013/04

CO-OPERATIVE BANK
We are you

The Co-operative Bank of Kenya Limited
Co-operative Bank House
Haile Selassie Avenue
P.O.Box 48231 – 00100 GPO Nairobi
Tel: (020) 3276100
Fax: (020) 2227747/2219831
Website: www.co-opbank.co.ke

RECEIVED
31 ... 2017

31st March 2017

Chief Executive Officer
Capital Markets Authority,
Embankment Plaza 3rd Floor,
Longonot Road, Upper Hill,
P.O.Box 74800-00200,
Nairobi

Dear Sir,

RE: THE CO-OPERATIVE BANK OF KENYA LIMITED AND SUBSIDIARIES AUDITED ANNUAL REPORT AND FINANCIAL STATEMENTS AS AT 31ST DECEMBER 2016

Enclosed please find:-

1. The Co-operative Bank of Kenya Limited and Subsidiaries Audited Annual Report and Financial Statements as at 31st December 2016.
2. Co-op Trust Investment Services Limited Audited Annual Report and Financial Statements as at 31st December 2016.
3. Co-op Consultancy and Insurance Agency Limited Audited Annual Report and Financial Statements as at 31st December 2016.
4. Kingdom Securities Limited Audited Annual Report and Financial Statements as at 31st December 2016.

Please acknowledge receipt on the attached duplicate copy.

Yours faithfully,

PATRICK NYAGA
DIRECTOR -FINANCE & STRATEGY

Encl.

CO-OP CONSULTANCY & INSURANCE AGENCY LIMITED

ANNUAL REPORT

AND

FINANCIAL STATEMENTS

31 DECEMBER 2016

CO-OP CONSULTANCY & INSURANCE AGENCY LIMITED
ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016

CONTENTS

CO-OP CONSULTANCY & INSURANCE AGENCY LIMITED
COMPANY INFORMATION
FOR THE YEAR ENDED 31 DECEMBER 2016

REGISTERED OFFICE:

Co-operative Bank House
L.R. No 209/4290 (IR No 27596)
Haile Selassie Avenue
P.O. Box 48231 - 00100
NAIROBI

BANKERS:

The Co-operative Bank of Kenya Limited
Co-operative House Branch
P.O. Box 48231 - 00100
NAIROBI

SOLICITORS:

Various
A list is available at the registered office

SECRETARY:

Rosemary Majala Githaiga (Mrs)
P.O. Box 48231 - 00100
NAIROBI

AUDITORS:

Ernst & Young LLP
Certified Public Accountants
Kenya-Re Towers, Upper Hill
Off Ragati Road
P.O. Box 44286 - 00100
NAIROBI

The directors submit their report together with the audited financial statements for the year ended 31 December 2D16. In accordance with Section 42 of the Sixth Schedule, Transitional and Saving Prouisions, of the Kenyan Companies Act, 2D15, this report has been prepared in accordance with Section 157 of the repealed Companies Act, as if that repeal had not taken effect.

1. PRiNCiPAL ACTIVITY

The company offers financial aduisory and training services to savings and credit co-operative societies and Danc assurance services.

2. RESULTS

The results for the year are set out on page 8.

3. DIVIDEND

The directors do not recommend the paument of a dividend (2D15: Nil).

4. RESERVES

The reserves of the company are set out on page 9 of these financial statements.

S. DIRECTORS

The directors who serued during the year and to the date of this report were:-

S. C. Muchiri, EBS	Group Chairman
Dr.G. Muriuki, MBS	Group Managing Director & CEO
P.K. Githendu	
G. Mburia	
Dr. J. Kahunyo	
S. OdhiamDo	
D. M. Muriuki	
J. N. Njiru	
P. Gichuki	
P. Gichuki	Retired on 7 December 2D16
M. N. Mungai (Mrs)	Appointed on 7 December 2016

7. AUDITORS

The company's auditors, Ernst & Young LLP, haue expressed their willingness to continue in office in accordance with the Kenyan Companies Act, 2D15

By order of the Board

..............................2017

CO-OP CONSULTANCY & INSURANCE AGENCY LIMITED
STATEMENT OF DIRECTORS' RESPONSIBILITIES
ON THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016

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

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

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

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

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

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

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

Approved by the board of directors on 14 March 2017 and signed on its behalf by:

....
GROUP CHAIRMAN

....
GROUP MANAGING DIRECTOR & CEO

14 March 2017
....
Date

EY
Building a better working world

Ernst & Young LLP
Certified Public Accountants
Kenya Re Towers
Upper Hill
Off Ragati Road
PO Box 44286 - 00100
Nairobi GPO, Kenya

Tel: +254 20 2886000
Email: info@ke.ey.com
www.ey.com

INDEPENDENT AUDITOR'S REPORT
TO THE SHAREHOLDERS OF
CO-OP CONSULTANCY & INSURANCE AGENCY LIMITED
REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

Opinion

We have audited the financial statements of Co-op Consultancy &Insurance Agency Limited, set out on Page 7 to 32 which comprise the statement of financial position as at 31 December 2016, and the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

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

Basis for Opinion

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

Other Information

The directors are responsible for the other information. The other information comprises the Directors' Report as required by the Kenyan Companies Act, 2015. The other information does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express an audit opinion or any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information obtained prior to the date of this auditor's report, 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.
When we read the Annual Report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance

Responsibilities of management and those charged with governance for the financial statements

Management is responsible for the preparation and fair presentation of the annual financial statements in accordance with IFRSs, and for such internal control as management determines 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, management is responsible for assessing the entity'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 management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance 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 annual financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.
As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

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

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

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

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

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

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the annual financial statements. We are responsible for the direction, supervision and performance of the Company's audit. We remain solely responsible for our audit opinion.

Building a better working world

We communicate with those charged with governance 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.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the annual financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

REPORT ON OTHER LEGAL REQUIREMENTS

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

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

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

iii) The company's Statement of Financial Position and Statement of profit or loss and other Comprehensive Income are in agreement with the books of account.

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

Nairobi

..............................2017

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

CO-OP CONSULTANCY & INSURANCE AGENCY LIMITED
STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2016

	Note	2016 KShs	2015 KShs
ASSETS			
NON CURRENT ASSETS			
Property and equipment	2	5,085,189	6,278,046
Intangible assets	3	12,586,301	16,362,192
Deferred tax	4	13,384,052	7,979,521
		31,055,542	30,619,759
CURRENT ASSETS			
Trade and other receivables	5(a)	184,204,798	228,700,199
Tax recoverable	6(a)	12,317,785	-
Cash and short term deposits	16	202,220,244	57,139,909
		398,742,827	285,840,108
TOTAL ASSETS		429,798,369	316,459,867
EQUITY AND LIABILITIES			
EQUITY			
Share capital	8	70,000,000	70,000,000
Retained earnings	9	339,531,751	201,312,878
		409,531,751	271,312,878
CURRENT LIABILITIES			
Tax payable	6(a)	-	32,113,137
Amount due to a related party	7(b)	9,084,550	8,676,732
Trade and other payables	10	11,182,068	4,357,120
		20,266,618	45,146,989
TOTAL EQUITY AND LIABILITIES		429,798,369	316,459,867

The financial statements were approved by the Board of Directors on 14 March 2017
and signed on its behalf by:

S. C. Muchiri, EBS - Group Chairman ……………………

Dr.G. Muriuki, MBS - Group Managing Director & CEO ……………………

CO-OP CONSULTANCY & INSURANCE AGENCY LIMITED
STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOMF
FOR THE YEAR ENDED 31 DECEMBER 2016

	Note	2016 KShs	2015 KShs
INCOME	11	360,414,425	336,016,261
OTHER INCOME	12	25,294,659	31,309,754
		385,709,084	367,326,015
EXPENSES:-			
Administrative and other operating expenses	13	(188,087,427)	(190,844,716)
		(188,087,427)	(190,844,716)
PROFIT BEFORE TAX	14	197,621,657	176,481,299
Income tax expense	6(b)	(59,402,784)	(53,460,750)
PROFIT FOR THE YEAR		138,218,873	123,020,549
Other Comprehensive Income		-	-
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		138,218,873	123,020,549
Earnings per share (KShs)	15	197	176

CO-OP CONSULTANCY & INSURANCE AGENCY LIMITED
STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2016

	Share Capital KShs	Retained earnings KShs	Total KShs
Balance as at 1 January 2015	70,000,000	78,292,329	148,292,329
Profit for the year	-	123,020,549	123,020,549
Balance as at 31 December 2015	70,000,000	201,312,878	271,312,878
Balance as at 1 January 2016	70,000,000	201,312,878	271,312,878
Profit for the year	-	138,218,873	138,218,873
Balance as at 31 December 2016	70,000,000	339,531,751	409,531,751

CO-OP CONSULTANCY & INSURANCE AGENCY LIMITED
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2016

	Note	2016 KShs	2015 KShs
Operating activities			
Profit before tax		197,621,657	176,481,299
Adjustments for:-			
Depreciation of property and equipment	2	2,029,907	1,850,301
Amortization of intangible asset	3	3,775,891	2,517,260
Gain on disposal of asset		-	(60,800)
Interest expense		-	39,889
Allowance for bad and doubtful debts	5(b)	15,240,823	2,110,877
Operating profit before working capital changes		218,668,278	182,938,826
Decrease in trade and other receivables		29,254,575	(136,023,405)
Increase / (decrease) in related company balances		407,818	(19,448,772)
Increase / (decrease) in trade and other payables		6,824,949	(599,356)
		255,155,620	26,867,293
Tax paid	6(a)	(109,238,235)	(35,545,393)
Net cash flows generated from operating activities		145,917,385	(8,678,100)
Investing activities			
Purchase of property and equipment	2	(837,050)	(1,815,552)
Purchase of software	3	-	(18,879,452)
Proceeds on disposal of asset		-	76,500
Net cash flows used in investing activities		(837,050)	(20,618,504)
Financing activities			
Interest paid		-	(39,889)
Net cash flows used in financing activities		-	(39,889)
Net (decrease) / increase in cash and cash equivalents		145,080,335	(29,336,493)
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR		57,139,909	86,476,402
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	16	202,220,244	57,139,909

1 SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of the financial statements are set out below. These policies have been consistently applied over the years presented unless otherwise stated:

(a) Basis of preparation of financial statements

(i) Basis of preparation

The Company financial statements are prepared in compliance with International Financial Reporting Standards (IFRSs) and Interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC). The financial statements are presented in Kenya Shillings (KShs), rounded to the nearest thousand which is both the functional and presentation currency and prepared on the historical cost basis, except where otherwise stated in the accounting policies below.

For the Kenyan Companies Act reporting purposes, in these financial statements, the balance sheet is represented by/is equivalent to the statement of financial position and the profit and loss account is presented in the statement of profit or loss and other comprehensive income.

(ii) Changes in accounting policies and disclosures

New and amended standards and interpretations

The accounting policies adopted are consistent with those of the previous financial year, except for the following amendments to IFRS effective as of 1 January 2016. The adoption of the standards, interpretations or improvements is described below:

Amendments to IFRS 10, IFRS 12 and IAS 28: Effective for annual periods beginning on or after 1 January 2016.

Key requirements
The amendments address three issues that have arisen in applying the investment entities exception under IFRS 10 Consolidated Financial Statements.
The amendments to IFRS 10 clarify that the exemption in paragraph 4 of IFRS 10 from presenting consolidated financial statements applies to a parent entity that is a subsidiary of an investment entity, when the investment entity measures its subsidiaries at fair value.
Furthermore, the amendments to IFRS 10 clarify that only a subsidiary of an investment entity that is not an investment entity itself and that provides support services to the investment entity is consolidated. All other subsidiaries of an investment entity are measured at fair value.
The amendments to IAS 28 Investments in Associates and Joint Ventures allow the investor, when applying the equity method, to retain the fair value measurement applied by the investment entity associate or joint venture to its interests in subsidiaries.

Transition
The amendments must be applied retrospectively. Early application is permitted and must be disclosed.

Impact
The amendments to IFRS 10 and IAS 28 provide helpful clarifications that will assist preparers in applying the standards more consistently. However, it may still be difficult to identify investment entities in practice when they are part of a multi-layered group structure

1 SIGNIFICANT ACCOUNTING POLICIES (continued)

(a) Basis of preparation of financial statements

(ii) Changes in accounting policies and disclosures (continued)

New and amended standards and interpretations (continued)

IAS 1: Effective for annual periods beginning on or after 1 January 2016.

Key requirements
The amendments to IAS 1 Presentation of Financial Statements clarify, rather than significantly change, the existing IAS 1 requirements.

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

Transition
Early application is permitted. Entities do not need to disclose that fact because the Board considers these amendments to be clarifications only that do not affect an entity's accounting policies or accounting estimates.

Impact
These amendments are intended to assist entities in applying judgement when meeting the presentation and disclosure requirements in IFRS, and do not affect recognition and measurement. Although these amendments clarify existing requirements of IAS 1, the clarifications may facilitate enhanced disclosure effectiveness.

Amendments to IAS 16 and IAS 38: Effective for annual periods beginning on or after 1 January 2016.

Key requirements
The amendments clarify the principle in IAS 16 Property, Plant and Equipment and IAS 38 Intangible Assets that revenue reflects a pattern of economic benefits that are generated from operating a business (of which the asset is part) rather than the economic benefits that are consumed through use of the asset. As a result, the ratio of revenue generated to total revenue expected to be generated cannot be used to depreciate property, plant and equipment and may only be used in very limited circumstances to amortise intangible assets.

Transition
The amendments are effective prospectively. Early application is permitted and must be disclosed.

Impact
Entities currently using revenue-based amortisation methods for property, plant and equipment will need to change their approach to an acceptable method, such as the diminishing balance method, which would recognise increased amortisation in the early part of the asset's useful life

1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(a) Basis of preparation of financial statements (continued)

(ii) Changes in accounting policies and disclosures (continued)

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

The amendments to IFRS 11 require that a joint operator accounting for the acquisition of an interest in a joint operation, in which the activity of the joint operation constitutes a business, must apply the relevant IFRS 3 principles for business combinations accounting. The amendments also clarify that a previously held interest in a joint operation is not remeasured on the acquisition of an additional interest in the same joint operation while joint control is retained. In addition, a scope exclusion has been added to IFRS 11 to specify that the amendments do not apply when the parties sharing joint control, including the reporting entity, are under common control of the same ultimate controlling party. The amendments apply to both the acquisition of the initial interest in a joint operation and the acquisition of any additional interests in the same joint operation and are prospectively effective for annual periods beginning on or after 1 January 2016, with early adoption permitted. These amendments are not expected to have any impact on the company.

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

The amendments clarify the principle in IAS 16 and IAS 38 that revenue reflects a pattern of economic benefits that are generated from operating a business (of which the asset is part) rather than the economic benefits that are consumed through use of the asset. As a result, a revenue-based method cannot be used to depreciate property, plant and equipment and may only be used in very limited circumstances to amortise intangible assets. The amendments are effective prospectively for annual periods beginning on or after 1 January 2016, with early adoption permitted. These amendments are not expected to have any impact to the company given that the company has not used a revenue-based method to depreciate its non-current assets.

Amendments to IAS 27: Equity Method in Separate Financial Statements

The amendments will allow entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements. Entities already applying IFRS and electing to change to the equity method in its separate financial statements will have to apply that change retrospectively. For first-time adopters of IFRS electing to use the equity method in its separate financial statements, they will be required to apply this method from the date of transition to IFRS. The amendments are effective for annual periods beginning on or after 1 January 2016, with early adoption permitted. These amendments will not have any impact on the company's financial statements.

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

The amendments address the conflict between IFRS 10 and IAS 28 in dealing with the loss of control of a subsidiary that is sold or contributed to an associate or joint venture. The amendments clarify that the gain or loss resulting from the sale or contribution of assets that constitute a business, as defined in IFRS 3, between an investor and its associate or joint venture, is recognised in full. Any gain or loss resulting from the sale or contribution of assets that do not constitute a business, however, is recognised only to the extent of unrelated investors' interests in the associate or joint venture. These amendments must be applied prospectively and are

1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(a) Basis of preparation of financial statements (continued)

(ii) Changes in accounting policies and disclosures (continued)

Amendments to IAS 1 Disclosure Initiative

The amendments to IAS 1 Presentation of Financial Statements clarify, rather than significantly change, existing IAS 1 requirements. The amendments clarify:-
The materiality requirements in IAS 1
That specific line items in the statement(s) of profit or loss and OCI and the statement of financial position may be disaggregated
That entities have flexibility as to the order in which they present the notes to financial statements
That the share of OCI of associates and joint ventures accounted for using the equity method must be presented in aggregate as a single line item, and classified between those items that will or will not be subsequently reclassified to profit or loss
Furthermore, the amendments clarify the requirements that apply when additional subtotals are presented in the statement of financial position and the statement(s) of profit or loss and OCI. These amendments are effective for annual periods beginning on or after 1 January 2016, with early adoption permitted. These amendments are not expected to have any impact on the company.

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

The amendments address issues that have arisen in applying the investment entities exception under IFRS 10. The amendments to IFRS 10 clarify that the exemption from presenting consolidated financial statements applies to a parent entity that is a subsidiary of an investment entity, when the investment entity measures all of its subsidiaries at fair value. Furthermore, the amendments to IFRS 10 clarify that only a subsidiary of an investment entity that is not an investment entity itself and that provides support services to the investment entity is consolidated. All other subsidiaries of an investment entity are measured at fair value. The amendments to IAS 28 allow the investor, when applying the equity method, to retain the fair value measurement applied by the investment entity associate or joint venture to its interests in subsidiaries. These amendments must be applied retrospectively and are effective for annual periods beginning on or after 1 January 2016, with early adoption permitted. These amendments are not expected to have any impact on the company.

Annual Improvements 2012-2014 Cycle

These improvements are effective for annual periods beginning on or after 1 January 2016. They include:

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

1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(a) Basis of preparation of financial statements (continued)

(ii) Changes in accounting policies and disclosures (continued)

Annual Improvements 2012-2014 Cycle (continued)

IFRS 7 Financial Instruments: Disclosures -The amendment clarifies that a servicing contract that includes a fee can constitute continuing involvement in a financial asset. An entity must assess the nature of the fee and the arrangement against the guidance for continuing involvement in IFRS 7.B30 and IFRS 7.42C in order to assess whether the disclosures are required. The assessment of which servicing contracts constitute continuing involvement must be done retrospectively. However, the required disclosures would not need to be provided for any period beginning before the annual period in which the entity first applies the amendments. The amendment also clarifies that the offsetting disclosure requirements do not apply to condensed interim financial statements, unless such disclosures provide a significant update to the information reported in the most recent annual report.

IAS 19 Employee Benefits -The amendment clarifies that market depth of high quality corporate bonds is assessed based on the currency in which the obligation is denominated, rather than the country where the obligation is located. When there is no deep market for high quality corporate bonds in that currency, government bond rates must be used.

IAS 34 Interim Financial Reporting -The amendment clarifies that the required interim disclosures must either be in the interim financial statements or incorporated by cross-reference between the interim financial statements and wherever they are included within the interim financial report (e.g., in the management commentary or risk report). The other information within the interim financial report must be available to users on the same terms as the interim financial statements and at the same time. These amendments are not expected to have any impact on the company.

IFRS 16 Leases -The IASB issued IFRS 16 Leases on 13 January 2016. The scope of the new standard includes leases of all assets, with certain exceptions. A lease is defined as a contract, or part of a contract, that conveys the right to use an asset (the underlying asset) for a period of time in exchange for consideration.

Key features

- The new standard requires lessees to account for all leases under a single on-balance sheet model (subject to certain exemptions) in a similar way to finance leases under IAS 17.
- Lessees recognise a liability to pay rentals with a corresponding asset, and recognise interest expense and depreciation separately.
- The new standard includes two recognition exemptions for lessees - leases of 'low-value' assets (e.g., personal computer) and short-term leases (i.e., leases with a lease term of 12 months or less).
- Reassessment of certain key considerations (e.g., lease term, variable rents based on an index or rate, discount rate) by the lessee is required upon certain events.
- Lessor accounting is substantially the same as today's lessor accounting, using IAS 17's dual classification approach.

The new standard is effective for annual periods beginning on or after 1 January 2019. Early application is permitted, but not before an entity applies IFRS 15. The new standard permits a lessee to choose either a full retrospective or a modified retrospective transition approach.

1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(a) Basis of preparation of financial statements (continued)

(ii) Changes in accounting policies and disclosures (continued)

New and amended standards and interpretations (continued)

IFRS 13 Fair Value Measurement

The amendment is applied prospectively and clarifies that the portfolio exception in IFRS 13 can be applied not only to financial assets and financial liabilities, but also to other contracts within the scope of IAS 39. The company does not apply the portfolio exception in IFRS 13.

IAS 40 Investment Property

The description of ancillary services in IAS 40 differentiates between investment property and owner-occupied property (i.e., property, plant and equipment). The amendment is applied prospectively and clarifies that IFRS 3, and not the description of ancillary services in IAS 40, is used to determine if the transaction is the purchase of an asset or a business combination. The company has no investment property and thus the standard has no impact to the company financial statements.

Standards issued but not yet effective

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

IFRS 9 Financial Instruments

In July 2014, the IASB issued the final version of IFRS 9 Financial Instruments that replaces IAS 39 Financial Instruments: Recognition and Measurement and all previous versions of IFRS 9. IFRS 9 brings together all three aspects of the accounting for financial instruments project: classification and measurement, impairment and hedge accovnting. IFRS 9 is effectiue for annual periods beginning on or after 1 January 2018, with early application permitted. Except for hedge accounting, retrospective application is required but providing comparative information is not compulsory. For hedge accounting, the requirements are generally applied prospectively, with some limited exceptions. The company plans to adopt the new standard on the required effective date.

Classification and measurement
The company does not expect a significant impact on its statement of financial position or equity on applying the classification and measurement requirements of IFRS 9. It expects to continue measuring at fair value all financial assets currently held at fair value. Debt securities are expected to be measured at fair value through OCI under IFRS 9 as the company expects not only to hold the assets to collect contractual cash flows but also to sell a significant amount on a relatively frequent basis. The company expects to apply the option

Classification and measurement (continued)
To present fair value changes in OCI, and, therefore, believes the application of IFRS 9 would not have a significant impact. Trade receivables are held to collect contractual cash flows and are expected to give rise to cash flows representing solely payments of principal and interest. Thus, the Group expects that these will continue to be measured at amortised cost under IFRS 9. However, the company will analyse the contractual cash flow characteristics of those instruments in more detail before concluding whether all those instruments meet the criteria for amortised cost measurement under IFRS 9.

1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(a) Basis of preparation of financial statements (continued)

(ii) Changes in accounting policies and disclosures (continued)

Standards issued but not yet effective (continued)

Impairment
IFRS 9 requires the company to record expected credit losses on all of its debt securities, loans and trade receivables, either on a 12 month or lifetime basis. The company expects to apply the simplified approach and record lifetime expected losses on all trade receivables. The company expects a significant impact on its equity due to unsecured nature of its loans and receivables, but it will need to perform a more detailed analysis which considers all reasonable and supportable information, including forward-looking elements to determine the extent of the impact.

IFRS 14 Regulatory Deferral Accounts

IFRS 14 is an optional standard that allows an entity, whose activities are subject to rate-regulation, to continue applying most of its existing accounting policies for regulatory deferral account balances upon its first-time adoption of IFRS. Entities that adopt IFRS 14 must present the regulatory deferral accounts as separate line items on the statement of financial position and present movements in these account balances as separate line items in the statement of profit or loss and OCI. The standard requires disclosure of the nature of, and risks associated with, the entity's rate-regulation and the effects of that rate-regulation on its financial statements. IFRS 14 is effective for annual periods beginning on or after 1 January 2016. Since the company is an existing IFRS preparer, this standard would not apply.

IFRS 15 Revenue from Contracts with Customers

IFRS 15 was issued in May 2014 and establishes a five-step model to account for revenue arising from contracts with customers. Under IFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The new revenue standard will supersede all current revenue recognition requirements under IFRS. Either a full retrospective application or a modified retrospective application is required for annual periods beginning on or after 1 January 2018, when the IASB finalises their amendments to defer the effective date of IFRS 15 by one year. Early adoption is permitted. The company plans to adopt the new standard on the required effective date using the full retrospective method. Furthermore, the company is considering the clarifications issued by the IASB in an exposure draft in July 2015 and will monitor any further developments.

1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(b) Significant accounting judgments and estimates

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

(i) Property and equipment and intangible assets

Critical estimates are made by the directors in determining depreciation and amortisation rates for property, equipment and intangible assets. The rates used are set out in the accounting policy (d) and (e) below.

(ii) Impairment of assets

Impairment exists when the carrying value of an asset exceeds its recoverable amount, which is the higher of its fair value less costs to sell and its value in use. The fair value less costs to sell calculation is based on available data from binding sales transactions, conducted at arm's length, for similar assets or observable market prices less incremental costs for disposing of the asset. The value in use is the net book value. In the process of applying the company's accounting policies, Directors have made judgements in determining whether assets are impaired.

(iii) Going concern

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

(iv) Fair value of financial instruments

Where the fair values of financial assets and financial liabilities recorded on the statement of financial position cannot be measured based on quoted prices in active markets, their fair value is determined using a variety of valuation techniques that include the use of mathematical models. The inputs to these models are derived from observable market data where possible, but if this is not available, judgement is required to establish fair values. The judgements include considerations of liquidity and model inputs such as volatility for longer-dated derivatives and discount rates, prepayment rates and default rate assumptions for asset-backed securities. The valuation of financial instruments is described in more detail in note L.

(v) Impairment of available-for-sale investments

The Company reviews its debt securities classified as available-for-sale investments at each reporting date to assess whether they are impaired. This requires similar judgment as applied to the individual assessment of loans and advances.

The Company also records impairment charges on available for-sale equity investments when there has been a significant or prolonged decline in the fair value below their cost. The determination of what is 'significant' or 'prolonged' requires judgment. In making this judgment, the bank evaluates, among other factors, historical share price movements and duration and extent to which the fair value of an investment is less than its cost.

(vi) Deferred taxation assets

Deferred tax assets are recognised to the extent it is probable that taxable income will be available in future against which they can be utilized. Future taxable profits are estimated based on business plans which include estimates and assumptions regarding economic growth, interest, inflation and taxation rates and competitive forces.

1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(d) Income recognition

Management fees and interest income are recognised in the profit or loss on accrual basis in the period in which they are earned. Management fee relates to fee charged to clients, for managing their funds. It is based on the market value of the fund balance and charged on the agreed rate as per the management agreements while interest income is recognised from bonds using effective interest method and from fixed and call deposits.

(e) Property and equipment and depreciation

Property and equipment are stated at cost, less accumulated depreciation and accumulated impairment losses, if any. Depreciation is calculated on the straight-line basis, at annual rates estimated to write off carrying values of the assets over their expected useful lives. The annual depreciation rates in use are: -

Fixtures, fittings and equipment	20%
Computers	20%
Motor vehicle	20%

An item of property and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the income statement when the asset is derecognised.

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

(f) Intangible assets and amortisation

Intangible assets are stated at cost, less accumulated amortisation and accumulated impairment losses, if any. Amortisation is calculated on straight line basis at an annual rate of 20% estimated to amortise the carrying values of the assets over their expected useful lives.

(g) Financial liabilities

The Company's financial liabilities include trade and other payables All financial liabilities are recognised initially at fair value and subsequently at amortised cost

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

(h) Retirement benefit costs

The Company contributes to a defined contribution benefits pension scheme for all its employees. The scheme is sponsored by the parent company, The Co-operative Bank of Kenya Limited. The assets of the scheme are held in a separate trustee administered fund that is funded by both the group companies and employees.

The Company also contributes to a statutory defined contribution pension scheme, the National Social Security Fund (NSSF). Contributions are determined by local statute and are currently limited to KShs 200 per employee per month.

The Company's contributions to the above schemes are charged to the profit and loss account in the year to which they relate.

1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(i) Taxation

Current income tax assets and liabilities for the current period are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted, at the reporting date in the countries where the Group operates and generates taxable income...

Deferred taxation is provided using the liability method, for all temporary differences arising between the tax bases of assets and liabilities and their carrying value, for financial reporting purposes.

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

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

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

(j) Financial assets

Financial assets are classified, at initial recognition, as financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, available-for-sale financial assets, or as derivatives. All financial assets are recognised initially at fair value plus, in the case of financial assets not recorded at fair value through profit or loss, transaction costs that are attributable to the acquisition of the financial asset.

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the market place (regular way trades) are recognised on the trade date, i.e., the date that the Company commits to purchase or sell the asset.

Financial assets classified as fair value through profit or loss include investments held for trading and subsequently measured at fair value (quoted market bid prices). All related realised and unrealised gains or losses are included in profit and loss in the statement of comprehensive income.

Held to maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities. Financial assets are classified as held to maturity when the Company has the positive intention and ability to hold them to maturity. They are cost subsequently measured at amortised cost using the effective interest rate method, less allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition .The amortisation and losses arising from impairment of such investments are recognised in profit and loss in the statement of comprehensive income.

Available for sale investments are initially recognised at cost plus transaction costs and subsequently re-measured at fair value (quoted market bid prices). Unrealised gains or losses arising from changes in the fair value are recognised in in other comprehensive income and accumulated in an Available-for-Sale reserve until the asset is derecognised, at which time the cumulative gains or losses previously recognised in equity shall be reclassified to profit and loss in the statement of comprehensive income.

1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(k) Management fees receivable

Management fees receivable are carried at original invoiced amount less an estimate made for doubtful receivables based on a review of all outstanding amounts at year end. For better management of the Management fees receivable The Company records Changes in the carrying amount based on the number of days they have been outstanding. The Company then makes provisions for bad and doubtful debts in its statement of comprehensive income for debts which have been outstanding for over two years. Bad debts are written off in the year in which they are identified.

(l) Impairment of financial assets

The Company assesses at each reporting date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity investments classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is objective evidence of impairment resulting in the recognition of an impairment loss. If any such evidence exists for available-for-sale financial assets, the cumulative loss - measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss is removed from the available-for-sale reserve and recognised in profit or loss. Impairment losses recognised in profit or loss on equity instruments are not reversed through profit or loss but recognised as other comprehensive income and accumulated in the available-for-sale reserve (a separate component of equity). If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through the profit or loss.

(m) Financial assets

Financial assets carried at amortised cost include held-to-maturity investments.

For financial assets carried at amortised cost, the Company first assesses whether impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Company determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment. The amount of any impairment loss identified is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate.

The carrying amount of the asset is reduced through the use of an allowance account and the loss is recognised in statement of profit or loss. Interest income (recorded as finance income in the statement of profit or loss) continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a write-off is later recovered, the recovery is credited to finance costs in the statement of profit or loss.

1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(n) Derecognition

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised (i.e. removed from the group's consolidated statement of financial position) when:
The rights to receive cash flows from the asset have expired, or
The Company has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either (a) the Company has transferred substantially all the risks and rewards of the asset, or (b) the Company has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

(o) Offsetting of financial instruments

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

(p) Fair values

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

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

The principal or the most advantageous market must be accessible to by the Company.
The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.
A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

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

(q) Cash and cash equiualents

Cash and cash equivalents are defined as cash on hand and in bank accounts, and overdrawn bank balances. For the purposes of the statement of cash flows cash and cash equivalents comprise cash on hand, bank balances, bank overdraft.

(r) Impairment of non-financial assets

At each reporting date, the Company assesses whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the recoverable amount of the asset is estimated. An asset's recoverable amount is the higher of an asset's or cash-generating units (CGU) fair value less costs of disposal and its value in use. . Recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. When the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

1 SIGNIFICANT ACCOUNTING POLICIES (Continued)

r) Impairment of non-financial assets (continued0

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

The Company bases its impairment calculation on detailed budgets and forecast calculations. These budgets and forecast calculations generally cover a period of five years. For longer periods, a long-term growth rate is calculated and applied to project future cash flows after the fifth year.

Impairment losses are recognised in profit or loss in expense categories consistent with the function of the impaired asset except for assets previously revalued with the revaluation taken to other comprehensive income. For assets, the impairment is recognised in other comprehensive income up to the amount of any previous revaluation.

An assessment is made at each reporting date to determine whether there is an indication that previously recognised impairment losses no longer exist or have decreased. If such indication exists, the company estimates the asset's or CGU's recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognized in profit or loss unless the asset is carried at a revalued amount, in which case, the reversal is treated as a revaluation increase.

2. PROPERTY AND EQUIPMENT

	Office equipment KShs	Fixtures, Fittings and paintings KShs	Computers KShs	Total KShs
COST				
At 1 January 2016	752,400	3,382,820	7,521,201	11,656,421
Additions	354,616	193,309	289,125	837,050
At 31 December 2016	1,107,016	3,576,129	7,810,326	12,493,471
DEPRECIATION				
At 1 January 2016	458,902	1,942,768	2,976,705	5,384,245
Charge for the year	122,008	469,402	1,438,497	2,029,907
At 31 December 2016	580,910	2,412,170	4,415,202	7,408,282
NET BOOK VALUE				
At 31 December 2016	526,106	1,163,959	3,395,124	5,085,189

	Office equipment KShs	Fixtures, fittings and paintings KShs	Computers KShs	Total KShs
COST				
At 1 January 2015	431,520	3,382,820	6,105,029	9,919,369
Additions	320,880	-	1,494,673	1,815,552
Disposals	-	-	(78,500)	(78,500)
At 31 December 2015	752,400	3,382,820	7,521,202	11,656,421
DEPRECIATION				
At 1 January 2015	410,021	1,482,676	1,698,177	3,590,874
Charge for the year	48,881	460,092	1,341,328	1,850,301
Charge on disposal	-	-	(62,800)	(62,800)
At 31 December 2015	458,902	1,942,768	2,976,705	5,378,375
NET BOOK VALUE				
At 31 December 2015	293,497	1,440,052	4,544,497	6,278,046

3. INTANGIBLE ASSETS

	2016 KShs	2015 KShs
COST		
At 1 January	18,879,452	-
Additions	-	18,879,452
At 31 December	18,879,452	18,879,452
ACCUMULATED AMORTISATION		
At 1 January	2,517,260	-
Charge for the year	3,775,891	2,517,260
At 31 December	6,293,151	2,517,260
NET BOOK VALUE		
At 31 December	12,586,301	16,362,192

Intangible assets relate to computer software which is amortised over the term of its useful life.

4. DEFERRED TAX

	Balance as at 1.1.2016 KShs	Statement of comprehensive income KShs	Balance as at 31.12.2016 KShs
The provision for deferred tax comprises:			
Excess of depreciation over tax wear and tear allowance	(373,346)	(1,013,773)	(1,387,119)
Leave pay provision	199,985	240,022	440,007
Allowance for bad and doubtful debts	8,152,882	4,572,248	12,725,130
Prouision of staff bonus	-	1,606,034	1,606,034
	7,979,521	5,404,531	13,384,052

	Balance as at 1.1.2015 KShs	Statement of comprehensive income KShs	Balance as at 31.12.2015 KShs
The provision for deferred tax comprises:			
Excess of depreciation ouer tax wear and tear allowance	49,659	(423,005)	(373,346)
Leave pay provision	103,960	96,025	199,985
Allowance for bad and doubtful debts	7,519,617	633,265	8,152,882
	7,673,236	306,285	7,979,521

5. TRADE AND OTHER RECEIVABLES

	2016 KShs	2015 KShs
(a) Trade receivables		
Commission & consultancy fee receivables	194,037,900	218,429,125
Allowance for bad and doubtful debts	(42,417,097)	(27,176,274)
Net trade receivables	151,620,803	191,252,851
Other receivables	32,583,995	37,447,348
	184,204,798	228,700,199
(b) Allowance for bad and doubtful debts		
At 1 January	27,176,274	25,065,397
Additional during the year	15,240,823	2,110,877
At 31 December	42,417,097	27,176,274

Trade receivables are non-interest bearing and are generally on terms of 30 to 90 days. The carrying amounts of trade and other receivables approximates the fair value

As at 31 December, the ageing analysis of trade receivables was as follows:-

Total	< 30 days KShs	30-60 days KShs	68-90days KShs	>90 days KShs	Total KShs
2016	28,519,076	14,377,866	6,939,954	144,201,004	194,037,900
2015	13,830,225	19,623,536	15,113,133	169,792,231	218,459,125

6. TAXATION

	2016 KShs	2015 KShs
(a) Statement of financial position		
Balance brought forward	32,113,137	13,891,495
Charge for the year	66,475,340	53,767,035
Tax paid	(109,238,235)	(35,545,393)
Over provision in previous years	(1,668,027)	-
Tax payable / (recoverable)	(12,317,785)	32,113,137

Tax recoverable is due to withholding tax on fees to clients.

(b) Statement of comprehensive income:

	2016 KShs	2015 KShs
Current tax at 30% (2015: 30 %) on the taxable profit	66,475,340	53,767,035
Deferred tax credit - (Note 4)	(5,404,529)	(306,285)
Ouer provision	(1,668,027)	-
Tax charge /(credit)	59,402,784	53,460,750

Reconciliation of taxation expenses to tax base on accounting profit:-

	2016 KShs	2015 KShs
Accounting profit before taxation	197,621,657	176,481,299
Tax appiicable rate of 30%	59,286,497	52,944,390
Tax effects on items not deductible for tax	1,804,314	516,360
Under provision in prior year	(1,688,027)	-
(Adjustments in respect of current income tax for) previous years		
	59,402,784	53,460,750

7. RELATED PARTY TRANSACTIONS AND BALANCES

Intercompany balances

The financial statements include the following balances relating to transactions entered into with other group companies: -

	2016 KShs	2015 KShs
(a) Due from a related party:-		
CIC Insurance Group Limited	-	-
(b) Due to a related party:-		
The Co-operative Bank of Kenya Limited	9,084,550	8,676,732

The amount due to Co-operative Bank of Kenya Limited relates to expenses paid on the company's behalf.

Amounts due from and due to related parties are non interest bearing and current. No collateral is held for these balances.

7. RELATED PARTY TRANSACTIONS AND BALANCES (Continued)

Director's and senior management personnel compensations	2016 KShs	2015 KShs
Directors emoluments:		
As directors	5,682,589	5,925,473
As executives	-	-
	5,682,589	5,925,473
Key management personnel:		
Salaries and other benefits	5,869,536	4,678,623
Post-employment pension	86,896	398,370
	5,956,432	5,076,993

8. SHARE CAPITAL

Authorised, issued and fully paid:-		
700,000 ordinary shares of KShs 100 each	70,000,000	70,000,000

699,999 ordinary shares are held by The Cooperative Bank of Kenya Limited, while 1 ordinary share is held by Co-optrust Investments Services Kenya Limited.

9. RETAINED EARNINGS	2016 KShs	2015 KShs
At 1 January	201,312,878	78,292,329
Profit for the year	138,218,873	123,020,549
At 31 December	339,531,751	201,312,878

The retained earnings available for distribution to the shareholders of the Company. The movement in reserves is shown on page 8.

10. TRADE AND OTHER PAYABLES	2016 KShs	2015 KShs
Trade payables	1,560,613	2,198,100
Other payables	9,621,455	2,158,020
	11,182,068	4,357,120

The carrying amounts of trade and other payables approximate to their fair values.

11. INCOME	2016 KShs	2015 KShs
Consultancy fees	22,030,272	30,124,694
Training fees	42,972,741	46,588,362
Insurance commission	295,411,412	259,303,205
	360,414,425	336,016,261

Consultancy fee arise from advisory services and Front Office Services Activities (FOSA) rendered. The training fees arise from trainings rendered to savings and credit cooperative societies. Insurance commission arise from sale of insurance products on agency basis.

12. OTHER INCOME

	2016 KShs	2015 KShs
Interest on fixed deposit	25,294,659	31,309,754
	25,294,659	31,309,754

13. ADMINISTRATIVE AND OTHER OPERATING EXPENSES

	2016 KShs	2015 KShs
Staff cost	95,666,939	108,543,555
Depreciation	2029907	1,850,301
Amortisation of software	3,775,890	2,517,260
Auditors' remuneration	1,013,376	844,480
Directors emoluments	5,682,589	5,925,473
Allowances for bad and doubtful debts	15,240,823	2,110,877
Rent	3,730,852	2,264,028
Hiring of venues	35,692,982	37,346,380
Travelling	4,156,038	16,881,366
Insurance	5,386,822	3,243,303
Others	15,711,209	9,317,693
	188,087,427	190,844,716

14. PROFIT BEFORE TAX

The profit before tax is stated after charging:-

	2016 KShs	2015 KShs
Depreciation	2,029,907	1,850,301
Amortisation of software	3,775,890	2,517,260
Directors' emoluments	5,682,589	5,925,473
Auditors' remuneration	1,013,376	844,480
And after crediting:-		
Interest income	25,294,659	31,309,754

15. EARNINGS PER SHARE

Earnings per share are calculated on the profit after tax and on the number of shares in issue during the year.

16. CASH AND SHORT TERM DEPOSITS

	2016 KShs	2015 KShs
Cash at banks	56,560,244	13,479,909
Short- term deposits	145,660,000	43,660,000
	202,220,244	57,139,909

Cash at bank earns interest at banks interest at floating rates based on daily bank deposit rates. Short-term deposits are made for varying periods of between one day to three months, depending on the immediate cash requirements of the company and earn interest at the respective short-term deposit rates.

Cash and cash equivalents included in the statement of cash flow comprises of the cash and bank balances and short term deposits at year end.

17. FINANCIAL RISK MANAGEMENT

The main business risks faced by the company in respect of its principal non-derivative financial instruments are liquidity risk, interest rate and credit risk. The directors review and agree policies for managing these risks. These policies have remained unchanged since incorporation. The company maintains a conservative policy regarding currency (only KShs) and interest rate risks. The company does not engage in speculation in the markets.

The company's principal financial instruments comprise cash and short-term deposits, trade receivables, trade payables and amount due from related parties.

The company does not enter into derivative transactions. It is, and has been throughout the year under review, the company's policy that no trading in financial instruments shall be undertaken.

The main risks arising from the company's financial instruments are liquidity risk, interest rate risk and credit risk.

Liquidity risk management

The company's objective is to maintain a balance between continuity of funding and flexibility through the use of bank overdraft. In the course of its operations the company invests its working capital in forms that vary in liquidity ranging from trade receivables, deposits, due from related companies balances and trading investments. Simultaneously it carries current liabilities in form of trade payables, due to related companies balances and bank overdrafts the maturity of which necessitates liquidation. The entity matches its current assets to the current liabilities falling due to mitigate the risk of low liquidity.

The company manages its liquidity risk by:-

- Matching payment terms of creditors and other lenders to cash receipts from its clients.
- Matching its operational expense payments to its cash received from operations.

Any shortfall in cash resources from time to time is financed by bank overdraft.

The table below analyses the company's undiscounted financial assets and liabilities into relevant groupings based on the remaining period at 31 December to the contractual maturity dates:

As at 31 December 2016	0-1 month KShs	1-3 months KShs	3-12 months KShs	1-5 years KShs	Total KShs
Financial assets					
Trade receivables	28,516,076	21,317,821	144,201,004	-	194,037,901
Cash and bank balances	56,560,244	-	-	-	56,560,244
	85,079,320	21,317,821	144,201,004	-	250,598,145
Financial liabilities					
Amount due to related parties	9,084,550	-	-	-	9,084,550
Trade and other payables	11,182,068	-	-	-	11,182,068
	20,266,618	-	-	-	20,266,618
Net liquidity gap	64,812,702	21,317,821	144,201,004	-	230,331,527

17. FINANCIAL RISK MANAGEMENT

Liquidity risk management (continued)

As at 31 December 2015

	0-1 month KShs	1-3 months KShs	3-12 months KShs	1-5 years KShs	Total KShs
Financial assets					
Trade receivables	13,830,225	34,736,669	169,792,231	-	218,359,125
Cash and bank balances	57,139,909	-		-	57,139,909
	70,970,134	34,736,669	169,792,231	-	275,499,034
Financial liabilities					
Amount due to related parties	8,676,732	-	-	-	8,676,732
Trade and other payables	4,357,120	-	-	-	4,357,120
	13,033,852	-	-	-	13,033,852
Net liquidity gap	57,936,282	34,736,669	169,792,231	-	262,465,182

Credit risk management

The largest concentrations of credit exposure within the company relate to cash and cash equivalents held with banks, trade receivables and amounts due from related parties.
The company only places significant amounts of funds with recognised financial institutions with strong credit ratings and does not consider the credit risk exposure to be significant. Amounts due from related parties do not expose the company to significant credit risk. The company is exposed to credit risk in its trade receivables and a provision for impairment of trade receivables is established when there is objective evidence that the company will not be able to collect all the amounts due according to the original terms of the trade debts.

The company deals only with recognised, creditworthy third parties. Receivable balances are monitored on an ongoing basis since the company trades only with recognised third parties management deems there is no requirement for collateral.

The amount that best represents the Company's maximum exposure to credit risk at 31 December is made up as follows:

	2016 KShs '000		2015 KShs '000	
	Carrying value	Fair value	Carrying value	Fair value
Cash and bank balances	56,560	56,560	57,140	57,140
Trade and other receivables	184,205	184,205	228,700	228,700
Amount due from related parties	-	-	-	-
	240,765	240,765	285,840	285,840

For financial assets that have a short term maturity (less than three months) it is assumed that the carrying amounts approximate their fair value. This assumption is also applied to cash and bank balances, trade and other receivables and amounts due from related parties.

17. FINANCIAL RISK MANAGEMENT (Continued)

Interest rate risk management

Interest rate risk is the risk that the value and cash flows of a financial instrument will fluctuate due to changes in market interest rates.

The following table demonstrates the sensitivity to a reasonably possible change in the interest rate, with all other variables held constant, on the Company's profit before tax.

Appreciation / (depreciation) of	Effect on profit before Interest rate	Effect on profit before tax KShs
Year 2016		
Short-term deposits	1%/(1%)	+/- 1,456,600
Year 2015		
Short-term deposits	1%/(1%)	+/- 436,600

18. CAPITAL MANAGEMENT

The primary objective of the company's capital management is to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its business and maximise shareholder value. The company manages its capital structure and makes adjustments to it, in light of changes in economic conditions and requirements of its shareholders. The company has no debts hence not geared.

19. OPERATIONAL RISK

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

The company's objective is to manage operational risk so as to balance the avoidance of financial losses and damage to the company's reputation with overall cost effectiveness and to avoid control procedures that restrict initiative and creativity.

The primary responsibility for the development and implementation of controls to address operational risk is assigned to senior management.

This responsibility is supported by the development of overall company standards for the management of operational risk in the following areas:

- requirements for appropriate segregation of duties, including the independent authorisation of transactions
- compliance with regulatory and other legal requirements
- documentation of controls and procedures
- requirements for the periodic assessment of operational risks faced, and the adequacy of controls and procedures to address the risks identified
- requirements for the reporting of operational losses and proposed remedial action
- development of contingency plans
- training and professional development ethical and business standards

20. COMMITMENTS	2D16 KShs	2015 KShs
Capital: Authorised but not contracted for	25,603,926	17,571,600

Capital commitments in the current year relates to computer software, computer equipment, mechanical mobile filing system, workstations and high back chairs.

21. INCORPORATION

The company is incorporated in Kenya under the Kenyan Companies Act.

22. PARENT COMPANY

The parent company of Co-op Consultancy & Insurance Agency Limited is the Co-operative Bank of Kenya Limited. The ultimate holding company is the Co-op Holding Co-operatiue Society Limited incorporated in Kenya under the Co-operative Societies Act.

23. CURRENCY

The financial statements are presented in Kenya Shillings (KShs).

24. EVENTS AFTER THE REPORTING PERIDO

The directors are not aware of events alter the reporting date that require disclosure in or adjustments to the financial statements as at the date of this report.

THE CO-OPERATIVE BANK OF KENYA LIMITED AND SUBSIDIARIES

ANNUAL REPORT

AND

FINANCIAL STATEMENTS

31 DECEMBER 2016

CONTENTS

REGISTERED OFFICE AND HEAD OFFICE

Co-operative Bank House,
L.R. No. 209/4290 (IR No. 27596)
Haile Selassie Avenue
P O Box 48231 - 00100
Tel: 020- 3276000
NAIROBI

SUBSIDIARIES

Co-operative Bank of South Sudan Ltd,
L.R. No. 7 GIV
Tel: +211 913085760
JUBA

Co-optrust Investment Services Ltd
P.O. Box 48231 - 00100
Tel: 020- 3276000
NAIROBI

Co-op Consultancy & Insurance Agency Ltd
P.O. Box 48231 - 00100
Tel: 020- 3276000
NAIROBI

Kingdom Securities Ltd
P.O. Box 48231 - 00100
Tel: 020-3276000
NAIROBI

COMPANY SECRETARY

Rosemary Majala Githaiga (Mrs)
Co-operative Bank House, Haile Selassie Avenue,
P.O. Box 48231 - 00100,
NAIROBI

SHARES REGISTRAR

The Co-operative Bank of Kenya Limited
Shares Registry Services,
Co-operative Bank House, Haile Selassie Avenue,
P.O. Box 48231 - 00100,
NAIROBI

LAWYERS

Various
A list is available at the Bank

AUDITOR

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

The directors submit their report together with the audited financial statements for the year ended 31 December 2016. In accordance with Section 22 of the Banking Act (Cap 488) and Section 42 of the Sixth Schedule, Transitional and Saving Provisions, of the Kenyan Companies Act, 2015, this report has been prepared in accordance with Section 157 of the repealed Companies Act, as if that repeal had not taken effect.

1. PRINCIPAL ACTIVITIES

The Group offers banking and related services and is licensed under the Banking Act.

2. GROUP OPERATIONS

The financial position and performance of the Bank's subsidiaries, Co-optrust Investment Services Limited, Co-op Consultancy & Insurance Agency Limited, Kingdom Securities Limited Co-operative Bank of South Sudan and Co-operative Merchant Limited have been included in the Group financial statements. Co-op Consultancy & Insurance Agency Limited offers financial advisory and insurance agency services. Co-optrust Investment Services Limited is involved in the business of fund management. Kingdom Securities Limited provides stock broking and investment advisory services. Co-operative Bank of South Sudan offers banking and related services. Co-operative Merchant Limited is dormant.

3. RESULTS

The results of the Group for the year are set out from page 12.

4. DIVIDEND

The directors recommend payment of a first and final dividend of KShs 0.80 (2015 - KShs 0.80) for every ordinary share of KShs 1. The dividends will be paid on or about 30 June 2017 to the shareholders registered on the Bank's register at the close of business on 26 May 2017. The register will remain closed for one day on 29 May 2017 for the preparation of dividend warrants.

The Directors have also approved and recommend a bonus share issue, one (1) for every five (5) ordinary share held. The bonus subject to Capital Markets Authority approval will be credited to the shares on the register at the close of business on 30th June 2017.

5. RESERVES

The movement in the Group's reserves is shown on page 17 of these financial statements.

6. GROUP DIRECTORS

The directors who served during the year and to the date of this report were: -

Co-operative Bank of Kenya and Kenyan subsidiaries:-

S. C. Muchiri, EBS	-	Group Chairman
J. M. Riungu	-	Vice Chairman
Dr. G. Muriuki, MBS	-	Group Managing Director& CEO
L. C. Karissa		Chairman, Board Risk Committee
J.K. Murugu		Chairman, Board Credit Sub Committee
R. Simani (Mrs)	-	Chairperson, Board Audit Committee
W. Ongoro, HSC		
Wanyambura Mwambia	-	Representing PS, National Treasury
J. Sitienei		
R. L. Kimanthi		
M. Malonza		
S. Odhiambo (Mrs)		
Dr. J. Kahunuo		
P.K. Githendu		
G. K.Mburia		
B.W. Simiyu		

6. **GROUP DIRECTORS (Continued)**

Co-operative Bank of Kenya and Kenyan subsidiaries (continued):-

J.N. Njiru		
D.M. Muthigani		
P. Gichuki	-	(Retired 7 December 2016)
M. N. Mungai (Mrs)	-	(Appointed on 7 December 2016)

Co-operative Bank of South Sudan:-

William Mayar Wol		Chairman
Zacharia Chianda	-	Managing Director
Prof. Mathew Gordon Udo		
Wani Buyu Dyori		
S. C. Muchiri, EBS		
J. M. Riungu		
Dr. G. Muriuki, MBS		
Rosemary Githaiga (Mrs)		

7. AUDITORS

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

8. APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved by the Board of Directors on 15 March 2017.

By order of the Board

....
Group Managing Director & CEO

The Kenyan Companies Act, 2D15 requires the directors to prepare financial statements for each financial year that giue a true and fair uiew of the financial position of the company as at the end of the financial year and of its profit or loss for that year. It also requires the directors to ensure that the company maintains proper accounting records that are sufficient to show and explain the transactions of the company and disclose, with reasonable accuracy, the financial position of the company. The directors are also responsible for safeguarding the assets of the company, and for taking reasonable steps for the preuention and detection of fraud and other irregularities.

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

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

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

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

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

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

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

GROUP CHAIRMAN

VICE CHAIRMAN

GROUP MANAGING DIRECTOR & CEO

COMPANY SECRETARY

Ernst & Young LLP
Certified Public Accountants
Kenya Re Towers
Upper Hill
Off Ragati Road
P.O. Box 44286 - 00100
Nairobi GPO Kenya

Tel: +254 20 2886000
Email: info@ke.ey.com
www.ey.com

EY
Building a better working world

INDEPENDENT AUDITOR'S REPORT
TO THE SHAREHOLDERS OF
THE CO-OPERATIVE BANK OF KENYA LIMITED

REPORT ON THE AUDIT OF THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

Opinion

We have audited the consolidated and bank's financial statements of The Co-operative Bank of Kenya Limited (the Bank) and its subsidiaries (together, the Group), set out on page 11 to 99 which comprise the consolidated and separate statements of financial position as at 31 December 2016, and the consolidated and separate statements of comprehensive income, consolidated and separate statements of changes in equity and consolidated and separate statements of cash flows for the year then ended, and notes to the consolidated and separate financial statements, including a summary of significant accounting policies.

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

Basis for Opinion

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

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated and separate financial statements of the current period. These matters were addressed in the context of our audit of the consolidated and separate annual financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the Auditor's responsibilities for the audit of the financial statements section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying financial statements.

Key Audit Matter	How the matter was addressed in the audit
Credit risk and impairment of loans and advances to customers Loans and advances constitute 66% of the total assets of the group in the statement of financial position as at 31 December 2016. Management performs an annual impairment assessment as required by the Central Bank of Kenya prudential guidelines and the International Accounting Standard (IAS) 39- Financial Instruments: Recognition and Measurement. This process is subjective in nature, due to the judgement involved in estimating the amount and timing of expected future cash flows of loans and advances. In addition to specific provisions against individually impaired loans and advances, the group also makes a collective impairment provision against the remainder of the loans and advances in relation to which specific provisions for impairment losses have not been made. The group, as disclosed in note 2 (d) and 2 (o), assesses impairment collectively for portfolios with similar economic characteristics and for specific counterparties which is based upon the directors' best estimate of the present value of expected future cash flows. Accordingly, the impairment assessment of loans and advances is considered to be a key audit matter due to the given the level of judgement and estimation involved.	Our audit procedures included but were not limited to:- • Assessing key controls over the approval, recording and monitoring of loans and advances to customers; • Evaluating the methodologies used by the group in calculating collectively assessed impairments for compliance with the requirements of the Central Bank of Kenya prudential guidelines and the International Financial Reporting Standards ; • Reviewing the inputs and management's key assumptions about the amount and timing of expected future cash flows and net realizable value of securities held by the group with respect to specific counterparties on a sample basis. • Assessing the adequacy of impairment allowances for some individually assessed loans and advances selected using sampling methods; and; • Assessing whether the financial statement disclosures included in notes 3(a) and 13(c) in the financial statements appropriately reflect the group's credit risk experience and impairment provision on loans and advances to customers.
Valuation of land and buildings The bank's land and buildings are carried in the books of account using the revaluation model as per the provisions of the International Accounting Standards (IAS) No.16 - Property, Plant and Equipment. The Bank revalued its land and buildings as at 31 December 2016 resulting in a revaluation gain of KShs 1,227,693,694 which we considered significant to the financial statements. We also focused on this areas because the valuation of the land and buildings was based on open market value assessed using the investment, cost and market comparison analysis approaches, which involve significant estimates and require application of judgment.	We designed our audit procedures to address this matter in the following ways: • Assessing the rationale used by the external valuer in determining the market value of the land and buildings • Evaluating the external valuer's qualifications, independence, competence and capacity to perform the valuation. • Evaluating and testing key assumptions used in the valuation to determine whether they were supported by the available evidence in as far as market prices are concerned. • Comparing the open market values with those of similar properties in the same location • Assessing the adequacy of the disclosures included in notes 6 and 19 to the financial statements.
Investment in banks under receivership The group, through Co-Op Trust Investments Services	Our audit procedures included but were not

Key Audit Matter	How the matter was addressed in the audit
Limited, had invested KShs 923 million in Chase Bank (Kenya) Limited on behalf of its customers. This bank was put under receivership on 7 April 2016 and re-opened on 27 April 2016, under a Receiver Manager (KCB Bank Limited). The investments, mainly fixed deposits, were paid to the customers by the Co-operative Bank on behalf of Co-Optrust Investment Limited. In addition, the group, through Co-op Trust Investment, has invested KShs 274 million in Imperial Bank Limited on behalf of pension schemes. This Bank was also put under receivership on 13 October 2015 and consequently branches re-opened under NIC Bank Limited on 26 July 2016. The risk on the investment is carried by the individual pension scheme. There is uncertainty involved in relation to the recoverability of these investments as the industry regulator continues to look into the affairs of the two financial institutions. The management assessment on recoverability of Chase Bank investments is disclosed in note 12. Accordingly, we considered this a key matter due to the level of uncertainty involved.	limited to: • Reviewing on a sample basis, payments made by the Co-operative Bank on behalf of Co-op Trust Investment Services Limited; • Assessing the judgement applied by management on future recoverability of the Chase Bank investments; • Reviewing of the correspondence between the Group and the market regulator (the Capital Markets Authority) on the treatment of the investments; • Assessing the progress made by the regulator (Central Bank of Kenya) in reviving the two banks under receivership; and • Assessing the appropriateness of the disclosure on this matter, included in note 12 of the financial statements.
Reporting in hyperinflationary economies by Co-Operative Bank of South Sudan With effect from 2016, the South Sudan economy was considered to be hyperinflationary in accordance with International Practices Task Force (IPTF) which required all registrants in South Sudan to report in accordance with International Accounting Standard (IAS) 29 -Financial Reporting in Hyperinflationary Economies. As a result, the financial statements of Co-Operative Bank of South Sudan, which are included in the Group consolidated financial statements, have been restated to reflect the changes in general purchasing power of the South Sudanese Pound as required by IAS 29. We consider this to be a key audit matter due to effect of restatement on the Group Financial Statements as a result of adjusting Co-Operative Bank of South Sudan financial statements to reflect the general change in purchasing power as disclosed in note 33 (c). The main inputs used in restatement of Co-Operative Bank of South Sudan financial statement are the consumer price index (CPI) between 2015 and 2016 and conversion coefficient derived from the CPI. The conversion coefficient derived from the consumer price index (CPI) in the Republic of South Sudan and the corresponding CPI are disclosed in note 33(c).	Our audit procedures included: • Assessing the accuracy of restated financial statements for Co-Operative Bank of South Sudan by reviewing the IAS 29 workings prepared by management and evaluating the reasonableness of the inputs used in the restatement. • Assessing whether the Group financial statement disclosure in note 33 (c) appropriately reflect the impact of hyperinflation reporting in Co-Operative Bank of South Sudan.

EY
Building a better working world

Other Information

The directors are responsible for the other information. The other information comprises the Directors' Report as required by the Kenyan Companies Act of Kenya, 2015. Other information does not include the consolidated and separate financial statements and our auditor's report thereon.

Our opinion on the consolidated and separate 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 consolidated and separate financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated and separate financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.
If, based on the work we have performed on the other information obtained prior to the date of this auditor's report, 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.
When we read the Annual Report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance

Responsibilities of the directors for the consolidated and separate financial statements

The directors are responsible for the preparation and fair presentation of the consolidated and separate annual financial statements in accordance with IFRSs, and for such internal control as directors determines is necessary to enable the preparation of consolidated and separate financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated and separate financial statements, directors are responsible for assessing the Group'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 intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

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

Auditor's Responsibilities for the Audit of the Consolidated and Separate Financial Statements

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

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

- Identify and assess the risks of material misstatement of the consolidated annual 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 Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's 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 Group'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 consolidated annual 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 Group to cease to continue as a going concern.

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

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated annual financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance 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.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated annual financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

EY
Building a better
working world

Report on other legal and regulatory requirements

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

(i) we haue obtained all the information and explanations which, to the best of our knowledge and belief, were necessary for the purposes of our audit;
(ii) In our opinion proper books of account have been kept by the company, so far as appears from our examination of those books; and
(iii) the company's statement of financial position and statement of comprehensive incvme are in agreement with the books of account.

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

Nairobi, Kenya

[illegible] 2017

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

THE CO-OPERATIVE BANK OF KENYA LIMITED AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2016

	Note	2016 KShs'000	2015 KShs'000
ASSETS			
Cash and balances with Central Bank of Kenya	7	25,682,704	29,455,691
Deposits and balances due from banks	8	5,017,303	13,977,237
Held-for-trading investments	9	147	206
Available-for-sale investments	10	24,758,146	28,771,869
Derivative financial instruments	11	126,776	621,737
Other assets	12	13,242,438	12,130,498
Loans and advances to customers	13(a)	232,307,329	208,571,920
Held-to-maturity investments	14	37,158,762	36,154,555
Investment in associate	16	2,409,297	2,267,230
Intangible assets	17(a)	1,713,118	1,605,069
Prepaid lease rentals	18	36,352	36,964
Property and equipment	19(a)	8,308,698	8,020,778
Deferred tax asset	20	1,067,507	886,055
TOTAL ASSETS		**351,828,577**	**342,499,809**
LIABILITIES			
Deposits and balances due to banks	21	3,411,977	3,421,219
Customer deposits	22(a)	260,153,437	265,398,587
Loans and borrowings	23	19,813,260	19,271,212
Tax payable	24(b)	1,221,025	171,328
Provisions	25	141,281	110,191
Other liabilities	26	5,968,630	4,306,703
Government grants	27	498,842	517,317
TOTAL LIABILITIES		**291,208,452**	**293,196,557**
EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF PARENT			
Share capital	28	4,889,317	4,889,317
Share premium	29	2,889,789	2,889,789
Revaluation reserve	30(a)	1,338,103	459,414
Retained earnings	30(b)	48,208,633	39,574,445
Available-for-sale reserve	30(c)	(1,158,031)	(1,870,841)
Statutory reserve	30(d)	736,418	784,381
Foreign currency translation reserve	30(e)	-	(948,210)
Proposed dividends	31	3,911,453	3,911,453
		60,815,682	49,689,748
Non-controlling interest	32	(195,557)	(386,496)
TOTAL EQUITY		**60,620,125**	**49,303,252**
TOTAL LIABILITIES & EQUITY		**351,828,577**	**342,499,809**

The financial statements were approved by the Board of Directors on 15 March 2017 and signed on its behalf by: -

S.C. Muchiri, EBS	-	Group Chairman	
J.M. Riungu	-	Vice Chairman	
Dr. G. Muriuki, MBS	-	Group Managing Director & CEO	
R. M. Githaiga (Mrs.)	-	Company Secretary	

THE CO-OPERATIVE BANK OF KENYA LIMITED AND SUBSIDIARIES
CONSOLIDATED INCOME STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2016

	Note	2016 KShs'000	2015 KShs'000
Interest income	33	37,349,857	33,370,039
Interest expense	34	(12,768,30D)	(13,586,911)
NET INTEREST INCOME		24,581,557	19,783,128
Fees and commission income	35	9,787,509	9,501,B34
Fees and commission expense	35	(248,4B2)	(57,944)
NET FEES AND COMMISSION INCOME		9,539,027	9,443,890
Net trading income	36	5,277,360	5,412,502
Amortisation of government grants	27	1B,476	18,475
Other operating income	37	2,654,511	1,731,784
TOTAL OTHER INCOME		8,150,347	7,162,761
OPERATING INCOME		42,270,931	36,389,779
Net impairment losses on loans and advances	12(c)	(2,599,671)	(2,019,295)
Amortisation of intangible assets	17(a)	(485,506)	(399,950)
Amortisation of leasehold land	1B	(611)	(606)
Depreciation of property and equipment	19(a)	(1,936,699)	(1,825,444)
Employee costs	3B	(9,403,441)	(8,927,12B)
Other operating expenses	39	(10,219,017)	(8,219,255)
OPERATING EXPENSE5		(24,644,945)	(21,391,678)
OPERATING PROFIT		17,625,986	14,99B,101
5hare of profit of an associate	16	97,546	3B4,991
PROFIT BEFORE TAX		17,723,532	15,383,D92
INCOME TAX EXPENSE	24(a)	(5,047,322)	(3,677,533)
PROFIT FOR THE YEAR		12,676,210	11,705,559
Attributable to:			
Equity holders of the parent		12,927,768	11,288,769
Non-controlling interest		(251,558)	416,790
		12,676,210	11,705,559
Basic earnings per share (KShs)	40	2.64	2.31
Diluted earnings per share (KShs)	40	2.20	1.92

THE CO-OPERATIVE BANK OF KENYA LIMITED AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2016

	Note	2016	2015
		KShs'000	KShs'000
PROFIT FOR THE YEAR		12,676,210	11,705,559
OTHER COMPREHENSIVE INCOME, NET OF TAX			
Other comprehensive income to be reclassified to profit or loss in subsequent periods:			
Net movement on available-for-sale investments	41	708,015	(1,026,494)
Exchange differences on translation of a foreign operation		1,859,238	(1,890,682)
Other comprehensive income of associates		-	
-Fair value loss on available for sale investments			(40,270)
Other comprehensive income not to be reclassified to profit or loss in subsequent periods:			
Revaluation of land and building		859,386	-
Other comprehensive income of associates			
- Revaluation of building		7,776	54,042
OTHER COMPREHENSIVE INCOME, NET OF TAX		3,434,415	(2,903,404)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR NET OF INCOME TAX		16,110,625	8,802,155
Attributable to:-			
Equity holders of the parent		15,464,337	9,288,411
Non-controlling interest		646,288	(486,256)
		16,110,625	8,802,155

THE CO-OPERATIVE BANK OF KENYA LIMITED
BANK STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2016

	Note	2016 KShs'000	2015 KShs'000
ASSETS			
Cash and balances with Central Bank of Kenya	7	24,457,720	27,173,645
Deposits and balances due from banks	8	5,359,893	13,869,273
Held-for-trading investments	9	147	149
Available-for-sale investments	10	24,624,796	28,641,531
Derivative financial instruments	11	126,776	621,737
Other assets	12	13,071,271	12,018,596
Loans and advances to customers	13(a)	231,770,171	208,074,513
Held-to-maturity investments	14	37,003,530	35,999,971
Investment in subsidiaries	15	2,512,920	2,207,370
Investment in associate	16	755,118	755,118
Intangible assets	17(b)	1,410,156	1,461,590
Prepaid lease rentals	18	36,352	36,964
Property and equipment	19(b)	7,817,715	7,812,740
Deferred tax asset	20	1,051,197	876,614
TOTAL ASSETS		349,997,762	339,549,811
LIABILITIES			
Deposits and balances due to banks	21	3,402,893	2,905,405
Customer deposits	22(a)	259,471,749	263,709,415
Loans and borrowings	23	19,813,260	19,271,212
Tax payable	24(b)	1,248,698	157,596
Provisions	25	139,190	110,190
Other liabilities	26	5,876,131	4,085,215
Government grants	27	498,841	517,317
TOTAL LIABILITIES		290,450,770	290,756,350
EQUITY			
Share capital	28	4,889,317	4,889,317
Share premium	29	2,889,789	2,889,789
Revaluation reserve	30(a)	1,256,445	397,059
Retained earnings	30(b)	46,970,978	37,830,868
Available-for-sale reserves	30(c)	(1,088,834)	(1,842,869)
Statutory reserve	30(d)	717,844	717,844
Proposed dividends	31	3,911,453	3,911,453
TOTAL EQUITY		59,546,992	48,793,461
TOTAL LIABILITIES & EQUITY		349,997,762	339,549,811

The financial statements were approved by the Board of Directors on 15 March 2017 and signed on its behalf by:-

S. C. Muchiri, EBS - Group Chairman ....

J.M. Riungu - Vice Chairman ....

Dr. G. Muriuki, MBS - Group Managing Director & CEO ....

R. M. Githaiga (Mrs) - Company Secretary ....

THE CO-OPERATIVE BANK OF KENYA LIMITED ANO SUBSIDIARIES
BANK INCOME STATEMENT
FOR THE YEAR ENDED 31 OECEMBER 2016

	Note	2016 KShs'000	2015 KShs'000
Interest income	33	37,181,204	33,098,293
Interest expense	34	(12,727,244)	(13,564,779)
NET INTEREST INCOME		24,453,960	19,533,514
Fees and commission income	35	8,B1B,0B0	8,647,735
Fees and commission expense	35	(248,481)	(57,944)
NET FEES ANO COMMISSION INCOME		B,569,599	8,589,791
Net trading income	36	5,076,446	4,100,649
Amortisation of government grants	27	18,476	18,475
Other operating income	37	2,B92,717	1,785,689
TOTAL OTHER INCOME		7,987,639	5,904,B13
OPERATING INCOME		41,011,19B	34,02B,11B
Net impairment losses on loans and advances	12(c)	(2,594,567)	(2,007,357)
Amortization of intangible assets	17(b)	(447,371)	(377,563)
Amortisation of leasehold land	18	(611)	(606)
Depreciation of property and equipment	19(b)	(1,B34,722)	(1,795,458)
Employee costs	3B	(B,944,786)	(8,410,131)
Other operating expenses	39	(9,16B,736)	(7,365,545)
OPERATING EXPENSES		(22,990,793)	(19,956,660)
PROFIT BEFORE TAX		18,020,405	14,071,458
INCOME TAX EXPENSE	24(a)	(4,96B,B41)	(3,599,B60)
PROFIT FOR THE YEAR		13,051,564	10,471,59B
Basic earnings per share (KShs)	40	2.67	2.14
Oiluted earnings per share (KShs)	40	2.22	1.78

THE CO-OPERATIVE BANK OF KENYA LIMITED AND SUBSIDIARIES
BANK STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2016

	Note	2016 KShs'000	2015 KShs'000
PROFIT FOR THE YEAR		13,051,564	10,471,598
OTHER COMPREHENSIVE INCOME:			
Other comprehensive income to be reclassified to profit or loss in subsequent periods:			
Net loss/gain on available-for-sale investments	41	754,035	(1,048,807)
Other comprehensive income not to be reclassified to profit or loss in subsequent periods:			
Revaluation of land and building		859,386	
OTHER COMPREHENSIVE INCOME, NET OF TAX		1,613,421	(1,048,807)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR, NET OF INCOME TAX		14,664,985	9,422,791

THE CO-OPERATIVE BANK OF KENYA LIMITED AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2016

	Attributable to the equity holders of the parent										
	Share capital KShs'000	Share premium KShs'000	Revaluation reserve KShs'000	Statutory reserve KShs'000	Available-for-sale reserve KShs'000	Foreign currency translation reserve KShs'000	Proposed dividends KShs'000	Retained earnings KShs'000	Total KShs'000	Non-controlling interest KShs'000	Total equity KShs'000
As at 1 January 2015	4,889,317	2,889,789	408,074	718,421	(793,356)	31,444	2,444,658	32,206,653	42,795,000	82,119	42,877,119
Profit /(loss) for the year	-	-	-	-	-	-	-	11,288,660	11,288,660	416,899	11,705,559
Other comprehensive income	-		39,689	-	(1,075,690)	(964,248)	-	-	(2,000,249)	(903,155)	(2,903,404)
Total comprehensive income	-	-	-	-	(1,075,690)	(964,248)	-	11,288,660	9,288,411	(486,256)	8,802,155
Transfer of excess depreciation	-	-	(9,071)	-	-	-	-	9,071	-	-	-
Deferred income tax on transfer of excess depreciation -			2,722	-	-	-	-	(2,722)	-	-	-
Transfers to statutory reserve	-		-	65,960	-	-	-	(65,960)	-	-	-
Reclassification from /(to)non-controlling interest	-	-	18,001	-	(1,795)	(15,406)	-	50,196	58,996	17,641	68,636
2014- Dividends paid	-	-	-	-	-	-	(2,444,658)	-	(2,444,658)	-	(2,444,658)
Proposed dividends	-	-	-	-	-	-	3,911,453	(3,911,453)	-	-	-
At 31 December 2015	4,889,317	2,889,789	459,414	784,381	(1,870,841)	(948,210)	3,911,453	39,574,445	49,689,748	(386,496)	49,303,252
As at 1 January 2016	4,889,317	2,889,789	459,414	784,381	(1,870,841)	(948,210)	3,911,453	39,574,445	49,689,748	(386,496)	49,303,252
Profit /(loss) for the year								12,927,768	12,927,768	251,558	12,676,210
Other comprehensive income	-	-	1,234,895	-	721,770	948,218	-	-	2,904,875	897,846	3,802,721
Total comprehensive income	-	-	1,234,895	-	721,778	948,210	-	12,927,768	15,832,643	646,288	16,478,931
Deferred tax on revaluation surplus			(368,308)	-	-		-	-	(368,308)	-	(368,308)
Transfer to revaluation reserve	-	-	-	1,172	-	-	-	(1,172)	-	-	-
Exchange difference on hyperinflationary economy	-	-	12,162	(49,135)	(8,960)	-	-	(380,955)	(426,948)	(455,349)	(882,297)
2016- Dividends paid	-	-	-	-	-		(3,911,453)	-	(3,911,453)	-	(3,911,453)
Proposed dividends	-	-	-	-	-	-	3,911,453	(3,911,453)	-	-	-
At 31 December 2016	4,889,317	2,889,789	1,338,103	736,418	(1,158,831)	-	3,911,453	48,208,633	60,815,682	195,557	60,628,125

THE CO-OPERATIVE BANK OF KENYA LIMITED AND SUBSIDIARIES
BANK STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2015

	Share capital KShs'000	Share premium KShs'000	Revaluation reserve KShs'000	Statutory reserve KShs'000	Available-for-sale reserve KShs'000	Proposed dividends KShs'000	Retained earnings KShs'000	Total KShs'000
As at 1 January 2015	4,889,317	2,889,789	003,408	717,844	(794,062)	2,444,658	31,264,374	41,815,328
Profit for the year	-	-	-	-	-	-	10,471,598	10,471,598
Other comprehensive income	-	-	-	-	(1,048,807)	-		(1,048,807)
Total comprehensive income	-	-	-	-	(1,048,807)	-	10,471,598	9,422,791
Transfer of excess depreciation	-	-	(9,071)	-	-	-	9,071	-
Deferred income tax on transfer of excess depreciation	-	-	2,722	-	-	-	(2,722)	-
2014- Dividends paid	-	-	-	-	-	(2,444,658)		(2,444,658)
Proposed dividends	-	-	-	-	-	3,911,453	(3,911,453)	-
At 31 December 2015	4,889,317	2,889,789	397,059	717,844	(1,842,869)	3,911,453	37,830,867	48,793,460
As at 1 January 2016	4,889,317	2,889,789	397,059	717,844	(1,842,869)	3,911,453	37,830,867	48,793,460
Profit for the year	-	-		-		-	13,051,564	13,051,560
Other comprehensive income	-	-	1,227,694	-	754,035	-	-	1,981,729
Total comprehensive income	-	-	1,227,694	-	754,035	-	13,051,564	15,033,293
Deferred tax on revaluation surplus	-	-	(368,308)	-	-	-	-	(368,308)
2016- Dividends paid	-	-	-	-	-	(3,911,453)	-	(3,911,453)
Proposed dividends	-	-	-	-	-	3,911,453	(3,911,453)	-
At 31 December 2016	4,889,317	2,889,789	1,256,445	717,844	(1,088,834)	3,911,453	46,970,978	59,506,992

THE CO-OPERATIVE BANK OF KENYA LIMITED AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2016

	Note	2016 KShs'000	2015 KShs'000
Cash generated from operating activities	42	(2,256,914)	23,558,606
Tax paid	24(b)	(4,545,970)	(3,923,452)
Net cash flows generated from operating activities		(6,802,884)	19,635,154
INVESTING ACTIVITIES:-			
Purchase of property and equipment	19(a)	(687,739)	(631,099)
Purchase of intangible assets	17(a)	(595,352)	(338,689)
Proceeds from disposal of property and equipment		-	2,400
Purchase of held-to-maturity investments	14	(12,436,612)	(10,846,820)
Maturity of held-to-maturity investments	14	11,432,405	(664,209)
Investment in an associate		-	(30,152)
Dividends from an associate	16	72,876	69,407
Net cash flows used in investing activities:-		(2,214,422)	(12,439,162)
FINANCING ACTIVITIES:-			
Proceeds from borrowings	23	6,007,884	1,086,700
Repayment of borrowings	23	(5,465,665)	(1,820,787)
Dividends paid to equity holders of the parent		(3,911,453)	(2,444,658)
Net cash flows used in financing activities		(3,369,234)	(3,178,745)
Net movement in cash and cash equivalents		(12,386,540)	4,017,247
Effect of foreign exchange differences		3,887	(927,345)
Cash and cash equivalents at the beginning of the year		29,368,433	26,278,531
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	42	16,985,780	29,368,433

THE CO-OPERATIVE BANK OF KENYA LIMITED AND SUBSIDIARIES
BANK STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2016

	Note	2016 KShs'000	2015 KShs'000
OPERATING ACTIVITIES:-			
Cash (used in) / generated from operating activities	42	(717,692)	22,570,482
Tax paid	24(b)	(4,420,630)	(3,838,892)
Net cash flows (used in) / from operating activities		(5,138,322)	18,731,590
INVESTING ACTIVITIES:-			
Purchase of property and equipment	19(b)	(629,371)	(583,755)
Purchase of software	17(b)	(506,732)	(310,803)
Additional capital to a subsidiary		(305,550)	(400,922)
Purchase of held-to-maturity investments	14	(12,436,612)	(10,846,820)
Maturity of held-to-maturity investments	14	11,433,053	(692,959)
Net cash flows used in investing activities		(2,445,212)	(12,835,259)
FINANCING ACTIVITIES:-			
Proceeds from borrowings	23	6,007,884	1,086,700
Repayment of borrowings	23	(5,465,665)	(1,820,787)
Dividends paid		(3,911,453)	(2,444,658)
Net cash flows from financing activities		(3,369,234)	(3,178,745)
Net movement in cash and cash equivalents		(10,952,768)	2,717,586
Cash and cash equivalents at the beginning of the year		27,589,720	24,872,134
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	42	16,636,952	27,589,720

1. GENERAL INFORMATION

The Co-operative Bank of Kenya Limited is a financial institution incorporated in Kenya under the Companies Act (Chapter 486) as a public limited liability company, licensed under the Kenyan Banking Act (Chapter 488) and domiciled in Kenya. The consolidated financial statements comprise the Bank and its subsidiaries together referred to as "the Group". The Group is primarily involved in corporate and retail banking, investment and asset management services in various parts of Kenya. The Bank's equities are listed on the Nairobi Stock Exchange (NSE). The group information is included on page 1 of these financial statements.

The Bank has a subsidiary in Republic of South Sudan named Co-operative Bank of South Sudan which was established in 2012 through a partnership between The Co-operative Bank of Kenya Limited and the Government of South Sudan. The Subsidiary is incorporated in accordance with the Companies Act, 2012 of South Sudan and is licensed under the Banking Act of South Sudan.

2. ACCOUNTING POLICIES

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

(a) Basis of preparation

The consolidated financial statements are prepared under the historical cost convention as modified by the measurement at fair value of available -for-sale investments, derivative financial instruments, other financial assets and liabilities held for trading, financial assets and liabilities designated at fair value through profit or loss, land and buildings carried under the revaluation model.

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

For the Kenyan Companies Act reporting purposes, in these financial statements the balance sheet is represented by/is equivalent to the statement of financial position and the profit and loss account is presented in the statement of comprehensive income.

(b) Basis of consolidation

The consolidated financial statements of the Group comprise the financial statements of the Bank and its subsidiaries and associate as at 31 December 2016. Control is achieved by the Group over an investee if and only if the Group has:-:

- Power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee), and
- Exposure, or rights, to variable returns from its involvement with the investee, and
- The ability to use its power over the investee to affect its returns

When the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- The contractual arrangement with the other vote holders of the investee
- Rights arising from other contractual arrangements
- The Group's voting rights and potential voting rights

2. ACCOUNTING POLICIES (continued)

(b) Basis of consolidation (continued)

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the statement of comprehensive income from the date the Group gains control until the date the Group ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income (OCI) are attributed to the equity holders of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. If the Group loses control over a subsidiary, it:

- Derecognises the assets (including goodwill) and liabilities of the subsidiary
- Derecognises the carrying amount of any non-controlling interests
- Derecognises the cumulative translation differences recorded in equity
- Recognises the fair value of the consideration received
- Recognises the fair value of any investment retained
- Recognises any surplus or deficit in profit or loss
- Reclassifies the parent's share of components previously recognised in OCI to profit or loss or retained earnings, as appropriate, as would be required if the Group had directly disposed of the related assets or liabilities

(c) Changes in accounting policies and disclosures

New and amended standards and interpretations

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

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

IFRS 14 Regulatory Deferral Accounts

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

2. ACCOUNTING POLICIES (continued)

(c) Changes in accounting policies and disclosures (Continued)

New and amended standards and Interpretations (Continued)

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

The amendments to IFRS 11 require that a joint operator accounting for the acquisition of an interest in a joint operation, in which the activity of the joint operation constitutes a business, must apply the relevant IFRS 3 Business Combinations principles for business combination accounting. The amendments also clarify that a previously held interest in a joint operation is not remeasured on the acquisition of an additional interest in the same joint operation if joint control is retained. In addition, a scope exclusion has been added to IFRS 11 to specify that the amendments do not apply when the parties sharing joint control, including the reporting entity, are under common control of the same ultimate controlling party. The amendments apply to both the acquisition of the initial interest in a joint operation and the acquisition of any additional interests in the same joint operation and are applied prospectively. These amendments do not have any impact on the Group as it does not have any interest in a joint operation.

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

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

Amendments to IAS 16 and IAS 41 Agriculture: Bearer Plants

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

Amendments to IAS 27: Equity Method in Separate Financial Statements

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

2. ACCOUNTING POLICIES (continued)

(c) Changes in accounting policies and disclosures (Continued)

New and amended standards and interpretations (Continued)

Annual Improvements 2012-2014 Cycle

These improvements include:

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

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

IFRS 7 Financial Instruments: Disclosures

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

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

IAS 19 Employee Benefits

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

IAS 34 Interim Financial Reporting

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

These amendments do not have any impact on the Group.

2. ACCOUNTING POLICIES (continued)

(c) Changes in accounting policies and disclosures (Continued)

New and amended standards and interpretations (Continued)

Amendments to IAS 1 Disclosure Initiative

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

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

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

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

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

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

IFRS 9 Financial Instruments

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

2. ACCOUNTING POLICIES (continued)

(c) Changes in accounting policies and disclosures (Continued)

Standards issued but not yet effective

IFRS 9 Financial instruments

Classification and measurement

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

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

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

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

- The majority of loans and advances to banks, loans and advances to customers, cash collateral for reverse repo agreements and cash settlement balances with clearing houses that are classified as loans and receivables under IAS 39 are expected to be measured at amortised cost under IFRS 9
- Financial assets and liabilities held for trading and financial assets and liabilities designated at FVPL are expected to be continue to be measured at FVPL
- The majority of the debt securities classified as available for sale under IAS 39 are expected to be measured at amortised cost or FVOCI. Some securities, however, will be classified as FVPL, either because of their contractual cash flow characteristics or the business model within which they are held
- Debt securities classified as held to maturity are expected to continue to be measured at amortised cost.

Hedge accounting

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

2. **ACCOUNTING POLICIES** (continued)

(c) Changes in accounting policies and disclosures (Continued)

Standards issued but not yet effective (Continued)

IFRS 9 Financial Instruments (Continued)

Impairment of financial assets

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

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

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

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

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

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

2. ACCOUNTING POLICIES (continued)

(c) Changes in accounting policies and disclosures (Continued)

Standards issued but not yet effective (Continued)

Amendments to IAS 12 Income Taxes

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

IFRS 15 Revenue from Contracts with Customers

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

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

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

IFRS 16 Leases

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

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

Amendments to IAS 7 Statement of Cash Flows

In January 2016, the IASB issued amendments to IAS 7 Statement of Cash Flows with the intention to improve disclosures of financing activities and help users to better understand the reporting entities' liquidity positions. Under the new requirements, entities will need to disclose changes in their financial liabilities as a result of financing activities such as changes from cash flows and non-cash items (e.g., gains and losses due to foreign currency movements). The amendment is effective from 1 January 2017. The Group will adopt the amendment when it becomes effective. The adoption of this amendment will not have a material impact on the statement of cash flows as the gains or loss on foreign exchange are not material. .

2. **ACCOUNTING POLICIES (continued)**

(c) Changes in accounting policies and disclosures (Continued)

Standards issued but not yet effective (Continued)

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

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

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

The IASB issued amendments to IFRS 2 Share-based Payment that address three main areas: the effects of vesting conditions on the measurement of a cash-settled share-based payment transaction; the classification of a share-based payment transaction with net settlement features for withholding tax obligations; and accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash settled to equity settled. On adoption, entities are required to apply the amendments without restating prior periods, but retrospective application is permitted if elected for all three amendments and other criteria are met. The amendments are effective for annual periods beginning on or after 1 January 2018, with early application permitted. These amendments are not expected to have any impact on the Group.

(d) Significant accounting estimates and assumptions

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

Estimates and assumptions

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

Going concern

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

2. **ACCOUNTING POLICIES (continued)**

(d) Significant accounting estimates and assumptions (continued)

Fair value of financial instruments
Where the fair values of financial assets and financial liabilities recorded on the statement of financial position cannot be measured based on quoted prices in active markets, their fair value is determined using a variety of valuation techniques that include the use of mathematical models. The inputs to these models are derived from observable market data where possible, but if this is not available, judgement is required to establish fair values. The judgements include considerations of liquidity and model inputs such as volatility for longer-dated derivatives and discount rates, prepayment rates and default rate assumptions for asset-backed securities. The valuation of financial instruments is described in more detail in Note 6.

Impairment losses on loans and advances
The Bank reviews its individually significant loans and advances at each statement-of-financial-position date to assess whether an impairment loss should be recorded in profit or loss. In particular, management's judgement is required in the estimation of the amount and timing of future cash flows when determining the impairment loss. These estimates are based on assumptions about a number of factors and actual results may differ, resulting in future changes to the allowance.
Loans and advances that have been assessed individually (and found not to be impaired) are assessed together with all individually insignificant loans and advances in groups of assets with similar risk characteristics. This is to determine whether provision should be made due to incurred loss events for which there is objective evidence, but the effects of which are not yet evident. The collective assessment takes account of data from the loan portfolio (such as levels of arrears, credit utilisation, loan-to-collateral ratios, etc.), and judgements on the effect of concentrations of risks and economic data (including levels of unemployment, real estate prices indices, country risk and the performance of different individual groups).

Impairment of available-for-sale investments
The Group reviews its debt securities classified as available-for-sale investments at each reporting date to assess whether they are impaired. This requires similar judgment as applied to the individual assessment of loans and advances.
The Group also records impairment charges on available-for-sale equity investments when there has been a significant or prolonged decline in the fair value below their cost. The determination of what is 'significant' or 'prolonged' requires judgment. In making this judgment, the bank evaluates, among other factors, historical share price movements and duration and extent to which the fair value of an investment is less than its cost.

Deferred tax assets
Deferred tax assets are recognised in respect of tax losses to the extent that it is probable that future taxable profit will be available against which the losses can be utilised. Judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits, together with future tax-planning strategies. Management do not foresee changes in control or diminished returns over the investee.

2. ACCOUNTING POLICIES (continued)

(e) Recognition of income and expenses

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

i) Interest and similar income and expenses

For all financial instruments measured at amortised cost, interest bearing financial assets classified as available-for-sale and financial instruments designated at fair value through profit or loss, interest income or expense is recognised at the effective interest rate (EIR), which is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or shorter period, where appropriate, to the net carrying amount of the financial asset or financial liability. The calculation takes into account all contractual terms of the financial instrument (for example, prepayment options) and includes any fees or incremental costs that are directly attributable to the instrument and are an integral part of the EIR, but not future credit losses. The carrying amount of the financial assets or financial liabilities is adjusted if the Group revises its estimates of payments or receipts. The adjusted carrying amount is calculated based on the original effective interest rate and the change in carrying amount are recognised as interest income or expense.

Interest income is recognised in profit or loss for all interest bearing instruments on an accrual basis taking into account the effective yield on the asset. Interest income continues to be accrued on the reduced carrying amount of impaired and provided for financial assets using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. Interest on the Government and Donor funds is recognised as income on accrual basis

ii) Fee and commission income

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

iii) Dividend income

Dividends from associate and equity investments are recognised when the Group's right to receive payment is established.

iv) Rental income

Rental income is accounted for on a straight-line basis over the lease terms on ongoing leases and is recognised on a monthly basis when it falls due.

(v) Net trading income

Results arising from trading activities include all gains and losses from changes in fair value and related interest income or expense and dividends for financial assets and financial liabilities held for trading. This includes any ineffectiveness recorded in hedging transactions.

(f) Cash and cash equivalents

Cash and cash equivalents as referred to in the cash flow statement comprises cash on hand, non-restricted current accounts with central banks and amounts due from banks on demand or with an original maturity of three months or less.

(g) Property and equipment

Recognition and measurement

Land and buildings are measured at fair value less accumulated depreciation on buildings and impairment losses recognised after the date of the revaluation. Any revaluation surplus is recognised as other comprehensive income in the assets revaluation reserve (a separate component of equity), except to the extent that it reverses a revaluation decrease of the same asset previously recognised in profit or loss, in which case the increase is recognised in profit or loss. A revaluation deficit is recognised in profit or loss, except to the extent that it offsets an existing surplus on the same asset recognised in the revaluation reserve. Revaluation surpluses are not distributable. Land and buildings are revalued after every 3 years by approved external valuers.

2. **ACCOUNTING POLICIES (continued)**

(g) Property and equipment (continued)

Other categories of property and equipment are stated at historical cost less accumulated depreciation and accumulated impairment losses. Cost includes costs incurred to acquire the asset, costs incurred to bring the asset to working condition for its intended use and the cost of replacing part of the property and equipment when that cost is incurred, if the recognition criteria are met. Additions and improvements that result in future benefits are capitalised. Likewise, when a major inspection is performed, its cost is recognised in the carrying amount of the plant and equipment as a replacement if the recognition criteria are satisfied. All other repair and maintenance costs incurred to keep assets in normal operating condition are recognised in profit or loss as incurred. Purchased software that is integral to the functionality of the related equipment is capitalised as part of the equipment.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognising of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the year the asset is derecognised.

Depreciation
Depreciation is calculated on a straight- line basis over the useful life of the asset as follows:

Buildings	40 years	2.5%
Fixtures	8 years	12.5%
Furniture and equipment	5 years	20.0%
Motor vehicles	5 years	20.0%
Office machinery	5 years	20.0%
Computers	5 years	20.0%

Leasehold land is depreciated over the remaining period of the lease. Buildings on leasehold land are depreciated over the remaining period of the lease subject to a maximum of forty years. Buildings on freehold land are depreciated over forty years. Freehold land is not depreciated. The asset's residual values, useful lives and methods of depreciation are reviewed, and prospectively adjusted as a change in estimate if appropriate, at each financial year end.

(h) Business combinations and goodwill

Business combinations are accounted for using the acquisition method of accounting. This involves recognising identifiable assets (including previously unrecognised intangible assets) and liabilities (including contingent liabilities but excluding future restructuring) of the acquired business at fair value. Any excess of the cost of acquisition over the fair values of the identifiable net assets acquired is recognised as goodwill. If the cost of acquisition is less than the fair values of the identifiable net assets acquired, the Group re-assesses whether it has correctly identified all of the assets acquired and all of the liabilities assumed and reviews the procedures used to measure the amounts to be recognised at the acquisition date. If the reassessment still results in an excess of the fair value of net assets acquired over the aggregate consideration transferred, the discount on acquisition is recognised directly in profit and loss in the year of acquisition.
Goodwill acquired in a business combination is initially measured at cost, being the excess of the cost of the business combination over the Bank's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities acquired.
Following initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is reviewed for impairment annually, or more frequently, if events or changes in circumstances indicate that the carrying value may be impaired. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Bank's cash-generating units (CGUs) or group of CGUs, which are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units. Each unit to which the goodwill is allocated represents the lowest level within the Bank at which the goodwill is monitored for internal management purposes, and is not larger than an operating segment in accordance with IFRS 8 Operating Segments.
Where goodwill has been allocated to a CGU (or group of CGUs) and part of the operation within that unit is disposed of, the goodwill associated with the disposed operation is included in the carrying amount of the operation when determining the gain or loss on disposal.

2. ACCOUNTING POLICIES (continued)

(h) Business combinations and goodwill (continued)

Goodwill disposed of in these circumstances are measured based on the relative values of the disposed operation and the portion of the CGU retained. When subsidiaries are sold, the difference between the selling price and the net assets plus cumulative translation differences and goodwill is recognised in profit or loss.

(i) Intangible assets

The Group's other intangible assets comprise the value of computer software licenses and separately identifiable intangible items acquired in business combinations.

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

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is their fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses.

The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortised over the useful economic life. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year-end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortisation period or method, as appropriate, and treated as changes in accounting estimates. The amortisation expense on intangible assets with finite lives is recognised in profit or loss in the expense category consistent with the function of the intangible asset.

(a) *Computer software licences*

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

(b) *Other intangible assets*

Other intangible assets are initially recognised when they are separable or arise from contractual or other legal rights, the cost can be measured reliably and, in the case of intangible assets not acquired in a business combination, where it is probable that future economic benefits attributable to the assets will flow from their use. Other intangible assets consist of Nairobi Stock Exchange (NSE) seat (now renamed NSE trading right) and joint venture development cost (Cost incurred for the joint venture agreement during the set-up of Co-operative bank of South Sudan). The Joint venture development assets relates to the costs incurred in negotiating the Joint Venture arrangement with the Government of South Sudan. Under the Joint Venture agreement, the Bank acquired certain rights that are identifiable e.g., business relationships with the government and co-operative movements.

Effective September 2014 and upon demutualization of Nairobi Securities Exchange (NSE), the NSE Seat initially valued at KShs 251 million was replaced with a trading right which gave participants a right to trade at NSE. The trading right serves the same function as the Seat. The trading right was attached a value of KShs 25 million by NSE Board which has been taken as its fair value. Therefore, the revaluation reserve on NSE seat in the statement of changes in equity was reduced by KShs 226 million, being the difference between the carrying amount of the NSE seat and the fair value on the trading right. The trading right is carried as an intangible asset with an indefinite useful life at the value of KShs 25 million, less any subsequent accumulated impairment losses. Management tests the trading right for impairment by comparing its recoverable amount with its carrying amount annually and whenever there is an indication that the right may be impaired. Any impairment losses are accounted for through profit or loss.

Other intangible assets are stated at cost less amortisation and provisions for impairment, if any, plus reversals of impairment, if any. They are amortised over their useful lives in a manner that reflects the pattern to which they contribute to future cash flows.

2. **ACCOUNTING POLICIES (continued)**

(k) Finance and operating leases (continued)

ii) Finance leases:

When the Group is the lessor in a lease agreement that transfers substantially all of the risks and rewards incidental to ownership of an asset to the lessee, the arrangement is classified as a finance lease within loans and advances. All other leases are classified as operating leases. When assets are held subject to a finance lease, the asset is derecognised and the present value of the lease payments is recognised as a receivable. The difference between the gross receivable and the present value of the receivable is recognised as unearned finance income. Lease income is recognised over the term of the lease using the net investment method, which reflects a constant periodic rate of return.

Minimum lease payments made under finance leases are apportioned between the finance income and the reduction of the outstanding asset. The finance income is allocated to each period during the lease term so as to produce a constant rate of interest on the remaining balance of the asset.

(l) Financial assets

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

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

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

Financial assets at fair value through profit or loss
This category comprises two sub-categories: financial assets classified as held-for-trading and financial assets designated by the Group as at fair value through profit or loss upon initial recognition.

A financial asset is classified as held-for-trading if it is acquired or incurred principally for the purpose of selling or repurchasing it in the near term or if it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking. Financial assets held-for-trading consist of treasury bonds and equity instruments. They are recognised in the consolidated statement of financial position as 'Held for trading instruments'.

Subsequent to initial recognition, financial assets at fair value through profit or loss are re-measured at fair value. Gains and losses arising from changes in fair value are included directly in profit or loss. Interest income and expense and dividend income and expenses on financial assets held-for-trading are also included in profit or loss.

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

2. **ACCOUNTING POLICIES (continued)**

(l) Financial assets (continued)

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

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement loans and receivables are carried at amortised cost using the effective interest method less any allowance for impairment. Gains and losses are recognised in profit or loss when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

Available-for-sale financial assets

Available-for-sale investments are financial assets that are intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices or that are not classified as loans and receivables, held-to-maturity investments or financial assets at fair value through profit or loss. Available-for-sale financial assets are subsequently measured at fair value with gains and losses being recognised as other comprehensive income and accumulated in the available-for-sale reserve (a separate component of equity), until the investment is derecognised or until the investment is determined to be impaired at which time the cumulative gain or loss previously reported in equity is recognised through other comprehensive income into profit or loss in the consolidated statement of comprehensive income.

Amortised cost

Amortised cost is computed using the effective interest method less any allowance for impairment. The calculation takes into account any premium or discount on acquisition and includes transaction costs and fees that are an integral part of the effective interest rate.

(m) Fair value

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.
The Group's fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

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

The principal or the most advantageous market must be accessible to by the Group.
The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.
A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

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

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

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

2. ACCOUNTING POLICIES (continued)

(m) Fair value

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

(n) Derivative financial instruments

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

Changes in fair value of any derivative instruments are recognised immediately in the profit or loss. Derivative financial instruments are initially recognised at fair value. Subsequent to initial recognition, derivative financial instruments are measured at fair value. Fair values are obtained from quoted market prices in active markets, including recent market transactions. The gain or loss on re-measurement to fair value is recognised immediately in profit or loss.

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

The Bank uses the following derivative instruments:

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

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

(o) Impairment of financial assets

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

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

2. ACCOUNTING POLICIES (continued)

(o) Impairment of financial assets (continued)

(1) Financial assets carried at amortised cost

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

For loans and advance impairment losses are computed based on:

i) Central Bank of Kenya Prudential Guidelines

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

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

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

ii) International Accounting Standard (IAS) 39

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

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

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

2. ACCOUNTING POLICIES (continued)

(o) Impairment of financial assets (continued)

(1) Financial assets carried at amortised cost (continued)

iii) International Accounting Standard (IAS) 39

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

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

(2) Financial assets classified as available-for-sale

The Group assesses at each reporting date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity investments classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is objective evidence of impairment resulting in the recognition of an impairment loss. If any such evidence exists for available-for-sale financial assets, the cumulative loss - measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss - is removed from the available-for-sale reserve and recognised in profit or loss. Impairment losses recognised in profit or loss on equity instruments are not reversed through profit or loss but recognised as other comprehensive income and accumulated in the available-for-sale reserve (a separate component of equity). If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through the profit or loss.

(3) Renegotiated loans

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

The impairment test can also be performed on a single asset when the fair value less cost to sell or the value in use can be determined reliably. Non-financial assets other than goodwill that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

2. ACCOUNTING POLICIES (continued)

(o) Impairment of financial assets (continued)

(4) Derecognition of financial assets

A financial asset is derecognised when:

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

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

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

(p) Financial liabilities

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings or payables as appropriate.
All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs.

Subsequent measurement

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

Financial liabilities at amortised cost

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

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

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

(c) *Other borrowed funds and borrowing costs*
Borrowings are financial liabilities and measured initially at fair value and subsequently at amortised cost using the effective interest rate method. Borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset are capitalised.

2. ACCOUNTING POLICIES (continued)

(p) Financial liabilities (continued)

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

(q) Provisions

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

(r) 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 set off the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

(s) Repossessed property

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

(t) Foreign currency

i) Transactions

Transactions in foreign currencies are translated at the rates ruling on the transaction dates. Monetary balances in foreign currencies are translated at the Central Bank of Kenya rates ruling at the end of each reporting period. Any resulting gains or losses on exchange are dealt with in profit or loss in the period in which they arise. Non-monetary items carried at cost are translated using the exchange rate at the date of the transaction, whilst assets carried at fair value are translated at the exchange rate when the fair value was determined.

ii) Group companies

For each entity the Group determines the functional currency and items included in the financial statements of each entity are measured using that functional currency. The Group uses the direct method of consolidation and on disposal of a foreign operation, the gain or loss that is reclassified to profit or loss reflects the amount that arises from using this method.
On consolidation, the assets and liabilities of foreign operations are translated into the group's functional currency at the rate of exchange prevailing at the reporting date and their statements of profit or loss are translated at exchange rates prevailing at the dates of the transactions. The exchange differences arising on translation for consolidation are recognised in OCI. On disposal of a foreign operation, the component of OCI relating to that particular foreign operation is recognised in profit or loss.
Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition are treated as assets and liabilities of the foreign operation and translated at the spot rate of exchange at the reporting date.

2. ACCOUNTING POLICIES (continued)

(u) Employee benefits

The Group operates a defined contribution retirement scheme for its employees. The assets of the scheme are held in a separate trustee administered fund which is funded by contributions from both the Group and employees. The Group contributions to the scheme are charged to the profit or loss in the year to which they relate. The Group also contributes to a statutory defined contribution pension scheme, the National Social Security Fund (NSSF). Contributions are determined by local statute and are currently limited to KShs 200 per employee per month.

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

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

(v) Taxes

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

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

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

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

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

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

2. ACCOUNTING POLICIES (continued)

(v) Taxes (continued)

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

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

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

(w) Grants

Grants are recognised where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognised as other income over the period necessary to match the grant on a systematic basis to the costs that it is intended to compensate. Where the grant relates to an asset, it is recognised as deferred income and released to other income in equal annual amounts over the expected useful life of the related asset.

A government grant that becomes receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the entity with no future related costs is recognised as other income in the period in which it becomes receivable.

Where the Group receives non-monetary grants, the asset and corresponding grant are recorded at nominal amounts and released to profit or loss over the expected useful life of the relevant asset by equal annual instalments. Grants related to property and equipment are deferred and utilised in the reduction of the carrying amounts of the related assets over their useful lives.

(x) Cash and cash equivalents

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

(y) Dividends

Dividends on ordinary shares are charged to equity in the year in which they are declared. Proposed dividends are shown as a separate component of equity until they have been ratified at the Annual General Meeting.

(z) Fiduciary assets

Assets and income arising thereon with related undertakings to return such assets to customers are excluded from these financial statements when the Group acts in a fiduciary capacity such as nominee or agents.

2. ACCOUNTING POLICIES (continued)

(aa) Impairment of non-financial assets

The carrying amounts of the group's non-financial assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists then the asset's recoverable amount is estimated.
For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows (cash-generating units).
An asset's recoverable amount is the higher of an asset's or cash-generating unit's (CGU) fair value less costs of disposal and its valve in use.
Where the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.
In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discovnt rate that reflects current market assessments of the time value of money and the risks specific to the asset.
In determining fair value less costs of disposal, an appropriate valuation model is used.
Impairment losses are recognised in profit or loss in those expense categories consistent with the function of the impaired asset, except for a property previously re-valued where the valuation was taken to other comprehensive income. In this case, the Impairment loss is also recognised in other comprehensive income up to the amount of any previous revaluation.
For assets other than goodwill an assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased.
If such indication exists, the group estimates the asset's or CGU's recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the assumptions vsed to determine the asset's recoverable amount since the last impairment loss was recognised. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceeds the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in profit or loss. Impairment losses on goodwill are not reversed.

Intangible assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment.

(ab) Current versus non-current classification

The Grovp presents assets and liabilities in statement of financial position based on current/non-current classification. An asset as current when it is:

- Expected to be realised or intended to sold or consumed in normal operating cycle
- Held primarily for the purpose of trading
- Expected to be realised within twelve months after the reporting period

Or

- Cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period

All other assets are classified as non-current.
A liability is current when:

- It is expected to be settled in normal operating cycle
- It is held primarily for the pvrpose of trading
- It is due to be settled within twelve months after the reporting period

Or

- There is no unconditional right to defer the settlement of the liability for at least twelve months after the reporting period

The Group classifies all other liabilities as non-current. Deferred tax assets and liabilities are classified as non-current assets and liabilities.

3. FINANCIAL RISK MANAGEMENT

Risk management framework

The Board of Directors has overall responsibility for the establishment and oversight of the Group's risk management framework. The Board has established the Risk & Finance Committee, which is responsible for developing and monitoring Group risk management policies in their specified areas. All Board committees, with exception of Board Audit Committee have both executive and non-executive members and report regularly to the Board of Directors on their activities.

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

The Board Audit Committee is responsible for monitoring compliance with the Group's risk policies and procedures, and for reviewing their adequacy. The Board Audit Committee is assisted in these functions by Internal Audit. Internal Audit undertakes both regular and ad-hoc reviews of risk controls and procedures, the results of which are reported to the Board Audit committee.

The Group has exposure to the following risks from its use of financial instruments:

(a) Credit risk
(b) Liquidity risk
(c) Market risks
(d) Operational risks

Below is the information about the Group's exposure to each of the above risks, the Group's objectives, policies and processes for measuring and managing risk, and the Group's management of capital. There is no significant difference between the Group and Bank balances in assessment of the various risks facing the Group.

(a) Credit risk

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

Management of credit risk

The Board of Directors has delegated responsibility for the management of credit risk to its Board's Risk and Finance Committee. A separate Credit Risk Department, reporting to the Board's Risk and Finance Committee, is responsible for oversight of the Group's credit risk, including:

(1) Formulating credit policies in consultation with business units, covering collateral requirements, credit assessment, risk grading and reporting, documentary and legal procedures, and compliance with regulatory and statutory requirements.

(2) Establishing the authorisation structure for the approval and renewal of credit facilities.

(3) Reviewing and assessing credit risk.

(4) Developing and maintaining the Group's risk grading in order to categorise exposures according to the degree of risk of financial loss faced and to focus management on the attendant risks.

3. FINANCIAL RISK MANAGEMENT (continued)

(a) Credit risk (continued)

(5) Reviewing compliance of business units with agreed exposure limits, including those for selected industries, country risk and product types.

(6) Providing advice, guidance and specialist skills to business units to promote best practice throughout the Group in the management of credit risk.

Each business unit is required to implement Group credit policies and procedures, with credit approval authorities delegated from the Board's Risk and Finance Committee. Each business unit is responsible for the quality and performance of its credit portfolio and for monitoring and controlling all credit risks in its portfolios, including those subject to central approval.

Exposure to credit risk on loans and advances to customers is as follows:

	Note	Group 2016 KShs '000	Group 2015 KShs '000	Bank 2016 KShs '000	Bank 2015 KShs '000
Carrying amount (note 13(a)		245,002,074	220,556,598	244,455,158	220,054,537
Staff loans amortization	12	(4,628,234	(4,811,635)	(4,628,234)	(4,811,635)
Individually assessed for impairment:					
Grade 5: Loss category		674,983	695,943	674,983	695,943
Grade 4: Doubtful category		4,771,526	4,188,409	4,770,400	4,188,409
Gross amount		5,446,509	4,804,352	5,445,383	4,884,352
Allowance for impairment		(3,995,201)	(2,855,436)	(3,994,075)	(2,855,436)
Carrying amount		1,451,308	2,028,916	1,451,308	2,028,916
Collectively assessed for impairment:					
Grade 1: Normal		197,251,662	193,010,260	196,708,388	192,512,853
Grade 2: Watch list		36,474,619	19,352,492	36,474,619	19,352,492
Gross amount		233,726,281	212,362,752	233,183,007	211,865,345
Allowance for impairment		(3,068,119)	(2,532,335)	(3,061,323)	(2,532,335)
Carrying amount		230,658,162	209,830,417	230,121,684	209,333,010
Past due loans (Grade 3 - Substandard):					
Past due up to 30 days		2,180,967	2,113,557	2,180,967	2,113,557
Past due 31-60 days		1,922,433	672,254	1,922,433	672,254
Past due 61-90 days		1,032,215	383,855	1,032,215	383,855
Past due 91-150 days		692,050	135,175	692,050	135,175
Gross amount		5,827,665	3,304,841	5,827,665	3,304,841
Allowance for impairment		(1,002,163)	(1,780,619)	(1,002,163)	(1,700,619)
Carrying amount		4,825,502	1,524,222	4,825,502	1,524,222
Net carrying amount	13 (a)	232,307,329	208,571,920	231,770,171	208,074,513

3. FINANCIAL RISK MANAGEMENT (continued)

(a) Credit risk (continued)

Maximum exposure to credit risk before collateral held:

	Group		Bank	
	2016	2015	2016	2015
	KShs'000	KShs'000	KShs'000	KShs'000
Items recognised in the statement of financial position:				
Items in the course of collection	195,791	384,161	195,791	384,161
Deposits and balances due from banking institutions	5,017,303	13,977,237	5,359,893	13,869,273
Financial assets:				
-Derivatives	126,776	621,737	126,776	621,737
-Held-to-maturity	37,158,761	36,154,555	37,003,530	35,999,971
-Held-for-trading	147	206	147	149
-Available-for-sale	24,624,796	28,771,869	24,624,796	28,641,531
Interest receivable	3,848,678	2,565,663	3,848,491	2,565,663
Loans and advances to customers	232,307,329	208,571,920	231,770,171	208,074,513
	303,279,581	291,047,348	302,929,595	290,156,998
Items not recognised in the statement of financial position (note 46)	12,465,919	12,509,752	12,465,919	12,509,752
	315,745,500	**303,557,100**	**315,395,514**	**302,666,750**

Maximum exposure to credit risk before collateral held represents the worst-case scenario of credit risk exposure without taking account of any collateral held or any other credit enhancements attached. While collateral is an important means to mitigate against credit risk, the Group's primary policy is to issue loans after establishing capacity of the customer to repay. Unsecured facilities amount to KShs.64.429 Million (2015- KShs 52.228 Million). All other facilities are secured by collateral in the form of charges over cash, land and buildings, marketable securities, plant and machinery among others.

Impaired loans
Impaired loans are loans for which the Bank determines that it is probable that it will be unable to collect all principal and interest due according to the contractual terms of the loan agreements. These loans are graded 4 to 5 in the Bank's internal credit risk grading system.

Past due but not impaired loans
These are loans where contractual interest or principal payments are past due but the Bank believes that impairment is not appropriate on the basis of the level of security/ collateral available and/ or the stage of collection of amounts owed to the Bank.

Loans with renegotiated terms
Loans with renegotiated terms are loans that have been restructured due to deterioration in the borrower's financial position and where the Bank has made concessions that it would not otherwise consider. Once the loan is restructured it may remain in this category or may be re-graded depending on performance after restructuring.

3. **FINANCIAL RISK MANAGEMENT** (continued)

(a) Credit risk (continued)

The carrying amount of renegotiated financial assets that would otherwise be past due or impaired is as follows:

	2016 KShs'000	2015 KShs'000
Commercial loans	21,646,699	11,922,194
	21,646,699	11,922,194

Allowances for impairment
The Bank establishes an allowance for impairment losses that represents its estimate of incurred losses in its loan portfolio. The main components of this allowance are a specific loss component that relates to individually significant exposures, and collectively homogeneous assets. The second component is in respect of losses that have been incurred but have not been identified in relation to the loan portfolio that is not specifically impaired.

Write-off policy
The Bank writes off a loan balance as and when Board of directors determines that the loans are uncollectible. This determination is reached after considering information such as the occurrence of significant changes in the borrower's financial position such that the borrower can no longer pay the obligation or that proceeds from collateral will not be sufficient to pay back the entire exposure. For smaller balance standardised loans, charge off decisions generally are based on a product specific past due status.

Collateral on loans and advances
The Bank holds collateral against loans and advances to customers in the form of cash, mortgage interests over residential, commercial and industrial properties, other registered securities over assets, motor vehicles, plant and machinery, marketable securities, bank guarantees and letters of credit. Estimates of fair value are based on the value of collateral assessed at the time of borrowing, and generally are not updated except when a loan is individually assessed as impaired. Collateral is generally not held over loans and advances to banks and against investment securities. It is the bank's policy to dispose of repossessed properties in an orderly manner. The proceeds are used to reduce or repay the outstanding claim and the Bank does not occupy repossessed properties for business use.

An estimate of the fair value of collateral and other security enhancements held against financial assets is shown below:

	Group and Bank 2016 KShs'000	2015 KShs'000
(i) Categorised by loans & advances:		
Doubtful & loss categories	10,480,512	4,596,134
Past due but not impaired (Sub-standard) category	15,100,117	2,493,842
Normal & watch categories	378,334,639	245,779,535
	403,915,268	252,869,511
(ii) Categorised by nature of collateral:		
Land & buildings	208,107,228	119,866,272
Cash & other pledges	4,165,063	2,133,614
Motor vehicles	49,985,757	42,082,098
Hypothecation of stock	1,343,493	835,479
Debentures & guarantees	133,811,514	67,753,830
Other chattels	6,502,213	20,198,218
	403,915,268	252,869,511

3. **FINANCIAL RISK MANAGEMENT (continued)**

(a) Credit risk (continued)

Concentration of Risk

Concentration indicates the relative sensitivity of the Bank's performance to developments affecting a particular industry or geographical location. Excessive concentration arises when a number of counterparties are engaged in similar business activities or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions.

To avoid excessive concentration of risk, the Bank's policies and procedures include specific guidelines that ensure maintenance of a diversified portfolio across bank products, industry sectors, geographic spread, credit ratings, customer segments and exposure to single or related counterparties. Concentrations of credit risk which have been identified are controlled and managed accordingly.

Loans and advances:-	Group		Bank	
	2016	2015	2016	2015
	KShs'000	KShs'000	KShs'000	KShs'000
(i) Concentration by sector:				
Agriculture	8,185,857	8,593,414	8,185,857	8,593,414
Manufacturing, energy & water	27,450,579	24,264,230	27,450,579	24,264,230
Financial services	25,582,370	24,743,324	25,582,370	24,743,324
Tourism & hospitality	1,507,486	1,434,270	1,507,486	1,434,270
Wholesale and retail trade	40,315,026	34,952,226	40,315,026	34,952,226
Transport and communication	15,967,830	14,964,629	15,967,830	14,964,629
Real Estate, building & construction	39,290,875	34,620,191	38,746,475	34,118,130
Consumer & household	86,700,432	76,984,314	86,700,432	76,984,314
	245,000,454	220,556,598	244,456,055	220,054,537
Less: staff loans amortisation	(4,628,234)	(4,811,635)	(4,628,234)	(4,811,635)
	240,372,221	215,744,963	239,827,821	215,242,902
(ii) Concentration by business:				
Corporate	80,923,439	86,801,346	80,923,439	86,801,346
Mortgage & Asset Finance	54,204,700	32,898,823	54,204,700	32,898,823
Small, Medium and Microenterprises	18,619,393	18,496,123	18,619,393	18,496,123
Retail	85,486,187	76,772,604	84,941,788	76,270,543
Agribusiness	5,766,734	5,587,702	5,766,735	5,587,702
	245,000,454	220,556,598	244,456,055	220,054,537
Less: staff loans amortisation	(4,628,234)	(4,811,635)	(4,628,234)	(4,811,635)
	240,372,221	215,744,963	239,827,821	215,242,902

3. FINANCIAL RISK MANAGEMENT (continued)

(a) Credit risk (continued)

Settlement Risk
The Bank's activities may give rise to risk at the time of settlement of transactions and trades. Settlement risk is the risk of loss due to the failure of a company to honour its obligations to deliver cash or other assets as contractually agreed. For some transactions, settlement risk is mitigated by conducting settlements through a settlement/clearing agent to ensure that a transaction is settled only when both parties have fulfilled their contractual obligations. Where this arrangement is not available, this risk is controlled through settlement limits which form part of the credit approval and limit monitoring process under the Bank's risk management mechanisms. This requires transaction-specific or counterparty-specific assessment to ensure the Bank deals with highly rated counterparties and implements other measures such as holding collateral.

Customer deposits:-	Group 2016 KShs'000	2015 KShs'000	Bank 2015 KShs'000	2015 KShs'000
Private enterprises	71,944,715	81,788,307	71,944,715	81,788,307
Non-profit institutions	24,405,500	23,680,982	24,405,500	23,680,982
Individuals	90,728,092	81,832,784	90,728,092	81,832,784
Others	73,075,130	78,096,514	72,393,442	76,407,342
	260,153,437	265,398,587	259,471,749	263,709,415

(b) Liquidity risk

Liquidity risk is the risk that the Bank will encounter difficulty in meeting obligations from its financial liabilities.

Management of liquidity risk
The Bank's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Bank's reputation.

Treasury receives information from other business units regarding the liquidity profile of their financial assets and liabilities and details of other projected cash flows arising from projected future business. Treasury then maintains a portfolio of short-term liquid assets, largely made up of short-term liquid investment securities, loans and advances to banks and other inter-bank facilities, to ensure that sufficient liquidity is maintained within the Bank as a whole.

The daily liquidity position is monitored and regular liquidity stress testing is conducted under a variety of scenarios covering both normal and more severe market conditions. In addition to internally set liquidity buffers and trigger ratios, compliance with the regulatory framework is also monitored consistently. Liquidity management is regularly reviewed in order to ensure appropriate reactions to shifts in general conditions, and special importance is attached to diversification of liquidity resources. All liquidity policies and procedures are subject to review and approval by Board Risk & Finance Committee which also receives regular risk reports.

3. **FINANCIAL RISK MANAGEMENT (continued)**

(b) Liquidity risk (continued)

Exposure to liquidity risk

The table below analyses the Group's assets and liabilities into relevant groupings based on the remaining period at 31 December to the un-discounted contractual maturity dates:

31 December 2016 FINANCIAL ASSETS	Available immediately and up to 1 month KShs'000	1-3 months KShs'000	3-12 months KShs'000	1-5 years KShs'000	Over 5 years KShs'000	Total KShs'000
Cash and balances with Central Bank of Kenya	25,682,704	-	-	-	-	25,682,704
Deposits and balances due from banks	5,017,303	-	-	-	-	5,017,303
Investment in financial instruments	-	7,318,183	5,130,027	31,023,042	24,308,903	67,780,155
Loans and advances to customers	35,282,250	5,145,919	29,041,593	111,022,662	74,643,936	255,136,360
Total undiscounted financial assets	65,982,257	12,464,102	34,171,620	142,045,704	98,952,839	353,616,522
FINANCIAL LIABILITIES						
Deposits and balances due to banks	3,411,977	-	-	-	-	3,411,977
Customers' deposits	203,373,110	38,695,532	18,079,980	5,176	-	260,153,798
Loans	-	-	-	14,264,004	8,045,727	22,309,731
Total undiscounted financial liabilities	206,785,087	38,695,532	18,079,980	14,269,180	8,045,727	285,875,506
Net liquidity gap at 31 December 2016	(140,802,830)	(26,231,430)	16,091,640	127,776,524	90,907,112	67,741,017
Liabilities not recognised in statement of financial position (note 46)	1,213,193	2,697,706	7,349,400	1,205,620	-	12,465,919

3. FINANCIAL RISK MANAGEMENT (continued)

(b) Liquidity risk (continued)

31 December 2015 FINANCIAL ASSETS	Available immediately and up to 1 month KShs'000	1-3 months KShs'000	3-12 months KShs'000	1-5 years KShs'000	Over 5 years KShs'000	Total KShs'000
Cash and balances with Central Bank of Kenya	29,455,691	-	-	-	-	29,455,691
Deposits and balances due from banks	13,697,692	-	-	-	-	13,697,692
Investment in financial instruments	4,600,186	689,425	4,102,338	27,147,260	24,778,043	61,317,252
Loans and advances to customers	34,465,356	5,157,525	21,264,977	81,279,016	63,833,662	206,000,536
Total undiscounted financial assets	**82,218,925**	**5,846,950**	**25,367,315**	**108,426,276**	**88,611,705**	**310,471,171**
FINANCIAL LIABILITIES						
Deposits and balances due to banks	675,049	1,965,565	763,499	-	-	3,404,113
Customers' deposits	168,687,635	8,492,311	1,251,905	84,266,736	-	262,698,587
Loans	-	-	-	19,033,565	30,000	19,063,565
Total undiscounted financial liabilities	**169,362,684**	**10,457,876**	**2,015,404**	**103,300,301**	**30,000**	**285,166,265**
Net liquidity gap at 31 December 2015	**(87,143,758)**	**(4,610,926)**	23,351,911	5,125,975	88,581,705	25,304,906
Liabilities not recognised in statement of financial position (note 46)	-	5,203,629	7,019,953	286,170	-	12,509,752

Details of the reported Bank ratio of net liquid assets to deposits and customers at the reporting date and during the reporting year were as follows:

	2016 %	2015 %
At 31 December	33.7	37.6
Average for the year	38.1	35.3
Maximum for the year	41.0	39.7
Minimum for the year	33.7	29.4
Statutory minimum ratio	20.0	20.0

3. FINANCIAL RISK MANAGEMENT (continued)

(c) Market risk

Market risk is the risk that changes in market prices, such as interest rate, equity prices, and foreign exchange rates will affect the Bank's income or value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return on risk.

Management of market risk
The Bank separates its exposure to market risk between trading and held to maturity portfolios. Trading portfolios are managed on a mark to market basis. Overall authority for market risk is vested in Asset and Liability Committee (ALCO). Risk Management Department is responsible for the development of detailed risk management policies and for the day to day review of their implementation.

Exposure to market risk - trading portfolios
The Bank measures its market risk exposure for the trading portfolio through marking to market on a monthly basis.

Exposure to interest rate risk - *non- trading portfolios*
The principal risk to which held to maturity portfolios are exposed is the risk of loss from fluctuations in the future cash flows or fair values of financial instruments because of a change in market interest rates. Interest rate risk is managed principally through monitoring interest rate gaps and by having pre-approved limits for re-pricing bands to minimise the impact of movements in market interest rates on its net interest margin. Maturity gap analysis of assets and liabilities, whereby interest rate re-pricing based on time (periodic) buckets is used to measure potential income effects arising from interest rate changes. The Bank critically evaluates overall risk and return profiles and objectives, including monitoring compliance through ALCO in conjunction with Risk Management Department for day-to-day activities.

The table below summarises the exposure to interest rate risks. Included in the table are the group's assets and liabilities at carrying amounts, categorised by the earlier of contractual re-pricing or maturity dates. The sensitivity computations assume that financial assets maintain a constant rate of return from one year to the next. The Group bases its sensitivity analysis on the interest sensitivity gap.

3. FINANCIAL RISK MANAGEMENT (continued)

(c) Market risk (continued)

(i) Exposure to interest rate risk (Continued)

31 December 2016 ASSETS	Up to 1 month KShs'000	1-3 months KShs'000	3-12 months KShs'000	1-5 years KShs'000	Over 5 years KShs'000	Non- interest bearing KShs'000	Total KShs'000
Cash and balances with Central Bank of Kenya	-	-	-	-	-	25,682,704	25,682,704
Deposits and balances due from banks	650,000	-	-	-	-	4,367,303	5,017,303
Investment in financial instruments	-	7,318,182	5,130,027	27,718,944	21,876,678	-	62,043,831
Loans and advances to customers	35,282,250	5,145,919	29,041,593	97,388,300	65,449,267	-	232,307,329
Other assets	-	-	-	-	-	13,242,438	13,242,438
Total assets	35,932,250	12,464,101	34,171,620	125,107,244	87,325,945	43,292,445	338,293,605
LIABILITIES							
Deposits and balances due to banks	3,200,000	-	-	-	-	211,977	3,411,977
Customers' deposits	203,373,110	38,695,532	18,079,980	4,815	-	-	260,153,437
Loans	-	-	-	12,667,854	7,145,406	-	19,813,260
Other financial liabilities	-	-	-	-	-	7,330,936	7,330,936
Total liabilities	206,573,110	38,695,532	18,079,980	12,672,669	7,145,406	7,542,913	290,709,610
Interest sensitivity gap	(170,640,860)	(26,231,431)	16,091,640	112,434,575	80,180,539	35,749,532	47,583,995

3. FINANCIAL RISK MANAGEMENT (continued)

(c) Market risk (continued)

(i) Exposure to interest rate risk (Continued)

31 December 2015 ASSETS	Up to 1 month KShs'000	1-3 months KShs'000	3-12 months KShs'000	1-5 years KShs'000	Over 5 years KShs'000	Non- Interest bearing KShs'000	Total KShs'000
Cash and balances with Central Bank of Kenya	-	-	-	-	-	29,455,691	29,455,691
Deposits and balances due from banks	10,907,695	3,069,542	-	-	-	-	13,977,237
Investment in financial instruments	4,946,437	741,317	9,586,591	25,330,923	24,943,099	-	65,548,367
Loans and advances to customers	34,813,491	5,209,621	16,650,018	86,911,651	64,987,139	-	208,571,920
Other assets	-	-	-	-	-	24,946,594	24,946,594
Total assets	50,667,623	9,020,480	26,236,609	112,242,574	89,930,238	54,402,285	342,499,809
LIABILITIES							
Deposits and balances due to banks	3,421,219	-	-	-	-	-	3,421,219
Customers' deposits	171,387,635	6,762,037	2,982,179	84,266,736	-	-	265,398,587
Loans	-	-	-	10,970,630	8,300,582	-	19,271,212
Other financial liabilities	-	-	-	-	-	54,408,791	54,408,791
Total liabilities	174,808,854	6,762,037	2,982,179	95,237,366	8,300,582	54,408,791	342,499,809
Interest sensitivity gap	(124,141,231)	2,258,443	23,254,430	17,005,208	81,629,656	(6,506)	-

3. FINANCIAL RISK MANAGEMENT (continued)

(c) Market risk (continued)

(ii) Exposure to interest rate risk (Continued)

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

ASSETS	2016 Carrying amount KShs'000	1% increase	1% decrease	2015 Carrying amount KShs'000	1% increase	1% decrease
Deposits and balances due from banks	5,017,303	50,173	(50,173)	13,977,237	139,772	(139,772)
Held -for- trading investments	147	1	(1)	206	2	(2)
Held to maturity investments	37,158,762	371,588	(371,588)	36,154,555	361,546	(361,546)
Available for sale investments	24,758,146	247,581	(247,581)	28,771,869	287,719	(287,719)
Loans and advances to customers	232,307,329	2,323,073	(2,323,073)	208,571,920	2,085,719	(2,085,719)
		2,992,416	(2,992,416)		2,874,758	(2,874,758)
LIABILITIES & EQUITY						
Deposits and balances due to banks	3,411,977	(34,120)	34,120	3,421,219	(34,212)	34,212
Customers' deposits	260,153,437	(2,601,534)	2,601,534	265,398,587	(2,653,986)	2,653,986
Loans and borrowings	19,813,260	(198,133)	198,133	19,271,212	(192,712)	192,712
		(2,833,787)	2,833,787		(2,880,910)	2,880,910
Effect on profit **before** tax		158,629	(158,629)		(6,152)	6,152
As percentage of **profit** before tax (%)		0.89%	(0.89%)		0.04%	(0.04%)
Effect on equity		111,040	(111,040)		(4,306)	4,306
As percentage of equity (%)		0%	0%		0%	0%

3. FINANCIAL RISK MANAGEMENT (continued)

(c) Market risk (continued)

(ii) Exposure to currency risk

Currency risk is the potential for losses as a result of adverse exchange rate movements during a period in which it has an open position, either spot or forward, or a combination of the two, in an individual foreign currency. Currently, the Group operates in 13 foreign currencies (namely USD, GBP, JPY, CHF, AUD, CAD, SEK, NOK, DKK, INR, ZAR, EUR and AED), but USD is the most significant exposure. The Group strives to minimize the potential impact of movements in exchange rates on its risk bearing capacity by having currency position and stop loss limits. The key risk indicators which are used pro-actively to manage and monitor foreign exchange risk are also developed.

The table below summarises foreign currency exposure to the Group as at close of period.

CURRENCY TYPE	USD	GBP	EURO	JPY	CHF	ZAR	OTHERS	TOTAL
EXCHANGE RATE	102	152	112	1	103	7	102	
31 December 2016	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000
Foreign Currency Assets:								
Cash and balances with banks abroad	4,317,992	345,780	1,704,873	77,014	33,049	8,791	26,596	6,514,095
Loan and advances	34,201,130	142,243	51,798	-	-	-	-	34,395,171
Other foreign assets	597,210	59,371	762	-	-	5	98	657,446
Total statement of financial position items	39,116,332	547,394	1,757,433	77,014	33,049	8,796	26,694	41,566,714
Items not recognised in statement of financial position	9,662,287	685,993	1,586,698	-	-	-	-	11,934,978
Total Foreign Assets	48,778,619	1,233,388	3,344,131	77,014	33,049	8,796	26,695	53,501,692
Foreign Currency Liabilities:								
Balances due to banks abroad	352,068		-	-	-	-	-	352,068
Deposits	8,643,178	390,066	1,275,854	79,010	2,450	557	1,716	10,392,831
Loan and advances	17,363,985	-	-	-	-	-	-	17,363,985
Other foreign liabilities	2,415,543	21,723	423,498	2	87	184	441	2,861,478
Total statement of financial position items	28,774,774	411,789	1,699,353	79,012	2,537	742	2,157	30,970,364
Items not recognised in statement of financial position	20,252,378	706,988	1,671,811	-	21,375	15,620	25,043	22,693,215
Total Foreign liabilities	49,027,151	1,118,777	3,371,164	79,012	23,912	16,361	27,200	53,663,579
Net Exposure at 31 December 2016	(248,533)	114,610	(27,032)	(1,998)	9,137	(7,565)	(506)	(161,906)

3. FINANCIAL RISK MANAGEMENT (continued)

(c) Market risk (continued)

(ii) Exposure to currency risk (Continued)

CURRENCY TYPE	USD	GBP	EURO	JPY	CHF	ZAR	OTHERS	TOTAL
EXCHANGE RATE	102	152	112	1	103	7	102	
31 December 2015	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000
Foreign Currency Assets:								
Cash and balances with banks abroad	12,538,000	177,790	1,244,427	77,538	55,917	22,266	58,001	14,173,939
Loan and advances	28,307,766	80,426	52,821	-	-	-	-	28,441,013
Other foreign assets	365,381	1,465	330	1	-	4	1,316	368,498
Total statement of financial position items	41,211,147	259,681	1,297,578	77,539	55,917	22,270	59,317	42,983,450
Items not recognised in statement of financial position	11,407,533	192,745	1,784,060	-	20,299	-	247,188	13,651,825
Total Foreign Assets	52,618,680	452,426	3,081,638	77,539	76,216	22,270	306,505	56,635,275
Foreign Currency Liabilities:								
Balances due to banks abroad	-	-	-	-	-	-		
Deposits			14,473,442	149,089	995,322	77,111	3,377	1,123
Loan and advances	13,513,275	-	-	-	-	-	-	13,513,275
Other foreign liabilities	2,222,732	24,289	154,670	2	33	41	2,855	2,404,622
Total statement of financial position items	30,209,449	173,378	1,149,992	77,113	3,410	1,164	9,945	31,624,451
Items not recognised in statement of financial position	19,194,790	261,055	1,907,240	-	61,352	-	282,448	21,706,886
Total Foreign liabilities	49,404,239	434,433	3,057,233	77,113	64,762	1,164	292,393	53,331,337

3. FINANCIAL RISK MANAGEMENT (continued)

(c) Market risk (continued)

(ii) Exposure to currency risk (continued)

Currency risk sensitivity analysis

With all other variables held constant, the effect of 10% appreciation or depreciation of the shilling against major trading currencies on profit before tax and equity would be as follows:

	2016 Carrying amount KShs'000	10% appreciation	10% depreciation	2015 Carrying amount KShs'000	10% appreciation	10% depreciation
Foreign Currency Assets:						
USD	37,972,813	(3,797,281)	3,797,281	41,211,148	(4,121,115)	4,121,115
GBP	547,395	(54,739)	54,739	259,681	(25,968)	25,968
EURO	1,757,433	(175,743)	175,743	1,297,578	(129,758)	129,758
JPY	77,014	(7,701)	7,701	77,539	(7,754)	7,754
CHF	33,049	(3,304)	3,304	55,917	(5,592)	5,592
ZAR	8,796	(879)	879	22,270	(2,227)	2,227
Other currencies	26,695	(2,669)	2,669	59,317	(5,931)	5,931
		(4,042,316)	4,042,316		(4,298,345)	4,298,345
Foreign Currency Liabilities:						
USD	27,850,038	2,785,003	(2,785,003)	30,209,449	3,020,945	(3,020,945)
GBP	411,789	41,178	(41,178)	173,378	17,338	(17,338)
EURO	1,699,3536	1,699,353	(1,699,353)	1,149,993	115,000	(115,000)
JPY	79,013	7,901	(7,901)	77,113	7,711	(7,711)
CHF	2,537	253	(253)	3,410	341	(341)
ZAR	742	74	(74)	1,164	116	(116)
Other currencies	2,157	215	(215)	9,945	994	(994)
		4,533,977	(4,533,977)		3,162,445	(3,162,445)
Effect on profit before tax		491,661	(491,661)		(1,135,900)	1,135,900
As percentage(%) of profit before tax		2.72%	(2.72%)		(8.18%)	8.18%
Effect on equity		344,163	(344,163)		(795,130)	795,130
As percentage(%) of equity		0.58%	(0.58%)		(1.6%)	1.6%

3. **FINANCIAL RISK MANAGEMENT (continued)**

(d) 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 from legal and regulatory requirements and generally accepted standards of corporate behaviour. Operational risks arise from all of the Bank's operations and are faced by all business units.

The Bank's objective is to manage operational risk so as to balance the avoidance of financial losses and damage to the Bank's reputation with overall cost effectiveness and to avoid control procedures that restrict initiative and creativity.

The primary responsibility for the development and implementation of controls to address operational risk is assigned to senior management within each business unit. This responsibility is supported by the development of overall Bank standards for the management of operational risk in the following areas:

(i) requirements for appropriate segregation of duties, including the independent authorisation of transactions
(ii) requirements for the reconciliation and monitoring of transactions
(iii) compliance with regulatory and other legal requirements
(iv) documentation of controls and procedures
(v) requirements for the yearly assessment of operational risks faced, and the adequacy of controls and procedures to address the risks identified
(vi) requirements for the reporting of operational losses and proposed remedial action
(vii) development of contingency plans
(viii) training and professional development
(ix) ethical and business standards
(x) risk mitigation, including insurance where this is effective

Compliance with Bank standards is supported by a programme of regular reviews undertaken by both the Internal Audit and Compliance departments. The results of Internal Audit reviews are discussed with the management of the business unit to which they relate, with summaries submitted to the Board Audit Committee and senior management of the Bank.

Risk Management is charged with the role of overall planning, coordination, and monitoring of operational risk from a centralized operational risk management department. The department is responsible for collecting and collating all data on operational risk loss events, risk indicators, and developing risk matrices aimed at reducing the Bank's Operational Risk Capital Charge.

4. CAPITAL MANAGEMENT

Regulatory capital

The Central Bank of Kenya sets and monitors capital requirements for the Banking industry as a whole. The statutory minimum core capital is KShs 1,000 million. In implementing current capital requirements The Central Bank of Kenya requires the Bank to maintain a 14.5% prescribed ratio of total capital to total risk-weighted assets. The Bank has already met this requirement

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

(a) Tier 1 capital, which includes ordinary share capital, share premium, retained earnings, after deductions for intangible assets, and other regulatory adjustments relating to items that are included in equity but are treated differently for capital adequacy purposes.

(b) Tier 2 capital, which includes 25% of asset revaluation reserves which have received prior Central Bank approval, subordinated debt and other capital instruments approved by Central Bank.

Various limits are applied to elements of the capital base; qualifying tier 2 capital cannot exceed tier 1 capital; and qualifying term subordinated loan capital may not exceed 50 percent of tier 1 capital. There also are restrictions on the amount of collective impairment allowances that may be included as part of tier 2 Capital.

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

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

	2016	2015
Tier I Capital:	KShs'000	KShs'000
Ordinary share capital	4,889,317	4,889,317
Share premium	2,889,789	2,889,789
Retained earnings (current year profits - 50%)	46,970,978	37,830,867
Other reserves	498,841	517,317
Less: investments in equity of other institutions & deferred tax	(3,324,117)	(2,843,985)
Core Capital	**51,924,808**	43,283,305
Tier II Capital:		
Revaluation reserves (25%)	314,111	99,264
Term subordinated debt	19,813,260	19,271,211
Loan loss provisions	717,844	717,845
Supplementary capital	20,845,215	20,088,320
Total regulatory capital	72,770,023	63,371,625
Total risk weighted assets	319,614,654	298,137,367
Capital ratios:		
Core capital to Total deposit liabilities (CBK minimum 10.5%)	20%	16.2%
Core capital to Total risk weighted assets (CBK minimum 10.5%)	16.2%	14.5%
Total capital to Total risk weighted assets (CBK minimum 14.5%)	22.8%	21.3%

4. **CAPITAL MANAGEMENT (continued)**

Capital Allocation

The allocation of capital between specific operations and activities is, to a large extent, driven by optimisation of the return achieved on the capital allocated. The amount of capital allocated to each operation or activity is based primarily upon the regulatory capital, but in some cases the regulatory requirements do not reflect fully the varying degree of risk associated with different activities. In such cases the capital requirements may be flexed to reflect differing risk profiles, subject to the overall level of capital to support a particular operation or activity not falling below the minimum required for regulatory purposes.

The process of allocating capital to specific operations and activities is undertaken independently of those responsible for the operation, by Group Risk and Group Credit, and is subject to review by the Group Credit Committee or ALCO as appropriate. Although maximisation of the return on risk-adjusted capital is the principal basis used in determining how capital is allocated within the Group to particular operations or activities, it is not the sole basis used for decision-making. Account also is taken of synergies with other operations and activities, the availabiity of management and other resources, and the fit of the activity with the Group's longer term strategic objectives. The Group's policies in respect of capital management and allocation are reviewed regularly by the Board of Directors.

5. **SEGMENT REPORTING**

For management purposes, the Bank is organised into two main operating segments based on products and services as follows:

1. Retail Banking: Includes loans deposits and other transactions and balances with retail customers;
2. Wholesale Banking: Includes loans deposits and other transactions and balances with corporate and institutional customers

Management monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on operating profit or loss. Income taxes are managed on a group basis and are not allocated to operating segments.

The Group's se4ment operations are all financial with a majority of revenues deriving from interest. The management relies primarily on net interest revenue to assess the performance of the segment. Interest income is reported net as management primarily relies on net interest revenue as a performance measure, not gross income and expenses. No revenue from transactions with a single external customer or counterparty amounted to 10% or more of the Bank's total revenue in 2016 or 2015.

5. SEGMENT REPORTING (continued)

The following table presents income and profit and certain asset and liability information regarding the Group's operating segments. All the revenue shown is from external customers.

Profit or loss for the year ended 31 December 2016	**Wholesale banking KShs'000**	**Retail banking KShs'000**	**Un-allocated KShs'000**	**Total KShs'000**
Net interest income	14,105,092	13,806,688	2,093,729	30,005,509
Non-funded income	4,554,016	6,418,710	1,292,696	12,265,422
Operating income	18,659,108	20,225,398	3,386,425	42,270,931
Depreciation	(55,714)	(1,150,764)	(730,221)	(1,936,699)
Amortisation	(67,197)	(134,395)	(284,525)	(486,117)
Other operating expenses	(9,836,914)	(11,061,528)	(1,323,686)	(22,222,128)
Share of profit in associate	-	-	97,546	97,546
Profit before tax	8,699,283	7,878,711	1,145,539	17,723,533

Profit or loss for the year ended 31 December 2015	**Wholesale banking KShs'000**	**Retail banking KShs'000**	**Un-allocated KShs'000**	**Total KShs'000**
Net interest income	10,467,230	11,598,274	1,268,333	23,333,837
Non-funded income	1,651,998	9,098,699	2,305,246	13,055,942
Operating income	12,119,228	20,696,973	3,573,579	36,389,779
Depreciation	(19,426)	(1,038,876)	(865,307)	(1,923,609)
Amortisation	(38,945)	(44,834)	(349,631)	(433,410)
Other operating expenses	(8,916,370)	(9,141,665)	(976,624)	(19,034,659)
Share of profit in associate	-	-	384,991	384,991
Profit before tax	3,144,487	10,471,598	1,767,008	15,383,092

5. SEGMENT REPORTING (continued)

Statement of financial position as at 31 December 2016	Wholesale banking KShs'000	Retail banking KShs'000	Un-allocated KShs'000	Total KShs'000
Assets:				
Segment assets	67,766,169	106,708,399	-	174,474,568
Unallocated assets	-	-	177,354,009	177,354,009
Total assets	67,766,169	106,708,399	177,354,009	351,828,577
Liabilities and equity:				
Segment liabilities	132,901,186	126,624,206	-	259,525,392
Unallocated liabilities	-	-	92,303,185	92,303,185
Inter-segment lending	-	-	-	-
Total liabilities and equity	132,901,186	126,624,206	92,303,185	351,828,577
Other disclosures				
Capital expenditure	365,901	294,501	475,723	1,136,124

Statement of financial position as at 31 December 2015	Wholesale banking KShs'000	Retail banking KShs'000	Un-allocated KShs'000	Total KShs'000
Assets:				
Segment assets	110,305,605	88,781,087	-	199,086,692
Unallocated assets	-	-	143,413,117	143,413,117
Total assets	110,305,605	88,781,087	143,413,117	342,499,809
Liabilities and equity:				
Segment liabilities	108,711,223	153,807,238	-	262,518,461
Unallocated liabilities	-	-	79,981,348	79,981,348
Inter-segment lending	1,594,382	(65,026,151)	63,431,769	-
Total liabilities and equity	110,305,605	88,781,087	143,413,117	342,499,809
Other disclosures				
Capital expenditure	288,102	231,883	374,573	894,558

5. SEGMENT REPORTING (continued)

Geographical information

The Group's operations are within the two geographical segments of Kenya and South Sudan. The table below contains segmental information provided to the Board of Management for the year ended 31 December 2016.

Profit or loss for the year ended 31 December 2016	Kenya KShs'000	South Sudan KShs'000	Total KShs'000
Net interest income	29,877,964	76,030	29,953,994
Non-funded income	11,685,094	652,031	12,337,125
Operating income	41,563,058	728,061	42,291,119
Depreciation	(1,837,630)	(99,069)	(1,936,699)
Amortization	(465,159)	(20,958)	(486,117)
Other operating expenses	(21,064,702)	(751,865)	(21,816,567)
Loss on net monetary position	-	(425,749)	(425,749)
Operating profit/(Loss)	18,195,567	(569,580)	17,625,987
Share of profit in associate	27,459	70,087	97,546
Profit/(Loss) before tax	18,223,026	(499,493)	17,723,533
Statement of financial position as at 31 December 2016			
Segment assets			
Non-current assets	62,920,637	1,109,806	64,030,443
Current assets	286,147,020	1,773,255	287,920,275
	349,067,657	2,883,061	351,950,718
Segment liabilities	289,721,937	1,494,773	291,216,710
Equity	59,345,720	1,388,288	60,734,008

Profit or loss for the year ended 31 December 2015	Kenya KShs'000	South Sudan KShs'000	Total KShs'000
Net interest income	23,161,923	171,914	23,333,837
Non-funded income	11,385,834	1,670,108	13,055,942
Operating income	34,547,757	1,842,022	36,389,779
Depreciation	(1,798,815)	(124,794)	(1,923,609)
Amortization	(392,047)	(41,363)	(433,410)
Other operating expenses	(18,111,731)	(922,928)	(19,034,659)
Operating profit	14,245,164	752,937	14,998,101
Share of profit in associate	288,208	96,783	384,991
Profit before tax	14,533,372	849,720	15,383,092
Statement of financial position as at 31 December 2015			
Segment assets			
Non-current assets	40,437,744	411,213	40,848,957
Current assets	298,706,938	2,943,914	301,650,852
	339,144,682	3,355,127	342,499,809
Segment liabilities	290,445,795	2,750,762	293,196,557
Equity	48,698,887	604,365	49,303,252

6. FAIR VALUE OF FINANCIAL INSTRUMENTS

(a) Determination of fair value and fair value hierarchy

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

Level 1 - Quoted prices (unadjusted) in actiue markets for identical assets or liabilities. This level includes treasury and corporate bonds listed in Nairobi Stock exchange (NSE).
Level 2 - other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly; and
Level 3 - inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The following table shows an analysis of financial instruments recorded at fair value by level of the fair value hierarchy. This hierarchy requires the use of observable market data where available. The Group considers relevant and observable market prices in its valuations where possible:

As at 31 December 2016	Level 1 KShs'000	Level 2 KShs'000	Level 3 KShs'000	Total KShs'000
Assets measured at fair value:				
Free hold land and building	-		2,408,791	2,408,791
Held-for-trading investments:				
Treasury bonds	147	-	-	147
Available-for-sale investment				
Treasury bonds	20,675,539	-	-	20,675,539
Corporate bonds	3,919,648	-	-	3,919,648
Derivatives	-	126,776	-	126,776
Loans and advances				
Directors and staff loans	-	4,628,234	-	4,628,234
Assets for which fair vaives are disclosed (note 6b)				
Held-to-maturity				
Treasvry bonds	29,320,838			29,320,838
Liabilities for which fair values are disclosed (note 6b)				
Loans and borrowings	-	3,328,383	-	3,328,383

As at 31 December 2015	Level 1 KShs'000	Level 2 KShs'000	Level 3 KShs'000	Total KShs'000
Assets measured at fair value:				
Free hold land and building	-		1,387,097	1,387,097
Held-for-trading investments:				
Treasury bonds	149	-	-	149
Available-for-sale investment				
Treasury bonds	23,824,739	-	-	23,824,739
Corporate bonds	4,786,783	-	-	4,786,783
Derivatives	-	621,737	-	621,737
Loans and advances				
Directors and staff loans	-	4,811,635	-	4,811,635
Assets for which fair values are disclosed (note 6b)				
Held-to-maturity				
Treasury bonds	26,142,167			26,142,167
Liabilities for which fair values are disclosed (note 6b)				
Loans and borrowings	-	2,344,567	-	2,344,567

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

6. **FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)**

(b) Fair value of financial assets and liabilities not carried at fair value

The table below summarises the carrying amounts and fair values of those financial assets and liabilities not presented on the Group's consolidated statement of financial position at their fair value, other than those with carrying amounts that are reasonable approximation of fair values.

	2016		2015	
Financial assets:	Carrying amount KShs'000	Fair value KShs'000	Carrying amount KShs'000	Fair value KShs'000
Held-to-maturity investments				
Treasury bonds and bills	29,747,019	29,320,838	26,081,820	19,499,748
	29,747,019	29,320,838	26,081,820	19,499,748
Financial liabilities:				
Loans and borrowings				
Fixed-rates borrowings	4,144,448	3,328,383	3,707,009	2,344,567
	4,144,448	3,328,383	3,707,009	2,344,567

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

(i) Assets for which fair value approximates carrying value
For financial assets and financial liabilities that have a short term maturity (less than three months) it is assumed that the carrying amounts approximate to their fair value. This assumption is also applied to inter-bank placements, derivative financial instruments, demand deposits, and savings accounts without a specific maturity and treasury bills held to maturity.

(ii) Loans and advances to customers
Loans and advances are net of charges for impairment. The estimated fair value of loans and advances represents the discounted amount of estimated future cash flows expected to be received. Loans and advances to customers are at variable rates.

(iii) Long term fixed rate financial instruments
These include government treasury bonds and loans and borrowings. The estimated fair value of treasury bonds held-to-maturity is derived from quoted market prices in active markets.

The estimated fair value of fixed interest bearing loans is based on discounted cash flows using prevailing money-market interest rates for debts with similar credit risk and maturity.

Description of valuation techniques used and key inputs to valuation on land and building:

	Valuation Techique	Significant unobservable inputs	Range (Weighted Average)
Free hold land and building	DCF	Estimated rental value per s.q.m. per month	KShs 30
		Rent growth p.a.	3%
		Long-term vacancy rate	5%
		Discount rate	5%

Type of Financial instrument	Fair value	Valuation technique	Significant inputs
Directors and staff loans	KShs 4,628 M	Discounted cash flows	Market interest rate
Loans and borrowings	KShs 3,328 M	Discounted cash flows	Market interest rate

7. CASH AND BALANCES WITH CENTRAL BANK OF KENYA

	Group		Bank	
	2016	2015	2016	2015
	KShs'000	KShs'000	KShs'000	KShs'000
Cash on hand	8,432,988	9,057,746	8,119,618	8,880,989
Central Bank of Kenya:				
Restricted balances (Cash Reserve Ratio)	13,376,450	13,837,359	13,376,450	13,837,359
Unrestricted balances available for use by the Group	2,961,652	4,455,297	2,961,652	4,455,297
Central Bank of South Sudan	911,614	2,105,289	-	-
	25,682,704	29,455,691	24,457,720	27,173,645

The Cash Reserve Ratio is non-interest earning and is based on the valve of deposits as adjusted by Central Bank of Kenya requirements. At 31 December 2016, the Cash Reserve Ratio requirement was 5.25% (2015 - 5.25%) on all deposits. The restricted balances are not considered as part of cash and cash equivalents from a statement of cash flow perspective as these do not meet the definition of cash and cash equivalents as these funds are not available for use by the Group in its day to day operations.

8. DEPOSITS AND BALANCES DUE FROM BANKS

	Group		Bank	
	2016	2015	2016	2015
	KShs'000	KShs'000	KShs'000	KShs'000
Local banks	703,530	9,878,261	703,530	9,770,382
Foreign banks	4,313,773	4,098,976	4,656,363	4,098,891
	5,017,303	13,977,237	5,359,893	13,869,273

The weighted average effective interest rate on deposits and balances due from banks as at 31 December 2016 was 3.12% (2015-3.14%)

9. HELD-FOR-TRADING INVESTMENTS

	Group		Bank	
	2016	2015	2016	2015
	KShs'000	KShs'000	KShs'000	KShs'000
(a) Treasury bonds				
Maturing within 91 days of reporting date			-	-
Maturing after 91 days of reporting date	147	206	147	149
	147	206	147	149

The weighted average effective interest rate on government and other securities held-for-trading at 31 December 2016 was 10.75% (2015 10.75%).

10. AVAILABLE- FOR -SALE INVESTMENTS

	Group		Bank	
	2016	2015	2016	2015
	KShs'000	KShs'000	KShs'000	KShs'000
Government treasury bonds:				
Maturing within 91 days of the reporting date	903,362	-	903,362	-
Maturing after 91 days of the reporting date	19,772,177	23,824,739	19,772,177	23,824,739
Corporate bonds:				
Maturing after 91 days of the reporting date	3,919,648	4,786,783	3,919,248	4,786,783
Quoted equity investments:-				
Nairobi Securities Exchange:- 7,000,000 shares of KShs 14.65 each (note 17(a))	102,550	130,338	-	
CIC Insurance Group Ltd:- 8,000,000 shares of Kshs 3.80 each	30,400	-	-	-
Unquoted equity investments:-				
Consolidated Bank of Kenya Ltd:- 135,000 ordinary shares of KShs 20 each	2,700	2,700	2,700	2,700
580,000 4% non-cumulative preference shares of KShs 20 each	11,600	11,600	11,600	11,600
Kenya National Federation of Co-operatives Ltd:- 82 shares of KShs100 each	8	8	8	8
Kenya National Housing Co-operative Union Ltd:- 1 share of KShs 1,000	1	1	1	1
Menno Plaza Limited:- 9,340 ordinary shares representing 12.39% ownership	30,000	30,000	30,000	30,000
	24,772,446	28,786,169	24,639,096	28,655,831
Less: Provision for diminution in value of investment in Consolidated Bank of Kenya Ltd	(14,300)	(14,300)	(14,300)	(14,300)
	24,758,146	28,771,869	24,624,796	28,641,531
Movement in the year:				
At January 1	28,771,869	21,170,478	28,641,531	21,062,453
Additions	3,923,105	11,664,730	3,867,073	11,664,730
Disposals and maturities	(8,645,543)	(3,036,845)	(8,637,843)	(3,036,845)
Change in fair value recognized in other comprehensive income	708,715	(1,026,494)	754,035	(1,048,807)
At December 31	24,758,146	28,771,869	24,624,796	28,641,531

The unquoted equity are carried at cost due to lack of active market for them which could have been used as a basis for the determination of fair value.

The weighted average effective interest rate on available for sale investments as at 31 December 2016 was 11.62% (2015- 11.4%).

11. DERIVATIVE FINANCIAL INSTRUMENTS

The table below shows the fair values of derivative financial instruments recorded as assets or liabilities together with their notional amounts. The notional amount, recorded gross, is the amount of a derivative's underlying asset and is the basis upon which changes in the value of derivatives are measured. The notional amounts indicate the volume of transactions outstanding at the year end and are indicative of neither the market risk nor the credit risk. These derivative financial instruments are measured at fair value through profit or loss.

	Group and Bank			
	2016		2015	
	KShs'000 Notional value	KShs'000 Fair value of contracts: Asset /(Liability)	KShs'000 Notional value	KShs'000 Fair value of contracts: Asset /(Liability)
Forward exchange contracts	661,588	(10,803)	3,383,150	83,132
Swaps	6,577,552	137,579	11,272,425	538,605
	7,239,140	126,776	14,655,575	621,737

12. OTHER ASSETS

	Group		Bank	
	2016 KShs'000	2015 KShs'000	2016 KShs'000	2015 KShs'000
Interest receivable	3,848,678	2,565,663	3,848,491	2,565,663
Items in the course of collection from other banks	195,791	384,161	195,791	384,161
Deposits with defaulting financial Institutions	43,052	43,052	43,052	43,052
Sundry debtors and prepayments	4,569,735	4,369,039	4,398,755	4,257,137
Staff loan amortisation	4,628,234	4,811,635	4,628,234	4,811,635
	13,285,490	12,173,550	13,114,323	12,061,648
Impairment losses on deposits with default financial institutions	(43,052)	(43,052)	(43,052)	(43,052)
	13,242,438	12,130,498	13,071,271	12,018,596

No provision on impairment losses has been made for staff loans as all staff are active and recoveries are made directly through payroll. Interest receivable relates to accrued interest on treasury bonds and accrued interest on impaired loans whose interest income is suspended as required by CBK prudential guidelines.

Included in sundry debtors is KShs 923 million relating to fixed deposits invested in Chase Bank (Kenya) Limited by Co-operative Bank of Kenya on behalf of Co-optrust Investment Services Limited customers. Chase Bank was put under receivership on 7 April 2016 and re-opened on 27 April 2016 under a receiver Manager (KCB Bank Limited). The fixed deposits were paid to the customers on maturity by the Co-operative Bank. Owing to uncertainty in recoverability of these investments, the management has assessed the amount as not impaired. In making this assessment, the management sought the advice of the Capital Market Authority (CMA) on the accounting treatment of these investments given the situation of Chase Bank. CMA in its advice indicated that Chase Bank was still operating and there was indication from Central Bank Kenya of fully operationalisation of the bank by end of March 2017 hence there is likelihood the investments will be recovered. Further, the management in assessing for the impairment, considered the regular updates from Central Bank of Kenya which indicates that Chase Bank continued to operate normally under receivership and the bank is likely to be released back to the successful private investor by end of March 2017. However, the management has impaired in full the accrued interest of KShs 36 million arising from these fixed deposits.

13. LOANS AND ADVANCES TO CUSTOMERS

	Group		Bank	
	2016	2015	2016	2015
(a) Net loans and advances	KShs'000	KShs'000	KShs'000	KShs'000
Overdrafts	7,781,024	11,885,932	7,781,024	11,885,932
Commercial loans	229,636,764	200,873,160	229,089,848	200,371,099
Government/Donor funded loan schemes	2,029,062	2,054,503	2,029,062	2,054,503
Credit card balances	1,191,947	782,120	1,191,947	782,120
Micro enterprises & SME	4,363,277	4,960,883	4,363,277	4,960,883
Gross loans and advances	245,002,074	220,556,598	244,455,158	220,054,537
Staff loans amortisation (note 13)	(4,628,234)	(4,811,635)	(4,628,234)	(4,811,635)
	240,373,840	215,744,963	239,826,924	215,242,902
Impairment losses on loans and advances (note 12 c)	(8,066,511)	(7,173,043)	(8,056,753)	(7,168,389)
Net loans and advances	232,307,329	208,571,920	231,770,171	208,074,513

	Group and Bank	
(b) The weighted average effective interest rate at 31 December was:-	2016	2015
	%	%
Overdrafts	14	16.4
Commercial loans	13.9	14.3
Government/Donor funded loan schemes	8	13.7
Credit card balances	14	20.0

(c) **Impairment losses on loans and advances:**

Group	Specific impairment losses KShs'000	Collective impairment losses KShs'000	Total KShs'000
Balance at 1 January 2016	4,640,709	2,532,334	7,173,043
Impairment losses recognised during the year through profit or loss	2,065,579	534,092	2,599,671
Interest on impaired loans not recognised as income	579,390	-	579,390
Impaired losses written off during the year	(1,776,505)	-	(1,776,505)
Amounts released to income - unused provision reversed	(509,088)	-	(509,088)
Balance at 31 December 2016	5,000,085	3,066,426	8,066,511
Balance at 1 January 2015	2,433,976	2,022,765	4,456,741
Impairment losses recognised during the year through profit or loss	1,509,726	509,569	2,019,295
Interest on impaired loans not recognised as income	875,914	-	875,914
Impaired losses written off during the year	-	-	-
Amounts released to income - unused provision reversed	(178,907)	-	(178,907)
Balance at 31 December 2015	4,640,709	2,532,334	7,173,043

13. LOANS AND ADVANCES TO CUSTOMER5 (continued)

(c) Impairment losses on loans and advances (continued)

Bank	Specific Impairment losses KShs'D00	Collective impairment losses KShs'000	Total KShs'000
Balance at 1 January 2016	4,636,B55	2,532,334	7,16B,389
Impairment losses recognised during the year through profit or loss	2,D65,579	528,9BB	2,594,567
Interest on impaired loans not recognised as income	579,390	-	579,390
Impaired losses written off during the year	(1,776,5O5)	-	(1,776,505)
Amounts released to income - unused provision reuersed	(509,0BB)	-	(5B9,8BB)
Balance at 31 December 2016	4,995,431	3,061,322	8,056,753
Balance at 1 January 2015	2,391,897	2,022,765	4,414,662
Impairment losses recognised during the year through profit or loss	1,497,7B8	509,569	2,D07,357
Interest on impaired loans not recognised as income	875,914	-	B75,914
Impaired losses written off during the year	-	-	-
Amounts released to income - unused provision reuersed	(129,544)	-	(129,544)
Balance at 31 December 2015	4,636,055	2,532,334	7,16B,389

d) The Bank continues to carry classified impaired and delinquent accounts on its books even after making allowances for impairment in accordance with IAS 39. Interest is accrued on these accounts for contractual/ litigation purposes onlu and accordingly not taken to income. The carrying amount of such loans at year end was KShs 11.3 billion (2B15 - KShs B.1 billion).

14. HELD-TO-MATURITY INVESTMENTS

	Group		Bank	
	2016 KShs'B00	2015 K5hs'088	2016 KShs'000	2815 KShs'000
Government treasury bills:				
Maturing within 91 days of the reporting date	3,924,467	4,633,693	3,924,467	4,633,693
Maturing after 91 days of the reporting date	3,332,D43	5,224,111	3,332,043	5,224,111
Treasury bonds:				
Maturing within 91 days of the reporting date	1,701,578	250,16B	1,701,57B	250,168
Maturing after 91 days of the reporting date	2B,200,674	26,046,583	28,045,442	25,891,999
	37,15B,762	36,154,555	37,003,530	35,999,971
Movement in the year:				
At 1 January	36,154,555	24,643,526	35,999,971	24,460,192
Additions	12,436,612	10,846,B2D	12,436,612	10,B46,820
Amortization of premiums and discounts	946,595	4,164,209	945,947	4,192,959
Maturities	(12,379,000)	(3,500,000)	(12,379,00D)	(3,500,000)
At December 31	37,15B,762	36,154,555	37,003,53D	35,999,971

The weighted average effective interest rale on held-to-maturity investments as at 31 December 2D16 was 11.92% (2015 - 12.1%).

15. INVESTMENT IN SUBSIDIARIES

The following subsidiaries are owned by the Bank:-

Bank	Ownership	Principal activity	2016 KShs'000	2015 KShs'000
Co-op Consultancy & Insurance Agency Limited	100%	Consultancy & Insurance agency	70,000	70,000
Co-optrust Investment Services Limited	100%	Fund management	20,000	20,000
Kingdom Securities Limited	60%	Brokerage services	150,000	150,000
Co-operative Bank of South Sudan	51%	Banking	2,272,920	1,967,370
			2,512,920	2,207,370

The investment in the above subsidiaries is at cost. All the subsidiaries are unlisted and have the same financial year-end of 31 December as the Bank. Co-operative Merchant Limited, excluded from the above list, is a dormant Company with no assets or liabilities.

Co-op Consultancy & Insurance Agency Limited was established as Co-op Consultancy Services in 2002 to offer consultancy, advisory and insurance agency services. The audited financial statements for the year ended 31 December 2016 show that the company made a profit after tax of KShs 138,218,873 (2015- KShs 121,604,207).

Co-optrust Investment Services was established in 1998 to offer fund management and investment services. The audited financial statements for the year ended 31 December 2016 show that the company made a profit after tax of KShs 48,613,577 (2015- KShs 42,496,500).

Kingdom Securities Limited (previously named Bob Mathews Stockbrokers Limited) was acquired by Co-operative Bank Limited through purchase of 60% shareholding in 2009. The company offers brokerage services and is a registered broker with the Nairobi Securities Exchange. The audited financial statements for the year ended 31 December 2016 show that the company made a loss after tax of KShs 18,448,934 (2015 - KShs 1,340,034). Refer to note 32 for financial statements summaries.

Co-operative Bank of South Sudan was registered in 2013 with the partnership of Government of South Sudan which holds 49% of the ordinary shares. As at year end, Co-operative Bank of Kenya Limited had contributed 85% of the total share capital with the Government of South Sudan contributing 15%. The Subsidiary is based in South Sudan and commenced operation in September 2013. The audited financial statements for the year ended 31 December 2016 show that the company made a loss of KShs 498,323,569 (2015- KShs 849,720,191). Refer to note 32 for financial statements summaries.

16. INVESTMENT IN ASSOCIATE

The Bank has 35.71% interest in Co-operative Insurance Society Limited which is the majority shareholder of CIC Insurance Group Limited. CIC Insurance Group Limited is a listed company at Nairobi Securities Exchange (NSE) and is incorporated in Kenya. The principal activity of the Company is insurance business and fund management.

The Group's Interest in Co-operative Insurance Society Limited is accounted for using the equity method in the consolidated financial statements.

Co-operative Bank of South Sudan owns 31% stake in CIC South Sudan. The interest in CIC South Sudan is accounted for using equity method in the consolidated financial statements.

	Group		Bank	
	2016	2015	2016	2015
	KShs'000	KShs'000	KShs'000	KShs'000
At 1 January	2,267,230	1,907,722	755,118	755,118
Share of profit	97,546	384,991	-	-
Additional Shares - CIC South Sudan	-	30,152	-	-
Other comprehensive income	7,776	13,773	-	
Exchange difference on translation	109,621	-	-	-
Dividends received	(72,876)	(69,407)	-	-
As at 31 December	2,409,297	2,267,230	755,118	755,118

The following table illustrates summarized financial information of the Group's investment in associates:-

	Co-operative Insurance Society Limited		CIC South Sudan Limited	
	2016	2015	2016	2015
Share of the associate's statement of financial position:	KShs'000	KShs'000	KShs'000	KShs'000
Non-current assets	4,037,299	2,905,942	82,866	88,756
Current assets	5,506,602	6,078,224	80,558	82,561
	9,543,901	8,984,166	163,424	171,317
Current liabilities	(6,907,854)	(6,193,402)	(21,064)	(15,086)
Equity	2,636,047	2,790,764	142,360	156,231
Share of the associate's revenue and profit:				
Revenue	4,673,727	4,919,301	124,040	111,451
Profit before tax	53,140	496,481	112,764	96,783
Profit after tax	27,462	288,208	70,084	96,783

17. INTANGIBLE ASSETS

(a) GROUP	Computer software KShs'000	Joint venture development KShs'000	Other intangible assets KShs'000	Work-in-progress KShs'000	Total KShs'000
COST					
At 1 January 2016	2,701,258	28,159	25,000	260,249	3,014,665
Additions	243,030	-	-	352,322	595,352
Transfers	316,414	-	-	(316,414)	-
Reclassification from property and equipment				(110,796)	(110,796)
Exchange difference on translation	20,288	44,890	-	69,926	135,104
At 31 December 2016	3,280,990	73,049	25,000	255,287	3,634,325
AMORTISATION					
At 1 January 2016	1,398,307	11,289	-	-	1,409,596
Amortisation for the year	470,895	14,610	-	-	485,505
Exchange difference on translation	8,215	17,891	-	-	26,106
At 31 December 2016	1,877,417	43,790	-	-	1,921,207
NET CARRYING AMOUNT					
At 31 December 2016	1,403,573	29,259	-	-	1,713,118

(a) GROUP	Computer software KShs'000	Joint venture development KShs'000	Other intangible assets KShs'000	Work-in-progress KShs'000	Total KShs'000
COST					
At 1 January 2015	2,362,983	124,940	25,000	239,601	2,752,524
Additions	58,109	-	-	280,580	338,689
Transfers	319,353	-	-	(319,353)	-
Reclassification from property and equipment	-	-	-	165,141	165,141
Exchange difference on translation	(39,187)	(96,781)	-	(105,720)	(241,689)
At 31 December 2015	2,701,258	28,159	25,000	260,249	3,014,665
AMORTISATION					
At 1 January 2015	1,013,215	26,407	-	-	1,039,622
Amortisation for the year	394,318	5,632	-	-	399,950
Exchange difference on translation	(9,226)	(20,750)	-	-	(29,976)
At 31 December 2015	1,398,307	11,289	-	-	1,409,596
NET CARRYING AMOUNT					
At 31 December 2015	1,302,951	16,870	25,000	260,249	1,605,069

Other intangible assets relates to trading rights by Kingdom Securities Limited to participate in trading at Nairobi Securities Exchange (NSE).

The Joint Venture development assets relates to the costs incurred in negotiating the Joint Venture arrangement with the Government of South Sudan. Under the Joint Venture agreement, the Bank acquired certain rights that are identifiable e.g., business relationships with the government and co-operative movements.

Work-in-progress relates te partially paid and ongoing software projects not yet commissioned for use by the group.

17. INTANGIBLE ASSETS (continued)

(b) BANK	Computer Software KShs'000	Work -in progress KShs'000	Total KShs'000
COST			
At 1 January 2016	2,586,513	228,656	2,815,169
Additions	237,078	269,654	506,759
Transfers	316,414	(316,414)	-
Reclassification to Property and equipment	-	(110,822)	(110,823)
Cost at 31 December 2016	3,140,032	71,074	3,211,106
AMORTISATION			
At 1 January 2016	1,353,579	-	1,353,579
Amortisation for the year	447,371	-	447,371
At 31 December 2016	1,800,950	-	1,800,950
NET CARRYING AMOUNT			
At 31 December 2016	1,339,082	71,074	1,410,156
COST			
At 1 January 2015	2,235,600	103,625	2,339,225
Additions	31,560	279,243	310,803
Transfers	319,353	(319,353)	-
Reclassification from Property and equipment	-	165,141	165,141
Cost at 31 December 2015	2,586,513	228,656	2,815,169
AMORTISATION			
At 1 January 2015	976,016	-	976,016
Amortisation for the year	377,563	-	377,563
At 31 December 2015	1,353,579	-	1,353,579
NET CARRYING AMOUNT			
At 31 December 2015	1,232,934	228,656	1,461,590

Amortisation has not been charged in arriving at the results for the year in respect of certain fully amortised software assets with a cost of KShs 726,721,845 (2015 - KShs 585,852,349), which are still in use. If amortisation had been charged during the year on the cost of these assets at normal rates, it would have amounted to KShs 145,344,368 (2015 -KShs 117,170,470).

18. PREPAID LEASE RENTALS

	Group and Bank 2016 KShs'000	2015 KShs'000
COST		
At 1 January	54,413	54,413
At 31 December	54,413	54,413
Amortisation:		
At 1 January	17,449	16,843
Charge for the year	612	606
At 31 December	18,061	17,449
NET CARRYING AMOUNT		
At 31 December	36,352	36,964

Prepaid lease rentals relate to the lease payments for leasehold land to the government. Amortization is done over the remaining lease period of the lease as at the time of purchase.

19. (a) PROPERTY AND EQUIPMENT-GROUP

COST/VALUATION	Freehold land & buildings KShs'000	Capital work-in progress KShs'000	Fixtures KShs'000	Office machinery ,furniture & equipment KShs'000	Motor vehicles KShs'000	Computers KShs'000	Total KShs'000
At 1 January 2016	1,387,097	636,904	7,861,296	1,719,942	148,076	6,376,378	18,129,693
Additions	-	492,165	15,496	96,891	6,652	76,535	687,739
Disposals	(206,000)	-	(88,889)	(11,651)	-	(35,983)	(342,522)
Reclassification from intangible assets (note 17(a))	-	110,796	-	-	-	-	110,796
Revaluation gain	1,227,693	-	-	-	-	-	1,227,693
Transfers		(681,738)	292,156	10,777	-	378,805	-
Exchange difference on translation		42,405	-	345,844	4,627	53,487	446,363
Write off	-	(81,837)	(41,203)	-	-	-	(123,040)
At 31 December 2016	2,408,790	518,695	8,038,856	2,161,803	159,355	6,849,222	20,136,722
DEPRECIATION							
At 1 January 2016	154,500	-	4,401,032	1,255,360	118,286	4,179,737	10,108,915
Charge for the year	51,500	-	868,549	218,557	14,386	783,710	1,936,704
Disposals	(206,000)	-	(86,677)	(11,658)	-	(33,056)	(337,390)
Exchange difference on translation	-	-	-	93,464	1,464	24,868	119,796
Write off	-	-	-	-	-	-	-
At 31 December 2016	-	-	5,182,904	1,555,723	134,138	4,955,259	11,828,024
NET CARRYING AMOUNT							
At 31 December 2016	2,408,790	518,695	2,855,952	606,080	25,217	1,893,963	8,308,698

(i) Capital work-in-progress represents ongoing construction work at the various branches of the Bank.

(ii) Land and Buildings were revalued on open market value basis by professional valuers (NW Realite Limited, Seven Degrees North Valuers, Kiragu and Mwangi Valuers and Afriland Valuers Limited) as at 31 December 2016. The resulting surplus on revaluation was adjusted to book values of the properties and credited to revaluation reserve. If land and building were measured using the cost model, the net carrying amount would have been KShs 1,218,016 (2015: KShs 1,269,516).

(iii) Freehold land and buildings are revalued every three years. Freehold land and buildings includes an amount of KShs 35,496,498 (2015- KShs. 35,496,498) against which no depreciation has been charged, as these are pieces of land.

(iv) No depreciation has been charged in arriving at the results for the year in respect of certain fully depreciated property and equipment with a cost of KShs. 4,119,728,390 (2014- KShs 3,101,893,807), which are still in use. If depreciation had been charged during the year on the cost of these assets at normal rates, it would have amounted to KShs 760,549,466 (2010 - KShs 590,835,351).

(v) Capital Works in progress, intangible assets had been posted to Capital works in progress, property, plant & equipment. Reclassification is to remove the amount relating to cwip-intangible assets from cwip-property, plant & equipment.

19. (a) PROPERTY AND EQUIPMENT-GROUP

	Freehold land & buildings	Capital work-in progress	Fixtures	Office machinery ,furniture & equipment	Motor vehicles	Computers	Total
COST/VALUATION	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000
At 1 January 2015	1,387,097	1,627,598	7,619,830	2,054,608	182,993	5,684,612	18,556,738
Additions	-	506,226	4,034	83,394	1,785	35,660	631,099
Disposals	-	-	-	(4,404)	(5,658)	(58,590)	(68,652)
Reclassification to intangible assets (note 17(a))	-	(165,141)	-	-	-	-	(165,141)
Transfers	-	(1,206,322)	334,970	60,124	-	811,228	-
Exchange difference on translation	-	(125,457)	-	(473,780)	(31,044)	(96,532)	(726,813)
Write off	-	-	(97,538)	-	-	-	(97,538)
At 31 December 2015	1,387,097	636,904	7,861,296	1,719,942	148,076	6,376,378	18,129,693
DEPRECIATION							
At 1 January 2015	103,000	-	3,558,513	1,155,403	113,016	3,548,108	8,478,040
Charge for the year	51,500	-	876,777	167,177	16,626	713,364	1,825,444
Disposals	-	-	-	(4,399)	(3,562)	(57,532)	(65,493)
Exchange difference on translation	-	-	-	(62,821)	(7,794)	(24,203)	(94,818)
Write off	-	-	(34,258)	-	-	-	(34,258)
At 31 December 2015	154,500	-	4,401,032	1,255,360	118,286	4,179,737	10,108,915
NET CARRYING AMOUNT							
At 31 December 2015	1,232,597	636,904	3,460,264	464,582	29,790	2,196,641	8,020,778

(i) Capital work-in-progress represents ongoing construction work at the various branches of the Bank.

(ii) Land and Buildings were revalued on open market value basis by professional valuers (Manciem Valuers) as at 31 December 2012. The resulting surplus on revaluation was adjusted to book values of the properties and credited to revaluation reserve. If land and building were measured using the cost model, the net carrying amount would have been KShs 1,269,516 (2014: KShs 1,372,016).

(iii) Freehold land and buildings are revalued every three years. Freehold land and buildings includes an amount of KShs 35,496,498 (2014- KShs 35,496,498) against which no depreciation has been charged, as these are pieces of land.

(iv) No depreciation has been charged in arriving at the results for the year in respect of certain fully depreciated property and equipment with a cost of KShs 4,119,728,390 (2014- KShs 3,101,893,806), which are still in use. If depreciation had been charged during the year on the cost of these assets at normal rates, it would have amounted to KShs 760,549,466 (2014- KShs. 594,835,351).

(v) Capital Works in progress, intangible assets had been posted to Capital works in progress, property, plant & equipment. Reclassification is to remove the amount relating to cwip-intangible assets from cwip-property, plant & equipment.

(vi) The write off relates to decommissioning of Dagoretti branch.

19.(b) PROPERTY AND EQUIPMENT-BANK

	Freehold land & buildings KShs'000	Capital work-in progress KShs'000	Fixtures KShs'000	Office machinery, furniture & equipment KShs'000	Motor vehicles KShs'000	Computers KShs'000	Total KShs'000
COST/VALUATION							
At 1 January 2016	1,387,097	606,881	7,860,659	1,519,515	140,490	6,331,882	17,846,524
Additions	-	472,356	15,496	66,346	-	75,173	629,371
Disposals	-	-	(88,889)	(11,651)	-	(35,971)	(136,512)
Reclassification of Work in Progress	-	39,724	-	-	-	-	39,724
Transfer from Work in Progress	-	(672,231)	292,156	1,270	-	378,805	-
Write offs	-	(81,837)	(41,203)	-	-	-	(123,040)
Transfer	(205,999)	-	-	-	-	-	(205,999)
Revaluation	1,227,693	-	-	-	-	-	1,227,693
Reclassification from intangible assets((note 17(b))	-	71,072	-	-	-	-	71,072
At 31 December 2016	2,408,791	435,965	8,038,219	1,575,479	140,490	6,749,889	19,348,833
DEPRECIATION							
At 1 January 2016	154,500	-	4,400,058	1,208,763	115,684	4,154,779	10,033,784
Charge for the year	51,500	-	868,549	137,908	10,947	765,819	1,834,722
Disposals	-	-	(86,677)	(11,658)	-	(33,053)	(131,389)
Transfers	(205,999)	-	-	-	-	-	(205,999)
At 31 December 2016	-	-	5,181,929	1,335,012	126,631	4,887,545	11,531,119
NET CARRYING AMOUNT							
At 31 December 2016	2,408,791	435,965	2,856,289	240,467	13,859	1,862,344	7,817,715

(i) Capital work-in-progress represents ongoing construction work at the various branches of the Bank.

(ii) The write offs relate to abandoned projects that were written off during the year.

(iii) Land and Buildings were revalued on open market value basis by professional valuers (NW Realite Limited, Seven Degrees North Valuers, Kiragu and Mwangi Valuers and Afriland Valuers Limited) as at 31 December 2016. The resulting surplus on revaluation was adjusted to book values of the properties and credited to revaluation reserve. If land and building were measured using the cost model, the net carrying amount would have been KShs 1,218,016 (2015: KShs 1,269,516).

(iv) Freehold land and buildings are revalued every three years. Freehold land and buildings includes an amount of KShs 35,496,498 (2015- KShs. 35,496,498) against which no depreciation has been charged, as these are pieces of land.

(v) No depreciation has been charged in arriving at the results for the year in respect of certain fully depreciated property and equipment with a cost of KShs. 5,496,487,965 (2015- KShs 4,119,728,390), which are still in use. If depreciation had been charged during the year on the cost of these assets at normal rates, it would have amounted to KShs 855,305,140 (2015 - KShs 760,549,466).

19.(b) PROPERTY AND EQUIPMENT-BANK

	Freehold land & buildings	Capital work-in progress	Fixtures	Office machinery ,furniture & equipment	Motor vehicles	Computers	Total
	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000
COST/VALUATION							
At 1 January 2015	1,387,097	1,460,147	7,619,193	1,038,725	142,913	5,542,602	17,590,677
Additions	-	473,575	4,034	72,997	-	33,149	583,755
Disposals	-		-	(4,404)	(2,423)	(58,402)	(65,229)
Reclassification to intangible assets((note 17(h)	-	(165,141)	-	-	-	-	(165,141)
Transfer from WIP	-	(1,161,700)	334,970	12,197	-	814,533	-
Write Off	-	-	(97,538)	-	-	-	(97,538)
At 31 December 2015	1,387,097	606,881	7,860,659	1,519,515	140,490	6,331,882	17,846,524
DEPRECIATION							
At 1 January 2015	103,000	-	3,557,539	1,066,968	103,062	3,506,275	8,336,844
Charge for the year	51,500	-	876,777	146,194	15,045	795,942	1,795,458
Disposals	-	-	-	(4,399)	(2,423)	(57,438)	(64,260)
Write Off	-	-	(34,258)	-	-	-	(34,258)
At 31 December 2015	154,500	-	4,400,058	1,208,763	115,684	4,154,779	10,033,784
NET CARRYING AMOUNT							
At 31 December 2015	1,232,597	606,881	3,460,601	310,752	24,806	2,177,103	7,812,740

(i) Capital work-in-progress represents ongoing construction work at the various branches of the Bank.

(ii) Land and Buildings were revalued on open market value basis by professional valuers (Manclem Valuers) as at 31 December 2012. The resulting surplus on revaluation was adjusted to book values of the properties and credited to revaluation reserve. If land and building were measured using the cost model, the net carrying amount would have been KShs 1,269,516 (2014: KShs 1,321,016).

(iii) Freehold land and buildings are revalued every three years. Freehold land and buildings includes an amount of KShs 35,496,498 (2014- KShs. 35,496,498) against which no depreciation has been charged, as these are pieces of land.

(iv) No depreciation has been charged in arriving at the results for the year in respect of certain fully depreciated property and equipment with a cost of KShs. 4,119,728,390 (2014- KShs 3,101,893,807), which are still in use. If depreciation had been charged during the year on the cost of these assets at normal rates, it would have amounted to KShs 760,549,466 (2014 - KShs 594,835,351).

20. DEFERRED TAX

The following table shows deferred tax recorded on the statement of financial position in other assets and other liabilities and changes recorded in the Income tax expense:

GROUP	2016 Deferred tax assets KShs'000	2016 Profit or loss KShs'000	2015 Deferred tax assets KShs'000	2015 Profit or loss KShs'000
Collective allowance for impairment disallowed for tax purposes	(934,213)	(164,033)	(770,180)	(152,871)
Revaluation surplus	457,647	-	89,340	(2,721)
Excess of tax wear and tear allowance over depreciation	(1,027,828)	(292,057)	(735,771)	(310,276)
Unrealised exchange gains	481,142	(83,043)	564,185	203,663
Other temporary differences	(44,254)	(10,547)	(33,707)	(5,221)
Tax loss available for future tax relief		-	78	-
	(1,067,506)	(549,680)	(886,055)	(267,426)

BANK	2016 Deferred tax assets KShs'000	2016 Profit or loss KShs'000	2015 Deferred tax assets KShs'000	2015 Profit or loss KShs'000
Collective allowance for impairment disallowed for tax purposes	(918,397)	(158,696)	(759,701)	(152,871)
Revaluation surplus	457,647	-	89,340	(2,721)
Excess of tax wear and tear allowance over depreciation	(1,029,830)	(292,497)	(737,333)	(310,276)
Unrealised exchange gains	481,142	(83,043)	564,185	203,663
Other temporary differences	(41,759)	(8,654)	(33,105)	(5,253)
	(1,051,197)	(542,890)	(876,614)	(267,457)

21. DEPOSITS AND BALANCES DUE TO BANKS

	Group		Bank	
	2016 KShs'000	2015 KShs'000	2016 KShs'000	2015 KShs'000
Local banks	3,401,828	2,914,082	3,392,744	2,863,659
Foreign banks	10,149	507,137	10,149	41,746
	3,411,977	3,421,219	3,402,893	2,905,405

The weighted average effective interest rate on deposits from other banks at 31 December 2016 was 8.75% (2015: 8.5%).

22. CUSTOMER DEPOSITS

	Group 2D16 KShs'DOO	2015 KShs'000	Bank 2D16 KShs'800	2015 KShs'000
(a) Oeposit category				
Call deposits	6,045,085	13,491,629	6,045,085	13,491,629
Fixed deposits	68,940,819	86,074,5B4	6B,921,330	86,074,584
Transaction accounts	106,3B9,639	72,027,838	106,389,639	72,D06,3B9
Savings accounts	7,282,024	6,431,065	7,280,356	6,431,065
Current accounts	60,276,632	68,454,6BB	59,616,101	68,454,688
Foreign currency deposits	11,219,238	18,91B,7B3	11,219,23B	17,251,D60
	260,153,437	265,398,587	259,471,749	263,709,415
(b) From government and parastatals:-				
Payable on demand	17,592,364	19,14B,67B	17,592,364	19,148,678
Payable within 30 days	2,965,163	4,606,595	2,965,163	4,606,595
Payable after 30 days but within 1 year	19,461,284	2D,35D,BB4	19,461,284	20,350,884
	40,D1B,B11	44,186,157	40,018,811	44,106,157
(c) From private sector and individuals:-				
Payable on demand	15B,511,363	131,832,348	157,849,164	131,826,650
Payable within 30 days	1D,617,D2D	13,4B5,247	10,617,020	11,808,730
Payable after 30 days but within 1 year	51,0D6,243	75,974,B35	50,9B6,754	75,967,878
	220,134,626	221,292,438	219,452,938	219,603,258
	260,153,437	265,398,587	259,471,749	263,709,415

Included in customers' deposits is an amount of KShs. 7,09B Million (2015- KShs 6,B97 Million) that has been pledged to the Bank by customers as security for loans and advances. The weighted auerage effective interest rate on interest-bearing customer deposits as at 31 December 8.83% (2015- 5.05%).

23. LOANS AND BORROWINGS

The Bank has received loans for onward lending to specific customer segments as follows:

	Group & Bank	
	2016	2015
Balances at 31 December	KShs'000	KShs'000
IFAD	38,636	37,736
GoK (Informal Sector Enterprises)	-	255,437
DEG	4,333,574	5,401,669
International Finance Corporation (IFC)	9,055,379	4,472,558
European Investment Bank	2,279,859	5,434,539
AFD Microfinance & line of credit	4,040,649	3,669,273
KFW Loan - SIPMK	65,163	-
	19,813,260	19,271,212
Movement in the year:		
At 1 January	19,271,212	18,269,487
Additional loan disbursement	6,007,884	1,086,700
Accrued interest	131,088	207,650
Loan Repayment	(5,465,665)	(1,820,787)
Foreign exchange difference	(131,259)	1,552,035
Reversal of Soros Fund	-	(23,873)
At 31 December	19,813,260	19,271,212

International Fund for Agricultural Development (IFAD)

The loan agreement was entered into in 2003 between the Government of Kenya-Ministry of Agriculture and The Co-operative Bank of Kenya Limited for a loan of KShs 30 million under the Eastern Produce Horticultural and Traditional Food Crops Project. The loan amount and interest shall be repaid to the government in one lump sum when the project comes to an end. The loan attracts a fixed interest of 3% p.a.

GoK (Informal Sector Enterprises)

The loan agreement was entered into in 2011 between the Government of Kenya-Ministry of Finance and The Co-operative Bank of Kenya Limited for a loan of KShs 250 million for onward lending through the Bank's outlets to create an enabling business environment for the informal sector enterprises (ISEs). The loan amount is payable to the government over a period of 4 years in annual instalments. The loan attracted an interest of 4% p.a. on reducing balance. The loan was fully paid by end of year 2016.

European Investment Bank

Two loan agreements for Euros 20 million and Euros 50 million were entered into in April 2012 between the European Investment Bank and The Co-operative Bank of Kenya Limited. The loans were to be disbursed upon request for onward lending to micro and small enterprises including self-employed entrepreneurs and sole proprietorships in income generating activities and productive sectors such as trade, retail, agro industries, fishing, food processing, manufacturing, construction transport, tourism. The interest on the first loan of Euros 20 million is 1.56% plus a currency risk premium of 6.00% and the second loan of Euros 50 million is 2.43% plus a currency risk premium determined over a period of time. As at end of 2016, Euros 55 million had been disbursed to the bank. .The 20 million Euros loan matured in year 2016 and fully repaid. The loans are to be repaid over a period of 10 years.

23. **LOANS AND BORROWINGS (Continued)**

French Development Agency (AFD)

The bank entered into agreement with AFD in 2011 for a credit facility at fixed rate of 3.25% to finance investments in the fields of sustainable energy (energy efficiency & renewable energy) projects. As at the end of year 2016, the amount disbursed to the bank was USD 35,710,169.The bank secured an additional credit facility of USD 50 Million in year 2016 and the first drawdown of USD 8 Million received within the year.

International Finance Corporation

The loan agreement was entered into on 5 December 2012 between International Finance Corporation and the Co-operative bank of Kenya Limited for a total of USD 60 Million. The purpose of the loan is to support the bank's asset growth and in particular, financing the small and medium enterprises as well as the agribusiness sector.

The loan has an element of fixed and variable interest rate which is pegged to the LIBOR rate. Repayment shall be in eleven (11) equal semi-annual instalments starting December 2013. The 1st disbursement of USD 30M was in March 2013, and the 2nd in March 2014. By 31 December 2016, the bank had drawn USD 60 Million from this facility.

In December 2015 the bank entered into agreement with IFC for a senior unsecured loan of USD 105 Million to finance the growth of SMEs portfolio, WOEs portfolio and affordable housing through expansion of mortgage & construction finance. The loan has an element of fixed and variable interest rate which is pegged to the LIBOR rate. The loan has a maturity period of 7 years and a 2 year grace period on principal repayment. As at the end of year 2016 the bank had received a drawdown of USD 50 Million.

DEG - Deutsche Investitions- Und Entwicklungsgesellschaft Mbh

The Co-operative Bank of Kenya Limited signed a financing agreement with DEG Deutsche Investitions - Und Entwicklungsgesellschaft Mbh of the Federal Republic of Germany in December 2013. The loan facility of USD 52,500,000 was disbursed in 2014. The facility is for onward lending to small and medium-sized enterprises. The loan will be repaid in 10 instalments ending in 2020. The agreement has an arrangement for interest computation on floating rate basis (pegged on LIBOR) or a fixed rate option based on mutual agreement.

KFW Loan-SIPMK Small holder Irrigation Programme Mt. Kenya Region

The Government of Kenya signed a Loan Agreement and Financing Agreement on September 23, 2004, with KFW Frankfurt to make available to Government a credit of 4.6 Million for Smallholder Irrigation Programme in Mt. Kenya Region. Part of the credit was to be provided to one or more commercial banks. In 2007, the bank signed an agreement with the Government of Kenya where the bank was to finance smallholder irrigation development in the Mt Kenya Region by offering credit facilities to project developers in order to enable them cover the investments costs for the infrastructure.

Under the SIPMK agreement the reimbursement received from the Government was on a 50% grant and 50% loan basis.

24 TAXATION

	Group 2016 KShs'000	Group 2015 KShs'000	Bank 2016 KShs'000	Bank 2015 KShs'000
(a) Income Statement:-				
Current tax at 30% on the taxable profit for the year	5,598,455	3,950,622	5,511,732	3,872,980
Over provision in previous year	(2,791)	(5,663)	-	(5,663)
Deferred tax (credit) / charge	(548,342)	(267,426)	(542,890)	(267,457)
	5,047,322	3,677,533	4,968,841	3,599,860
(b) Statement of financial position:-				
Balance brought forward	171,328	149,821	157,596	129,171
Over-provision in previous year	(2,791)	(5,663)	-	(5,663)
Charge for the year	5,598,458	3,950,622	5,511,732	3,872,980
Paid during the year	(4,545,970)	(3,923,452)	(4,420,630)	(3,838,892)
Tax payable	1,221,025	171,328	1,248,698	157,596
(c) Reconciliation of tax expense to tax based on accounting profit:-				
Accounting profit	17,723,533	15,383,092	18,020,404	14,071,458
Tax applicable rate at 30%	5,317,060	4,614,928	5,406,121	4,221,437
Over-provision in previous year	(2,791)	(5,663)	-	(5,663)
Tax loss	101,850	6,397	-	-
Exchange differences on translation	68,290			
Tax effect of items not eligible for tax	(437,087)	(938,129)	(437,280)	(615,914)
Tax in the statement of comprehensive income	5,047,322	3,677,533	4,968,841	3,599,860

The corporation tax rate applicable to the Bank and subsidiaries and associates is 30% except for Co-operative Bank of South Sudan charged at a rate of 10-25% depending on the revenve of the tax payer.

Items not eligible for tax relates to items disallowed for purpose of calculating the income tax in accordance with the Income Tax Act.

25. PROVISIONS

	Group 2016 KShs'000	Group 2015 KShs'000	Bank 2016 KShs'000	Bank 2015 KShs'000
Leave liability	141,282	110,191	139,198	110,190
Balance at 1 January	110,191	93,570	110,190	92,840
Movement through profit or loss	31,091	16,621	29,008	17,350
Balance at 31 December	141,282	110,191	139,198	110,190

This provision is for obligations in respect of annual leave entitlements not taken as at close of the period. The amount has been accrued at remuneration rates expected to apply when the obligation is settled.

26. OTHER LIABILITIES

	Group 2016 KShs'000	Group 2015 KShs'000	Bank 2016 KShs'000	Bank 2015 KShs'000
Bills payable	2,638,567	990,285	2,593,121	792,702
Sundry creditors and accruals	3,330,063	3,316,418	3,283,396	3,292,513
	5,968,630	4,306,703	5,876,131	4,085,215

Bills payable, sundry creditors and accruals are payable on demand and are non-interest bearing.

27. GOVERNMENT GRANTS

	Group and Bank 2016 KShs'000	Group and Bank 2015 KShs'000
Grant net of amortisation:		
At 1 January	517,317	535,792
Amortisation for the year	(18,475)	(18,475)
At 31 December	498,842	517,317

The grants relate to rehabilitation work on Co-operative House financed by USAID following the August, 1998 bomb blast. The grant is amortised in line with the depreciation on the building. The grant is amortised for the same period of the building since it was part of the cost to reconstruct the building.

28. SHARE CAPITAL

	Group and Bank 2016 KShs'000	Group and Bank 2015 KShs'000
Authorised :- 5,000,000,000 (2014: 5,000,000,000) ordinary shares of KShs 1 each.	5,000,000	5,000,000
Issued and fully paid:- 4,889,316,295 (2014: 4,889,316,295) ordinary shares of KShs 1 each.	4,889,317	4,889,317

29. SHARE PREMIUM

These reserves arose in 2008 when the Bank issued 557,242,300 new shares through an Initial Public Offering. The shares, with a par value of KShs 1 were issued at KShs 9.50. These reserves may be applied towards capital in the future.

	Group and Bank	
	2016	2015
	KShs'000	KShs'000
At 1 January	2,889,789	2,889,789
At 31 December	**2,889,789**	**2,889,789**

30. RESERVES

(a) **Revaluation reserve**
The revaluation reserve is used to record increases in the fair value of land and buildings and decreases to the extent that such decrease relates to an increase on the same asset previously recognised in equity. Revaluation reserves are not distributable.

(b) **Retained earnings**
This reserve includes accumulated profits over the years. The retained earnings are distributable to the shareholders.

(c) **Available for sale reserve**
This comprises changes in fair value on available-for-sale investments, excluding impairment losses, until the net investment is derecognised. This reserve is not distributable as it relates to unrealised fair value changes.

(d) **Statutory reserve**
Where impairment losses required by legislation or regulations exceed those computed under International Financial Reporting Standards (IFRS), the excess is recognised as a statutory reserve and accounted for as an appropriation of retained earnings. This reserve is not distributable.

(e) **Foreign currency translation reserve**
The reserves represent exchange differences arising from translation of the net assets of the Group's foreign operations in the Co-operative Bank of South Sudan from their functional currency (South Sudan pounds), to the Group's presentation currency (Kenya shillings). These differences are recognised directly through other comprehensive income and accumulated in the foreign currency translation reserve in equity. The reserve is not available for distribution to the shareholders.

31. PROPOSED DIVIDENDS AND DIVIDENDS PER SHARE

	Group and Bank	
	2016	2015
	KShs'000	KShs'000
Proposed dividends	3,911,453	3,911,453

(i) Dividend per share is arrived at by dividing the total dividends by the weighted average number of shares in issue during the year.

(ii) Proposed dividends are accounted for as a separate component of equity at year end until they are ratified at an Annual General Meeting (AGM). At the AGM to approve year 2016 financial statements, a first and final dividend in respect of year 2016 of KShs 0.80 (2015 - KShs 0.80) for every ordinary share of KShs 1 is to be proposed by the directors and is subject to approval by shareholders.

(iii) Payment of dividend is subject to withholding tax at the rate of 5% for residents and 10% for non-resident shareholders.

32. NON-CONTROLLING INTERESTS

(a) Kingdom Securities Limited

Kingdom Securities Limited (previously named Bob Mathews Stockbrokers Limited) was acquired in 2009 by The Co-operative Bank of Kenya Limited through the purchase of 60% shareholding. The company offers brokerage services and is a registered broker with the Nairobi Securities Exchange.

(b) Co-operative Bank of South Sudan

Co-operative Bank of South Sudan was registered in partnership with the Government of South Sudan which holds 49% of the ordinary shares. The Bank holds 51% of the ordinary shares. The Subsidiary is based in South Sudan and offers banking services.

The summarised financial information of these subsidiaries is provided below. This information is based on amounts before inter-company eliminations.

Summarised statement of profit or loss for:-

	Kingdom Securities Limited		Co-operative Bank of South Sudan	
	2016	2015	2016	2015
	KShs'000	KShs'000	KShs'000	KShs'000
Interest and other income	61,856	75,045	769,117	1,864,154
Interest and commission expenses	(1,392)	(4,313)	(46,159)	(22,132)
	60,464	70,732	722,958	1,842,022
Operating expenses	(80,628)	(69,158)	(866,787)	(1,089,086)
Loss on net monetary position	-	-	(425,749)	-
Profit / (loss) before tax	(20,164)	1,574	(569,578)	752,936
Share of profit from an associate	-	-	70,084	96,784
Income tax expense	1,714	(234)	-	-
Profit / (loss) for the year	(18,450)	1,340	(499,494)	849,720
Other comprehensive income	(27,387)	26,644	1,172	29,295
Total comprehensive income	**(45,837)**	**27,984**	**(498,324)**	**879,015**
Attributable to non-controlling interests	(18,335)	**11,194**	(244,179)	430,717

Summarised statement of financial position as at 31 December

	Kingdom Securities Limited		Co-operative Bank of South Sudan	
	2016	2015	2016	2015
	KShs'000	KShs'000	KShs'000	KShs'000
Current assets	247,712	309,376	1,773,256	2,943,914
Non-current Assets	37,146	34,235	1,109,806	411,213
Current liabilities	(50,206)	(63,123)	(1,494,773)	(2,750,762)
Total equity	**234,652**	**280,488**	**1,388,288**	**604,365**
Attributable to:-				
Equity holders of the parent	140,791	168,293	708,027	308,226
Non-controlling interest	93,861	112,195	680,261	296,139

32. NON-CONTROLLING INTERESTS (continued)

(c) Hyperinflationary economies in South Sudan

With effect from 2016, the South Sudanese economy is considered to be hyperinflationary in accordance with the criteria in International Accounting Standards (IAS) 29- *Financial Reporting in Hyperinflationary Economies*

IAS 29 requires the financial statements of an entity whose functional currency is the currency of a hyperinflationary economy, shall be stated in terms of the measuring unit current at the end of the reporting period. The corresponding figures for the previous period and any information in respect of earlier periods shall also be stated in terms of the measuring unit current at the end of the reporting period. The management applied this standard to prepare the financial statements for the Co-Operative Bank of South Sudan. The corresponding figures for the previous reporting period were restated. Following the application of IAS 29, the subsidiary recorded a loss on net monetary position of KShs 426 million. In the application of IAS 29, the Group used conversion coefficients derived from the consumer price index (CPI) in the Republic of South Sudan. CPIs and the corresponding conversion coefficients are presented below:

Period	CPI	Conversion coefficient
CPI as at 31 December 2015	438.80	6
Average CPI in 2016	1574.18	-
CPI as at 31 December 2016	2798.72	1

33. INTEREST INCOME

	Group		Bank	
	2016 KShs'000	2015 KShs'000	2016 KShs'000	2015 KShs'000
Loans and advances to customers	33,345,459	29,997,981	33,228,373	29,803,934
Held-to-maturity investments	3,432,600	2,577,694	3,415,876	2,560,494
Deposits and balances due from other banks	391,319	664,820	356,476	604,321
Interest on previously impaired loans	180,479	129,544	180,479	129,544
	37,349,857	**33,370,039**	**37,181,204**	**33,098,293**

34. INTEREST EXPENSE

	Group		Bank	
	2016 KShs'000	2015 KShs'000	2016 KShs'000	2015 KShs'000
Call deposits	894,483	1,737,325	853,427	1,737,325
Fixed deposits	9,054,999	8,802,365	9,054,999	8,802,365
Savings accounts	517,173	1,522,538	517,173	958,028
Current accounts	1,191,760	263,868	1,191,760	806,246
Deposits and balances due to banks	117,980	232,602	117,980	232,602
Loans	991,905	1,028,213	991,905	1,028,213
	12,768,300	13,586,911	12,727,244	13,564,779

35. FEES AND COMMISSIONS

	Group		Bank	
	2016	2015	2016	2015
	KShs'000	KShs'000	KShs'000	KShs'000
Fees and commissions income:				
Fees and commissions on loans and advances	2,330,859	2,495,441	2,330,859	2,339,680
Ledger fees & service charges	1,227,381	1,253,129	1,158,964	1,045,411
Other fees and commissions	6,229,269	5,753,264	5,328,257	5,262,644
	9,787,509	**9,501,834**	**8,818,080**	**8,647,735**
Fees and commissions expense:				
Inter-bank transaction charges	239,165	53,627	239,165	53,627
Brokerage fees	9,317	4,317	9,317	4,317
	248,482	**57,944**	**248,482**	**57,944**
Net fees and commissions income	**9,539,027**	**9,443,890**	**8,569,598**	**8,589,791**

36. NET TRADING INCOME

	Group		Bank	
	2016	2015	2016	2015
	KShs'000	KShs'000	KShs'000	KShs'000
Foreign exchange gain	1,836,876	3,192,469	1,635,962	1,880,616
Interest income on investment securities:				
-Available for sale	3,481,698	2,244,924	3,481,698	2,244,924
-Held-for-trading	16	59	16	59
Changes in fair value of financial assets held-for-trading	1	-	1	-
Amortisation of financial instruments	(41,231)	(24,950)	(41,231)	(24,950)
	5,277,360	5,412,502	5,076,446	4,100,649

Amortisation of financial instruments relate to held-to-maturity investments.

37. OTHER OPERATING INCOME

	Group		Bank	
	2016	2015	2016	2015
	KShs'000	KShs'000	KShs'000	KShs'000
(Loss)/gain on disposal of property and equipment	(19,806)	(25,101)	(19,806)	(25,101
Dividend income	-	-	73,001	69,407
Rental income	97,900	84,670	97,900	84,670
Loan recoveries	33,928	30,821	33,928	30,821
Gain on sale of financial assets available-for-sale	217,576	5,785	217,576	5,785
Amortisation of Treasury Bills	1,654,777	542,058	1,654,777	542,058
Interest received repo placement	96,507	107,233	96,507	107,233
Sundry income*	773,629	986,318	738,834	970,816
	2,854,511	**1,731,784**	**2,892,717**	**1,785,689**

* Sundry income relates to income generated from the Bank's fiduciary and share registration services.

38. EMPLOYEE COSTS

	Group		Bank	
	2016	2D15	2016	2015
	KShs'000	KShs'000	KShs'DDD	KShs'000
8asic salaries	7,765,801	7,513,319	7,480,335	7,098,853
Allowances	435,592	468,645	409,444	448,992
Pension scheme contribution				
- Statutory Scheme	8,778	3,6D5	8,592	3,532
- Employee Scheme	544,083	454,887	525,553	446,827
Medical expenses	146,324	135,649	141,836	130,769
Education and training	104,115	113,950	102,246	111,780
Early retirement cost	-	1,908	-	1,908
Others	398,748	235,165	276,780	167,470
	9,4D3,441	8,927,128	8,944,786	8,410,131

The number of employees at the year-end was:	2D16	2015	2D16	2015
Management	452	419	435	381
Supervisory and unionisable	2,955	3,225	2,903	3086
Others	336	49	242	42
	3,743	3,693	3,580	3,5D9

39. OTHER OPERATING EXPENSES

	Group		Bank	
	2016	2015	2D16	2015
	KShs'000	KShs'000	KShs'000	KShs'000
Rent and maintenance costs for branch premises	1,511,417	1,568,536	1,420,959	1,4D9,932
Motor vehicle running & other equipment maintenance	1,3D5,494	1,197,3D2	1,265,461	1,157,173
Stationery and printing	645,480	660,240	636,9D8	5D6,853
Travelling and insurance	596,5D9	643,876	538,013	530,642
Telephone, postage, electricity and water	655,919	687,643	623,577	675,073
Contribution to Deposit Protection Fund	361,012	303,163	361,D12	3D3,163
Directors' emoluments	163,742	193,413	115,861	152,273
Auditors' remuneration	17,182	15,668	11,418	10,752
Loss on net monetary position	425,749	-	-	-
Other operating and administrative expenses	4,536,513	2,949,414	4,195,527	2,619,684
	10,219,017	8,219,255	9,168,736	7,365,545

40. BASIC AND DILUTED EARNINGS PER SHARE

The calculation of basic earnings per share for the Group and the Bank is based on the year's profit attributable to equity holders of the parent and the weighted average nvmber of ordinary shares outstanding during the year.

Diluted earnings per share is calculated by adjusting the weighted average nvmber of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares.

40. BASIC AND DILUTED EARNINGS PER SHARE (Continued)

The Bank is proposing to existing shareholders a bonus share in the proportion of one (1) new ordinary share of KShs 1 each for every five (5) ordinary shares then held. This will result in capitalisation of KShs 977,863,369 out of share premium of the Bank, to create 977,863,369 bonus shares to be distributed among the ordinary shareholders. The bonus issue will be subject to the Bank receiving all requisite approvals including approvals from the Capital Markets Authority and the shareholders of the Bank at the Annual General Meeting to be held in May 2017.

	Group		Bank	
	2016	2015	2016	2015
Profit for the year attributable to equity holder of the parent (KShs'000)	12,947,620	11,288,769	13,071,188	10,471,598
Weighted average number of ordinary shares for basic earnings per share (Thousands)	4,889,318	4,889,318	4,889,318	4,889,318
Weighted average number of ordinary shares for diluted earnings per share (Thousands)	5,867,180	5,867,180	5,867,180	5,867,180
Basic earnings per share (KShs)	2.65	2.31	2.67	2.14
Diluted earnings per share (KShs)	2.21	1.92	2.23	1.78

41. COMPONENTS OF OTHER COMPREHENSIVE INCOME

Available for sale investments	Group		Bank	
	2016	2015	2016	2015
	KShs'000	KShs'000	KShs'000	KShs'000
Gains/(losses) arising during the year	864,843	1,092,447	917,863	1,092,447
Amortization of discount to profit or loss	(301,686)	397,139	(301,686)	397,139
Reclassification during the year to profit or loss	137,858	(463,092)	137,858	([illegible]0,779)
	701,015	**1,026,494**	**754,035**	**1,048,807**

The changes in fair value are not subject to income tax. The gains / (losses) have been taxed through profit or loss.

42. NOTES TO THE STATEMENT OF CASH FLOWS

Reconciliation of profit before taxation to cash generated from operations

		Group		Bank	
		2016	2015	2016	2015
OPERATING ACTIVITIES:-	Note	KShs'000	KShs'000	KShs'000	KShs'000
Profit before tax		17,723,532	15,383,092	18,020,405	14,071,458
Adjustments for:-					
Depreciation	19	1,936,703	1,825,444	1,834,722	1,795,458
Amortization of prepaid lease rentals	18	612	606	612	606
Write off property and equipment	19	123,040	63,280	123,040	63,280
Movement in provisions		893,468	2,716,302	889,260	2,753,728
Unrealised exchange differences		(193,561)	(260,244)	(193,561)	(260,244)
Amortization of intangible assets	17	485,505	399,950	447,371	377,563
Amortization of capital grants	27	(18,475)	(18,475)	(18,475)	(18,475)
Loss / (gain) on disposal of property and equipment		5,132	757	5,123	968
Changes in fair value of financial instruments held-for-trading	9	2	2	2	2
Share of profit in associates	14	(97,546)	(384,991)		-
Exchange difference on borrowings	23	(131,259)	1,552,035	(131,259)	1,552,035
Interest on loans and borrowings	23	131,088	207,650	131,088	207,650
Loss on net monetary position		425,749	-	-	-
Cash flows from operating activities before working capital changes		21,283,990	21,485,408	21,108,328	20,544,029
Advances to customers		(24,628,877)	(31,801,867)	(24,584,918)	(31,849,655)
Other assets		(1,106,749)	(3,642,010)	(1,047,484)	(3,501,309)
Deposits from customers		(5,245,150)	47,700,264	(4,237,666)	47,535,102
Deposits from banks		(9,242)	261,775	497,488	(336,321)
Other liabilities		1,693,018	1,686,940	1,819,920	1,648,253
Central Bank of Kenya cash reserve ratio		538,640	(3,023,191)	460,909	(2,411,894)
Held-for-trading investments		57	351	-	350
Available-for-sale investments		4,722,438	(8,678,876)	4,770,770	(8,627,885)
Derivative financial instruments		494,961	(430,188)	494,961	(430,188)
Cash flows (used in)/ generated from operating activities		(2,256,914)	23,558,606	(717,692)	22,570,482

Cash and cash equivalents comprises of:-

Cash on hand	8,432,987	9,057,746	8,119,617	8,880,988
Cash with Central Bank of Kenya	17,249,715	20,397,945	16,338,101	18,292,657
Deposits and balances due from banking institutions	5,017,303	13,977,237	5,359,893	13,869,273
Items in the course of collection from other Banks	195,791	384,161	195,791	384,161
	30,895,796	43,817,089	30,013,402	41,427,079
Less: CBK Cash reserve ratio	(13,910,016)	(14,448,656)	(13,376,450)	13,837,359
Cash and cash equivalents	16,985,780	29,368,433	16,636,952	27,589,720

43. RELATED PARTY BALANCES AND TRANSACTIONS

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions.

(a) Loans due from directors, employees and other related parties:-

Balances outstanding at the close of period as advanced to directors, employees of the 8ank and other related parties in the ordinary course of business is as follows :

	2016 KShs'000	2015 KShs'000
Directors	277,346	302,146
Employees	7,543,400	6,596,839
	7,820,746	6,898,985
Interest income earned	700,218	442,327
Weighted average interest rate	7.0%	6.58%

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

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

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

	2016 KShs'000	2015 KShs'000
Directors and Employees	759,667	693,821
Subsidiaries and Associate companies	3,171,841	3,347,532
Interest expensed	40,440	40,587
Weighted average interest rate	6.95%	4.85%

(c) Inter-company balances and transactions:-

The financial statements include the following balances relating to transactions entered into with other group companies:

	Relationship	Bank 2016 KShs'000	2015 KShs'000
Due from:-			
Co-optrust Investment Services Limited	Subsidiary	-	1,198
Co-op Consultancy & Insurance Agency Ltd	Subsidiary	9,085	3,379
Co-opholdings Co-operative Society Limited	Parent	29,779	40,850
Co-operative Bank of South Sudan	Subsidiary	133,659	101,379
		172,523	146,806

43. RELATED PARTY BALANCES AND TRANSACTIONS (continued)

(c) Inter-company balances and transactions:-

	Relationship	Bank 2016 KShs'000	Bank 2015 KShs'000
Insurance premium:-			
Co-operative Insurance Company Limited	Associate	49,769	36,821

All transactions with related parties are made on terms equivalent to those that prevail in arm's length transactions. Outstanding balances at the year-end are unsecured and no guarantees have been provided or received from any related party. The Bank has not made any provision for impairment losses on balances at period end (2015-nil).

(d) Compensation of key management personnel

	Group 2016 KShs'000	Group 2015 KShs'000	Bank 2016 KShs'000	Bank 2015 KShs'000
Directors' emoluments:				
-Fees	143,116	118,000	96,276	78,420
-Others	20,626	30,257	19,135	28,761
	163,742	148,257	115,861	107,181
Senior Managers:				
-Short-term employee benefits	862,772	660,659	805,509	619,391
-Post-employment pension	62,904	51,856	59,805	48,853
-Termination benefits	1,109	-	1,109	-
	926,785	712,515	866,423	668,244

(e) **Co-operative Bank Foundation**

The Foundation is a registered trust established to assist bright needy students from the Co-operative movement in paying school fees. In 2016, KShs.183,000,883 (2015-KShs 152,763,103) was disbursed to the Foundation. At 31 December 2016, the Foundation held deposits of KShs1,373,496 (2015 - KShs 1,148,853) with the Bank.

(f) **Co-operative Bank of Kenya Limited Staff Retirement Contribution Scheme**

This is a defined contribution scheme and provides, under the rules of the scheme, retirement benefits for the staff of Co-operative Bank of Kenya Limited and its subsidiaries. The Group contributed KShs 546,050,375 (2015 - KShs 463,337,860) as at 31 December 2016. Under the terms of their appointment, Co-optrust Investment Services Limited, a subsidiary of the Bank is responsible for the investment of funds.

Transactions during the year are as highlighted below and were at similar terms and conditions as those offered to other customers:

	2016 KShs'000	2015 KShs'000
Rent paid to the scheme on leased property	6,450	6,450
Dividends paid on the Bank's ordinary shares	26,368	14,232

44. OPERATING LEASE COMMITMENTS

As lessor:

The total future minimum lease receivables due from tenants are as follows:

	Group and Bank 2016 KShs'000	2015 KShs'000
Within One year	126,788	66,823
Between 2 and 5 years	316,220	119,984
Over 5 years	9,226	14,935
	452,234	201,742

Leases are negotiated for an average term of six (6) years and rentals are reviewed every two (2) years.

As lessee:

The total future minimum lease payments due to third parties under non-cancellable operating lease are as follows:

	Group and Bank 2016 KShs'000	2015 KShs'000
Within one year	979,092	969,479
Between 2 and 5 years	2,089,648	1,270,770
Over 5 years	1,127,641	340,856
	4,196,381	2,581,105

Lease commitments relate to lease rentals payable by the group for its leasehold properties and are negotiated for an average term of six (6) years.

45. COMMITMENTS

	Group and Bank 2016 KShs'000	2015 KShs'000
(i) Capital: Authorised and contracted for	333,473	4,400
(ii) Capital: Authorised and not contracted for	3,457,469	3,708,909
(iii) Loans committed but not disbursed at year end	26,962,895	2,213,833

46. CONTINGENT LIABILITIES

(a) Not recognised in statement of financial position	Group and Bank 2016 KShs'000	2015 KShs'000
Letters of credit	4,920,013	6,992,080
Guarantees	7,545,906	5,517,672
	12,465,919	12,509,752

These include Letters of credit, guarantees, acceptances, and other engagements entered into on behalf of customers

46. CONTINGENT LIABILITIES (Continued)

(a) Not recognised in statement of financial position (continued)

Guarantees are documents written by the Bank to support performance by a customer to third parties. The bank will only be required to meet these obligations in case of the customer's default.

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

An acceptance is an undertaking by the Bank to pay a bill of exchange on a customer. Most acceptances are presented and reimbursement by the customer is almost immediate.

(b) Pending legal suits

(i) Kenya Continental Holdings

This is an injunction application seeking to stop the Bank from selling the company's security alleging fraud and misrepresentation on the part of the Bank with a claim for special damages for alleged loss of opportunities amounting to KShs 404,785,225. The Bank has a counterclaim amounting to KShs 521,318,439 against the debtor. The matter was slated for a mention on 29 January 2016 but the court was not sitting. The matter is slated for hearing on 31st March, 27th and 28th June, 2017. The Borrower has also approached the Bank with a view of having the matter settled out of court and the settlement offer is under consideration by the Bank.

(ii) Boaz Mathews Ouma Awiti & three others

This is a claim for KShs 31,864,120 against the Bank relating to the sale and purchase of shares in Bob Mathews Stock Brokers Ltd (now Kingdom Securities Limited). The Bank has successfully applied for and obtained a stay of proceedings and referral of the matter to arbitration as per the terms of the Share purchase agreement. The plaintiffs haue not been able to agree on an arbitrator.

(iii) Alice Anyona Mumo & Others vs. RBA & Co-operative Bank of Kenya Limited Retirement Benefit Scheme, 2007 RBA Tribunal appeal no. 8 of 2013 (NBI)

This is an appeal against the RBA ruling dated 26 May 2011 confirming that member benefits were duly paid in accordance with the applicable Trust Deed and Rules. The ruling is in regard to the initial claim filed with the Retirement Benefits Authority (RBA) under section 46 of the RBA Act alleging that the scheme had not computed and paid the ex-staff the correct amounts. They claimed that the estimated amount allegedly due to them is approximately KShs 2 billion. The ex-staff being dissatisfied with the ruling appealed against the same citing various grounds of appeal. The matter is pending for determination before the Tribunal. Based on advice received from the Scheme Administrators and the Actuaries, no liability is expected to arise in future in respect of this claim.

(iv) Obadiah Mucheu Vs The Co-operative Bank of Kenya Limited

This is a claim where the plaintiff was aduanced credit facilities totalling KShs 1,105,000 and defaulted in the repayment of the outstanding liabilities. The plaintiff requested the Bank to allow the sale of one of the properties charged in favour of the Bank in order to settle the outstanding liabilities. The sale proceeds were insufficient to settle the outstanding liabilities and hence the Bank could not release the land title unless the outstanding liabilities were settled. The Bank subsequently listed the plaintiff with the Credit Reference Bureau. The customer aggrieved by the decision of the Bank is now claiming KShs 215,880,000 being special damages for loss of expected income. The matter is slated for hearing on 28th March, 2017.

46. CONTINGENT LIABILITIES (Continued)

(b) Pending legal suits

No provision has been made in these financial statements for the above pending suits as based on professional legal advice, the directors are of the opinion that no liabilities are expected to arise in future in respect of these claims.

(c) Excise duty on financial transactions

In 2016, the Kenya Revenue Authority (KRA) demanded from the Bank tax amounting to KShs 621,537,611 relating to alleged non-payment of excise duty for the period 2013 to 2015. This amount is made up of principal excise duty of KShs 495,403,544 and interest of KShs 126,134,067 as shown below:-

Period	Principal KShs	Interest KShs	Total KShs
2013	134,213,458	51,167,844	185,381,302
2014	263,528,443	63,246,826	326,775,269
2015	97,661,643	11,719,397	109,381,040
	495,403,544	126,134,067	621,537,611

As at 31 December 2016, this amount had not been paid to KRA. The above interest amount is calculated up to 2015 and excludes any such amounts that may be demanded after this date.

The management, through the tax agent, disputed the demand on factual and technical grounds and the matter was referred to the Tax Appeals Tribunal. The subject of the dispute is industry-wide and the umbrella body for the commercial banks, the Kenya Bankers Association (KBA), is in consultation with the KRA over the matter.

No provision has been made in these financial statements for the principal tax and interest shown above as the directors based on the advise by the tax consultant are of the opinion that no liability will arise.

47. FIDUCIARY ACTIVITIES

The Group provides custody, trustee, corporate administration, investment management and advisory services to third parties, which involve the Group making allocation and purchase and sale decisions in relation to a wide range of financial instruments. These financial instruments comprise deposits with financial institutions, government securities and quoted and unquoted securities, among others. Those assets that are held in a fiduciary capacity are not included in these financial statements. Some of these arrangements involve the Group accepting targets for benchmark levels of returns for the assets under the Group's care. These services give rise to the risk that the Group will be accused of maladministration or under-performance.

The Group at Custodial Services department holds asset on behalf of customers with a value of KShs 35.210 billion (2015 - KShs 38.583 billion). The income for the period for custodial services was KShs 57.168 million (2015- KShs 44.46 million) while the expenses amounted to KShs 42.708 million (2015- KShs 38.51 million).

The Group, through Co-op Trust Investment Services Limited manages securities with a value of KShs 38.88 billion (2015 KShs 39.9 billion) on behalf of customers. The total income for the period from fund management was KShs 123.28 million (2015- KShs 137.80 million), with total expenses amounting to KShs 78.5 million (2015 - KShs 74.13 million).

48. ASSETS PLEDGED AS SECURITY

As at 31 December 2016, there were no assets pledged by the Group to secure liabilities.

49. HOLDING ENTITY

The holding entity of The Co-operative Bank of Kenya Limited is Co-op holdings Co-operative Society Limited incorporated in Kenya under the Co-operative Societies Act.

50. INCORPORATION

The Bank is incorporated in Kenya under the Companies Act.

51. CURRENCY

These financial statements are presented in Kenya Shillings (KShs), and are rounded to the nearest KShs 1,000.

52. EVENTS AFTER REPORTING DATE

The directors are not aware of events after the reporting date that require disclosure in or adjustments to the financial statements as at the date of this report.

CO-OPTRUST INVESTMENT SERVICES LIMITED

ANNUAL REPORT

AND

FINANCIAL STATEMENTS

31 DECEMBER 2016

CO-OPTRUST INVESTMENT SERVICES LIMITED
DIRECTORS' REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016

CONTENTS

CO-OPTRUST INVESTMENT SERVICES LIMITED
COMPANY INFORMATION
FOR THE YEAR ENDED 31 DECEMBER 2016

REGISTERED OFFICE

Co-operative Bank House
L.R No.309/4290 (L.R No.27596)
Haile Selassie Avenue
P.O. Box 48231 - 00100
NAIROBI

BANKERS

The Co-operative Bank of Kenya Limited
Co-operative House Branch
P.O. Box 48231 - 00100
NAIROBI

SOLICITORS

Various
A list is available at the registered office

SECRETARY

Rosemary Majala Githaiga (Mrs)
Co-operative Bank House, Haile Selassie Avenue
P.O. Box 48231 - 00100
NAIROBI

AUDITORS

Ernst & Young LLP
Certified Public Accountants
Kenya-Re Towers- Upper Hill
Off Ragati Road
P.O. Box 44286 - 00100
NAIROBI

CO-OPTRUST INVESTMENT SERVICES LIMITED
REPORT OF THE DIRECTORS
FOR THE YEAR ENDED 31 DECEMBER 2016

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

1. PRINCIPAL ACTIVITY

The company is in the business of fund management.

2. RESULTS

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

3. DIVIDEND

The directors do not recommend the payment of dividend in respect of year 2016 (2015: Nil)

4. RESERVES

The reserves of the Company are set out on page 10.

5. DIRECTORS

The directors who served during the year and to the date of this report were:-

S. C. Muchiri, EBS	Group Chairman
Dr.G. Muriuki, MBS	Group Managing Director& CEO
P.K. Githendu	
G. Mburia	
Dr. J. Kahunyo	
S. Odhiambo	
D.M. Muriuki	
J.N. Njiru	
P. Gichuki	Retired on 7 December 2016
M. N. Mungai	Appointed on 7 December 2016

6. AUDITORS

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

By order of the Board

14 March 2017

CO-OPTRUST INVESTMENT SERVICES LIMITED
STATEMENT OF DIRECTORS' RESPONSIBILITIES
FOR THE YEAR ENDED 31 DECEMBER 2016

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

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

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

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

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

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

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

Approved by the board of directors on 14 March 2017 and signed on its behalf by:

.... Director

.... Director

Ernst & Young LLP
Certified Public Accountants
Kenya Re Towers
Upper Hill
Off Ragati Road
P.O. Box 44286 - 00100
Nairobi GPO, Kenya

Tel: +254 20 2886000
Email: info.ke@ey.com
www.ey.com

INDEPENDENT AUDITOR'S REPORT
TO THE SHAREHOLDERS OF CO-OP TRUST INVESTMENT SERVICES LIMITED

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

Opinion

We have audited the financial statements of Co-op Trust Investment Services Limited, set out on page 8 to 44 which comprise the statement of financial position as at 31 December 2016, and the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the financial statements present fairly, in all material respects, the financial position of Co-op Trust Investment Services Limited as at 31 December 2016, 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*.

Basis for Opinion

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

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the Auditor's responsibilities for the audit of the financial statements section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying financial statements.

Building a better working world

Key Audit Matter	How the matter was addressed in the audit
Investments with Imperial Bank Limited The company had invested KShs 273.75M in Imperial Bank Limited on behalf of various pension schemes. The bank was put under receivership on 13 October 2015 but its branches were subsequently re-opened under NIC Bank Limited on 26 July 2016. The investments matured but due to the situation of the bank, they were not refunded to the pension schemes. However, the risk on the investment is borne by the individual pension scheme. These investments are included in the funds under management by the company as disclosed in note 23. There is uncertainty involved in relation to the recoverability of these investments as the industry regulator continues to look into the affairs of Imperial Bank Limited. Accordingly, we considered this a key matter due to the level of uncertainty involved.	Our audit procedures included but were not limited to: • Reviewing on a sample basis, the instructions from the pension schemes to Co-opTrust Investment Services Limited to invest in the bank's investments; • Reviewing of the correspondence between the Company and the market regulator (the Capital Markets Authority) on the treatment of the investments; • Assessing the progress made by the regulator (Central Bank of Kenya) in reviving the bank under receivership; and, • Assessing whether the disclosures on funds under management are complete and adequate.

Other Information

The directors are responsible for the other information. The other information comprises the Directors' Report as required by the Kenyan Companies Act, 2015. The other information does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express an audit opinion or any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Directors for the Financial Statements

The directors are responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards and the requirements of the Kenyan Companies Act, 2015, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

EY
Building a better working world

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

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

Building a better working world

Report on other legal requirements

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

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

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

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

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

Nairobi, Kenya

31 May 2017

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

CO-OPTRUST INVESTMENT SERVICES LIMITED
STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2016

	Note	2016 KShs '000	2015 KShs '000
ASSETS			
NON-CURRENT ASSETS			
Property and equipment	2	1,571	699
Intangible assets	3	35,232	45,514
Held-to-maturity investments	4	155,232	154,584
Deferred tax	5	1,392	1,842
		193,427	202,639
CURRENT ASSETS			
Held for trading investments	6	-	57
Available for sale investments	7	30,400	-
Trade receivables	8(a)	31,504	22,051
Other receivables	8(d)	5,782	26,360
Cash and cash equivalents	20	4,623	76,932
Tax recoverable	9(a)	1,186	8,596
		73,495	133,996
TOTAL ASSETS		266,922	336,635
EQUITY AND LIABILITIES			
EQUITY			
Share capital	10	20,000	20,000
Retained earnings	11(a)	235,144	186,530
Available-for-sale reserve	11(b)	(18,633)	-
		236,511	206,530
CURRENT LIABILITIES			
Dividend payable	12	25,000	119,999
Other payables	13	5,411	9,752
Due to related party	14(a)	-	354
		30,411	130,105
TOTAL EQUITY AND LIABILITIES		266,922	336,635

The financial statements were approved by the Board of Directors on 14 March 2017 and signed on its behalf by:

S.C. Muchiri, EBS - Group Chairman ....

Dr. G. Muriuki, MBS - Group Managing Director & CEO ....

CO-OPTRUST INVESTMENT SERVICES LIMITED
STATEMENT OF PROFIT AND LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2016

	Note	2016 KShs '000	2015 KShs '000
INCOME	15	156,554	159,494
EXPENSES:-			
Administration and establishment	16	(87,795)	(85,929)
OPERATING INCOME		68,759	73,565
Amortisation of held to maturity investments	17	648	570
PROFIT BEFORE TAX	18	69,407	74,135
Income tax expense	9(b)	(20,793)	(22,562)
PROFIT FOR THE YEAR		48,614	51,573
OTHER COMPREHENSIVE INCOME, NET OF TAX *Other comprehensive income to be reclassified to profit or loss in subsequent periods:*			
Net (losses)/gains on AFS financial assets	15(b)	(18,633)	-
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		29,981	51,573
Basic and diluted earnings per share (KShs)	19	243	258

CO-OPTRUST INVESTMENT SERVICES LIMITED
STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2016

	Share capital	Retained earnings	Available-for-sale reserve	Total
	KShs'000	KShs'000	KShs'000	KShs'000
Balance as at 1 January 2015	20,000	134,957	-	154,957
Total comprehensive income				
Profit for the year	-	51,573	-	51,573
Other comprehensive income	-	-	-	-
Balance as at 31 December 2015	20,000	186,530	-	206,530
Balance as at 1 January 2016	20,000	186,530	-	206,530
Total comprehensive income				
Profit for the year	-	48,614	-	48,614
Other comprehensive income	-	-	(18,633)	(18,633)
Balance as at 31 December 2016	20,000	235,144	(18,633)	236,511

CO-OPTRUST INVESTMENT SERVICES LIMITED
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2016

	Note	2016 KShs '000	2015 KShs '000
Cash flows from operating activities:-			
Profit before tax		69,407	74,135
Adjustments for:-			
Depreciation on property and equipment	2	320	421
Amortisation of intangible assets	3	11,943	10,975
Amortization of held to maturity bonds	4	(648)	(570)
Gain on disposal of property and equipment		-	(4)
Provision for accrued Leave		34	710
(Write back)/provision for doubtful debts	8(b)	(6,229)	4,058
Interest income	15	(21,172)	(21,160)
Other Write-offs	6	57	1,116
Operating profit before working capital changes		53,712	69,681
(Decrease)/ increase in related party balances		(354)	803
Decrease/(increase) in management fees receivable		(3,223)	11,063
Decrease/(Increase) in other receivables		20,577	(24,373)
(Decrease)/ Increase in other payables		(4,374)	1,472
Cash generated from operations		66,338	58,646
Tax paid	9	(12,933)	(29,501)
Net cash flows generated from operating activities		53,405	29,145
Cash flows from investing activities:-			
Proceeds from maturity of commercial paper		-	15,844
Purchase of Software	3	(1,661)	(7,143)
Proceed from redemption of treasury bond	4	-	4,400
Purchase of property and equipment	2	(1,193)	(83)
Interest received	15	21,172	21,160
Purchase of available for sale investments	7	(49,033)	-
Proceed from sale of property and equipment		-	71
Net cash flows used in investing activities		(30,715)	34,249
Cash flows used in financing activities			
Dividend paid	12	(94,999)	-
Net cash flows used in financing activities		(94,999)	-
Net (decrease)/increase in cash and cash equivalents		(72,309)	63,393
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR		76,932	13,539
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	20	4,623	76,932

1 SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of the financial statements are set out below. These policies have been consistently applied over the years presented unless otherwise stated:

a) Basis of preparation of financial statements

i) Basis of preparation

The Company financial statements are prepared in compliance with International Financial Reporting Standards (IFRSs) and interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC). The financial statements are presented in Kenya Shillings (KShs), which is the company's functional and presentation currency, rounded to the nearest thousand, and prepared on the historical cost basis, except where otherwise stated in the accounting policies below.

For the Kenyan Companies Act, 2015, reporting purposes, in these financial statements, the balance sheet is represented by/is equivalent to the statement of financial position and the profit and loss account is presented in the statement of profit or loss and other comprehensive income.

ii) Changes in accounting policies and disclosures

<u>New and amended standards</u> and interpretations

The accounting policies adopted are consistent with those of the previous financial year, except for the following amendments to IFRS effective on 1 January 2016.

The Company has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

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

IFRS 14 Regulatory Deferral Accounts

IFRS 14 is an optional standard that allows an entity, whose activities are subject to rate-regulation, to continue applying most of its existing accounting policies for regulatory deferral account balances upon its first-time adoption of IFRS. Entities that adopt IFRS 14 must present the regulatory deferral accounts as separate line items on the statement of financial position and present movements in these account balances as separate line items in the statement of profit or loss and OCI. The standard requires disclosure of the nature of, and risks associated with, the entity's rate-regulation and the effects of that rate-regulation on its financial statements.

Since the Company is an existing IFRS preparer and is not involved in any rate-regulated activities, this standard does not apply.

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

ii) Changes in accounting policies and disclosures (Continued)

New and amended standards and interpretations (Continued)

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

The amendments to IFRS 11 require that a joint operator accounting for the acquisition of an interest in a joint operation, in which the activity of the joint operation constitutes a business, must apply the relevant IFRS 3 Business Combinations principles for business combination accounting. The amendments also clarify that a previously held interest in a joint operation is not remeasured on the acquisition of an additional interest in the same joint operation if joint control is retained. In addition, a scope exclusion has been added to IFRS 11 to specify that the amendments do not apply when the parties sharing joint control, including the reporting entity, are under common control of the same ultimate controlling party. The amendments apply to both the acquisition of the initial interest in a joint operation and the acquisition of any additional interests in the same joint operation and are applied prospectively. These amendments do not have any impact on the Company as it does not have any interest in a joint operation.

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

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

Amendments to IAS 16 and IAS 41 Agriculture: Bearer Plants

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

Amendments to IAS 27: Equity Method in Separate Financial Statements

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

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

ii) Changes in accounting policies and disclosures (Continued)

New and amended standards and interpretations (Continued)

Annual Improvements 2012-2014 Cycle

These improvements include:

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

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

IFRS 7 Financial Instruments: Disclosures

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

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

IAS 19 Employee Benefits

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

IAS 34 Interim Financial Reporting

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

These amendments do not have any impact on the Company.

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

ii) Changes in accounting policies and disclosures (Continued)

New and amended standards and interpretations (Continued)

Amendments to IAS 1 Disclosure Initiative

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

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

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

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

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

Standards issued but not yet effective

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

IFRS 9 Financial Instruments

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

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

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

ii) Changes in accounting policies and disclosures (Continued)

Standards issued but not yet effective (Continued)

IFRS 9 Financial Instruments (continued)

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

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

Having completed its initial assessment, the Company has concluded that;

- The Investments classified as available for sale under IAS 39 are expected to be measured at FVOCI.
- Financial assets held for trading are expected to be continue to be measured at FVPL
- Debt securities classified as held to maturity are expected to continue to be measured at amortized cost.
- Trade and other receivables that are classified as loans and receivables under IAS 39 are expected to be measured at amortised cost under IFRS 9

Impairment

IFRS 9 requires the company to record expected credit losses on all of its debt securities, loans and trade receivables, either on a 12-month or lifetime basis. The company expects to apply the simplified approach and record lifetime expected losses on all trade and other receivables.

Hedge accounting

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

Amendments to IAS 12 Income Taxes

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

IFRS 15 Revenue from Contracts with Customers

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

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

ii) Changes in accounting policies and disclosures (Continued)

Standards issued but not yet effective (Continued)

IFRS 15 Revenue from Contracts with Customers (continued)

Revenue under IFRS 15 will need to be recognised as goods and services are transferred, to the extent that the transferor anticipates entitlement to goods and services. The standard will also specify a comprehensive set of disclosure requirements regarding the nature, extent and timing as well as any uncertainty of revenue and corresponding cash flows with customers. The Company does not anticipate early adopting IFRS 15 and is currently evaluating its impact.

IFRS 16 Leases

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

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

Amendments to IAS 7 Statement of Cash Flows

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

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

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

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

The IASB issued amendments to IFRS 2 Share-based Payment that address three main areas: the effects of vesting conditions on the measurement of a cash-settled share-based payment transaction; the classification of a share-based payment transaction with net settlement features for withholding tax obligations; and accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash settled to equity settled. On adoption, entities are required to apply the amendments without restating prior periods, but retrospective application is permitted if elected for all three amendments and other criteria are met. The amendments are effective for annual periods beginning on or after 1 January 2018, with early application permitted. These amendments are not expected to have any impact on the Company.

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

ii) Changes in accounting policies and disclosures (Continued)

Standards issued but not yet effective (Continued)

Annual Improvements 2014-2016 Cycle

The following is a summary of the amendments from the 2014-2016 annual improvements cycle.

IFRS 1 First-time Adoption of International Financial Reporting Standards

Deletion of short-term exemptions for first-time adopters - Short-term exemptions in paragraphs E3-E7 of IFRS 1 were deleted because they have now served their intended purpose. The amendment is effective from 1 January 2018.

IAS 28 Investments in Associates and Joint Ventures

Clarification that measuring investees at fair value through profit or loss is an investment-by investment choice. The amendments clarifies that an entity that is a venture capital organisation, or other qualifying entity, may elect, at initial recognition on an investment-by-investment basis, to measure its investments in associates and joint ventures at fair value through profit or loss.

If an entity that is not itself an investment entity has an interest in an associate or joint venture that is an investment entity, the entity may, when applying the equity method, elect to retain the fair value measurement applied by that investment entity associate or joint venture to the investment entity associate's or joint venture's interests in subsidiaries. This election is made separately for each investment entity associate or joint venture, at the later of the date on which:
(a) The investment entity associate or joint venture is initially recognised;
(b) The associate or joint venture becomes an investment entity; and
(c) The investment entity associate or joint venture first becomes a parent.

The amendments should be applied retrospectively and are effective from 1 January 2018, with earlier application permitted. If an entity applies those amendments for an earlier period, it must disclose that fact. This amendment is not expected to have an impact on the company, as the company does not have investments in associates or joint ventures.

IFRS 12 Disclosure of Interests in Other Entities

The amendments clarify that the disclosure requirements in IFRS 12, other than those in paragraphs B10-B16, apply to an entity's interest in a subsidiary, a joint venture or an associate (or a portion of its interest in a joint venture or an associate) that is classified (or included in a disposal group that is classified) as held for sale.
The amendments are effective from annual periods beginning on or after 1 January 2017 with early application permitted and must be applied retrospectively. If an entity applies the amendments for an earlier period, it must disclose that fact. This amendment is not expected to have any impact on the company as it does not have interests in subsidiaries, joint ventures or associates.

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

ii) Changes in accounting policies and disclosures (Continued)

Standards issued but not yet effective (Continued)

IFRIC Interpretation 22 Foreign Currency Transactions and Advance Consideration.

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

Entities may apply the amendments on a fully retrospective basis. Alternatively, an entity may apply the interpretation prospectively to all assets, expenses and income in its scope that are initially recognised on or after:
(i) The beginning of the reporting period in which the entity first applies the interpretation
Or
(ii) The beginning of a prior reporting period presented as comparative information in the financial statements of the reporting period in which the entity first applies the interpretation.

Early application of interpretation is permitted and must be disclosed.
First-time adopters of IFRS are also permitted to apply the interpretation prospectively to all assets, expenses and income initially recognised on or after the date of transition to IFRS.
The amendments are intended to eliminate diversity in practice, when recognising the related asset, expense or income (or part of it) on the derecognition of a non-monetary asset or non-monetary liability relating to advance consideration received or paid in foreign currency.
These amendments are effective for annual periods beginning on or after 1 January 2018 and are not expected to have an impact on the company's accounting policies since it does not have transactions in foreign currencies.

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

The amendments address concerns arising from implementing the new financial instruments Standard, IFRS 9, before implementing the new insurance contracts standard that the Board is developing to replace IFRS 4. The amendments introduce two options for entities issuing insurance contracts: a temporary exemption from applying IFRS 9 and an overlay approach.

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

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

ii) Changes in accounting policies and disclosures (Continued)

Standards issued but not yet effective (Continued)

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

The overlay approach
The overlay approach is an option for entities that adopt IFRS 9 and issue insurance contracts, to adjust profit or loss for eligible financial assets; effectively resulting in IAS 39 accounting for those designated financial assets. The adjustment eliminates accounting volatility that may arise from applying IFRS 9 without the new insurance contracts standard. Under this approach, an entity is permitted to reclassify amovnts between profit or loss and other comprehensive income (OCI) for designated financial assets. An entity must present a separate line item for the amount of the overlay adjustment in profit or loss, as well as a separate line item for the corresponding adjustment in OCI.
The temporary exemption is first applied for reporting periods beginning on or after 1 January 2018.
An entity may elect the overlay approach when it first applies IFRS 9 and apply that approach retrospectively to financial assets designated on transition to IFRS 9. The entity restates comparative information reflecting the overlay approach if, and only if, the entity restates comparative information when applying IFRS 9.
The overlay approach requires an entity to remove from profit or loss additional volatility that may arise if IFRS 9 is applied with IFRS 4.
When applying the temporary exemption, entities must still provide extensive disclosure that require the application of some aspects of IFRS 9.
These amendments are effective for annual periods beginning on or after 1 January 2018 and are not expected to have any impact on the company's accounting policies since the company does not offer insurance services.

Transfers of Investment Property (Amendments to IAS 40)

The amendments clarify when an entity should transfer property, including property under construction or development into, or out of investment property. The amendments state that a change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in vse. A mere change in management's intentions for the use of a property does not provide evidence of a change in use.

Entities should apply the amendments prospectively to changes in use that occur on or after the beginning of the annual reporting period in which the entity first applies the amendments. An entity should reassess the classification of property held at that date and, if applicable, reclassify property to reflect the conditions that exist at that date.
Retrospective application in accordance with IAS 8 is only permitted if that is possible without the use of hindsight.
These amendments are effective for annual period beginning on or after 1 January 2018, with early application permitted. The amendment is not expected to have an impact to the company since the company does not own investment properties.

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

b) Significant accounting judgments and estimates

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

i) Property and equipment and intangible assets

Critical estimates are made by the directors in determining depreciation and amortisation rates for property, equipment and intangible assets. The rates used are set out in accounting policies (d) and (e), and the carrying amounts of property and equipment and intangible assets are disclosed in notes 2 and 3 below.

ii) Impairment of non-financial assets

Impairment exists when the carrying amount of an asset exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use. The fair value less costs of disposal calculation is based on available data from binding sales transactions, conducted at arm's length, for similar assets or observable market prices less incremental costs for disposing of the asset. The value in use is the present value of the future cash flows expected to be derived from an asset or cash-generating unit. In the process of applying the company's accounting policies, Directors have made judgements in determining whether assets are impaired. The impairment of non-financial assets is described in more detail in note 1(p), 2 and 3.

iii) Going concern

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

iv) Fair value of financial instruments

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

The judgements include considerations of liquidity and model inputs such as volatility for longer-dated derivatives and discount rates, prepayment rates and default rate assumptions for asset-backed securities. The valuation of financial instruments is described in more detail in note 21 to the financial statements.

v) Impairment of financial assets

Judgement is used to assess impairment of financial assets at the end of each reporting date. In the case of available-for-sale investments, the cumulative loss will be estimated to be the difference between the cost of acquisition and the fair value less any impairment losses. The impairment losses are estimated based on the impact of the future cash flows. Judgement is required in making expected loss calculation.

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

b) Significant accounting judgments and estimates (continued)

vi) Deferred tax assets

Deferred tax assets are recognised to the extent it is probable that taxable income will be available in future against which they can be utilized. Future taxable profits are estimated based on business plans which include estimates and assumptions regarding economic growth, interest, inflation, taxation rates and competitive forces. More details on this are included in note 1 (k) and note 5.

c) Income recognition

Management fees and interest income are recognised in profit or loss on an accrual basis in the period in which they are earned. Management fee relates to fee charged to clients for managing their funds. It is based on the market value of the fund balance and charged at the agreed rate as per the management agreements while interest income on bonds and fixed and call deposits is recognised using the effective interest method.

d) Property and equipment and depreciation

Property and equipment are stated at cost, less accumulated depreciation and accumulated impairment losses, if any.

Subsequent costs are included in an asset's carrying amount only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. Repairs and maintenance costs incurred to keep assets in normal operating condition are recognised in profit or loss in the year to which they relate.

Depreciation is calculated on the straight-line basis, at annual rates estimated to write off the carrying amounts of the assets over their expected useful lives. The annual depreciation rates in use in note 2 are: -

Fixtures, fittings and equipment	20%
Computers	20%

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

The carrying amounts of property and equipment are reviewed for impairment when events or changes in circumstances indicate the carrying amounts may not be recoverable. If any such indications exist, and the carrying amounts exceed the estimated recoverable amounts, the assets are written down to their recoverable amounts. For more details, refer to note 1(p).

An item of property and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on de-recognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss when the asset is derecognised.

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

e) Intangible assets and amortisation

Intangible assets are stated at cost, less accumulated amortisation and accumulated impairment losses, if any. The company's intangible assets are computer software and these have finite useful lives. Amortisation is calculated on straight line basis at an annual rate of 20% estimated to amortise the carrying amounts of the assets over their expected useful lives. The rate has been applied in note 3. Intangible assets are assessed for impairment (note 1 (p)) whenever there is an indication that the intangible asset may be impaired.

The amortisation expense on computer software is recognised in profit or loss in the expense category consistent with the function of the intangible asset. Maintenance costs are recognised as an expense as incurred.

The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at the end of each reporting period. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are considered to modify the amortisation period or method, as appropriate, and are treated as changes in accounting estimates.

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

f) Financial assets

Financial assets are classified, at initial recognition, as financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, available-for-sale financial assets, or as derivatives. All financial assets are recognised initially at fair value plus, in the case of financial assets not recorded at fair value through profit or loss, transaction costs that are attributable to the acquisition of the financial asset.

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the market place (regular way trades) are recognised on the trade date, i.e., the date that the Company commits to purchase or sell the asset.

Financial assets classified as fair value through profit and loss include investments held for trading and are subsequently measured at fair value (quoted market bid prices). All related realised and unrealised gains or losses are included in profit or loss.

Held to maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities. Financial assets are classified as held to maturity when the Company has the positive intention and ability to hold them to maturity. They are subsequently measured at amortised cost using the effective interest rate method, less allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition .The amortisation and losses arising from impairment of such investments are recognised in profit or loss.

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

f) Financial assets

Available for sale investments are non-derivative investments that are designated as available for sale or are not classified as (a) loans and receivables, (b) held to maturity, (c) financial assets at fair value through profit and loss. Available for sale investments are initially recognised at cost plus transaction costs and subsequently re-measured at fair value (quoted market bid prices). Unrealised gains or losses arising from changes in the fair value are recognised in in other comprehensive income and accumulated in an Available-for-Sale reserve until the asset is derecognised or deemed to be impaired, at which time the cumulative gains or losses previously recognised in equity shall be reclassified to profit or loss.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Trade receivables and amounts due from related parties are carried at invoice amount which is the fair value on initial recognition less provision made for impairment. A provision for impairment of trade receivables and amounts due from related parties is established when there is objective evidence that the Company will not be able to collect all the amounts due according to the original terms of receivables. The amount of the provision is the difference between the carrying amount and the present value of the estimated cash flows discounted at the assets original effective interest rate. The losses arising from impairment are recognized in profit or loss in other operating expenses.

g) Impairment of financial assets

The Company assesses at each reporting date whether there is any objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that a debtor or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Financial assets carried at amortised cost
For financial assets carried at amortised cost, the Company first assesses whether impairment exists for financial assets that are individually significant. If the Company determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment. The amount of any impairment loss identified is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred) discounted at the financial asset's original effective interest rate.

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

g) Impairment of financial assets (continued)

Financial assets carried at amortised cost (continued)
The carrying amount of the asset is reduced through the use of an allowance account and the loss is recognised in profit or loss. Interest income (recorded as finance income in profit or loss) continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Company. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a write-off is later recovered, the recovery is credited to other income in profit or loss.

Available-for-sale financial assets

For Available-for-sale financial assets, the company assesses at each reporting date whether there is objective evidence that an investment is impaired.

In the case of equity investments classified as Available-for sale, objective evidence would include a significant or prolonged decline in the fair value of the investment below its cost. 'Significant' is evaluated against the original cost of the investment and 'prolonged' against the period in which the fair value has been below its original cost. When there is evidence of impairment, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in profit or loss - is removed from OCI and recognised in profit or loss. Impairment losses on equity investments are not reversed through profit or loss; increases in their fair value after impairment are recognised in OCI.

The determination of what is 'significant' or 'prolonged' requires judgement. In making this judgement, the company evaluates, among other factors, the duration or extent to which the fair value of an investment is less than its cost. In the case of debt instruments classified as AFS, the impairment is assessed based on the same criteria as financial assets carried at amortised cost. However, the amount recorded for impairment is the cumulative loss measured as the difference between the amortised cost and the current fair value, less any impairment loss on that investment previously recognised in profit or loss.

Future interest income continues to be accrued based on the reduced carrying amount of the asset, using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded as part of finance income. If, in a subsequent year, the fair value of a debt instrument increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through profit or loss.

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

h) .Derecognition

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised (i.e. removed from the company's statement of financial position) when:

- The rights to receive cash flows from the asset have expired.

Or

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

i) Financial liabilities

The Company's financial liabilities include trade and other payables and amount due to related parties. All the company's financial liabilities are recognised initially at fair value and subsequently measured at amortised cost.

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

j) Employee benefit costs

The Company contributes to a defined contribution benefits pension scheme for all its employees. The scheme is sponsored by the parent company, The Co-operative Bank of Kenya Limited. The assets of the scheme are held in a separate trustee administered fund that is funded by both the group companies and employees.

The Company also contributes to a statutory defined contribution pension scheme, the National Social Security Fund (NSSF). Contributions are determined by local statute and are currently limited to Kshs 200 per employee per month.

The Company's contributions to the above schemes are charged to profit or loss in the year to which they relate.

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

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

k) Taxation

Current income tax assets and liabilities for the current period are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted, at the reporting date.

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

k) Taxation (continued)

Current income tax relating to items recognised outside profit or loss is recognised directly in other comprehensive income or equity and not in profit or loss.

Deferred taxation is provided using the liability method, for all temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes at the reporting date.

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

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

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

Deferred tax relating to items recognised outside profit or loss is recognised outside profit or loss. Deferred tax items are recognised in correlation to the underlying transaction either in OCI or directly in equity.

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

Value Added Tax (VAT)

Expenses and assets are recognised net of the amount of Value added tax, except:

- When VAT incurred on purchase of assets or services is not recoverable from the taxation authority, in which case, the VAT is recognised as part of the cost of acquisition of the asset or as part of the expense item, as applicable.
- When receivables and payables are stated with the amount of VAT included

The net amount of VAT recoverable from or payable to the taxation authority is included as part of receivables or payables in the statement of financial position.

m) Management fees receivable

Management fees receivable are carried at original invoiced amount less an estimate made for doubtful receivables based on a review of all outstanding amounts at year-end. For better management of the Management fees receivable, the Company records Changes in the carrying amount based on the number of days they have been outstanding. The Company then makes provisions for bad and doubtful debts in profit or loss for debts which have been outstanding for over two years. Bad debts are written off in the year in which they are identified.

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

n) Fair value measurement

The company measures financial instruments such as held for trading and available-for-sale investments at fair value at each reporting date.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

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

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

The principal or the most advantageous market must be accessible to by the Company.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

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

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

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

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

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

For the purpose of fair value disclosures, the company has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as explained above.

o) Cash and cash equivalents

Cash and cash equivalents are defined as cash on hand and in bank accounts and overdrawn bank balances. For the purposes of the statement of cash flows cash and cash equivalents comprise cash on hand, bank balances less bank overdraft.

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

p) Impairment of non-financial assets

At each reporting date, the Company assesses whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the recoverable amount of the asset is estimated. An asset's recoverable amount is the higher of an asset's or cash-generating units (CGU) fair value less costs of disposal and its value in use. Recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. When the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

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

The Company bases its impairment calculation on detailed budgets and forecast calculations. These budgets and forecast calculations generally cover a period of five years. For longer periods, a long-term growth rate is calculated and applied to project future cash flows after the fifth year.

Impairment losses are recognised in profit or loss in expense categories consistent with the function of the impaired asset.

An assessment is made at each reporting date to determine whether there is an indication that previously recognised impairment losses no longer exist or have decreased. If such indication exists, the company estimates the asset's or CGU's recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, or exceed the carrying amount that would have been determined, net of depreciation or amortisation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognized in profit or loss.

q) Dividends

Dividends on ordinary shares are charged to equity in the year in which they are declared. Proposed dividends are shown as a separate component or equity until they have been ratified at the Board of Directors Meeting.

r) Leases

The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement at the inception date. The arrangement is assessed for whether fulfilment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset or assets, even if that right is not explicitly specified in an arrangement.

Company as a lessee
Operating lease payments are recognised as an operating expense in profit or loss on a straight-line basis over the lease term.

2. PROPERTY AND EQUIPMENT

	Computers KShs'000	Furniture & fittings KShs'000	Equipment KShs'000	Total KShs'000
COST				
At 1 January 2016	3,863	2,500	428	6,791
Additions	277	795	121	1,193
At 31 December 2016	4,141	3,295	549	7,985
ACCUMULATED DEPRECIATION				
At 1 January 2016	3,357	2,308	428	6,093
Charge for the year	197	121	2	320
At 31 December 2016	3,554	2,429	430	6,413
NET CARRYING AMOUNT				
At 31 December 2016	587	866	119	1,571

	Computers KShs '000	Furniture & fittings KShs '000	Equipment KShs'000	Total KShs'000
COST				
At 1 January 2015	3,871	2,500	428	6,799
Additions	83	-	-	83
Disposals	(91)	-	-	(91)
At 31 December 2015	3,863	2,500	428	6,791
Accumulated depreciation				
At 1 January 2015	3,090	2,178	428	5,696
Charge for the year	291	130	-	421
Disposals	(24)	-	-	(24)
At 31 December 2015	3,357	2,308	428	6,093
NET CARRYING AMOUNT				
At 31 December 2015	507	192	-	699

3. INTANGIBLE ASSETS

	2016 KShs '000	2015 KShs '000
COST		
At 1 January	77,596	70,453
Additions	1,661	7,143
	79,257	77,596
ACCUMULATED AMORTISATION		
At 1 January	32,082	21,107
Charge for the year	11,943	10,975
At 31 December	44,025	32,082
NET CARRYING AMOUNTS		
At 31 December	35,232	45,514

Intangible assets relate to computer software which is amortised over its useful life.

4. HELD-TO-MATURITY INVESTMENTS

	2016 KShs '000	2015 KShs '000
Treasury bonds		
Movement in the year:		
At 1 January	154,584	158,414
Amortisation	648	570
Partial redemption	-	(4,400)
At 31 December	155,232	154,584
Maturity Profile:		
Maturing 10-15 years	101,714	101,431
Maturing 15-20 years	53,518	53,153
	155,232	154,584

The weighted average effective interest rate on government securities held to maturity at 31 December 2016 was 9.49% (2015 - 9.56%). They will mature within 9 and 17 years.

5. DEFERRED TAX

	2016 KShs '000	Charge / (credit) to profit or loss	2015 Kshs '000
The provision for deferred tax comprises:			
Excess of tax on wear and tear allowance over depreciation	(1,189)	1,228	(2,417)
Provision on accrued leave	10	(203)	213
Provision for bad debts	2,308	(1,738)	4,046
Provision for bonus	263	263	-
Deferred tax asset	1,392	450	1,842

	2015 KShs '000	Charge / (credit) to profit or loss	2014 Kshs '000
The provision for deferred tax comprises:			
Excess on wear and tear allowance over depreciation	(2,417)	223	(2,194)
Provision on accrued leave	213	(95)	118
Provision for bad debts	4,046	(1,087)	2,959
Deferred tax asset	1,842	(959)	883

	2016 KShs' 000	2015 KShs' 000
6. HELD-FOR-TRADING INVESTMENTS		
Treasury bonds		
At 1 January	57	57
Write-off	(57)	-
At 31 December	-	57

7 AVAILABLE FOR SALE INVESTMENTS

CIC Group Limited shares	49,033	-
Movement in the year	-	-
As at 1 January	-	
Additions	49,033	-
Change in fair value	(18,633)	-
At 31 December	30,400	-

8. (a) TRADE RECEIVABLES

	2016 KShs '000	2015 KShs '000
Management fees receivable	39,197	35,973
Impairment allowance for receivables (Note 8(b))	(7,693)	(13,922)
	31,504	22,051

(b) IMPAIRMENT ALLOWANCE FOR RECEIVABLES

As at 31 December 2016, trade receivables amounting to KShs 7.69 million were fully impaired and provided for. The company considers amounts above 2 years to be fully impaired. Movements in the provisions for impairment of receivables were as follows:

	2016 KShs '000	2015 KShs '000
At 1 January	13,922	9,864
Additional provision	-	4,058
Write back	(6,229)	-
At 31 December	7,693	13,922

(c) AGEING ANALYSIS
As at 31 December 2016, the ageing analysis of management fees receivables was as follows:

	Neither Past due nor impaired	Past due but not impaired		Impaired	
	<180 days KShs'000	180-360 days KShs'000	1-2 Years KShs'000	> 2 Years KShs'000	Total KShs'000
2016	15,556	7,413	8,535	7,693	39,197
2015	4,915	3,095	14,041	13,922	35,973

The company assesses impairment for the above receivables on annual basis. See note 21 on credit risk of trade receivables which explains how the company manages and measures credit quality of trade receivables.

(d) OTHER RECEIVABLES

	2016 KShs '000	2015 KShs'000
Interest receivable on bonds	2,631	16,631
Interest receivable on fixed deposits	-	1,288
Prepayments	3,151	4,041
Other receivables	-	4,400
	5,782	26,360

9. TAXATION

	2016 KShs '000	2015 KShs '000
a) Statement of financial position:		
Balance brought forward	(B,596)	(2,615)
Charge for the year	20,247	23,520
Paid during the year	(12,933)	(29,501)
Under provision in previous year	96	-
Tax recoverable	(1,186)	(8,596)
b) Profit or loss:		
Cvrrent tax at 30% on the taxable profit for the year	20,247	23,520
Deferred tax charge (Note 5)	450	(95B)
Under provision in previovs year	96	-
	20,793	22,562
c) Reconciliation of tax expense to tax based on accounting profit:		
Accounting profit before taxation	69,407	74,135
Tax at applicable rate of 30%	20,B22	22,241
Tax effect of expenses not eligible for tax	-	321
Tax effect of income not eligible for tax	(125)	-
Under provision in previous year	96	-
	20,793	22,562

10. SHARE CAPITAL

Authorised, issued and fully paid:- 200,000 ordinary shares of KShs 100 each	20,000	2D,000

199,999 ordinary shares are held by The Co-operative Bank of Kenya Limited, while 1 ordinary share is held by Co-operative Consultancy & Insurance Agency Limited.

11 RESERVES

(a) Retained earnings

This reserve includes retained earnings available for distribution to the shareholders of the company. The movement in reserves is shown on page 10.

(b) Available-for-sale reserve

This comprises changes in fair value of available-for-sale investments. The reserve is not distributable.

12. DIVIDENDS PAYABLE	2016 KShs '000	2015 KShs '000
	25,000	119,999

The board of directors in 2014 declared a first and final dividend of KShs. 1,000 for each share held amounting to KShs. 200 million of which KShs. 94,999,000 was paid in 2016 and KShs. 80,001,000 was paid in 2014. The board's declaration is final.

13. OTHER PAYABLES	2016 KShs '000	2015 KShs '000
Other payables	2,740	6,713
Accrued leave	34	710
VAT payable	2,637	2,329
	5,411	9,752

Other payables relates to amounts outstanding on invoices from suppliers and other service providers as at year end. The amounts are settled upon receipt of invoice from the respective supplier of goods and/or services.

14. RELATED PARTY BALANCES AND TRANSACTIONS	2016 KShs '000	2015 KShs '000
a) Due from/ (to) The Cooperative Bank of Kenya Limited	-	(354)

The Co-operative Bank of Kenya Limited is the parent to the company, which is ultimately owned by Co-op Holdings Co-operative Society Limited. The company's Directors listed on page 2 are the Company's key management personnel. The operational indebtedness with the Bank relates to transactions for the purchase and sale of investments, income and expenses, handled for and on behalf of the Company, which was settled at year-end. In addition, the Company operates from Co-operative House, a property of the Bank, and pays rent for the space occupied. The Bank also maintains the payroll for the group and allocates staff costs to the company.

The outstanding balances at the year-end are unsecured and interest free and settlement occurs in cash. There have been no guarantees provided or received for any related party receivables or payables. For the year ended 31 December 2016, the Company has not recorded any impairment of receivables relating to amounts owed by related parties (2015: Nil). This assessment is undertaken each financial year through examining the financial position of the related party and the market in which the related party operates.

b) Fund managed and income earned from related parties	2016 KShs '000	2015 KShs '000
Funds managed for The Co-operative Bank of Kenya Limited Staff Retirement Benefit Scheme	6,880,020	6,249,354
Management fees earned from The Co-operative Bank of Kenya Limited Staff Retirement Benefit Scheme	14,560	35,168

The Company contributes to The Co-operative Bank of Kenya Limited Staff Retirement Benefit Scheme for all its employees. The Company manages the scheme's funds received by the custodians and held in trust. It thus earns management fees from this scheme.

14. RELATED PARTY TRANSACTIONS (continued)

c) Directors' emoluments and senior management compensation

	2016 KShs '000	2015 KShs '000
Remuneration to non-executive directors	8,284	7,725
Senior management compensation		
-Short-term employee benefits	8,784	5,523
-Post-employment benefits	210	852
	17,278	14,100

15. INCOME

	2016	2015
(a) Management fees	123,275	137,805
Trading commission	5,878	529
Write back of bad debts	6,229	-
Interest income	21,172	21,160
	156,554	159,494

Management fees income is derived from the commission charged on investment of funds on behalf of clients. These clients include pension and provident funds, trust funds, individuals on personal investment plans or personal pension plans and collective investment schemes.

(b) OTHER COMPREHENSIVE INCOME, NET OF TAX

	2016 KShs '000'	2015 KShs '000'
Loss in fair value of quoted equities (Note 7)	(18,633)	-

16. ADMINISTRATION AND ESTABLISHMENT

	2016	2015
Directors' emoluments	8,284	7,725
Basic salaries	38,012	32,894
Other staff costs	1,057	397
Wages	78	213
Pension	2,082	2,834
NSSF	27	45
Medical expenses	738	947
Education & Training	133	326
Telephone & postage	295	364
Rent & service charge	2,011	2,161
Subscriptions	395	389
Maintenance	95	241
Printing & stationery	402	546
Legal, licenses and professional fee	10,047	6,807
Accommodation and travelling	1,276	1,730
Entertainment	24	68
Audit fees	1,150	1,064
Insurance	3,073	3,825

16. ADMINISTRATION AND ESTABLISHMENT (Continued)

	2016 KShs '000'	2015 KShs '000'
Marketing & advertising	481	1,339
General office expenses	759	680
Custody fees	4,380	4,054
Depreciation	320	421
Leave liability	(676)	710
Amortisation of software	11,943	10,975
Additional provision	-	4,058
Write-off of investments/other receivables	57	1,116
	87,795	85,929

17. AMORTISATION OF HELD TO MATURITY INVESTMENTS

Amortisation of securities (Note 4)	648	570

18. PROFIT BEFORE TAX

Profit before tax is stated after charging:-

Depreciation	320	421
Amortisation of software	11,943	10,975
Directors' emoluments:-		
-As executives	-	-
-Others	8,284	7,725
Auditors' remuneration	1,150	1,064
And after crediting:-		
Interest income	21,172	21,160

19. EARNINGS PER SHARE

Earnings per share are calculated on the profit after tax of KShs 48,613,577 (2015: KShs 51,572,488) and on the 200,000 ordinary shares in issue during the year under review (2015: 200,000 ordinary shares).

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. There are no potentially dilutive instruments.

20. CASH AND CASH EQUIVALENTS

Cash and cash equivalents included in the statement of cash flows comprise the following amounts in the statement of financial position:

	2016 KShs '000	2015 KShs '000
Bank balances	4,623	4,932
Fixed deposits	-	72,000
	4,623	76,932

21. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The main risks faced by the Company in respect of its financial instruments are interest rate risk, credit risk and liquidity risk. The directors review and agree on policies for managing these risks. The Company maintains a conservative policy regarding the risks. The Company does not engage in speculation in the markets. In addition, the company does not speculate or trade in derivative financial instruments.

The Company's principal financial instruments comprise investments held for trading; investments held-to-maturity; available-for-sale investments; cash and cash equivalents; trade and other receivables; and trade and other payables.

Market risk

Market risk is the risk the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market prices comprise three types of risk: interest rate risk, currency risk and other price risk, such as equity price risk. The risk can arise from dealing and position taking. The Company manages market risk by establishing position limits within overall investment criteria and policy, and management reports are done on daily basis to support a review regime

The company is affected by price and interest rate risks which have been described below;

Equity Price risk
The company is exposed to equity price risk in respect of its quoted equity securities, the investment in CIC group Ltd (see note 7).

The following table demonstrates the sensitivity to a reasonably possible change in share prices, with all other variables held constant, on the Company's other comprehensive and equity.

	Appreciation / (depreciation) of	
	Share price	Effect on equity
Year 2016	KShs	KShs
Available-for-sale investments	1%/(1%)	+/- 304,000
Year 2015		
Available-for-sale investments	1%/(1%)	-

Interest rate risk management
Interest rate risk is the risk that the value and cash flows of a financial instrument will fluctuate due to changes in market interest rates. Excess funds held by the Company are invested in Treasury bonds, fixed and call deposits.

21. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Interest rate risk management (continued)
The following table sets out the carrying amounts by maturity, of the Company's financial instruments that are exposed to interest rate risk:

31 December 2016	Up to 1 month KShs'000	1 month to 1 year KShs'000	1-4 Years KShs'000	5-20 Years KShs'000	Non-Interest bearing KShs'000	Total KShs'000
Held to maturity investments	-	-	-	155,232	-	155,232
Bank Balances	4,623	-	-	-	-	4,623
Other receivables	-	-	-	-	2,626	2,626
Management fees receivable	-	-	-	-	31,504	31,504
Other payables	-	-	-	-	(2,740)	(2,740)
At 31 December 2016	4,623	-	-	155,232	31,390	191,245
31 December 2015						
Held to maturity investments	-	-	-	154,584	-	154,584
Held for trading investments	-	57		-	-	57
Management fees receivable	-	-	-	-	22,051	22,051
Other receivables			-	-	22,320	22,320
Bank balances	76,932	-	-	-	-	76,932
Other payables	-	-	-	-	(6,713)	(6,713)
At 31 December 2015	76,932	57	-	154,584	37,658	269,231

The following table demonstrates the sensitivity to a reasonably possible change in the interest rates, with all other variables held constant, on the company's profit before tax and equity. The sensitivity computations assume that financial assets maintain a constant rate of return from one year to the next.

	2016 KShs'000	2015 KShs'000
Effect on profit before tax of a +5% change in interest rates	8,885	10,232
Effect on equity of a +5% change in interest rates	6,664	7,162
Effect on profit before tax of a -5% change in interest rates	(8,885)	(10,232)
Effect on equity of a -5% change in interest rates	(6,664)	(7,162)

21. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Liquidity risk management

Liquidity risk is the risk that the company will encounter difficulty in meeting obligations from its financial liabilities. The company's approach to managing liquidity is to ensure, as far as possible, that it will always be able to meet its obligations when they fall due, without incurring unacceptable losses or risking damage to the company's reputation. In the course of its operations the company invests its capital in forms that vary in liquidity ranging from government securities that are readily convertible and receivables. Simultaneously it carries current liabilities in form of payables and bank overdrafts. The entity matches its current assets to the current liabilities falling due to mitigate the risk of low liquidity.

The Company's financial liabilities amount to KShs. 3D.4 million (2015: Kshs t3D.1million) and are all short term. There is no requirement for collateral.

Credit risk management

The largest concentrations of credit exposure within the company relate to cash and cash equivalents and trade receivables.

The Company only places significant amounts of funds with the parent company which operates a bank which has a strong credit rating and does not consider the credit risk exposure to be significant. The Company is exposed to credit risk in its management fees receivables and a provision for impairment of receivables is established when there is objective evidence that the company wilr not be able to collect all the amovnts due according to the original terms of the trade debts.

The Company deals only with recognised and creditworthy third parties. Receivable balances are monitored on an ongoing basis with the result that the company's exposure to bad debts is not significant. Since the Company trades only with recognised third parties, management deems there is no requirement for collateral. The amount that best represents the Company's maximum credit risk at 31 December 2D16 is made up as follows:

	2D16 KShs		2D15 KShs	
	Carrying amount	Fair value	Carrying amount	Fair value
Cash and cash equivalents	4,623	4,623	76,932	76,932
Trade and other receivables	44,979	44,979	62,333	62,333
Held to maturity investments bonds	155,232	133,498	154,584	122,488
Held for Trading investments	-	-	57	57
Total	2D4,834	183,10D	293,9D6	261,810

21. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Fair value

Determination of fair value and fair value hierarchy

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

Level 1 - Quoted prices (unadjusted) in active markets for identical assets or liabilities. This level includes treasury bonds listed in Nairobi Securities exchange (NSE).
Level 2 - other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly; and
Level 3 - inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The following table shows an analysis of financial instruments recorded at fair value by level of the fair value hierarchy. This hierarchy requires the use of observable market data where available. The company considers relevant and observable market prices in its valuations where possible:

	Level 1	Level 2	Level 3	Total
As at 31 December 2016	KShs'000	KShs'000	KShs'000	KShs'000
Financial asset measured at fair value				
Available-for-sale investments:-				
Shares	30,400	-	-	30,400
Financial assets for which fair values have been disclosed				
Held-to-maturity				
Treasury bonds	133,498	-	-	133,498
As at 31 December 2015				
Financial asset measured at fair value				
Held-for-trading investments:-				
Treasury bonds	57	-	-	57
Financial assets for which fair values have been disclosed				
Held-to-maturity				
Treasury bonds	122,488	-	-	122,488

Assets whose fair values approximate carrying amounts

For financial assets and financial liabilities that have a short term maturity (less than three months) the carrying amounts approximate their fair value. These include, trade and other receivables, bank balances, commercial paper, due from related party balances and other payables.

21. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Fair value (continued)

Fair value of financial assets and liabilities

The table set out below is a comparison by category of carrying amounts and fair values of all the company's financial instruments.

	2016 KShs'000 Carrying amount	2016 KShs'000 Fair value	2015 KShs'000 Carrying amount	2015 KShs'000 Fair value
Cash and bank balance	4,623	4,623	76,932	76,932
Held to maturity investments bonds	155,232	133,498	154,584	122,488
Available for sale investments	30,400	30,400	-	-
Trade receivables	31,504	22,051	22,051	22,051
Held for trading investments	-	-	57	57
Trade payables	(2,740)	(2,740)	(6,713)	(6,713)
Due to related parties	-	-	354	(354)
	219,019	187,832	246,557	214,461

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

Fixed rate financial instruments
For quoted debt, the fair values are determined based on quoted market prices. For those notes issued where quoted market prices are not available, a discounted cash flow model is used based on a current interest rate yield curve appropriate for the remaining term to maturity and credit spreads. For other variable rate instruments, an adjustment is also made to reflect the change in required spread since the instrument was first issued.

22. MANAGING CAPITAL

For the purpose of the Company's capital management, capital includes issued capital and all other reserves attributable to the equity holders of the parent.
The primary objectives of the Company's capital management policy are to ensure that the company complies with externally imposed capital requirements and maintains healthy capital ratios in order to support its business and to maximise shareholder value.

The Company maintains an actively managed capital base to cover risks inherent in the business. The adequacy of the Company's capital is monitored using, among other measures, the rules established by the Capital Markets Authority. The Capital Markets Authority sets and monitors capital requirements for the fund management industry as a whole.

The Company has complied with all externally imposed capital requirements by the Capital Markets Authority which require the Company to maintain a minimum level of shareholders' funds (paid up share capital) at Kshs 10 million. The level of shareholders' funds at year-end was KShs 20,000,000 (2015 - KShs 20,000,000).

23. MANAGED FUNDS- INVESTMENTS AND BANK BALANCES

	2016 KShs '000	2015 KShs '000
Cash at bank (clients' account)	93,224	186,839
Short-term investments:-		
Fixed/Call deposits	4,478,663	5,907,177
Treasury bonds	23,278,662	22,358,448
Corporate bond	2,239,990	2,545,821
Commercial paper	-	72,849
Quoted equities	7,599,729	7,877,812
	37,690,268	38,948,946
Other investments:-		
Unquoted equities	181,800	182,985
Offshore	42,320	45,281
Freehold property	965,553	722,899
	1,189,673	951,165
	38,879,941	39,900,111

This represents total funds received by the custodians and held in trust from various pensions, provident fund schemes and other investors, plus income earned by these funds. Financial assets have been measured at fair value at year-end. As at year-end, the total market value of quoted equities was 10.40% below original value (2015 - 18.79% above original value).

Included in the fixed deposits is KShs 273.75 million invested for various pension schemes in Imperial Bank Limited, which was placed under receivership on 13 October 2015. The bank's branches were subsequently re-opened under NIC Bank Limited on 26 July 2016. The fixed deposits were placed on 30 September 2015 with the expected maturity date being 22 October 2015. None of the deposits had been received from the bank by 31 December 2016. The company has no obligation to compensate any of the Pension Schemes since they bear the market risk.

24 COMMITMENTS

	2016 KShs '000	2015 KShs '000
Capital: Authorised but not contracted for	1,260	3,877

The commitment relates principally to purchase of computer equipment and furniture equipment.

25. EVENTS AFTER THE REPORTING PERIOD

The directors are not aware of events after the reporting date that require disclosure in or adjustments to the financial statements as at the date of this report.

26. INCORPORATION

The company is incorporated in Kenya under the Kenyan Companies Act (Cap 486).

27. PARENT COMPANY

The Co-operative bank of Kenya Limited is the parent company to Co-op Trust Investment Services Limited. The ultimate holding Company is Co-opholdings Co-operative Society Limited incorporated in Kenya under the Co-operative Societies Act.

28. DOMICILE

The company is domiciled in Kenya.

29. CURRENCY

The financial statements are presented in Kenya Shillings (KShs), and are rounded to the nearest KShs 1,DOO.