshs 13.98 Bn) and grew by 13.58%.

The ratio of Gross NPA as a percentage of total advances reduced to 6.07% as at December 31, 2017 compared to a ratio of 8.91% as at December 2016.

Net NPAs stood at Kshs 930 Million as at December 31, 2017 compared to Kshs 1.70 Billion as at December 31, 2016. The Ratio of Net NPAs to Gross Advances was 2.26% in the year down from 4.47% of 2016. While efforts are already on to either upgrade the recently downgraded accounts or recover the accounts in full, the recovery process by initiating legal action has also been started in cases where the businesses have been closed down and other cases in default.

Interest income increased by 8.95% to reach Kshs 10.45 Billion for the year ended December 31, 2017 compared to Kshs 9.59 Billion of year 2016. Included in the interest income was Kshs 5.26 Billion relating to interest earned on government securities. It is as a result of prudent and timely decisions that, we have been able to increase Interest income from treasury investments which accounts for 50.5% of the total interest income for the period ended December 31, 2017.

We have been able to manage the interest paid on deposits and thus the improvement on profits. The total interest paid on deposits marginally increased to Kshs 4.59 Billion for the period ended December 31, 2017 compared to Kshs 4.53 Billion for the period ended December 31, 2016.

During the year we sold one of the Bank`s property located along Tom Mboya Street at a profit of Kshs. 322mn and this increased our non interest income.

Thanks to our strong Bank policies and our sound banking system and am confident that our Bank has the capacity of a steady and sustainable perfromance

Future Outlook

The bank will continuously look for available opportunities to tap business to ensure a sound and healthy business portfolio. To achieve this, we intend to increase promotional / awareness activities relating to recently introduced services for instance, VISA Debit Card, Baroda M-passbook and others like mobile banking, FDR online application and interbank/Rapid Funds online transfers.

Our assertion on sustainability will be achieved by appropriate appraisal of advances proposals to maintain good health of credit portfolio. We intend to increase our loan book to maintain interest revenue by taking advantage of increased business volume to counter the negative impact of interest rate capping, hence quality credit shall be a key driver to growth in profits.

The bank has already began the construction of its Head Office which shall constitute a Corporate Branch. The construction is expected to be complete within the next year. This project will bring good visibility to our bank and would help in strengthening our roots and relationship in the country.

To boost our image, we foster to play an active role in the “give back to the society” through augmenting the principle of Corporate Social Responsibility (CSR).

The bank would always look for opportunities to participate in developmental activities for the society at large.

9. Approval of financial statements

The financial statements were approved at a meeting by the board of directors on March 26, 2018, and were signed on its behalf by:

By order of the Board

for: AFRICA REGISTRARS - CO. SECRETARY

Company secretary

____

Company secretary

The directors are required in terms of the Kenyan Companies Act, 2015 and the Banking Act to maintain adequate accounting records and are responsible for the content and integrity of the financial statements and related financial information included in this report. It is their responsibility to ensure that the financial statements fairly present the state of affairs of the bank as at the end of the financial year and the results of its operations and cash flows for the period then ended, in conformity with International Financial Reporting Standards. The external auditors are engaged to express an independent opinion on the financial statements.

The financial statements are prepared in accordance with International Financial Reporting Standards and are based upon appropriate accounting policies consistently applied and supported by reasonable and prudent judgments and estimates.

The directors acknowledge that they are ultimately responsible for the system of internal financial control established by the bank and place considerable importance on maintaining a strong control environment. To enable the directors to meet these responsibilities, the board of directors sets standards for internal control aimed at reducing the risk of error or loss in a cost effective manner. The standards include the proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties to ensure an acceptable level of risk. These controls are monitored throughout the bank and all employees are required to maintain the highest ethical standards in ensuring the bank's business is conducted in a manner that in all reasonable circumstances is above reproach. The focus of risk management in the bank is on identifying, assessing, managing and monitoring all known forms of risk across the bank. While operating risk cannot be fully eliminated, the bank endeavours to minimise it by ensuring that appropriate infrastructure, controls, systems and ethical behaviour are applied and managed within predetermined procedures and constraints.

The directors are of the opinion, based on the information and explanations given by management, that the system of internal control provides reasonable assurance that the financial records may be relied on for the preparation of the financial statements. However, any system of internal financial control can provide only reasonable, and not absolute, assurance against material misstatement or loss.

The directors have reviewed the bank's cash flow forecast for the year to December 31, 2018 and, in the light of this review and the current financial position, they are satisfied that the bank has or has access to adequate resources to continue in operational existence for the foreseeable future.

The external auditors are responsible for independently reviewing and reporting on the bank's financial statements. The financial statements have been examined by the bank's external auditors and their report is presented on pages 18 to 19. The financial statements set out on pages 18 to 59, which have been prepared on the going concern basis, were approved by the board of directors on March 26, 2018 and were signed on its behalf by:

Managing Director **Director**

TEAM BARODA

To the members of Bank of Baroda (Kenya) Limited

Report on the Audit of the Financial Statements

Opinion

We have audited the Financial Statements of Bank of Baroda (Kenya) Limited set out on pages 18 to 59, which comprise the Statement of Financial Position as at December 31, 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 and other explanatory information.

In our opinion, the Financial Statements present fairly, in all material respects, the financial position of Bank of Baroda (Kenya) Limited as at December 31, 2017, and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Kenyan Companies Act, 2015 and the Banking Act.

Basis for opinion

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

Other information

The directors are responsible for the other information. The other information comprises the Directors' Report and the Corporate Governance report as required by the Kenyan Companies Act, 2015 and the Banking Act which we obtained prior to the date of this report.

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 the Banking Act, and for such internal control as the directors determine is necessary to enable the preparation of Financial Statements that are free from material misstatement, whether due to fraud or error.

In preparing the Financial Statements, the directors are responsible for assessing the bank's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the bank or to cease operations, or have no realistic alternative but to do so. The directors are responsible for overseeing the company's financial reporting process.

Auditor's responsibilities for the audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the Financial Statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with International Standards on Auditing 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 International Standards on Auditing, we exercise professional judgement and maintain

- Identify and assess the risks of material misstatement of the Financial Statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the bank's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of 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 bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the Financial Statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the bank to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the Financial Statements, including the disclosures, and whether the Financial Statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

Report on other legal and regulatory requirements

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

a) We have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purposes of our audit;
b) In our opinion proper books of accounts have been kept by the company, so far as appears from our examination of those books;
c) In our opinion, the financial information given in the directors' report for the year ended December 31, 2017 is consistent with the company's annual financial statements; and
d) The company's statement of financial position and statement of profit or loss and other comprehensive income are in agreement with the books of accounts.

The engagement partner responsible for the audit resulting in this independent auditor's report is CPA D. V. Shah - P/No 1729.

Grant Thornton
Nairobi
B/108/1217/052/0318/AUD

STATEMENT OF PROFIT OR LOSS AND COMPREHENSIVE INCOME

	Note(s)	2017 Kshs '000	2016 Kshs '000
Interest income	4	10,445,555	9,587,612
Interest expense	5	(4,670,010)	(4,597,226)
Net interest income		**5,775,545**	**4,990,386**
Fees and commission income		166,123	171,234
Foreign exchange trading income		90,477	88,899
Other income	6	523,631	113,148
Non interest expenses	7	(1,138,506)	(1,051,782)
Increase in impairment losses on loans and advances	11	(363,837)	(436,075)
Profit before taxation		**5,053,433**	**3,875,810**
Taxation	12	(1,130,437)	(929,051)
Profit for the year		**3,922,996**	**2,946,759**
Earnings per share			
Basic and diluted (Shs. per share)		79.28	59.55
Dividend			
Proposed final dividend for the year		989,717	494,858
Dividend per share (Kshs. per share)		**20.00**	**10.00**

The accounting policies on Page 22 to 30 and the notes on Page 18-59 form an integral part of the financial statements.

	Note(s)	2017 Kshs '000	2016 Kshs '000
Profit for the year		**3,922,996**	**2,946,759**
Other comprehensive income:			
Fair value gain and (losses) on financial assets classified as 'available-for-sale'			
- government securities	13	251,292	199,210
- corporate bonds	13	(5,413)	4,487
- quoted shares	13	1,012	(692)
Other comprehensive income for the year net of taxation	13	**246,891**	**203,005**
Total comprehensive income		**4,169,887**	**3,149,764**

The accounting policies on Page 22 to 30 and the notes on Page 18-59 form an integral part of the financial statements.

STATEMENT OFFINANCIAL POSITION

Assets	Note(s)	2017 Kshs '000	2016 Kshs '000
Cash in hand	14	398,001	371,492
Balances with Central Bank of Kenya	15	3,975,943	3,683,022
Government securities	16	46,549,619	41,209,970
Deposits and balances due from other banking institutions	17	2,013,676	333,663
Other assets	18	594,584	475,740
Loans and advances to customers	19	42,207,280	36,400,900
Investment securities	20	94,393	129,232
Current tax receivable	21	-	-
Non-current asset held for sale	23	-	22,284
Intangible assets	22	4,312	4,877
Investment property	23	-	-
Property and equipment	24	224,598	222,813
Deferred tax	25	69,694	53,482
Total Assets		**96,132,100**	**82,907,475**
Equity and Liabilities			
Liabilities			
Customer deposits	26	73,004,885	64,873,604
Deposits and balances due to other banking institutions	27	4,688,938	2,899,978
Other liabilities	28	393,220	492,420
Current tax Payable	21	145,121	416,566
Total Liabilities		**78,232,164**	**68,682,568**
Equity			
Share capital	29	989,717	989,717
Fair value reserve (Statement of Changes in Equity)	13	(68,629)	(315,520)
Statutory loan loss reserve (Statement of Changes in Equity)		706,320	486,363
Retained income (Statement of Changes in Equity)		15,282,811	12,569,489
Proposed dividends (Statement of Changes in Equity)		989,717	494,858
Total Equity		**17,899,936**	**14,224,907**
Total Equity and Liabilities		**96,132,100**	**82,907,475**

The financial statements and the notes on pages 18 to 59, were approved by the board of directors on March 26, 2018 and were signed on its behalf by:

Managing Director **Director**

Director **Company Secretary**

STATEMENT OF CHANGES IN EQUITY

	Share capital Kshs '000	Fair value reserve Kshs '000	Statutory loan loss reserve Kshs '000	Total reserves Kshs '000	Retained income Kshs '000	Proposed dividends Kshs '000	Total equity Kshs '000
Balance at January 01, 2017	**989,717**	**(315,520)**	**486,363**	**170,843**	**12,569,489**	**494,858**	**14,224,907**
Changes in equity							
Total comprehensive income for the year	-	246,891	-	**246,891**	3,922,996	-	**4,169,887**
Transfer to statutory loan loss reserve	-	-	219,957	**219,957**	(219,957)	-	**-**
Dividends paid	-	-	-	**-**	-	(494,858)	**(494,858)**
Dividends proposed	-	-	-	**-**	(989,717)	989,717	**-**
Total changes	-	246,891	219,957	**466,848**	2,713,322	494,859	**3,675,029**
Balance at December 31, 2017	**989,717**	**(68,629)**	**706,320**	**637,691**	**15,282,811**	**989,717**	**17,899,936**
Balance at January 01, 2016	**989,717**	**(518,525)**	**365,353**	**(153,172)**	**10,238,598**	**197,943**	**11,273,086**
Changes in equity							
Total comprehensive income for the year	-	203,005	-	**203,005**	2,946,759	-	**3,149,764**
Transfer to statutory loan loss reserve	-	-	121,010	**121,010**	(121,010)	-	**-**
Dividends paid	-	-	-	**-**	-	(197,943)	**(197,943)**
Dividends proposed	-	-	-	**-**	(494,858)	494,858	**-**
Total changes	-	203,005	121,010	**324,015**	2,330,891	296,915	**2,951,821**
Balance at December 31, 2016	**989,717**	**(315,520)**	**486,363**	**170,843**	**12,569,489**	**494,858**	**14,224,907**

STATEMENT OF CASH FLOWS

	Note(s)	2017 Kshs '000	2016 Kshs '000
Cash flows from operating activities			
Cash generated from operations	31	6,984,471	10,349,064
Tax paid	21	(1,418,093)	(490,849)
Net cash from operating activities		**5,566,378**	**9,858,215**
Cash flows from investing activities			
Purchase of property and equipment	24	(40,947)	(83,187)
Sale of property and equipment	24	325,835	306
Purchase of intangible assets	22	(1,329)	(3,918)
Sale of investment securities	20	22,284	-
Government securities	16	(5,088,372)	(8,795,357)
Investment Securities		30,438	37,464
Net cash used in investing activities		**(4,752,091)**	**(8,844,692)**
Cash flows from financing activities			
Dividends paid	38	(494,858)	(197,943)
Total cash movement for the year		**319,429**	**815,580**
Cash at the beginning of the year	14	4,054,514	3,238,934
Total cash at end of the year	14	**4,373,943**	**4,054,514**

1. PRESENTATION OF FINANCIAL STATEMENTS

The financial statements have been prepared in accordance with International Financial Reporting Standards, and the Kenyan Companies Act, 2015 and the Banking Act. The financial statements have been prepared on the historical cost basis, as modified by the carrying of available for sale investments at fair value and impaired assets at their recoverable amount. They are presented in Kenyan Shillings and rounded off to the nearest thousand. For the Kenyan Companies Act, 2015 reporting purposes, the balance sheet is presented by Statement of Financial Position and the profit or loss account by the Statement of Profit or Loss and Other Comprehensive Income in these financial statements.

These accounting policies are consistent with the previous period.

1.1 General Information

Bank of Baroda (Kenya) Limited is incorporated in Kenya under the Kenyan Companies Act, 2015 as a private limited liability company and is domiciled in Kenya. The bank is licensed under the Banking Act (Cap 488) and provide banking, financial and related services.

The bank operates 13 branches within Kenya.

1.2 Significant judgements and sources of estimation uncertainty

In preparing the financial statements, in conformity with International Financial Reporting Standards, management is required to make judgements, estimates and assumptions that affect the amounts represented in the financial statements and disclosure of contingent assets and liabilities at the date of the financial statements. Use of available information and the application of judgement are inherent in the formation of estimates. Actual results in the future could differ from these estimates which may be material to the financial statements. Significant judgements include:

Impairment of loans and advances

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

Estimating the amount and timing of future recoveries involves significant judgment, and considers the level of arrears as well as the assessment of matters such as future economic conditions and the value of collateral, for which there may not be a readily accessible market.

Loan losses that have been incurred but have not been separately identified at the reporting date are determined on a portfolio basis, which takes into account past loss experience and defaults based on portfolio trends. Actual losses identified could differ significantly from the impairment provisions reported as a result of uncertainties arising from the economic environment.

Fair value of financial instruments

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 in the principal or, in its absence, the most advantageous market to which the bank has access at that date. The fair value of a liability reflects its non-performance risk.

When available, the bank measures the fair value of an instrument using the quoted price in an active market for that instrument. A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

If there is no quoted price in an active market, then the bank uses valuation techniques that maximise the use of relevant observable inputs and minimise the use of unobservable inputs. The chosen valuation technique incorporates all of the factors that market participants would take into account in pricing a transaction.

1.2 Significant judgements and sources of estimation uncertainty (continued)

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

Taxes

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

1.3 Non-current assets held for sale

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

1.4 Property and equipment

The cost of an item of property and equipment is recognised as an asset when:

- it is probable that future economic benefits associated with the item will flow to the bank; and
- the cost of the item can be measured reliably.

Property and equipment is initially measured at cost. Property and equipment are stated at historical cost less depreciation.

Property and equipment are depreciated on the straight line basis and reducing balance basis to write down the cost of assets, or the revalued amounts, to its residual value over its estimated useful life using the following annual rates:

Item	*Rate % and Method of Depreciation*
Buildings	Straight line basis over the remaining period of the lease
Furniture and fixtures	12.5 - Reducing balance basis
Motor vehicles	25 - Reducing balance basis
Computers and electronics	Straight line basis over a period of three years
Leasehold improvements	Straight line basis over a period of ten years

The residual value, useful life and depreciation method of each asset are reviewed at the end of each reporting period. If the expectations differ from previous estimates, the change is accounted for as a change in accounting estimate.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gain or losses on disposal of property and equipment are determined by reference to their carrying amount and are taken into account in determining operating profit.

1.5 Intangible assets

Intangible assets costs which are clearly identifiable and controlled by the bank and have probable benefit exceeding the cost beyond one year are recognised as an intangible asset. These assets are amortised using the straight line method over their estimated useful life. Costs associated with the maintenance of existing computer software programs and modifications are

1.6 Financial assets and financial liabilities

i) Recognition

- Held-to-maturity investment
- Loans and receivables
- Available-for-sale financial assets
- Financial liabilities measured at amortised cost

The bank initially recognises loans and advances, deposits and debt securities issues on the date on which they originated. All other financial instruments are recognised on the trade date, which is the date the bank becomes a party to the contractual provisions of the instrument.

A financial asset or financial liability is measured initially at fair value plus, for an item not at fair value through profit or loss, transaction costs that are directly attributable to its acquisition or issue.

ii) Classification and subsequent recognition

The bank classifies its financial assets into one of the following categories:

a) Loans and receivables

Loans and receivables are financial assets with fixed or determinable payments and fixed maturities that are not quoted in an active market.

They arise when the bank provides money directly to borrowers, other than those created with the intention of short-term profit taking. They are recognised at the date money is disbursed to the borrower or when they are transferred to the bank from a third party.

Subsequent to initial recognition, these are carried at amortised cost, which is the present value of the expected future cash flows, discounted at the instrument's original effective interest rate. Loan origination fees together with related direct costs are treated as part of the cost of the transaction.

Amortised cost is calculated using the effective interest method.

b) Held to maturity

These are financial assets with fixed or determinable payments and fixed maturities that the bank's management has the positive intention and ability to hold to maturity. The sale of a significant amount of held-to-maturity assets would taint the entire category leading to reclassification as available-for-sale.

Subsequent to initial recognition, these are carried at amortised cost, which is the present value of the expected future cash flows, discounted at the instrument's original effective interest rate.

Amortised cost is calculated using the effective interest rate method. The amortisation and accretion of premiums and discounts is included in interest income.

c) Fair value through profit and loss

This category has two sub-categories: financial assets held for trading, and those designated at fair value through profit or loss at inception. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if so designated by management.

Investments held for trading are those which were either acquired for generating a profit from short-term fluctuations in price or dealer's margin, or are securities included in a portfolio in which a pattern of short-term profit-taking exists.

Investments held for trading are subsequently re-measured at fair value based on quoted bid prices or dealer price quotations, without any deduction for transaction costs. All related realized and unrealized gains and losses are included in profit or loss. Interest earned whilst holding held for trading investments is reported as interest income.

1.6 Financial assets and financial liabilities (continued)

Foreign exchange forward and spot contracts are classified as held for trading. They are marked to market and are carried at their fair value. Fair values are obtained from discounted cash flow models which are used in the determination of the foreign exchange forward and spot contract rates. Gains and losses on foreign exchange forward and spot contracts are included in foreign exchange income as they arise.

d) Financial liabilities

The bank classifies its financial liabilities, other than financial guarantees and loan commitments, as measured at amortized cost.

iii) Derecognition

A financial asset is derecognised when the bank loses control over the contractual rights that comprise that asset. This occurs when the rights are realised, expire or are surrendered. A financial liability is derecognised when its contractual obligations are discharged or cancelled, or expires.

Held-to-maturity instruments and loans and receivables are derecognised on the day they are repaid in full or when they are transferred by the bank to a third party.

iv) Offsetting

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

1.7 Identification and measurement of impairment of financial assets

At each reporting date the bank assesses whether there is objective evidence that financial assets not carried at fair value through profit or loss are impaired. Financial assets are impaired when objective evidence demonstrates that a loss event has occurred after the initial recognition of the asset, and that the loss event has an impact on the future cash flows on the asset than can be estimated reliably.

The bank considers evidence of impairment at both a specific asset and collective level. All individually significant financial assets are assessed for specific impairment. All significant assets found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Assets that are not individually significant are collectively assessed for impairment by grouping together financial assets (carried at amortised cost) with similar risk characteristics.

Objective evidence that financial assets are impaired can include default or delinquency by a borrower, restructuring of a loan or advance by the bank on terms that the bank would not otherwise consider, indications that a borrower or issuer will enter bankruptcy, the disappearance of an active market for a security, or other observable data relating to a group of assets such as adverse changes in the payment status of borrowers or issuers in the group, or economic conditions that correlate with defaults in the group.

In assessing collective impairment, the bank uses statistical modelling of historical trends of the probability of default, timing of recoveries and the amount of loss incurred, adjusted for management's judgement as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical modelling. Default rate, loss rates and the expected timing of future recoveries are regularly benchmarked against actual outcomes to ensure that they remain appropriate.

Impairment losses on assets carried at amortised cost are measured as the difference between the carrying amount of the financial assets and the present value of estimated cash flows discounted at the assets' original effective interest rate. Losses are recognised in profit or loss and reflected in an allowance account against loans and advances. Interest on the impaired asset continues to be recognised through the unwinding of the discount.

When a subsequent event causes the amount of impairment loss to decrease, the impairment loss is reversed through profit or loss.

1.8 Impairment for non-financial assets

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

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount.

A cash-generating unit is the smallest identifiable asset group that generates cash flows that largely are independent from other assets and groups. Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of cashgenerating units are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amount of the other assets in the unit (group of units) on a pro-rata basis.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell.

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.

An impairment loss in respect of goodwill is not reversed. For other assets, an impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

1.9 Tax

Current tax assets and liabilities

Current tax for current and prior periods is, to the extent unpaid, recognised as a liability. If the amount already paid in respect of current and prior periods exceeds the amount due for those periods, the excess is recognised as an asset.

Current tax liabilities (assets) for the current and prior periods are measured at the amount expected to be paid to (recovered from) the tax authorities, using the tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax assets and liabilities

A deferred tax liability is recognised using the liability method for all taxable temporary differences.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

Tax expense

Current and deferred taxes are recognised as income or an expense and included in profit or loss for the period, except to the extent that the tax arises from:

- a transaction or event which is recognised, in the same or a different period, to other comprehensive income, or
- a business combination.

Current tax and deferred taxes are charged or credited to other comprehensive income if the tax relates to items that are redited or charged, in the same or a different period, to other comprehensive income.

Current tax and deferred taxes are charged or credited directly to equity if the tax relates to items that are credited or charged, in the same or a different period, directly in equity.

1.10 Leases

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership.

1.10 Leases (continued)

Finance leases - lessor

The bank recognises finance lease receivables in the statement of financial position.

Finance income is recognised based on a pattern reflecting a constant periodic rate of return on the bank's net investment in the finance lease.

Operating leases - lessor

Assets leased to third parties under operating leases are included in investment properties in the statement of financial position.

Operating leases – lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term. The difference between the amounts recognised as an expense and the contractual payments are recognised as an operating lease asset or liability.

Any contingent rents are expensed in the period they are incurred.

1.11 Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of an equity instrument are deducted from the initial measurement of the equity instrument.

1.12 Employee benefits

Short-term employee benefits

The cost of short-term employee benefits, (those payable within 12 months after the service is rendered, such as paid vacation leave and sick leave, bonuses, and non-monetary benefits such as medical care), are recognised in the period in which theservice is rendered and are not discounted.

The expected cost of compensated absences is recognised as an expense as the employees render services that increase their entitlement or, in the case of non-accumulating absences, when the absence occurs.

Retirement benefit costs

The company contributes to the statutory National Social Security Fund. This fund is a defined contribution scheme registered under the National Social Security Fund Act. The company's obligations under this scheme are limited to specific contributions legislated from time to time and are currently limited to a maximum of Kshs 200 per employee per month.

The bank operates a defined contribution staff retirement benefit scheme for its permanent and pensionable employees. The scheme is administered by an insurance company. The bank has no further payment obligations once the contributions have been paid.

The company's obligations to the schemes are recognised in the statement of comprehensive income.

Employee entitlements

Employee entitlements to gratuity and long term service awards are recognised when they accrue to employees. A provision is made for the estimated liability for such entitlements as a result of services rendered by employees up to the statement of financial position date.

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

1.13 Provisions and contingencies

Provisions are recognised when:

- the bank has a present obligation as a result of a past event;
- it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; ond
- a reliable estimate can be made of the obligation.

The amount of a provision is the present value of the expenditure expected to be required to settle the obligation.

1.14 Revenue recognition

Revenue is recognised only when it is probable that the economic benefits associated with the transaction will flow to the bank.

The bank recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and when the specific criteria have been met for each of the bank's activities as described below.

The amount of revenue is not considered to be reliably measured until all contingencies relating to the transaction have been resolved. The bank bases its estimates on historical results, taking into cosideration the type of customer, type of transaction and specifics of each arrangement.

Interest income is recognised on an accrual basis in profit or loss using the effective yield on the asset. Interest income includes income from loans and advances, income from placements with loans and advances to other banking institutions and income from government securities. When financial assets become impaired, interest income is thereafter recognised at rates used to discount future cash flows for the purposes of measuring the recoverable amount.

Fees and commissions income and hire purchase options fees are recognised at the time of effecting the transaction.

Foreign exchange trading income is recognised at the time of effecting the transaction. It includes income from spot and forward deals and translated foreign currency assets and liabilities.

Dividend income is recognised when the shareholders right to receive payment has been established.

Rental income is accrued by reference to time on a straight line basis over the lease term.

1.15 Translation of foreign currencies

Foreign currency transactions

Transactions in foreign currencies during the year are converted into Kenya Shillings (functional currency) at rates ruling at the transaction dates.

At the end of the reporting period:

- foreign currency monetary items are translated using the closing rate;
- non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction; and
- non-monetary items that are measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

Exchange differences arising on the settlement of monetary items or on translating monetary items at rates different from those at which they were translated on initial recognition during the period are recognised in the statement of comprehensive income in the period in which they arise.

1.16 Dividends

Proposed dividends are disclosed as a separate component of equity until declared.

Dividends are recognised as a liabilities in the period in which they are approved by the bank's shareholders.

1.17 Contingent liabilities

Letters of credit, acceptances, guarantees and performance bonds are accounted for as off balance sheet transactions and disclosed as contingent liabilities. Estimates of the outcome and of the financial effect of contingent liabilities is made by the management based on the information available up to the date the financial statements are approved for issue by the Directors.

Any expected loss is charged to profit or loss.

1.18 Investment property

Investment properties are long-term investments in land and buildings that are not occupied substantially for own use.

Investment properties are initially recognised at cost and subsequently stated at historical cost less accumulated depreciation.

Subsequent expenditure on investment properties where such expenditure increases the future economic value in excess of the original assessed standard of performance is added to the carrying amount of the investment property. All other expenditure is recognised as an expense in the year which it is incurred.

Depreciation is calculated on the straight line basis to write down the cost of the property to its residual value over its estimated useful life of 50 years.

The properties residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

The properties carrying amounts are written down immediately to their recoverable amount if the carrying amount is greater than their estimated recoverable amount.

Gains or losses on disposal of investment property are determined by comparing the proceeds with the carrying amount and are taken into account in determining operating profit.

1.19 Statutory loan loss reserve

These are provisions that have been appropriated from Retained Earnings. This applies if provisions computed under the Risk Classification of Assets and Provisioning Guidelines is in excess of impairment losses computed under the International Financial Reporting Framework.

1.20 Interest expense

Interest for all interest-bearing financial liabilities is recognised within interest expense in profit or loss using the effective interest method.

Interest expense includes expense incurred on customer deposits, placements and overnight borrowings with other banking institutions.

2. NEW STANDARDS AND INTERPRETATIONS (CONTINUED)

Bank as lessor:

- Accounting for leases by lessors remains similar to the provisions of IAS 17 in that leases are classified as either finance leases or operating leases. Lease classification is reassessed only if there has been a modification.
- A modification is required to be accounted for as a separate lease if it both increases the scope of the lease by adding the right to use one or more underlying assets; and the increase in consideration is commensurate to the stand alone price of the increase in scope.
- If a finance lease is modified, and the modification would not qualify as a separate lease, but the lease would have been an operating lease if the modification was in effect from inception, then the modification is accounted for as a separate lease. In addition, the carrying amount of the underlying asset shall be measured as the net investment in the lease immediately before the effective date of the modification. IFRS 9 is applied to all other modifications not required to be treated as a separate lease
- Modifications to operating leases are required to be accounted for as new leases from the effective date of the modification. Changes have also been made to the disclosure requirements of leases in the lessor's financial statements.

Sale and leaseback transactions:

In the event of a sale and leaseback transaction, the requirements of IFRS 15 are applied to consider whether a performance obligation is satisfied to determine whether the transfer of the asset is accounted for as the sale of an asset.

If the transfer meets the requirements to be recognised as a sale, the seller-lessee must measure the new right-ofuse asset at the proportion of the previous carrying amount of the asset that relates to the right-of-use retained. The buyer-lessor accounts for the purchase by applying applicable standards and for the lease by applying IFRS 16

If the fair value of consideration for the sale is not equal to the fair value of the asset, then IFRS 16 requires adjustments to be made to the sale proceeds. When the transfer of the asset is not a sale, then the seller-lessee continues to recognise the transferred asset and recognises a financial liability equal to the transfer proceeds. The buyer-lessor recognises a financial asset equal to the transfer proceeds.

The effective date of the standard is for years beginning on or after January 01, 2019.

The bank does not envisage the adoption of the standard until such time as it becomes applicable to the bank's operations.

It is unlikely that the standard will have a material impact on the bank's financial statements.

Amendments to IAS 28: Annual Improvements to IFRS 2014 - 2016 cycle

An entity such as a venture capital organisation, mutual fund or similar institution may elect to measure investments in associates or joint ventures at fair value through profit or loss in accordance with IFRS 9 rather than by applying the equity method. The amendment to IAS 28 Investments in Associates and Joint Ventures now specifies that the election must be made separately per associate or joint venture and at the time of initial recognition of such investment.

Further, if an entity is not an investment entity, but has interests in an associate or joint venture which is an investment entity, then the entity may retain the fair value measurement of the associate or joint venture. The amendment now provides that such election must be made separately for each investment entity associate or joint venture.

The effective date of the amendment is for years beginning on or after January 01, 2018.

The bank does not envisage the adoption of the amendment until such time as it becomes applicable to the bank's operations.

It is unlikely that the amendment will have a material impact on the bank's financial statements.

Amendments to IFRS 1: Annual Improvements to IFRS 2014 - 2016 cycle

The amendment to IFRS 1 First Time Adoption of International Financial Reporting Standards deleted certain short term exemptions concerning disclosures of financial assets, employee benefits and investment entities from IFRS 1.

The effective date of the amendment is for years beginning on or after January 01, 2018.

The bank does not envisage the adoption of the amendment until such time as it becomes applicable to the bank's operations.

It is unlikely that the amendment will have a material impact on the bank's financial statements.

Transfers of Investment Property: Amendments to IAS 40

The amendment deals specifically with circumstances under which property must be transferred to or from investment property.

The amendment now requires that a change in use of property only occurs when the property first meets, or ceases to meet, the definition of investment property and that there is evidence of a change in use. The amendment specifies that a change in management's intentions for use of the property, do not, in isolation, provide evidence of a change in use.

The effective date of the amendment is for years beginning on or after January 01, 2018.

The bank does not envisage the adoption of the amendment until such time as it becomes applicable to the bank's operations.

It is unlikely that the amendment will have a material impact on the bank's financial statements.

Foreign Currency Transactions and Advance Consideration

The interpretation applies to circumstances when an entity has either paid or received an amount of consideration in advance and in a foreign currency, resulting in a non-monetary asset or liability being recognised. The specific issue addressed by the interpretation is how to determine the date of the transaction for the purposes of determining the exchange rate to use on the initial recognition of the related asset, expense or income when the non-monetary asset or liability is derecognised. The interpretation specifies that the date of the transaction, for purposes of determining the exchange rate to apply, is the date on which the entity initially recognises the non-monetary asset or liability.

The effective date of the interpretation is for years beginning on or after January 01, 2018.

The bank does not envisage the adoption of the interpretation until such time as it becomes applicable to the bank's operations.

It is unlikely that the interpretation will have a material impact on the bank's financial statements.

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

The amendment to IFRS 4 provides a temporary exemption, allowing insurers to apply IAS 39 rather than IFRS 9. The exemption only applies in certain circumstances and only for annual periods beginning before 1 January 2021. The exemption also introduces an "overlay approach" in specific circumstances. This approach requires the insurer to reclassify an amount between other comprehensive income and profit or loss. This results in the profit or loss for designated financial assets being the same as if the insurer had applied IAS 39 rather than IFRS 9.

The effective date of the amendment is for years beginning on or after January 01, 2018.

The bank expects to adopt the amendment for the first time in the 2017 financial statements.

It is unlikely that the amendment will have a material impact on the bank's financial statements.

Amendments to IFRS 15: Clarifications to IFRS 15 Revenue from Contracts with Customers

The amendment provides clarification and further guidance regarding certain issues in IFRS 15. These items include guidance in assessing whether promises to transfer goods or services are separately identifiable; guidance regarding agent versus principal considerations; and guidance regarding licenses and royalties.

The effective date of the amendment is for years beginning on or after January 01, 2018.

The bank expects to adopt the amendment for the first time in the 2018 financial statements.

The impact of this amendment is currently being assessed.

IFRS 9 Financial Instruments

IFRS 9 issued in November 2009 introduced new requirements for the classification and measurements of financial assets. IFRS 9 was subsequently amended in October 2010 to include requirements for the classification and measurement of financial liabilities and for derecognition, and in November 2013 to include the new requirements for general hedge accounting. Another revised version of IFRS 9 was issued in July 2014 mainly to include a)impairment requirements for financial assets and b) limited amendments to the classification and measurement requirements by introducing a "fair value through other comprehensive income" (FVTOCI) measurement category for certain simple debt instruments.

Key requirements of IFRS 9:

- All recognised financial assets that are within the scope of IAS 39 Financial Instruments: Recognition and Measurement are required to be subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the outstanding principal are generally measured at amortised cost at the end of subsequent reporting periods. Debt instruments that are held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets, and that have contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on outstanding principal, are measured at FVTOCI. All other debt and equity investments are measured at fair value at the end of subsequent reporting periods. In addition, under IFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income with only dividend income generally recognised in profit or loss.

With regard to the measurement of financial liabilities designated as at fair value through profit or loss, IFRS 9 requires that the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of the liability is presented in other comprehensive income, unless the recognition of the effect of the changes of the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Under IAS 39, the entire amount of the change in fair value of a financial liability designated as at fair value through profit or loss is presented in profit or loss.

In relation to the impairment of financial assets, IFRS 9 requires an expected credit loss model, as opposed to an incurred credit loss model under IAS 39. The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition. It is therefore no longer necessary for a credit event to have occurred before credit losses are recognised.

The new general hedge accounting requirements retain the three types of hedge accounting mechanisms currently available in IAS 39. Under IFRS 9, greater flexibility has been introduced to the types of transactions eligible for hedge accounting, specifically broadening the types of instruments that qualify for hedging instruments and the types of risk components of non-financial items that are eligible for hedge accounting. In addition, the effectiveness test has been replaced with the principal of an "economic relationship". Retrospective assessment of hedge effectiveness is also no longer required. Enhanced disclosure requirements about an entity's risk management activities have also been introduced.

The effective date of the standard is for years beginning on or after January 01, 2018.

The bank does not envisage the adoption of the standard until such time as it becomes applicable to the bank's operations.

The impact of this standard is currently being assessed.

IFRS 15 Revenue from Contracts with Customers

IFRS 15 supersedes IAS 11 Construction contracts; IAS 18 Revenue; IFRIC 13 Customer Loyalty Programmes; IFRIC 15 Agreements for the construction of Real Estate; IFRIC 18 Transfers of Assets from Customers and SIC 31 Revenue - Barter Transactions Involving Advertising Services.

The core principle of IFRS 15 is that an entity recognises revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.

An entity recognises revenue in accordance with that core principle by applying the following steps:

- Identify the contract(s) with a customer
- Identify the performance obligations in the contract
- Determine the transaction price
- Allocate the transaction price to the performance obligations in the contract
- Recognise revenue when (or as) the entity satisfies a performance obligation.

IFRS 15 also includes extensive new disclosure requirements.

The effective date of the standard is for years beginning on or after January 01, 2018.

The bank does not envisage the adoption of the standard until such time as it becomes applicable to the bank's operations.

The impact of this standard is currently being assessed.

3. FINANCIAL RISK MANAGEMENT

Financial risk management

The bank's activities exposes it to a variety of financial risks and those activities involve analysis, evaluation, acceptance and management of some degree of risk or combination of risks. Taking risk is core to the financial business, and the operational risks are an inevitable consequence of being in business. The bank's aim is therefore to achieve an appropriate balance between risk and return and minimise potential adverse effects on the bank's financial performance.

The bank's risk management policies are designed to identify and analyse these risks, to set risk limits and controls, and to monitor the risks and adherence to limits by means of reliable and up-to-date management information systems. The bank regularly reviews its risk management policies and systems to reflect changes in markets, products and emerging best practice.

Risk management function is carried out by the bank's risk management department under policies approved by the Board of Directors. The bank's risk management department identifies, measures, monitors and controls financial risks in close coordination with various other departmental heads. The bank has Board approved policies covering specific areas, such as credit risk, market risk, liquidity risk and operational risk.

The most important types of risk are credit risk, liquidity risk, market risk and operational risk. Market risk includes currency risk, interest rate risk and price risk.

Capital management

The bank's objectives when managing capital, which is a broader concept than the equity on the face of the statement of financial position are:

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

The bank monitors the adequacy of its capital using ratios established by Central Bank of Kenya. These ratios measure capital adequacy by comparing the bank's core capital with total risk-weighted assets plus risk weighed off-balance sheet items, total deposit liabilities and total risk-weighted off balance sheet items.

Credit risk weighted assets

Assets are weighted according to broad categories of notional credit risk, being assigned a risk weighting according to the amount of capital deemed to be necessary to support them. Four categories of risk weights (0%, 20%, 50% and 100%) are applied e.g. cash in hand (domestic and foreign), balances held with Central Bank of Kenya including securities issued by the Government of Kenya have a zero risk weighting, which means that no capital is required to support the holding of these assets. Property, plant and equipment carries a 100% risk weighting. Based on these guidelines it means that they must be supported by capital equal to 100% of the carrying amount. Other asset categories have intermediate weightings.

Off-balance sheet credit related commitments such as guarantees and acceptances, performance bonds, documentary credit e.t.c. are taken into account by applying different categories of credit risk conversion factors, designed to convert these items into balance sheet equivalents. The resulting credit equivalent amounts are then weighted for credit risk using the same percentages as for statement of financial position assets. Core capital (Tier 1) consists of paid-up share capital, retained profits less non-dealing investments. Supplementary capital (Tier 2) includes statutory loan loss provisions and non-dealing investments.

Market risk weighted assets

This is the risk of loss in on and off balance sheet position arising from movement in market prices. These risks pertain to inherent risk related instruments in the trading book, commodities risk throughout the bank, equities risk and foreign exchange risk in the trading and banking books of the bank. Different risk weights are applied as per the Prudential Regulation.

Operational risk weighted assets

This is the risk of loss resulting from inadequate or failed internal process, people or from external events. The operational risk is calculated using the Basic Indicator Approach. Under this approach, the capital charge for operational risk is a fixed percentage of average positive annual gross income of the institution over the past three years. Annual gross income is the sum of net interest income and net non interest income.

The table below summarizes the composition of the regulatory capital.

	Balance sheet nominal amount		Risk weighted amount	
	2017	2016	2017	2016
Cash in hand	398,001	371,492	-	-
Balances with Central Bank of Kenya	3,975,943	3,683,022	-	-
Governement securities	46,549,619	41,209,970	-	-
Deposits and balances due from other banking institutions	2,013,676	333,663	402,735	66,732
Other assets	594,584	475,740	594,584	475,740
Loans and advances to customers	42,207,280	36,400,900	38,352,486	32,938,692
Non-Current Asset held for sale	-	-	-	22,284
Investment securities	94,393	129,232	94,393	129,232
Current tax receivable	-	-	-	-
Intangible assets	4,312	4,877	4,312	4,877
Investment property	-	-	-	-
Property and equipment	224,598	222,813	224,598	222,813
Deferred tax	69,694	53,482	69,694	53,482
	96,132,100	**82,885,191**	**39,742,802**	**33,913,852**
Off balance sheet position	6,655,151	7,156,711	2,132,311	2,762,018
Less: Market Risk qualifying Assets included in above	(94,393)	(129,232)	(94,393)	(129,232)
Adjusted credit risk weighted assets	**102,692,858**	**89,912,670**	**41,780,720**	**36,546,638**
Market risk				
Total Market Risk Weighted Assets Equivalent	2,433,860	2,401,888	2,433,860	2,401,888
Operational Risk Equivalent Assets	8,150,062	6,874,799	8,150,062	6,874,799
Total market risk capital charge	**10,583,922**	**9,276,687**	**10,583,922**	**9,276,687**
Total market risk weighted assets	**113,276,780**	**99,189,357**	**52,364,642**	**45,823,325**

	2017 Kshs '000	2016 Kshs '000
Capital adequacy requirement calculation		
Tier I -Core Capital	**16,202,834**	**13,505,724**
Add: Paid-up ordinary share capital/Assigned Capital	989,717	989,717
Retained earnings/Accumulated losses	11,359,815	9,622,730
Net After tax profits for the current year	3,922,996	2,946,759
Less: Deferred Tax Asset	(69,694)	(53,482)
Tier II -Supplementary Capital		
Add: Statutory Loan Reserve	706,320	486,363
Total Capital	**16,909,154**	**13,992,087**
Total deposit liabilities	73,004,885	64,873,604

Risk weighted amounts for loans and advances to customers are stated net of impairment losses. These balances have also been offset against fixed deposits and short term deposits placed by customers as securities. There is no borrower with either funded or non-funded facilities, exceeding twenty five percent of core capital.

	Actual Ratios		Minimum Requirement	
	2017	**2016**	**2017**	**2016**
Core capital to total risk weighted assets	30.94%	29.47%	10.50%	10.50%
Total capital to total risk weighted assets	32.29%	30.53%	14.50%	14.50%
Core capital to deposit liabilities	22.19%	20.82%	8.00%	8.00%

Credit risk

The bank takes on exposure to credit risk, which is the risk that a customer will cause a financial loss for the bank by failing to fulfil a contractual obligation. Credit risk is the most important risk for the bank's business. Management therefore carefully manages its exposure to credit risk. Credit risk mainly arises from customer loans and advances, credit cards, investing activities and loan commitments (off balance sheet financial instruments).

The credit risk management and control are centralised in credit and treasury departments of the bank.

In measuring credit risk of loans and advances to customers, the bank reflects on various components. These include:
the probability of default by the borrower/client on their contractual obligations;
current exposures on the borrower/client and the likely future development, from which the bank derives the exposure at default; and
the likely recovery ratio on the defaulted obligations.

These credit risk measurements, which reflect expected loss, are embedded in the bank's daily operational management. The operational measurements can be contrasted with impairment allowances required under IAS 39 and the Banking Act which are based on losses that have been incurred at the date os the statement of financial position rather than expected loss.

The bank assesses the probability of default of individual borrower/client using internal rating methods tailored to the various categories of the borrower/client. These have been developed and combine statistical analysis with the credit department's judgement and are validated, where appropriate, by comparison with externally available data.

Management assesses the credit quality of the customer, taking into account their financial position, past experience and other factors.

Individual limits are set based on internal or external information in accordance with limits set by the management. The utilisation of credit limits is regularly monitored. Corrective action is taken where necessary.

For investments, internal ratings taking into account the requirements of the Banking Act are used by the bank for managing the credit risk exposures. The investments in those securities are viewed as a way to gain a better credit quality mapping and maintain a readily available source to meet the funding requirment at the same time.

The bank manages, limits and controls concentrations of credit risk wherever they are identified. The bank structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers, and to industry segments. Such risks are monitored on a revolving basis and subject to annual or more frequent review, when considered necessary. Limits on the level of credit risk by product and industry sector are approved as and when required by the credit committee.

Exposure to credit risk is also managed through regular analysis of the ability of borrowers and potential borrowers to meet interest and capital repayment obligations and by charging these lending limits where appropriate.

Some other specific control and mitigation measures are outlined below:

The bank employs a range of policies and practices to mitigate credit risk. The most common one is to obtain collateral for loans and advances to customers. The types of collateral obtained include:

- Mortgages over properties;
- Charges over business assets such as land and buildings, inventory and receivables;
- Charges over financial instruments such as investments;
- Deposits placed under lien.

Credit-related committments

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

Commitments to extend credit represent unused portions of authorisations to extend credit in the form of loans, guarantees or letters of credit. With respect to credit risk on commitments to extend credit, the bank is potentially exposed to loss in an amount equal to the total unused commitments. However, the likely amount of loss is less than the total unused commitments, as most commitments to extend credit are contingent upon customers maintaining specific credit standards. The bank monitors the term to maturity of credit commitments because longer-term commitments generally have a greater degree of credit risk than shorter term commitments.

Impairment and provisioning policies

The bank's internal and external systems focus more on credit quality mapping from the inception of the lending of the loan or advance. In contrast, impairment provisions are recognised for financial reporting purposes only for losses that have been incured at the statement of financial position date based on objective evidence of impairment.

The impairment provision shown in the statement of financial position at the year-end is derived after taking various factors into consideration as described in the accounting policy. The bank's management uses basis under IAS 39 and the Prudential Guidelines to determine the amount of impairment.

Exposure to credit risk

The management is confident in its ability to continue to control and sustain minimal exposure of credit risk to the bank resulting from both its loan and advances portfolio and other financial assets based on the following:

- The maximum exposure to credit risk arises from investments in government securities which form 48.40% (2016: 49.71%) of total assets; 45.69% (2016: 45.95%) represents loans and advances to customers.
- Government securities are considered stable investments as the risk is considered negligible.
- Share of Normal and Watch Accounts 93.93% (2016: 91.09%) of the loans and advances portfolio is categorised in the top two grades of the internal rating system (Normal and Watch).
- 18.92% (2016: 16.19%) of the loans and advances portfolio are considered to be past due but not impaired.
- Most of its loans and advances to customers are performing as per the respective covenants. Non-performing loans and advances have been provided for. The loans and advances are also secured.
- Cash in hand, balances with Central Bank of Kenya and placements with other banking institutions are held with sound financial institutions.
- Management considers the historical information available to assess the credit risk on investment securities.
-

Exposure to this risk has been quantified in each financial asset note in the financial statements along with any concentration of risk.

Liquidity risk

Liquidity risk is the risk that the bank is unable to meet its payment obligations associated with its financial liabilities when they fall due and to replace funds when they are overdrawn.

The matching and controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental to the management of the bank. It is unusual for banks ever to be completely matched since business transacted is often of uncertain terms and of different types. An unmatched position potentially enhances profitability, but can also increase the risk of losses. The maturity of assets and liabilities and the ability to replace, at an acceptable cost, interest bearing liabilities as they mature are important factors in assessing the iquidity of the bank and its exposure to changes in interest and exchange rates.

The bank does not maintain cash resources to meet all liabilities as they fall due as experience shows that a minimum level of reinvestment of maturing funds can be predicted with a high level of certainity. The management has set limits on the minimum portion of maturing funds available to meet such withdrawals and on the level of interbank and other borrowing facilities that should be in place to cover withdrawals at unexpected levels of demand. The management reviews the maturity profile on a weekly basis and ensures that sifficient liquidity is maintained to meet maturing deposits which substantially are generally rolled over into new deposits.The bank fully complies with the Central Bank of Kenya's minimum cash reserve ratio (5.25%) and liquidity ratio (20%) requirements, with the average liquidity maintained at 65.6% (2016: 65.2%) during the year.

The table overleaf analyses the bank's financial assets and liabilities into the relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date.

At December 31, 2017	Up to 3 months	3 to 6 months	6 to 12 months	1 to 3 years	Over 3 years	Total
Assets						
Cash in hand	398,001	-	-	-	-	**398,001**
Balances with Central Bank of Kenya	56,911	-	-	-	3,919,032	**3,975,943**
Governement securities	2,706,126	3,809,128	4,381,309	5,482,837	30,170,219	**46,549,619**
Deposits and balances due from other banking institutions	2,013,676	-	-	-	-	**2,013,676**
Other assets	132,553	128,270	66,134	197,933	69,694	**594,584**
Loans and advances to customers	22,299,332	895,545	1,188,135	5,318,228	12,506,040	**42,207,280**
Investment securities	-	-	-	-	94,393	**94,393**
Current tax receivable	-	-	-	-	-	**-**
Intangible assets	-	-	862	862	2,587	**4,312**
Investment property	-	-	-	-	-	**-**
Property and equipment	-	-	37,350	74,700	112,548	**224,598**
Deferred tax	-	-	-	-	69,694	**69,694**
Total assets	**27,606,599**	**4,832,943**	**5,673,790**	**11,074,560**	**46,944,207**	**96,132,100**
Liabilities and shareholders' equity						
Customer deposits	54,186,264	11,852,351	6,342,293	559,214	64,763	**73,004,885**
Deposits due to other banking institutions	3,170,031	748,634	770,273	-	-	**4,688,938**
Other liabilities	300,322	-	-	238,019	-	**538,341**
Shareholders' equity	989,717	(68,629)	3,922,996	706,320	12,349,532	**17,899,936**
Total liabilities and equity	**58,646,334**	**12,532,356**	**11,035,562**	**1,503,553**	**12,414,295**	**96,132,100**
Net liquidity gap as at December 31, 2016	**(31,039,735)**	**(7,699,413)**	**(5,361,772)**	**9,571,007**	**34,529,912**	**-**

At December 31, 2016						
Total assets	17,183,587	7,959,133	10,671,393	8,040,169	39,053,193	82,907,475
Total liabilities and equity	48,404,420	11,553,778	10,969,556	787,726	11,191,995	82,907,475
Net liquidity gap as at December 31, 2015	**(31,220,833)**	**(3,594,645)**	**(298,163)**	**7,252,443**	**27,861,198**	**-**

Experience indicates that customer deposits are maintained for longer periods than the contractual maturity dates. The deposit base is considered to be of a stable and long term nature.

Interest rate risk

The bank's operations are subject to the risk of interest rate fluctuations to the extent that interest earning assets and interest bearing liabilities mature or reprice at different times or in differing amounts. Risk management activities are aimed at optimizing net interest income, given market interest rates levels consistent with the bank's business strategies.

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. The management closely monitors the interest rate trends to minimise the potential adverse impact of interest rate changes. The table summarises the exposure to interest rate risk at the balance sheet date. Included in the table are the assets and liabilities at carrying amounts, categorised by the earlier of contractual repricing or maturity dates. The bank does not have any derivative financial instruments. The bank does not bear an interest rate risk on off balance sheet items.

Cash flow interest rate risk							
At December 31, 2017							
	Up to 3 months	3 to 6 months	6 to 12 months	1 to 3 years	Over 3 years	Non-interest bearing	**Total**
Assets							
Cash in hand	398,001	-	-	-	-	-	**398,001**
Balances with Central Bank of Kenya	56,911	-	-	-	-	3,919,032	**3,975,943**
Governement securities	2,706,126	3,809,128	4,381,309	5,482,837	30,170,219	-	**46,549,619**
Deposits and balances due from other banking institutions	2,013,676	-	-	-	-	-	**2,013,676**
Other assets	-	-	-	-	-	594,584	**594,584**
Loans and advances to customers	22,299,332	895,545	1,188,135	5,318,228	10,769,837	1,736,203	**42,207,280**
Investment securities	-	-	-	-	-	94,393	**94,393**
Current tax receivable	-	-	-	-	-	-	**-**
Intangible assets	-	-	-	-	-	4,312	**4,312**
Investment property	-	-	-	-	-	-	**-**
Property and equipment	-	-	-	-	-	224,598	**224,598**
Deferred tax	-	-	-	-	-	69,694	**69,694**
Total assets	**27,474,046**	**4,704,673**	**5,569,444**	**10,801,065**	**40,940,056**	**6,642,816**	**96,132,100**
Liabilities and shareholders' equity							
Customer deposits	48,575,823	11,852,351	6,342,293	559,214	64,763	5,610,441	**73,004,885**
Deposits due to other banking institutions	3,170,031	748,634	770,273	-	-	-	**4,688,938**
Other liabilities	-	-	-	238,019	-	300,322	**538,341**
Shareholders' equity	-	-	-	-	-	17,899,936	**17,899,936**
Total liabilities and equity	**51,745,854**	**12,600,985**	**7,112,566**	**797,233**	**64,763**	**23,810,699**	**96,132,100**
Interest sensitivity gap as at December 31, 2017	**(24,271,808)**	**(7,896,312)**	**(1,543,122)**	**10,003,832**	**40,875,293**	**(17,167,883)**	**-**
At December 31, 2016							
Total assets	16,947,996	7,858,792	10,596,816	7,785,459	33,496,961	6,221,451	82,907,475
Total liabilities and equity	43,587,301	11,869,298	7,113,811	301,363	84,690	19,951,012	82,907,475
Interest sensitivity gap as at December 31, 2016	**(26,639,305)**	**(4,010,506)**	**3,483,005**	**7,484,096**	**33,412,271**	**(13,729,561)**	**-**

3. Financial risk management (continued)

The tables below summarise the effective interest rates calculated on a weighted average basis, by major currencies for monetary financial assets and liabilities:

2017	K Sh	USD	GBP	Euro
Government securities	11.99%	- %	- %	- %
Deposits and balances due from banking institutions	7.96%	- %	- %	- %
Loans and advances to customers	14.58%	9.09%	6.95%	8.14%
Customer deposits	7.14%	1.37%	3.35%	0.24%
Deposits and balances due to banking institutions	2.42%	- %	- %	- %

2016	K Sh	USD	GBP	Euro
Government securities	12.47%	- %	- %	- %
Deposits and balances due from banking institutions	3.14%	- %	- %	- %
Loans and advances to customers	16.71%	8.24%	6.34%	5.17%
Customer deposits	7.67%	- %	- %	- %
Deposits and balances due to banking institutions	- %	1.99%	- %	- %

Interest rate risk sensitivity

At 31 December 2016, if the weighted average interest had been 10% higher, with all other variables held constant, post-tax profit would have been as follows:

	2017	2016
	Kshs `000	Kshs `000
Effect on interest income - increase	731,189	671,133
Effect in interest expense - (increase)	(326,901)	(321,806)
Net effect on profit after tax - increase	**404,288**	**349,327**

Currency risk

The bank operates wholly within Kenya and its assets and liabilities are reported in the local currency. It conducts trade with correspondant banks and takes deposits and lends in other currencies. The bank's currency position and exposure are managed within the exposure guideline of 10% of the core capital as stipulated by the Central Bank of Kenya. The position is reviewed on a daily basis by management.

The significant currency positions are detailed below:

At 31 December 2017	USD	GBP	Euro	Others	Total
Assets					
Cash and Bank balances	31,839	705	1,594	-	34,138
Balances with Central Bank of Kenya	45,468	5,713	4,298	1,431	56,910
Deposits due from other banking institutions	1,689,652	236,168	37,630	12,804	1,976,254
Loans and advances to customers	6,726,410	144,487	130,337	-	7,001,234
Total assets	8,493,369	387,073	173,859	14,235	9,068,536
Liabilities and shareholders' equity					
Customer deposits	3,574,091	682,498	163,887	-	4,420,476
Deposits due to other banking institutions	4,650,164	-	-	38,774	4,688,938
Total liabilities and equity	8,224,255	682,498	163,887	38,774	9,109,414
Net statement of financial position gap	**269,114**	**(295,425)**	**9,972**	**(24,539)**	**(40,878)**
Off balance sheet net notional position	(285,968)	312,194	-	30,911	57,137
At December 31, 2016					
Total assets	5,679,460	235,848	179,858	159,703	6,254,869
Total liabilities and equity	5,317,844	497,300	247,562	142,124	6,204,830
Net statement of financial position gap	**361,616**	**(261,452)**	**(67,704)**	**17,579**	**50,039**

Market risk

Market risk is the risk that changes in the market prices, which includes currency exchange rate and interest rates, will affect the fair value or future cash flows of financial instruments. Market risk arises from open positions in interest rates and foreign currencies, both of which are exposed to general and specific market movements and changes in the level of volatility. The objective of market risk management is to manage and control market risk exposures within acceptable limits, while optimising on the return on risk. Overall management for management of market risk rests with the Assets & Liability Committee (ALCO).

The treasury department is responsible for the development of detailed risk management policies, subject to review and approval by ALCO, and for the day to day implementation of the policies. Market risks arise mainly from trading and non-trading activities. Trading portfolios include those positions arising from market-making transactions where the bank acts as a principal with clients or with the market.

Non-trading portfolios primarily arise from the interest rate management of the entity's retail and commercial banking assets and liabilities. Non-trading portfolios also consist of foreign exchange and equity risks arising from the bank's available-for-sale investments.

The major measurement techniques used to measure and control market risk are outlined below:

- ALCO review

ALCO meets on a monthly basis to review the following:

- A summary of the bank's aggregate exposure on market risk
- A summary of the bank's maturity/repricing gaps
- A report indicating that the bank is in compliance with the board's set exposure limit
- A comparison of past forecast or risk estimates with actual results to identify any shortcomings.

- Review by the treasury department

The treasury department monitors foreign exchange risk in close collaboration with the management. Regular reports are prepared by the treasury department of the bank and discussed with the management. Some of these reports include:

- Net overnight positions by currency
- Maturity distribution by currency of the assets and liabilities for both on and off balance sheet items
- Outstanding contracts (if any) by settlement date and currency
- Total values of contracts, spots and futures
- Aggregate dealing limits
- Exception reports for example limits or line excesses.

Operational risk

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the bank's processes, personnel, technology and infrastructure and from external factors other than credit, market and liquidity risks such as those arising out of legal and regulatory requirements and generally accepted standards of corporate behaviour. Operational risk arise from the bank's operations and is faced by all other business entities.

The bank endeavors to manage the operational risk by creating a balance between avoidance of cost of financial losses and damage to the bank's reputation within overall cost effectiveness and to avoid control procedures that restrict creativity and initiative. The key responsibility for development and implementation of policies and programs to implement the bank's operational risk management is with the senior management of the bank.

The above is tried to be achieved by development of overall standards for the bank to manage the risk in the following areas:

- Segregation of duties including independent authorisation of transactions
- Monitoring and reconciliation of transactions
- Compliance of regulatory and legal requirement
- Documentation of control and procedure
- Assessment of the operational risk on a periodic basis to address the deficiencies observed, if any
- Reporting of operational losses and initiation of remedial action
- Development of contingency plan
- Giving training to staff to improve their professional competency
- Ethical and business standards
- Obtaining insurance wherever feasible, as a risk mitigation measure.

Risk measurement and control

Interest rate, currency, credit, liquidity and other risks are actively managed by management to ensure compliance with the bank's risk limits. The bank's risk limits are assessed regularly to ensure their appropriateness given its objectives and strategies and current market conditions. A variety of techniques are used by the bank in measuring the risks inherent in its trading and non-trading positions.

Foreign exchange risk sensitivity

The table below summarises the effect on post-tax profit had the Kenya Shilling weakened by 10% against each currency, with all other variables held constant. If the Kenya Shilling strengthened against each currency, the effect would have been the opposite.

2017	*USD*	*GBP*	*EURO*	*Others*	*Total*
Effect on profit - Increase / (decrease)	30,566	(21,548)	(2,407)	111	6,722

2016	*USD*	*GBP*	*EURO*	*Other*	*Total*
Effect on profit - Increase / (decrease)	36,162	(26,145)	(6,770)	1,758	5,005

Price risk sensitivity

The bank is exposed to price risk on quoted shares, corporate bonds and government securities because of investments that are classified on the statement of financial position as 'Available-for-sale'.

The table below summarises the impact on increase in the market price on the bank's equity net of tax. The analysis is based on the assumption that the market prices had increased by 5% with all other variables held constant and all the banks equity instruments moved according to the historical correlation with the price:

	Impact on other comprehensive income	
	2017	*2016*
	Kshs. '000	*Kshs. '000*
Effect of increase	259,236	213,155

	2017 Kshs '000	2016 Kshs '000
4 Interest income		
Loans and advances to customers	5,170,282	4,934,152
Government securities	5,233,465	4,607,531
Corporate bonds	11,468	16,042
Deposits and balances due from banking institutions	28,327	28,954
Other income	2,013	933
	10,445,555	**9,587,612**
5 Interest expense		
Time deposits	4,155,849	4,350,583
Other Customer Deposits	431,860	181,612
Deposits and balances due to banking institutions	81,842	65,031
Other interest expense	459	-
	4,670,010	**4,597,226**
6 Other income		
Profit and (loss) on sale of assets	322,129	-
Dividend income	803	833
Recoveries of advances previously impaired	191,955	77,325
Rental income	8,229	22,339
Miscellaneous income	515	12,651
	523,631	**113,148**
7 Non interest expense		
Staff costs (Note 8)	594,901	533,862
Directors' emoluments as executives	16,303	13,520
Depreciation and amortisation	37,350	46,219
Auditors remuneration - current year fees	6,380	5,377
Contribution to Deposit Protection Fund	88,963	76,055
Operating lease rent	120,761	106,605
Loss on sale of property	-	46
Administration expenses (Note 9)	198,007	200,972
Establishment expenses (Note 10)	75,841	69,126
	1,138,506	**1,051,782**

	2017	2016
	Kshs '000	**Kshs '000**
9. Administrative expenses	Kshs '000	Kshs '000
Advertising	13,189	15,480
Computer expenses	27,578	26,640
Donations and fines	2754	545
Subscriptions and periodicals	1,387	1,430
Entertainment	1,688	2,350
Legal and professional fees	58,809	54,642
Miscellaneous	38,374	53,090
Postages, telephones, telex and fax	7,883	7,461
Printing and stationery	11,385	12,640
Secretarial fees	204	204
Insurance	23,458	16,805
Travelling and motor vehicle	11,298	9,685
	198,007	**200,972**
10. Establishment expenses		
Electricity and water	18,921	17,852
Insurance	598	1,869
Licences	3,068	3,200
Office cleaning	6,262	8,726
Repairs and maintenance	46,992	37,479
	75,841	**69,126**

	2017 Kshs '000	2016 Kshs '000
11 Impairment losses on loans and advances		
Loans and advances to customers		
- Additional provisions	363,837	436,075
12 Taxation		
Major components of the tax expense		
Current		
Current tax	1,146,648	910,463
Prior year underprovision	0	25,037
	1,146,648	**935,500**
Deferred		
Deferred tax charge / (credit)	(16,211)	(2,233)
Prior year underprovision	-	(4,216)
	-16,211	**-6,449**
	1,130,437	**929,051**
Reconciliation of the tax expense		
Reconciliation between accounting profit and tax expense.		
Accounting profit	5,053,433	3,875,810
Tax at the applicable tax rate of 30% (2015: 30%)	1,516,030	1,162,743
Tax effect of adjustments on taxable income		
Expenses not deductible for tax purposes	5,956	105,260
Income not subject to tax	(391,549)	(359,773)
Prior year under provision of current tax	-	25,037
Prior year under provision of deferred tax	-	(4,216)
	1,130,437	**929,051**
13 Other comprehensive income		
Components of other comprehensive income - Net		
Available-for-sale financial assets adjustments		
Government securities	251,292	199,210
Corporate bonds	(5,413)	4,487
Quoted shares	1,012	(692)
	246,891	**203,005**

	2017 Kshs '000	2016 Kshs '000
14 Cash in hand		
Cash and cash equivalents consist of:		
Cash in hand	398,001	371,492
15 Balances with Central Bank of Kenya		
Balances with Central Bank of Kenya		
- Cash reserve ratio	3,919,032	3,624,425
- Other	56,911	58,597
	3,975,943	**3,683,022**

The cash reserve ratio balance is non interest bearing and is based on the value of customer deposits as adjusted in accordance with Central Bank of Kenya requirements. As at 31 December 2016 the cash reserve ratio requirement was 5.25% (2015: 5.25%) of all customer deposits. These funds are not available for the Bank's day to day operations.

	2017	2016
16 Governement securities		
Available-for-sale		
Treasury bonds	**6,436,486**	**6,880,004**
Held-to-maturity		
Treasury bonds	35,316,640	31,059,903
Treasury bills	4,796,493	3,270,063
	40,113,133	**34,329,966**
Total government securities	**46,549,619**	**41,209,970**
Current assets		
Available-for-sale	6,436,486	6,880,004
Held to maturity	40,113,133	34,329,966
	46,549,619	**41,209,970**
Government securities comprise of:		
Maturing within 91 days	1,724,895	1,879,265
Maturing after 91 days and within a year	1,798,693	3,133,704
Maturing after a year	12,540,686	12,057,565
Maturing after three years	30,485,345	24,139,436
	46,549,619	**41,209,970**

The fair values of the government securities classified as ‘available-for-sale’ financial assets are categorised under Level 1 based on the information set out in the accounting policy.

There were no gains or losses realised on the disposal of held-to-maturity financial assets in 2017 and 2016, as all the financial assets were disposed of at their redemption date.

	2017 Kshs '000	2016 Kshs '000
17 Deposits and balances due from other banking institutions		
Balances with banking institutions in Kenya	68,603	49,089
Balances with banking institutions abroad	1,941,912	135,424
Balances with parent bank	3,161	149,150
	2,013,676	**333,663**
18 Other assets		
Items in transit	196,810	213,307
Other receivables and prepayments	397,774	262,433
	594,584	**475,740**

In the opinion of the management, the bank's exposure to credit risk from other assets is low as these are expected to be collected within no more than 12 months after the date of this report.

	2017 Kshs '000	2016 Kshs '000
19 Loans and advances to customers		
Commercial loans	24,782,667	20,560,805
Overdrafts	19,059,723	17,394,127
Bills	101,093	134,566
Gross loans and advances	**43,943,483**	**38,089,498**
Provision for impaired loans and advances	(1,545,448)	(1,374,264)
Suspended interest	(190,755)	(314,334)
Net loans and advances	**42,207,280**	**36,400,900**
Provision for impaired loans and advances		
At start of the year	1,374,264	1,021,959
Additional provision during the year	363,142	436,129
Provision utilised during the year for write off	(245)	(6,446)
Recoveries	(191,713)	(77,378)
At End of the year	**1,545,448**	**1,374,264**

Loans and advances have been written down to their recoverable amount. Non performing loans and advances on which provisions for impairment have been recognised amount to K Sh 2.665 billion (2016: K Sh 3.392 billion). These are included in the statement of financial position net of provisions at K Sh 1.703 billion (2016: K Sh 1.703 billion). In the opinion of the Directors, sufficient securities are held to cover the exposure on such loans and advances. Interest income amounting to K Sh 190.76 million (2016: K Sh 314.33 million) on impaired loans and advances has not been recognised as the management feels no economic benefit of such interest will flow to the bank.

From past experience, the management is of the opinion that the 1% general provision for normal accounts and 3% general provision for watch accounts is adequate to cover any accounts which might become delinquent in the future.

Concentration

Economic sector risk concentrations within the loans and advances portfolio are as follows:

	2017	2017	2016	2016
	Kshs `000	%	Kshs `000	%
Agriculture	1,344,772	3.06%	1,173,087	3.08%
Manufacturing	9,568,694	21.78%	8,570,864	22.50%
Building and construction	3,293,702	7.50%	3,212,003	8.43%
Mining and quarrying	436,378	0.99%	441,972	1.16%
Energy and water	135,539	0.31%	113,824	0.30%
Trade	14,239,385	32.40%	11,913,233	31.28%
Tourism, restaurants and hotels	1,559,641	3.55%	1,570,157	4.12%
Transport and communication	2,989,606	6.80%	2,688,968	7.06%
Real estate	4,517,027	10.28%	4,813,528	12.64%
Financial services	677,235	1.54%	675,886	1.77%
Social, Community and Personal Households	5,181,506	11.79%	2,915,976	7.66%
	43,943,485	**100%**	**38,089,498**	**100%**

Loans and advances neither past due nor impaired, past due but not impaired and individually impaired

	2017	2016
	Kshs `000	Kshs `000
Neither past due nor impaired	32,964,403	28,528,062
Past due but not impaired	8,313,300	6,169,169
Individually impaired	2,665,782	3,392,267
Gross loans and advances to customers	**43,943,485**	**38,089,498**
Less: Provision for impaired loans and advances and Suspended Interest	(1,736,203)	(1,688,598)
Net loans and advances to customers	**42,207,282**	**36,400,900**

The loans and advances past due but not impaired are aged between 30 to 90 days. Loans and advances that are aged past 180 days are considered impaired.

The credit quality of the portfolio of loans and advances that were past due but not impaired can be assessed by reference to the internal rating system adopted by the bank. The loans and advances past due but not impaired can be analysed as follows:

Watch	8,313,300	6,169,169

The fair value of the collateral for loans and advances past due but not impaired is considered adequate.

Loans and advances individually impaired

The fair value of the collateral for loans and advances individually impaired is K Sh 1,163.93 million (2016: K Sh 1,809.725 million).

18. Loans and advances to customers (continued)

Loans and advances renegotiated

Restructuring activities include extended payment arrangements, approved external management plans, modification and deferral of payments. Following restructuring, a perviously overdue customer account is reset to a substandard status and managed together with other similar accounts. Restructuring policies and practices are based on indicators or criteria which, in the jusdgement of the credit committee indicate that payment will most likely continue. These policies are kept under continuous review.

Repossessed collateral

As at 31 December 2017 the bank did not hold possession of any repossed collateral held as security.

19. Investment securities

	2017	2016
20 Investment securities	**Kshs '000**	**Kshs '000**
Quoted equity investments:		
At start of year	1,005	1,888
Fair value (loss)/gain	220	(883)
At end of the year	**1,225**	**1,005**
Unquoted equity investments:		
At start and end of year	19,391	19,391
Corporate bonds:		
At start of year	184,546	184,546
Redemption	(111,354)	-
Interest income for the year	1,511	-
Interest income received	-	-
Fair value (loss)/gain	(926)	(75,710)
	73,777	**108,836**
	94,393	**129,232**

The fair values of the quoted equity investments and corporate bonds are categorised under Level 1 based on the information set out in the accounting policy.

21 Tax Payable / Refundable		
Balance at beginning of the year	(416,566)	28,085
Current tax for the year recognised in profit or loss	(1,146,648)	(935,500)
Balance at end of the year	145,121	416,566
	(1,418,093)	**(490,849)**

The non-current asset held for sale relates to the Tom Mboya property. This property was diposed during the year.

22 Intangible assets

Reconciliation of intangible assets - 2017

	Opening balance	Additions	Disposals	Amortisation	Total
Computer software	4,877	1,329	-	(1,894)	4,312
	4,877	**1,329**	**0**	**-1,894**	**4,312**

Reconciliation of intangible assets - 2016

	Opening balance	Additions	Disposals	Amortisation	Total
Computer software	2,937	3,918	-	(1,978)	4,877
	2,937	**3,918**	**-**	**(1,978)**	**4,877**

	2017			2016		
	Cost / Valuation	Accumulated Amortisation	Carrying value	Cost / Valuation	Accumulated Amortisation	Carrying value
Computer software	17,537	(13,225)	4,312	16,208	(11,331)	4,877
Total	**17,537**	**-13,225**	**4,312**	**16,208**	**-11,331**	**4,877**

In the opinion of management there is no impairment in the value of intangible assets.
Amortisation costs are included in non interest expenses in the profit or loss.

23 Investment property

Reconciliation of intangible assets - 2017

	Opening balance	Additions	Disposals	Depreciation	Total
Investment property	22,284	-	(22,284)	-	-
	22,284	**-**	**(22,284)**	**-**	**-**

Reconciliation of intangible assets - 2016

	Opening balance	Additions	Disposals	Depreciation	Total
Investment property	22,903	-	-	(619)	22,284
	22,903	**-**	**-**	**(619)**	**22,284**

24 Investment property

	2017			2016		
	Cost / Valuation	Accumulated depreciation	Carrying value	Cost / Valuation	Accumulated depreciation	Carrying value
Investment property	0	-	0	30,950	(8,666)	22,284
Total	**0**	**0**	**0**	**30,950**	**-8,666**	**22,284**

24. Property and Equipment

	2017			2016		
	Cost / Valuation	Accumulated depreciation	Carrying value	Cost / Valuation	Accumulated depreciation	Carrying value
Buildings	38,240	(7,927)	30,313	35,235	(5,563)	29,672
Furniture and fittings	187,253	(96,821)	90,432	172,343	(80,285)	92,058
Motor vehicles	32,431	(26,452)	5,979	31,306	(24,459)	6,847
Computer and electron	170,835	(163,447)	7,388	165,690	(153,137)	12,553
Leasehold improvemen	194,326	(103,840)	90,486	178,492	(96,809)	81,683
Total	**623,085**	**-398,487**	**224,598**	**583,066**	**-360,253**	**222,813**

Reconciliation of property and equipment - 2017

	Opening balance	Additions	Disposals	Depreciation	Total
Buildings	29,672	24,112	-	(23,471)	30,313
Furniture and fittings	92,057	33,363	(306)	(34,682)	90,432
Motor vehicles	6,847	-	-	(868)	5,979
Computer and electronic equipment	12,553	11,975	-	(17,140)	7,388
Leasehold improvements	81,684	14,199	-	(5,397)	90,486
	222,813	**83,649**	**(306)**	**(81,558)**	**224,598**

Reconciliation of property and equipment - 2016

	Opening balance	Additions	Disposals	Depreciation	Total
Buildings	6,004	24,112	-	(444)	29,672
Furniture and fittings	71,932	33,363	(306)	(12,932)	92,057
Motor vehicles	9,131	0	-	(2,284)	6,847
Computer and electronic equipment	14,329	11,975	-	(13,751)	12,553
Leasehold improvements	82,203	13,737	-	(14,256)	81,684
	183,599	**83,187**	**(306)**	**(43,667)**	**222,813**

In the opinion of management, there is no impairment in the value of property and equipment.

25. Deferred Tax

	2017 Kshs '000	2016 Kshs '000
Deferred tax asset / (liability)		
Deferred tax	69,694	53,482
Reconciliation of deferred tax asset (liability)		
At beginning of the year	53,482	47,033
Accelerated capital allowances	4,035	7,230
Provisions	12,177	(4,997)
Prior year underprovision	-	4,216
	69,694	**53,482**

Recognition of deferred tax asset / liability.

Deferred tax is calculated on all temporary differences under the liability method using a principal tax rate of 30% (2016: 30%)

26. Customer deposits

	2017 Kshs '000	2016 Kshs '000
26 Customer deposits		
Savings Deposits	8,168,924	7,725,509
Current Deposits	5,610,441	4,817,119
Term deposits	59,225,520	52,330,976
	73,004,885	**64,873,604**
Analysis of customer deposits by maturity		
Payable within 90 days	54,136,747	58,398,436
Payable after 90 days and within one year	18,185,380	6,088,955
Payable after one year	682,758	386,213
	73,004,885	**64,873,604**

The economic sector concentrations within the customer deposits portfolio were as follows:

	2017 Kshs	**2017 %**	**2016 Kshs**	**2016 %**
Non profit institutions and individuals	58,715,537	80.43%	53,497,600	82.46%
Private companies	13,815,935	18.92%	10,579,155	16.31%
Insurance companies	473,413	0.65%	796,849	1.23%
	73,004,885	**100%**	**64,873,604**	**100%**

Included in customer accounts were deposits of K Sh 3,187.04 million (2016: K Sh 2,730.67 million) held as collateral for loans and advances. The fair value of those deposits approximates the carrying amount.

27. Deposits and Balances due to other banking institutions

	2017	2016
	Kshs '000	Kshs '000
Parent bank	30,703	142,122
Foreign banks	4,658,235	2,757,856
	4,688,938	**2,899,978**

28. Other Liabilities

Staff leave and gratuity accrual	238,019	181,495
Bills payable	2,600	2,794
Other accounts payable	152,601	308,131
	393,220	**492,420**

Other liabilities are expected to be settled within no more than 12 months after the date of the statement of the financial position.

29. Share capital

Authorised		
49,485,838 Ordinary shares of Kshs. 20.00 each	989,717	989,717
Issued		
49,485,838 Ordinary shares of Kshs. 20.00 each	989,717	989,717

30. Fair value reserve

The fair value reserve relates to the cumulative net change in fair value of Available-for-sale financial assets until the investment is derecognised. The current year movements have been set out in note 12.

31. Statutory loan loss reserve

Where impairment losses required by legislation or regulation exceed those computed under International Financial Reporting Standards (IFRS's), the excess is recognised as a statutory reserve and accounted for as an appropriation of Retained Earnings. The reserves are not distributable.

32. Dividends

	2017	*2016*
Proposed dividends	(989,717)	(494,858)

33. Related parties

Included in loans and advances and customer deposits are amounts advanced to/received from certain directors and companies in which directors are involved either as shareholders or directors (related companies). In addition, contingent liabilities include guarantees and letters of credit which have been issued to related companies.

	2017 Kshs '000	2016 Kshs '000
(a) Compensation to key management		
Short-term employee benefits	47,408	47,408
Post-employment benefits	8,512	8,512
	55,920	**55,920**
(b) Interest received from loans and advances to:		
Related companies	-	-
Senior management employees	1053	673
Other employees	135,576	52,865
	136,629	**53,538**
(c) Interest paid on deposits from:		
Directors	-	-
Related companies	-	-
Senior management employees	6	17
Other employees	280	352
	286	**369**
(d) Management fees paid		
Related companies	27,708	47,102

	Directors		Related companies		Senior management employees		Other employees	
(e) Outstanding loans and advances	**2017**	**2016**	**2017**	**2016**	**2017**	**2016**	**2017**	**2016**
At start of year	-	-	-	-	7,345	2,516	286,357	202,967
Advances during the year	32,678	-	174,550	-	1,288	5,662	33,925	111,590
Interest charged	1,475	-	1,165	-	1,053	176	135,576	19,540
Repayments during the year	(25,133)	-	(160,733)	-	(1,640)	(1,009)	(67,776)	(47,740)
	9,020	**-**	**14,982**	**-**	**8,046**	**7,345**	**388,082**	**286,357**

The loans and advances to related parties are performing.

No provisions have been recognised in respect of the loans and advances to Directors, related parties or staff as they are performing well.

	Directors		Related companies		Senior management employees		Other employees	
(f) Deposits	**2017**	**2016**	**2017**	**2016**	**2017**	**2016**	**2017**	**2016**
At start of year	67	41,181	-	67,273	433	1,010	369,467	175,578
Deposits received during the year	1,974	9,064	165,597	-	2,474	21,366	111,917	480,743
Interest paid during the year	-	2	-	-	6	1	280	314
Withdrawals during the year	(1,904)	(50,180)	11,552	(67,273)	(2,149)	(21,944)	(425,501)	(287,168)
	137	**67**	**177,149**	**-**	**764**	**433**	**56,163**	**369,467**

32 Related parties (continued)

(g) Directors emoluments	2017	2016
	Kshs '000	Kshs '000
Fees	815	815
Others	15,488	12,705
	16,303	**13,520**

All transactions with related parties were at arms length and at terms and conditions similar to those offered to other major customers.

33 Cash generated from operations

Profit before taxation	5,053,433	3,875,810
Adjustments for:		
Depreciation and amortisation	37,350	46,219
(Profit) / Loss on sale of assets	(322,129)	46
Changes in working capital:		
Loans and advances to customers	(5,806,380)	(5,382,527)
Placement with and loans and advances to other banking institutions	(1,680,001)	485,612
Other assets	(118,844)	(36,718)
Due to local banking institutions	1,788,960	-696,962
Customer deposits	8,131,282	11,944,981
Other liabilities	-99,200	112,603
	6,984,471	**10,349,064**

34 Capital commitments

There were estimated capital commitments of K Sh 150 million relating to construction of the new Head Office building along Muthithi Road.

Operating leases – as lessee (expense)

The future minimum lease payments under non-cancellable operating leases are as follows:

Minimum lease payments due

- not later than 1 year	76,785	111,208
- later than 1 year and not later than 5 years	493,187	319,873
	569,972	**431,081**

The Directors are of the view that future net revenues, funding and cash flows will be sufficient to cover these commitments.

The bank leases a number of premises under operating leases. The leases typically run for an initial period of between 5 to 8 years with an option to renew the lease after that date. None of these leases include contingent rentals. During the year ended 31 December 2017, K Sh (‘000) 120,761 (2016: K Sh (‘000) 106,605) was recognised as an expense in the Statement of Profit or Loss in respect of operating leases.

36. Off-balance sheet financial instruments, contingent liabilities and committments

In common with banking business, the bank conducts business involving acceptances, guarantees, performance bonds and letters of guarantee. The majority of these facilities are offset by corresponding obligations from third parties.

	2017	2016
Contingent liabilities	**Kshs '000**	**Kshs '000**
Spots	105,092	358,769
Letters of credit	2,127,160	2,204,320
Guarantees	3,040,109	3,230,944
Bills sent for collection	1,073,616	1,007,943
Forwards	313,471	354,735
	6,659,448	**7,156,711**

An acceptance is an undertaking by a bank to pay a bill of exchange on a specified due date. The bank expects most acceptances to be presented and reimbursement by the customer is normally immediate. Letters of credit commit the bank to make payments to third parties on production of credit compliant documents which are subsequently reimbursed by customers.

Guarantees are generally written by a bank to support the performance of a customer to third parties. The bank will only be required to meet these obligations in the event of the customers default.

Based on the estimate of the financial effect of the contingencies and the corresponding obligations from third parties, no loss is anticipated.

The bank has open lines of credit facilities with correspondent banks.

	2017	2016
	Kshs '000	**Kshs '000**
Commitments		
Undrawn formal stand-by facilities, credit lines	3,761,439	3,323,099

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

The pending litigation claims relate to cases instituted by third parties against the bank. Judgement in respect of these cases had not been determined as at 31 December 2017. The directors are of the opinion that no liabilities will crystallise.

37. Events after the reporting period

The directors of the bank are not aware of any events after the reporting period; which may have a significant impact on the operational existance or on the financial performance of the bank for the period.

38. Comparative figures

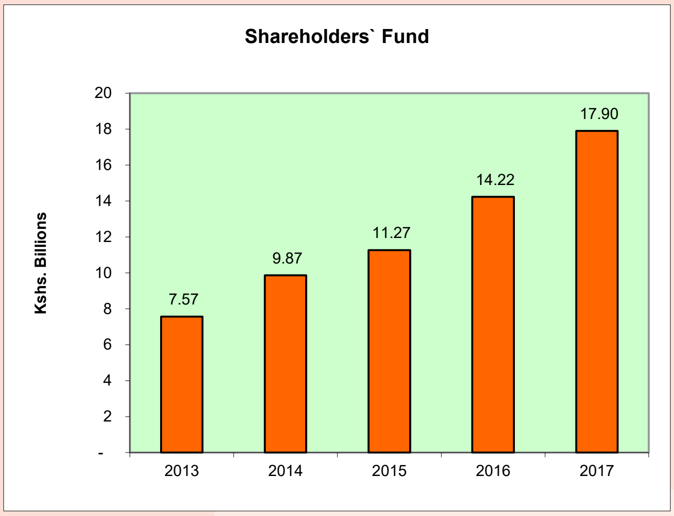
Previous year's figures have been regrouped / rearranged wherever necessary in order to make them comparable with that of current financial period.

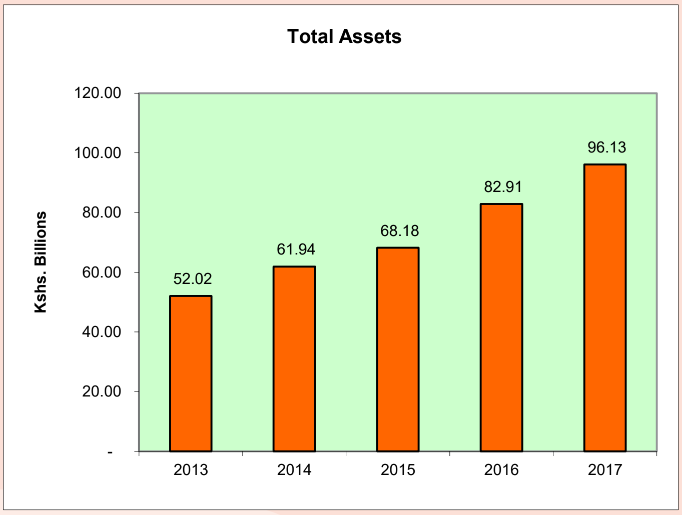
39. Earnings per share

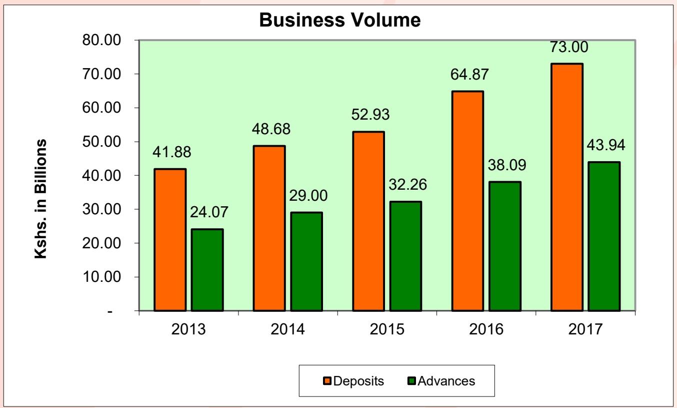
Basic earnings per share is calculated on the profit attributable to the shareholders and on the weighted average number of shares outstanding during the year adjusted for the effect of any share issue during the year.

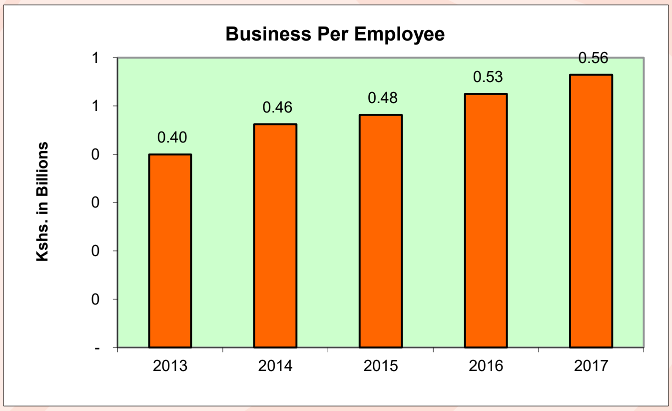
	2017 *Kshs '000*	*2016* *Kshs. '000*
Net income for the period attributable to shareholders	**3,922,996**	**2,946,759**
Adjusted weighted average number of ordinary shares in issue	**49,485,838**	**49,485,838**
Earnings per share - basic and diluted	**79.28**	**59.55**

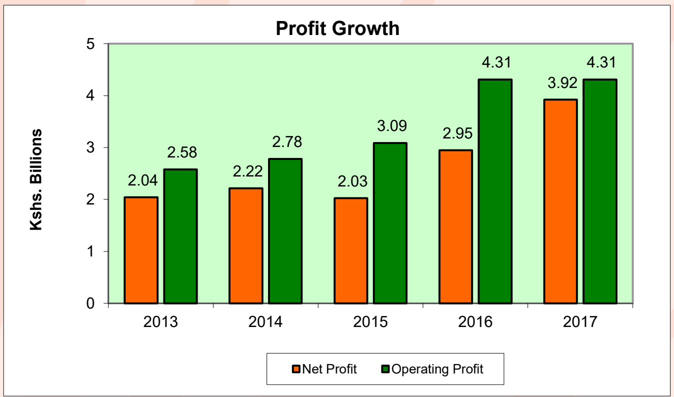
There were no potentially dilutive shares outstanding as at 31 December 2017 and 2016.

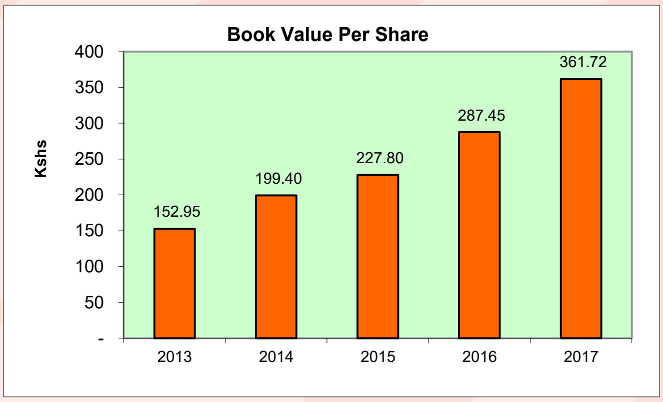

Shareholders` Fund
Kshs. Billions
20
18
16
14
12
10
8
6
4
2
-
7.57
9.87
11.27
14.22
17.90
2013
2014
2015
2016
2017


Total Assets
Kshs. Billions
120.00
100.00
80.00
60.00
40.00
20.00
-
52.02
61.94
68.18
82.91
96.13
2013
2014
2015
2016
2017


Business Volume
Kshs. in Billions
80.00
70.00
60.00
50.00
40.00
30.00
20.00
10.00
-
41.88
24.07
48.68
29.00
52.93
32.26
64.87
38.09
73.00
43.94
2013
2014
2015
2016
2017
Deposits
Advances


Business Per Employee
Kshs. in Billions
1
1
0
0
0
0
-
0.40
0.46
0.48
0.53
0.56
2013
2014
2015
2016
2017


Profit Growth
Kshs. Billions
5
4
3
2
1
0
2.04
2.58
2.22
2.78
2.03
3.09
2.95
4.31
3.92
4.31
2013
2014
2015
2016
2017
Net Profit
Operating Profit


Book Value Per Share
Kshs
400
350
300
250
200
150
100
50
-
152.95
199.40
227.80
287.45
361.72
2013
2014
2015
2016
2017

	2017 Shs. '000'	2016 Shs. '000'
1.0 NON-PERFORMING LOANS AND ADVANCES		
(a) Gross Non-performing loans and advances	2,665,782	3,392,267
(b) Less: Interest in Suspense	190,760	314,334
(c)Total Non-Performing Loans and Advances (a-b)	**2,475,022**	**3,077,933**
(d) Less: Loan Loss Provision	1,545,445	1,374,264
(e) Net Non-Performing Loans and Advances(c-d)	**929,577**	**1,703,669**
(f) Discounted Value of Securities	929,577	1,703,669
(g) Net NPLs Exposure (e-f)	-	-
2.0 INSIDER LOANS AND ADVANCES		
(a) Directors, Shareholders and Associates	24,002	-
(b) Employees	396,127	293,702
(c)Total Insider Loans and Advances and other facilities	**420,129**	**293,702**
3.0 OFF-BALANCE SHEET ITEMS		
(a)Letters of credit,guarantees, acceptances	5,167,269	5,435,264
(b) Forwards, swaps and options	418,563	713,504
(c)Other contingent liabilities	1,073,616	1,007,943
(d)Total Contingent Liabilities	**6,659,448**	**7,156,711**
4.0 CAPITAL STRENGTH		
(a)Core capital	**16,202,834**	**13,505,724**
(b) Minimum Statutory Capital	**1,000,000**	**1,000,000**
(c)Excess/(Dificiency)(a-b)	**15,202,834**	**12,505,724**
(d) Supplementary Capital	**706,320**	**486,363**
(e) Total Capital (a+d)	**16,909,154**	**13,992,087**
(f)Total risk weighted assets	**52,364,642**	**45,823,328**
(g) Core Capital/Total deposits Liabilities	**22.2%**	**20.8%**
(h) Minimum statutory Ratio	8.0%	8.0%
(I) Excess/(Deficiency) (g-h)	14.2%	12.8%
(j) Core Capital / total risk weighted assets	**30.9%**	**29.5%**
(k) Minimum Statutory Ratio	10.5%	10.5%
(l) Excess (Deficiency) (j-k)	20.4%	19.0%
(m) Total Capital/total risk weighted assets	**32.3%**	**30.5%**
(n) Minimum statutory Ratio	14.5%	14.5%
(o) Excess/(Deficiency) (m-n)	17.8%	16.0%
14 LIQUIDITY		
14.1 **(a) Liquidity Ratio**	**65.6%**	**65.2%**
14.2 (b) Minimum Statutory Ratio	20.0%	20.0%
14.3 (c) Excess (Deficiency) (a-b)	45.6%	45.2%

Inauguration of Bank of Baroda – Indian Property fair 2018

Chief Guest H.E. Mrs. Suchitra Durai, High Commissioner of India to Kenya, Mr. Saravanakumar A, Managing Director Bank of Baroda (Kenya) Ltd along with other bank officials during the inauguration of the Bank of Baroda Indian property Fair 2018 at Nairobi.

Celebration of World Hindi Day

Guest of Honour Mr. Arvinder Singh Mehta, Chairman of the Hindi Samiti of East Africa region along with the Managing Director and other staff from various branches of Nairobi, Thika and Head Office during the celebration of World Hindi Day at Head Office of Bank of Baroda (Kenya) Ltd.

Launch of new product Baroda M- Passbook

Mr. Ashok Kumar Garg, Chairman, Bank of Baroda (Kenya) Ltd demonstrating to the share holders the benefits and user friendly modalities of the newly launched product M-Passbook.

Annual General Meeting 2016

Mr. Ashok Kumar Garg , Executive Director, Bank of Baroda, India & Chairman, Bank of Baroda (Kenya) Ltd., Mr. Eric Tucker, General Manager (International Operations) Bank of Baroda, India & Director Bank of Baroda (Kenya) Ltd & Mr. Yatish C. Tewari, Managing Director, Bank of Baroda (Kenya) Ltd. along with other directors & shareholders of the Bank.

CORPORATE SOCAIL RESPONSIBILITY

Ananda Marga Mission

Mr. Saravanakumar A, Managing Director and Mr. Yogendra Singh Saini, Deputy Managing Director and Head of Operations along with Acharya Dipti Mayanant, Committee Member of Anand Marga Mission with other volunteers contributing various items like cupboards, chairs, computers, tables to Ananda Marga Mission, Nairobi.

Kibichiku Secondary School

Mr. Bhavik S. Trivedi and Mr. Kennedy Machoka, staff of Bank of Baroda (Kenya) Ltd. Head Office along with the principal, staff and students during the corporate social Responsibility activity where Bank donated computers to Kibichiku Secondary School

DONATION OF WALL CLOCKS TO CHURCHES

Mr. Saravanakumar A, Managing Director, Bank of Baroda (Kenya) Ltd seen with Mr. Gopal Saxena, Branch Head, Thika branch handing over the Wall Clock to a church in Thika.

Mr. Prasanta kumar Padhi, Branch Head, Mombasa Road branch along with the staff of the branch handing over the Wall Clock to a church in Nairobi

Mr. RSKV Suryanarayana, Branch Head, Diamond plaza branch along with other staff of the branch handing over the Wall Clock to a church in Nairobi

Mr Bhavik S Trivedi and Mr James Kirtela from Head Office and Ms. Patricia from Nairobi-Main Office handing over the wall clock to a church in Syokimau.