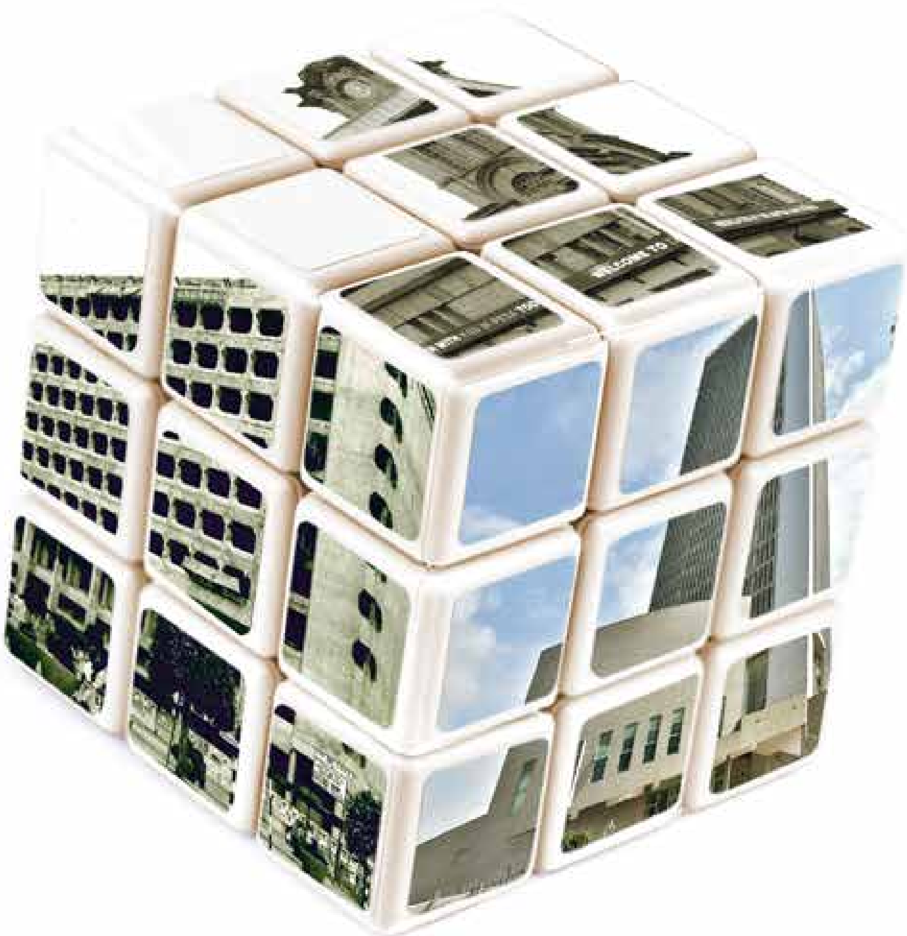
KCB

INTEGRATED REPORT & FINANCIAL STATEMENTS

Regulated by the Central Bank of Kenya



2016

CONTENTS

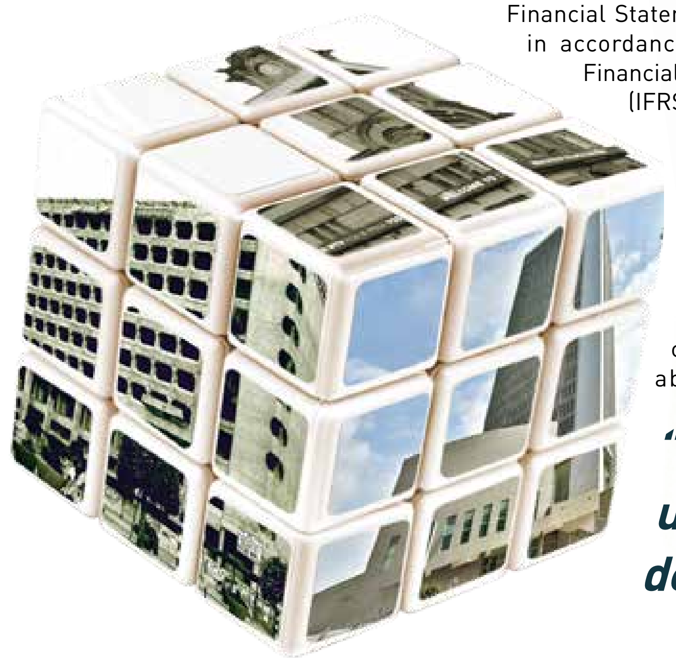
Our Journey

The 2016 Integrated Report details the journey the Group undertook during the year, providing insights as to how we create value for our shareholders. The report provides an opportunity for the Group to evaluate and report on its progress, successes, challenges, plans and strategies. The report is prepared for existing and prospective investors, but also for other stakeholders in terms of transparency and accountability.

The Group's success is underpinned by its ability to deliver value to stakeholders. This is anchored on a keen interest to deliver shared value through sustainable banking practices. The Group draws resources from the broader society and nature, as characterized by the six capital model and utilizes these resources to create value for stakeholders. The KCB Group purpose is to simplify your world to enable you to progress. The Group operates in true adherence to its corporate values of being inspiring, simple and friendly. To deliver on this, the Bank's capitals are interrelated and fundamental to the long-term viability of the business.

Our framework

The Group has a framework for taking a holistic and considered approach in delivering shareholder returns while responding to stakeholders' needs. Performance is measured against strategic objectives and stakeholder's needs. The report provides data to indicate the Group's performance in this regard.



The Materiality determination

The annual integrated report aims to present a balanced and succinct analysis of the Group's strategy, performance, governance and prospects. An issue is considered material if it is likely to impact KCB's ability to achieve its strategy, to remain commercially sustainable and to be socially relevant. In particular, material issues are those that have a strong bearing on the assessment of stakeholders of the extent to which the Group can fulfil their needs over the long term. The KCB Group also takes the factors that affect the economic growth and social stability of the regions in which the Group does business into account.

Basis for preparation and presentation

Frameworks applied

This integrated report has been prepared with guidance from the International Integrated Reporting Framework. The Board of Directors (the Board) and management have considered the fundamental concepts, guiding principles and content elements recommended in the Framework and have endeavoured to apply these recommendations in the report. This report is also aligned with the parameters of the Kenya Companies Act 2015, guidelines issued by the Capital Markets Authority, the Nairobi Securities Exchange (NSE) Listings Manual, and the Prudential Guidelines as issued by the Central Bank of Kenya. The Group Annual Financial Statements were prepared in accordance with International Financial Reporting Standards (IFRS).

Purpose

The purpose of this report is to provide a wide range of stakeholders with concise communication about our strategy, governance, performance and prospects, in the context of the internal and external environment, as well as our ability to create value over the short, medium and long term.

Primary audience

In terms of the Framework, integrated reports are prepared primarily for the providers of financial capital to help inform their decision-making regarding financial capital allocations. Matters not related to finance or governance also impact on the ability of KCB Group to create value over the short, medium and long term. These matters, be they social or environmental, are of interest to other stakeholders and, where considered material, are addressed herein.

Preparation and presentation

KCB's 2016 integrated report has been prepared for the period 1 January 2016 to 31 December 2016 and covers the activities of KCB Group Plc (KCB, the Company or Group), its subsidiary companies, its divisions and key strategic investments. Material matters presented in this report represent those issues that the Board and senior management believe are of sufficient relevance and importance that they could substantively influence the assessments of the report users with regard to the Company's ability to create value over the short, medium and long term. Potential material matters were identified through a broad range of processes, from engagement with our stakeholders to our own internal processes such as risk assessments and considering international trends. The executive directors and senior management have been instrumental in the preparation of this report.

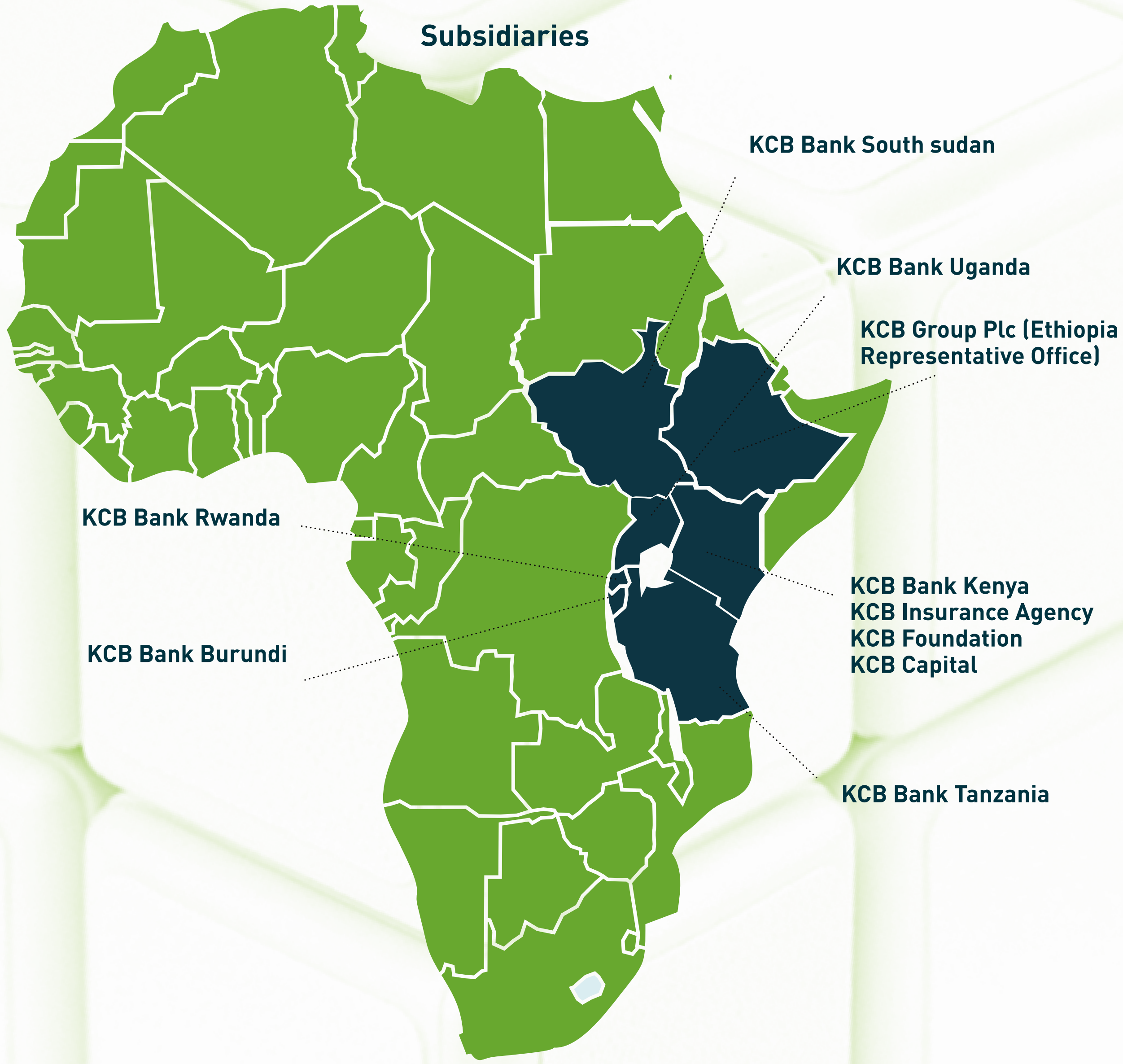
Assurance

The Group Annual Financial Statements were audited by KPMG Kenya, barring KCB Uganda which was audited by PwC and Rwanda which was audited by Deloitte.

> ***"The Bank's success is underpinned by its ability to deliver value to stakeholders."***

KCB Group Plc was registered as a non-operating holding company with effect from January 1, 2016. The holding company oversees KCB Bank Kenya - incorporated with effect from January 1, 2016 - and all KCB's regional units in Tanzania, South Sudan, Uganda, Rwanda, Burundi and Ethiopia. It also owns KCB Insurance Agency, KCB Capital, KCB Foundation and all associate companies.

The holding company was set up to enhance the Group's capacity to access unrestricted capital and also enable investment in new ventures, achieve operational and strategic autonomy for the Group's operating entities and enhance corporate governance across the Group and oversight in management of subsidiaries.



EMPLOYEES: 7,192

LISTINGS: NSE, DSE, USE, RSE

CHANNELS: 265 branches, 962 ATMs, 13,562 agents

TOTAL EQUITY: KShs 96,565,775,000

Our Values
Inspiring
Simple
Friendly

Our Purpose
Simplifying your world to enable your progress

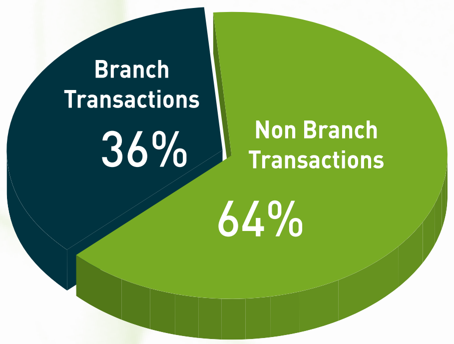
Our Promise
Go Ahead

Our Behavior
I am a leader
I find solutions
I drive efficiency
I simplify work
I listen and care
I am positive and committed

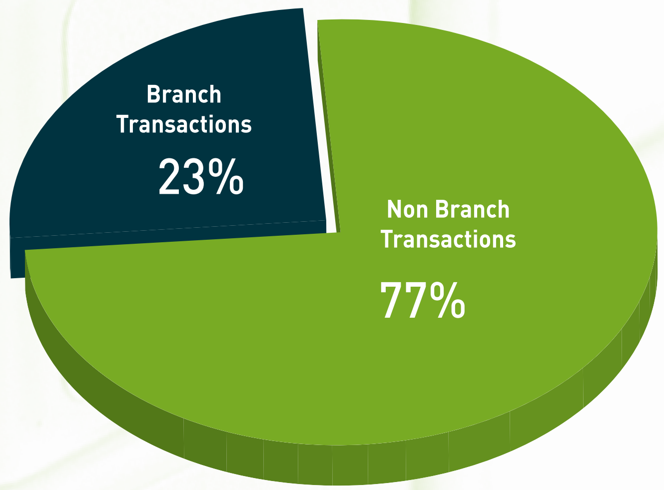
CUSTOMERS **12.3M**	BRANCH LOAN APPLICATIONS **10%**	MOBILE LOAN APPLICATIONS **90%**
MOBILE TRANSACTIONS **53%**	BRANCH TRANSACTIONS **23%**	ATM TRANSACTIONS **13%**
POS TRANSACTIONS **7%**	AGENCY TRANSACTIONS **4%**	* INUA JAMII 15 BILLION DISBURSEMENTS **577,570**

*** Inua Jamii is a vital partnership with the government for social welfare distribution of funds reaching over 577,570 beneficiaries to date with over 15 Billion disbursed.**

2015



2016

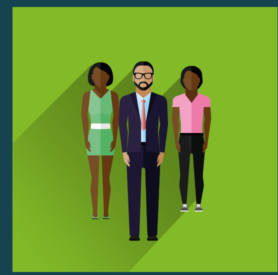


INPUTS

FINANCIAL CAPITAL

Our Group's funding comes from investors, institutional lenders and deposits from clients that is used to run the activities of the bank and generate profits.

- Tier 1 Capital - Shareholders' Funds KShs 96.6 billion
- Borrowings - KShs 22.9 billion
- Customer Deposits KShs 448.17 billion



HUMAN CAPITAL

Our people, management and leadership comprising their collective expertise. experience and knowledge.

- Staff head count 7,192
- Permanent employees 5,880
- Male 57%; Female 43%
- Short-term employees 1,312

INTELLECTUAL CAPITAL

Our intellectual assets, such as our brand value, innovative products. innovation capacity and reputation.

Strong brand affinity exceptional innovation capacity as witnessed by consistent release of new products and services

MANUFACTURED CAPITAL

Our business structure and operational processes that provide the structure and mechanisms through which we run the bank including information technology software, systems and structures.

SOCIAL & RELATIONSHIP CAPITAL

Our relationships with our stakeholders (customers. national and county governments, the regulator, employees, other financial institutions and media) in communities in all the markets we operate.

NATURAL CAPITAL

Our impact, directly and indirectly, on natural living and non-living organisms including ecosystems, biodiversity, biophysical, chemical, physical, biological and mineral assets through our operation.

- Developed a Social and Environmental Management System (SEMS) for credit decisions
- Working towards reduction of carbon footprint by 5% annually

PRODUCTS

- Banking solutions
- Borrowing
- Investing and Savings

OUTPUTS

- Fee and commissions
- Interest income
- Trading income

OUTCOMES

- Satisfied Customers
- Employment and income for staff
- Earnings for business partners
- Taxes to Government
- Returns to shareholders
- Economic growth
- Community development
- Our stakeholders

At KCB, we define stakeholders as those who impact on our business or are affected by our business. We appreciate that there are different clusters of stakeholders groups and have prioritized those with whom we have a direct relationship and communicate to regularly. These priority stakeholders include investors, employees, customers, regulators and government. In addition, we recognize suppliers, the media, civilsociety and communities as important stakeholders.

We employ diverse channels and mechanisms to communicate with our stakeholders. This communication includes collection of stakeholder feedback and dissemination of information from the Group. The rate of engagement, type of engagement and mechanism of engagement varies according to each stakeholder group and the issue at hand. Most importantly, we are proactive in identifying and responding to our stakeholders concerns and expectations.

Our key stakeholders include:

"The Bank is proactive in identifying and responding to concerns and expectations of those who impact and are affected by Our Business."

VALUE ADDED:	2016 KShs'million		2015 KShs'million		2014 KShs'million		2013 KShs'million	
Interest Income, Fees, Commission and Other Revenues	85,256		76,175		66,711		56,492	
Interest Paid to Depositors and Cost of Other Services	(34,454)		(29,801)		(25,447)		(19,289)	
Interest paid on borrowings	(1,298)		(1,852)		(894)		(758)	
Wealth Created	**49,504**		**44,522**		**40,370**		**36,445**	
Distribution of Wealth:		%		%		%		%
Employees-Salaries,Wages and Other Benefits	17,719	35.8%	15,311	34.4%	13,994	34.7%	13,470	37.0%
Government-Tax	9,369	18.9%	6,915	15.5%	6,939	17.2%	5,782	15.9%
Shareholder's Dividends	9,198	18.6%	6,050	13.6%	6,050	15.0%	5,968	16.4%
Retention to support future Business Growth:	-							
_Retained Earnings	10,525	21.3%	13,573	30.5%	10,798	26.7%	8,373	23.0%
_Depreciation and Amortization	2,428	4.9%	2,435	5.5%	2,388	5.9%	2,679	7.4%
Social Capital-KCB Foundation	265	0.5%	238	0.5%	201	0.5%	173	0.5%
Wealth Distributed	**49,504**	**100.0%**	**44,522**	**100.0%**	**40,370**	**100.0%**	**36,445**	**100.0%**

Distribution of wealth created

EMPLOYMENT
(31 December 2016; 35.8%)

GOVERNMENT
(31 December 2016; 18.9%)

SHAREHOLDERS
(31 December 2016; 18.6%)

RETENTION TO SUPPORT GROWTH
(31 December 2016; 21.3 %)

SOCIAL CAPITAL
(31 December 2016; 0.5 %)

Banking (Amendment) Act 2016

The Act capped the lending rate at a maximum of 4% above CBR while capping minimum deposit rate to 70% of the CBR

Impact

On Credit

The enactment of the Act is expected to impact on credit growth for specific segments of the market, dampened by inability to price risk. The industry already witnessed a 2% reduction in gross loan growth for the banking industry in the last quarter of 2016. The law will also lead to enhancement of credit standards and requirements for customers. Banks are also expected to become more conservative in their lending while investments in Treasury bills are expected to increase.

On Deposits

The law limits the ability of banks to absorb private sector deposits, while there has been flight to quality or safety by many customers.

On Net Interest Margin (NIM)

The Net Interest Margin will now have a lower outlook, with an expected impact of 100Bps. The Bank also faces the risk of absorbing any increases in funding costs through lower NIMs. Return on earnings are expected to be lower by between 300-400Bps while profitability is expected to be conservative.

Response

We will continue to align our operations and strategy to grow market share, deliver cost efficiency and focus on growing approved fees and commission lines to deliver better liquidity, a sustainable funding model and a wider variety of products. The Bank is laying emphasis on cost efficiency driven by resource maximization and digital financial services.

IFRS 9

Date of Commencement: January 1, 2018. IFRS 9 is a new accounting standard that will replace IAS 39. IFRS 9 is forward looking and requires the recognition of full lifetime losses sooner than IAS 39.

Impact

Commencement will lead to an increase in provisioning levels by 200 – 250Bps, and an expected 50-100Bps increase in cost of risk.

Response

The Bank is revamping internal models and processes in readiness for IFRS 9 commencement in January 2018.

Capital Raising

During the 45th AGM – the Board and Management received an approval to raise KShs 10 billion through a Rights Issue.

Impact

Enhanced capacity for business growth through efficient capital.

Response

In light of the Bank's financial performance in the course of the year, this activity was cancelled and replaced with the alternative of debt. A total of US$75 million was raised to boost the total capital ratio.

OUR MATERIAL ISSUES

KCB Assignment at Chase Bank (In receivership)

In April 2016 the Kenya Deposit Insurance Corporation (KDIC) appointed the KCB Bank Kenya as the receiver manager of Chase Bank Limited (In Receivership), with the endorsement of the Central Bank of Kenya (CBK).

Impact

Stabilization of the Banking Sector and enhanced brand affinity for the Bank.

Response

For the one year assignment, KCB had within 90 days reopened the bank, operationalized 90% of the services, commenced an independent business review. We have since handed back a stable institution to the Central Bank of Kenya. We now have only four KCB members of staff remaining to support the transition to KDIC.

The Central Bank of Kenya has committed to providing a lasting solution by 31 March 2017.

South Sudan Pound Devaluation & Hyper Inflation

- SSP/USD Jan 2016 19.75
- SSP/USD Dec 2016 83.90
- South Sudan Inflation at the highest level ever in October 2016 at 835.7 percent.

Impact

KCB Bank South Sudan continues to be profitable. However, the contribution of the Group was impacted by the devaluation of the SSP.

Response

We have adopted reporting for hyperinflationary economies in FY16. Our focus remains on growing the Non-Funded Income, which includes: Trade Finance; Fees and Commission; Foreign Exchange. Going forward, the business will also focus on mobile banking and cut on spending which will include renegotiations of existing contracts and a review of the branch footprint in the subsidiary.

"The Bank is laying emphasis on cost efficiency driven by resource maximization and digital financial services."

KENYA

The Kenyan economy maintained an average growth rate of 5.8% during the year, a steady growth from the previous year's 5.5%. However, there was a slowdown in private sector credit growth, which was impacted by the legislation to limit commercial banks' interest rates and weak, but generally stable currency.

Most of the sectors recorded slower growth except for accommodation and restaurants; transport and storage; wholesale and retail trade; ICT and health. Activities in the main sectors of the economy (Agriculture, Manufacturing and the Construction industries) recorded notable slowdown in growth. The effects of drought intensified in the closing months of 2016, and this might have led to a lower growth in the fourth quarter especially for the agricultural sector that accounts for 30% of GDP.

Inflation remained within the government target rate averaging 6.3% down from 6.6% in 2015, mainly driven by food inflation. Kenya continued to benefit from low fuel prices, good rains in the first half of the year, a stable macroeconomic environment, and good monetary policy action. The food index, which carries a weight of 36%, increased by 10% while the index for transport category recorded the lowest increase at 0.2% driven by low oil prices during the year.

The Kenya shilling averaged KShs 101.49 to the US Dollar and remained stable throughout the year. The shilling's stability was also supported by the low oil prices experienced throughout the year and the acceptable inflation levels.

A key development in 2016 was the capping of lending rates in August 2016 which resulted in a substantial decline in the average lending rates from the month of September to 13.88% from 17.66% in August 2016.

Total domestic credit grew by 4.4% in 2016 compared to 30.7% in 2015. This marginal growth is attributed to a decline in credit to the government and slowed credit to manufacturing, construction and the private households. This has negatively affected SMEs access to credit hence partially impacting on economic growth.

Treasury bills account for approximately 33% of domestic debt while Treasury bonds accounts for the remaining 67%. Out of the total domestic debt, more than 50% is financed by banks and anticipate that this will increase in 2017 as banks adopt a cautious approach to private sector lending.

	2016 KShs'million	2015 KShs'million
Total income	58,928	46,539
Operating expenses	(26,497)	(22,915)
PAT	19,859	16,659
Total assets	574,732	468,614

RATIOS	2016	2015
NPL	7.8%	6.1%
CIR	47.6%	50.1%
RoA	4.1%	3.9%
RoE	24.4%	21.6%

Our leadership


Adil Khawaja (Chairman)


Tom Ipomai


Julius Mutua (Alternate for Henry Rotich)


Charity M. Muya-Ngaruiya


Catherine Kola


Mr. Andrew W. Kairu


Joshua Oigara (Group CEO and MD)


Samuel Makome (Group COO)


Bonnie Okumu (Company Secretary)

OPERATING ENVIRONMENT

SOUTH SUDAN

The Republic of South Sudan became the world's newest nation and Africa's 55th country on July 9, 2011, following a largely peaceful secession from the Sudan through a referendum in January 2011. As a new nation, South Sudan has faced the dual challenge of dealing with the legacy of more than 50 years of conflict and continued instability, along with huge development needs. Formal institutions are being built from a very low base and the capacity of government to formulate policy and implement programs is limited, but growing. South Sudan also has significant oil wealth, which if effectively used to drive development, could provide the basis for progress in the coming years.

The renewed conflict, in South Sudan is undermining development gains achieved since independence and worsened the humanitarian situation. Without conflict resolution and a framework for peace and security, the country's longer-term development and prosperity are threatened.

The conflict has had a significant financial impact on South Sudan with 2015/16 GDP contracting by 6.3%. With oil production disruptions and below-average agriculture production, the economy is expected to contract further in FY 2016/2017, while fiscal and current account deficit will soar, spiraling domestic prices and the parallel market premium.

Export revenues were down due to declining oil prices and lower oil production. The decline in oil revenue has also had a negative impact on macro-budgetary indicators, requiring austere fiscal adjustments. The South Sudanese Pound (SSP) depreciated on the parallel market from SSP 18.5 per dollar in December 2015 to above SSP 80 per dollar by end December, 2016. South Sudan is now in hyperinflation. The annual inflation increased by 661.3% from July 2015 to July 2016 and by 730% from August 2015 to August 2016.

The national budget presented to Parliament by the Finance Minister for the fiscal year 2016/2017 is estimated to be 22.3 billion SSP. Approximately 49% of the budget has been allocated to the security sector. To finance the budget, the government will focus on the oil and mining sectors as well as non-oil revenues.

Our performance

	2016 KShs'millions	2015 KShs'millions
Total income	4,554	6,969
Operating expenses	(1,608)	(4,769)
PAT	(759)	1,784
Total assets	21,672	34,418

Our leadership


Gen. (Rtd) Joseph Raymond Kibwana, EGH, CBS (Chairman)


Charity M. Muya-Ngaruiya


Prof. Festus Abduleziz James

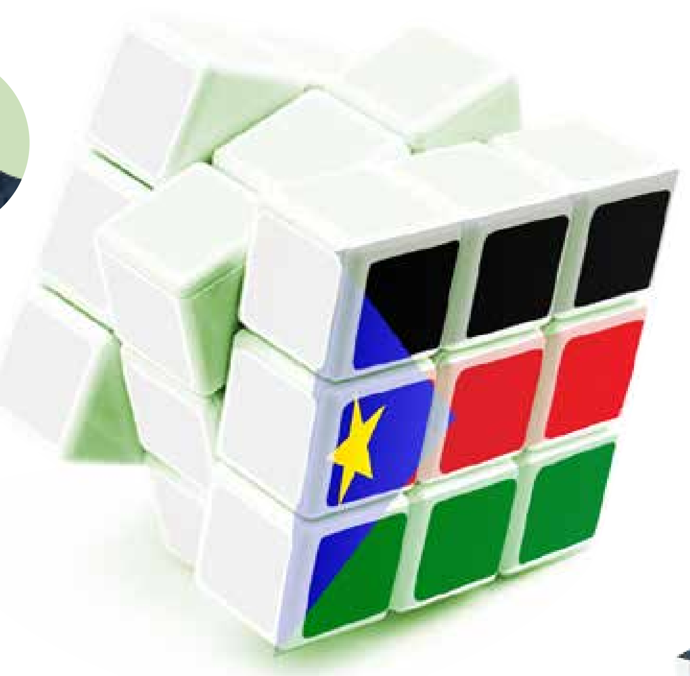

Mou Ambrose Thiik


Yar Manoa Majok (Retired on 1 September 2016)


Nyiel Gordon Kuol (Appointed on 1 November 2016)


Harun Kibogong (MD)


Mary Oganga (Company Secretary)



TANZANIA

GDP growth rate was estimated at 6.8% in 2016. Key drivers of this growth were transport and storage 16.9%, mining and quarrying 15.6%, information and communication 13.4%. Agriculture grew by 2.0%.

The country's inflation stood at 5.0% in December 2016 down from 6.8% in December 2015. The key contributors to inflation were food (38.5%), transport (12.5%) and households (11.6%).

The Tanzania shilling was firm against the dollar, closing the year at TZS 2,181.44 compared to TZS 2,159 in 2015. The lending rate decreased to 15.66% in Dec 2016 from 16.39% in Dec 2015.

Tanzania's macroeconomic performance remains strong and economic growth was robust during the year. The new regime started with initiatives to reposition the economy focusing on industrialization, infrastructure development and agriculture. Inflation came down within the authorities' target of 5%, while the external current account deficit increased by USD 501 million on annual basis.

The government has committed to a tighter fiscal policy marked by plans to reduce public administration overheads, postpone several infrastructure projects and crack down on tax evasion. This has led to a slowdown in economic activities especially trade and a tight liquidity situation.

The Bank's operations have been hampered somewhat by several factors, top among them liquidity constraints. This followed the government's decision to recall public funds from the commercial banks to Bank of Tanzania, which impacted the financial market and ultimately increased cost of funds from 5.75% to 6.92%.

Introduction of an 18% VAT on financial services with the exception of interest income effective from July 2016 resulted in additional increase in costs by TZS 768 million in the 2016 financial year.

Our performance

	2016 KShs'millions	2015 KShs'millions
Total income	1,950	2,010
Operating expenses	(1,442)	(1,614)
PAT	292	276
Total assets	21,715	20,103

Our leadership


Zuhura S. Muro (Chairman)


Nikubuka P. Shimwela

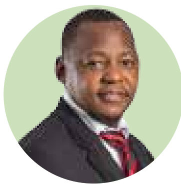

John Nyerere


Georgina M. Malombe

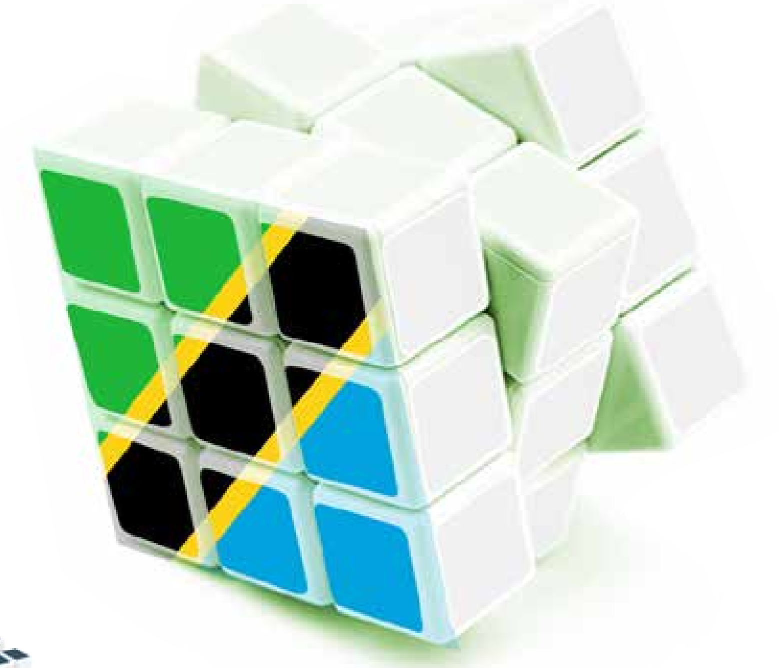

Fatuma B. Chillo


Alexander T. Nguluma


John Ulanga


Godfrey Ndalahwa (Acting MD)


Neema J.Jones (Company Secretary)



UGANDA

Uganda's economy growth grew by 4.8% in 2015/2016 down from 5% in 2014/2015. Reasons attributed to this stem from the slow recovery of the global economic growth, weak commodity prices, effects of national elections and geopolitical events in our key trading partners. As a result of these numerous challenges, Uganda's export earning, FDI flows and remittances went down.

In addition, the slowdown in the execution of public investment projects and a weaker than expected private sector demand had major effects on the economy leading to a decline in business confidence from 93.5% to 79.2% p.a. drop of 20% which is the worst decline in business climate index since 2012.

The negative sentiments were mainly as a result of carry over effects of the 2016 electoral cycle, the adverse effects of the exchange rate depreciation with the shilling depreciating against the dollar by 6.4% between September and December 2016, high interest rates and the resumption of war in south Sudan which is a major export destination for Uganda. Real GDP growth declined from 5.1% to 4.8% in 2016 while annual headline inflation increased from 3.0% to 6.6% in the same period.

Poor government revenue collections continue to have adverse effects on the economy. The shortfall in revenue collection and together with the cancellation and suspension of new loans from the World Bank is having a major impact on the funding of government budgets. The increase in government borrowing may result in substantial increase in yield on government securities which may result in an increase in borrowing rates, which may constrain the private sector credit growth even further. The downward revised government expenditure by Ush.848 billion in 2017 as an alternative is expected to do more harm to the economy by further constraining domestic demand given the already declining private sector credit situation.

Real GDP growth is projected to have a positive shift from 4.8% in 2016 to 5.0%. This growth will be supported mainly by the anticipated recovery in the private sector credit which will spur consumer spending and effective demand, as well as the continued public investment in infrastructure development which will boost manufacturing as well as services notably tourism, consumption, new investment in oil and gas sector, increased productivity in the agricultural sector and a recovery in the global and regional economies. This relative economic stability is expected to impact headline inflation from 6.6% to 5.4% in 2017.

With the end to the electoral cycle, the private sector picking up, the economy is projected to grow by 5% in real terms in 2016/2017 before accelerating to 5.5% and 6.0% to 2017/2018 and 2018/2019 respectively. In the medium term, growth will be mainly driven by agriculture, tourism, manufacturing and construction. Government infrastructure development including new investment in the oil and gas sector will be a major driver for economic growth over the next few years.

Our performance

	2016 KShs'millions	2015 KShs'millions
Total income	1,655	1,691
Operating expenses	(1,616)	(1,588)
PAT	132	103
Total assets	19,360	20,951

Our leadership


Aga Ssekala Jr (Chairman)


Protus Sigei


Dr. Jeff Sebuyira Mukasa


Apollo Obbo


Gertrude W.Karugaba


Samuel Makome


Paul Russo


Joram Kiarie (MD)


Mathias Muhimbisa


Patrick Anok (Company Secretary)

RWANDA

In the year 2016, GDP is estimated to have declined to 6%, from the 6.9% growth recorded in 2015. The decline in GDP is attributed to a decrease in the value of exports (mainly coffee, tea and minerals) due to a general slump in the global commodities market. The main contributor to GDP remains services (7.7% growth) with wholesale and retail trade and hotels and restaurant services being the main growth contributors. Economic growth in Rwanda continues to be spurred by public and private sector investment in certain key sectors of the economy i.e. agriculture, manufacturing, energy and infrastructure. Foreign Direct Investment is currently estimated at about 5% of GDP and despite being lower than in some years in the past, is a marked improvement from around 2% of GDP in 2011. The country remains committed to channeling resources to the key growth sectors identified in the Vision 2020 and the supporting Economic Development and Poverty Reduction (EDPRS 2) programmes that aims to transform the economy into a middle income country by year 2020.

Headline inflation jumped from 4.5 % in January 2016 to 7.4% by the end of year mostly due to an increase in food prices and clothing and the impact of a depreciating local currency on the cost of imported goods and services. The general weather conditions in year 2016 were sub-optimal for agricultural production and a government ban on importation and sale of second hand clothing has resulted in increased household expenditure in these areas. Owing to an increase in the current account deficit which is mostly due to an imbalance between imports and exports of goods and services, the local currency depreciated by 9.7% during the year and this trend is expected to continue in the medium term before efforts to shore up exports and import substitution (Buy Made in Rwanda Initiative) takes effect.

In spite of the inflationary pressures, interest rates remained stable with the National Bank of Rwanda Key Repo rate at 6.5% for the better part of the year and the lending rates averaging 17.21%.

During the year under review, the National Bank of Rwanda issued new regulations to improve capital soundness and transparency in the banking sector. These were geared towards adoption of Basel 2/3 standards and improvement in banking sector consumer protection.

Challenges remain with business turnover expected to be subdued and profit margins reduced. With this background, agility and ability to offer a competitive banking service at a much reduced cost will be key for the business in future.

Our performance

	2016 KShs'millions	2015 KShs'millions
Total income	1,860	1,836
Operating expenses	(1,418)	(1,406)
PAT	250	289
Total assets	17,930	19,446

Our leadership


Tom Ipomai
(Chairman)


Faustin Kananura Mbundu


Speciose Ayinkamiye


Sarah Mukandutiye


Daniel Zitunga


Molly Rwigamba


Anne Wangari Kirima


Maurice Toroitich
(MD)


Brice Manzi
(Company Secretary)

BURUNDI

Economic growth remained dampened in 2016 due to a fragile political environment, low private consumption following a contraction in food production after a longer than expected dry season and forced migrations in some provinces. Revenue collection was above budget at BIF 637 billion vs 596 billion target. This was also 8% growth on 2015 collected revenue of BIF 590 billion.

In September, the EU and USA renewed sanctions against Burundi for another one year.

The World Bank put 2016 GDP growth at 3% up from -2.75% in 2015. Foreign exchange shortages continued to put pressure on the official exchange rate which depreciated by 4.4% from 1,617.12 to 1,688.9 against the dollar. New directives to control the exchange rate were issued, key among them the requirement that all NGOs, Coffee, tea and mineral exporting companies to close Forex accounts with commercial banks and open them with the Banque de la Republique du Burundi (BNR).

Treasury bill rates fell in the year from 12.25% to less than 5% by December 2016. Overnight lending rates declined by more than 120% to 3%. Lending rates remained stable at 16%.

According to the statistics bureau, inflation remained moderate at 6%, standing below the 8% convergence level agreed within the East Africa Community's regional integration arrangements, though the dire situation of foreign exchange reserves contributed to rising inflation expectations, closing the year at 9.6%. In 2016, the overall consumer price index for households rose by 5.6%, compared with 5.5% for the year 2015.

Positive developments in the real sector included improvement in private investment in the quarter as consumer agro-industries (soaps and edible oils, beverages, and cigarettes) and the cement industry found new domestic and external markets. These sectors led to an increase in the average monthly industrial production index by 1.7% in 2016. However, low execution of domestically financed public investments and a reduction in externally financed projects have altered prospects for a quicker growth rebound.

The BNR continued to implement a loose monetary policy to finance the widening fiscal deficit. Currently, available estimates from BNR data suggest that the public debt ratio will soon exceed 45% of GDP.

In December, members of parliament approved the 2017 budget which will increase the public spending by 5.3% from the 2016 budget. The budget is estimated at BIF1.326 trillion (USD 796.49 million) and will be 70.7% funded by domestic resources and 29.9% by external resources. The Government of Burundi (GoB) has increased taxes on several products and services such as beer, clearing and communication.

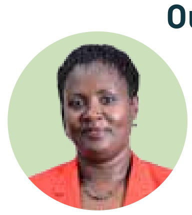
The GoB is expected to continue relying on domestic borrowing which can translate in an increase in interest rate on T-bills. The mining industry is also set to receive a major boost with a European company - RRE - planning to reenter the market by raising capital in the London stock exchange. The amount raised will be USD 5.7 million and will create at least 200 jobs in Burundi.

Our performance

	2016 KShs'millions	2015 KShs'millions
Total income	616	534
Operating expenses	(521)	(485)
PAT	36	141
Total assets	5,668	4,824

Our leadership


Catherine Kola
(Chairman)


Consolata Ndayishimiye


Adrien Sibomana


Julius Mutua


Gloria Nyambok
(MD)


Godfrey Ndalahwa


Janet Mwaluma
(Company Secretary)

"The Group supports its business activities through a comprehensive and well-developed Enterprise Risk Management Framework."

Introduction

Risk management is critical to the KCB Group because it provides a sustainable growth framework for the business. It seeks to identify, measure and mitigate various risks that are intrinsic to banking operations or extrinsic based on the context in which the bank operates. It is not simply a collection of tools and methodologies, standards, policies and procedures but includes an overarching risk management culture.

As a Group, we use risk management to mitigate the adverse impact any expected and unexpected events may have on the Group's capital or earnings.

Risk Management Approach and Framework

KCB has a robust Enterprise Wide risk management framework and process in line with Basel II and Basel III Standards. The Enterprise Wide risk approach covers Credit, Operational and Market risk as well as Information, Compliance, Reputational and Strategic Risk. In addition, emphasis is laid on Ethics as well as Fraud prevention with training programmes in place to equip staff with the skills necessary to ensure that there is a robust mechanism for detecting, analyzing and managing risk on an ongoing basis.

Risk Management Roles

The Board of Directors has overall responsibility for the establishment and oversight of the Group's risk management framework. The Board approves the Group's risk management policies, models and procedures in place to govern the understanding, identification, measurement, reporting and mitigation of material risk. The board oversees KCB's overall risk appetite, tolerance and strategy. The Group's risk management policies and systems are reviewed regularly to ensure they keep up with changes in current and prospective macroeconomic and financial environment. The Group, through its training programmes, management standards and procedures, aims to maintain a disciplined and constructive control environment in which all employees understand their roles and obligations.

The Board's Risk Management Committee is responsible for monitoring compliance with the Group's risk management policies and procedures and for reviewing the adequacy and effectiveness of the risk management framework in relation to the risks faced by the Group. The Committee is assisted in these functions by the Risk Management Division, which has oversight on enterprise wide risks with regular reporting to senior management and the Risk Management Committee of the Board. All risks are owned and managed directly by the relevant business units which work as the first line of defence with direct managerial and operational responsibility for identifying, managing and responding to risks.

The Risk Management Division works as the second line of defence providing oversight, tailor made systems and tools to enable the Bank quantify the risk and establish the appropriate level of capital required to protect the Bank against the risks. It also provides insight and awareness to both management and staff with direct reporting to Senior Management and the Risk Management Committee of the Board.

The Audit Division is the third line of defence providing regular audits to give assurance to the Board on the identification and management of risks. KCB has established standards, policies and procedures to enable strong governance and management of risk. All units of the Bank are provided with tools and skills to self-assess risks, identify key risk indicators, report and manage risks. The units have developed risk registers that are regularly updated.

"The Group seeks to achieve competitive advantage through efficient and effective risk management and control"

Credit Risk

Credit risk measures the risk of a borrower failing to meet credit obligations. KCB has developed a dynamic internal risk rating system which is applied to borrowing customer accounts. Credit risk ratings are assigned to customers to enable the group establish the risk and enable credit decisions to be undertaken within acceptable risk appetite thresholds. The risk ratings are also important in enabling the group to determine risk adjusted loan pricing and the amount of capital that needs to be allocated to enable the Bank to manage credit risk.

Since 2007, KCB achieved end-to-end automation of its credit application processes. KCB has also established Behavioural Credit Scoring models to enable lending decisions based on information extracted from the customer accounts. The Bank continues to enhance the credit risk assessment processes so as to save time, effort and resources while protecting the bank from default with systems developed to assist in efficient debt collection processes.

Fraud Risk

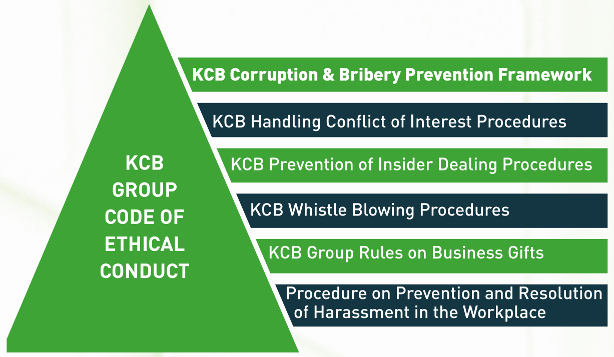
KCB focuses proactively on management of fraud risk with emphasis on detecting and preventing fraud. The Group has a Forensics Team which also provides training and awareness for staff on fraud prevention. It is worth noting that the team's presence in the Risk Division denotes the Group's emphasis on proactive prevention of fraud as opposed to reactive investigation. A whistle blowing hotline for fraud is available with reported issues investigated and appropriate action taken.

Ethics and Code of Conduct

KCB adopts a zero tolerance position to all forms of corruption, bribery and unethical business practice at the workplace, and requires all persons associated with the Group to exhibit the behaviors and standards defined in the Group Code of Ethical Conduct.

The Code covers a wide range of expected behavior in business, and is supported by various documented procedures to handle specific situations as indicated in the figure below:

KCB Group Code of Ethical Conduct



Risk and Innovation

One of the most exciting opportunities for KCB has been the use of the Risk Management function in driving Risk Intelligence as a business enabler. The Group continues to develop new behavioural credit scoring models to assess loan eligibility and make lending decisions. Behavioural credit scoring is now being applied to agricultural businesses, with a view to increasing lending to this vital sector. The tools used in assessment of risks for new products enable KCB to formulate strategies to mitigate risks. The overarching philosophy of Risk Management is that it is not only a critical practice to ensure compliance with internal as well as regulatory standards but also a valuable business practice. Risk is viewed as an opportunity with the key being knowing how to manage the risks within the group's risk appetite framework.

Future Outlook

The ICAAP (Internal Capital Adequacy Assessment Process) Framework for KCB Kenya was submitted to the Central Bank of Kenya during the year ahead of the Regulator's deadline of April 30, 2017. Our plan is to roll out the Framework to all the subsidiaries by the end 2017.

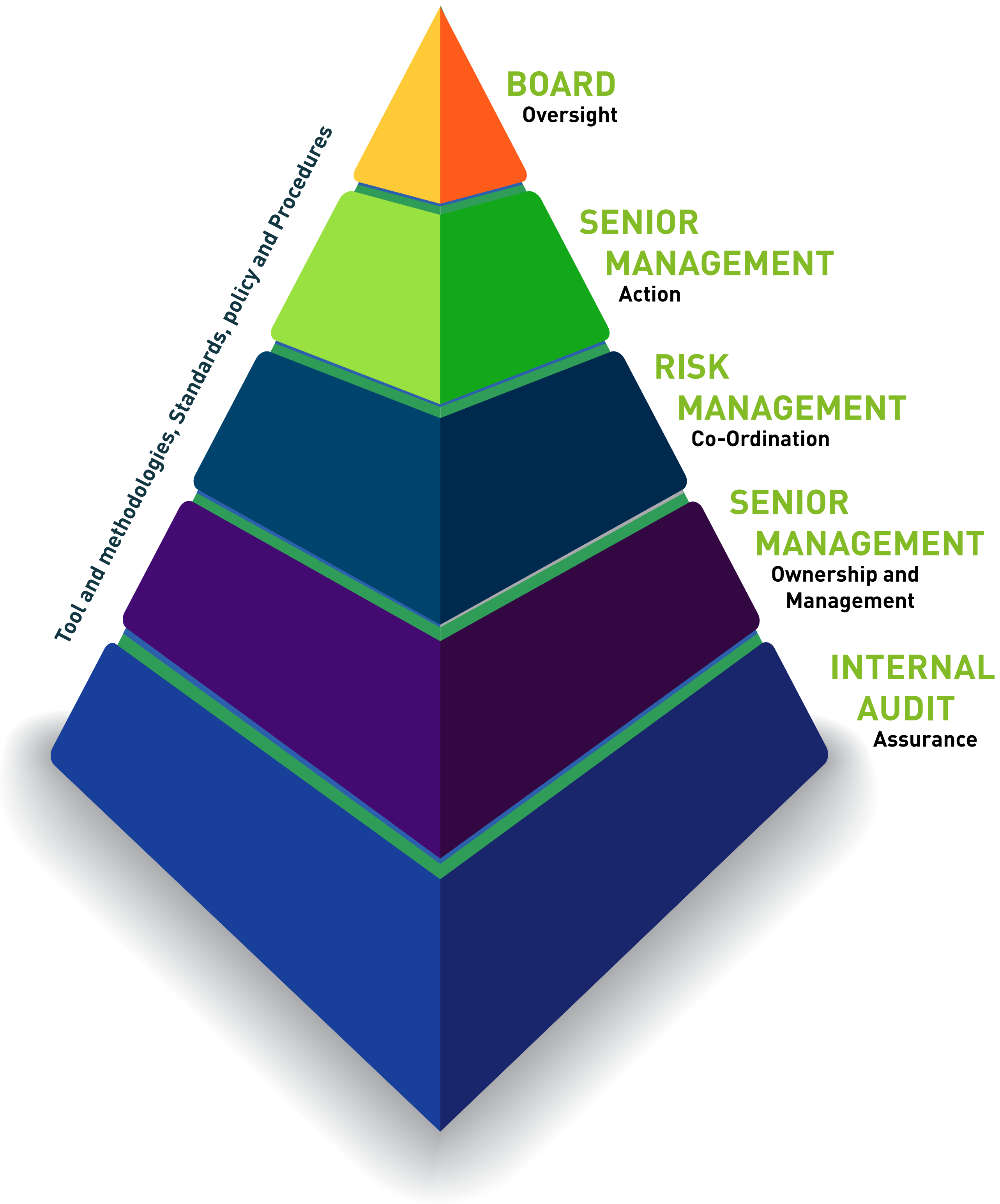
KCB Group has also updated the Anti-Money-Laundering system, that tracks the watch lists and the sanction lists under the UN sanctions in addition to monitoring all transactions.

"The Group takes risk within its appetite and consistent with the approved strategy"

RISK CATEGORIZATION

Information Risk Threat arising from weaknesses in data integrity, system availability or weaknesses in the ICT environment e.g. Data phishing, data fraud, data privacy breaches	IT security policy, IT operations and monitoring, firewalls, strong business continuity plans, stringent information protection processes and policies.
Market Risk Potential loss of earnings or economic value due to sudden shifts in financial and economic factors. Market risk at KCB includes: Interest rate risk, foreign exchange risk, investment risk, settlement risk, liquidity risk and country risk e.g. Loss in economic value due to shift in interest rates	Regular monitoring of KCB's risk profile against risk appetite limits e.g. exposure and risk limits, liquidity and solvency ratios which are contained in the market risk framework incorporating market and country risk policies approved by the board.
Compliance Risk Failure to adhere to new or existing legislation, regulations, prudential guidelines as wellas key internal compliance policies. e.g. Introduction of new or changes to existing legislation, regulations and prudential guidelines	Identification of changes to the regulatory compliance universe, gap analysis and enhancement of the internal policy environment Monthly compliance self-assessments and validations Identification and analysis of compliance gaps Continuous compliance training for staff
Reputational Risk Potential that negative publicity regarding the Bank's business practices, whether true or not, will cause a decline in the customer confidence, costly litigation, or revenue reductions. This risk may result from the Bank's failure to effectively manage any or all of the other risk types. e.g. Negative publicity	Strong risk management and ethics culture. Monitoring of print, electronic and social media and resolution of issues. Senior management oversight.
Credit Risk Failure of an obligor of the Bank to repay principal or interest at the stipulated time or failure otherwise to perform as agreed. e.g. Inadequate/insufficient documentation of processes or procedures Lack of inbuilt controls in procedures, health and safety iss ues, Fraud risk	Monitoring and reporting of loan book, setting of appetite limits, sector concentration limits, risk adjusted loan pricing, calculating the Basel II/III capital adequacy requirements for credit risk and development of core risk models.
Operational Risk The risk of losses resulting from inadequate or failed internal processes, people and systems or from external events. e.g. Inadequate/insufficient documentation of processes or procedures Lack of inbuilt controls in procedures, health and safety issues, Fraud risk	A robust risk management framework that ensures operational risks are identified in a timely fashion, measured and corrective action taken to cushion the bank from surprise operational risk events.

RISK MANAGEMENT GOVERNANCE STRUCTURE



GROUP CHAIRMAN'S STATEMENT

"Building a strong reputation based on cultivating trust with our stakeholders and strong corporate governance will be a key market differentiator"

At Overview: Banking sector

The year 2016 was an exciting period for the financial services sector in the East African Region. The sector remained vibrant, with a marked deepening of services, increased adoption of technology and promotion of financial inclusion. The explosion of digital finance marked a turning point for the industry, with a marked bias towards more technologically driven products by all industry players.

A number of challenges clouded the future outlook of the sector during the year. Top among them was the coming into force of the Banking (Amendment) Act 2016 in Kenya which capped the maximum interest banks can charge, and also put a floor on the minimum rates to be paid out as interest to qualifying deposits.

In the past two years, the banking industry has also experienced some market shocks, with three banks placed under receivership, undermining consumer confidence in the sector.

Then there is the specter of political risk that remains real and continues to shadow the East African countries whenever there is an election cycle, which inevitably impacts on our operations. In South Sudan, the Bank had to delicately navigate through stormy waters as the country faced civil strife. This affected the Bank's operations as we had to close some of our branches in places where we could not guarantee the safety of our employees. We are now operating in an environment that is experiencing hyper-inflation, a highly devalued currency and a fluid macro-economic environment, stemming the growth potential of the South Sudan operations.

Overall, the banking industry stared at a confidence crisis stemming from the erosion of trust in the eyes of the public because of emerging concerns resulting from several bank failures, poor corporate governance, and a mismatch in stakeholder expectations of the role that business should play in our society and economic development. There are also other disruptions, including new technology and regulatory actions that are forcing us to rethink our classic business model.

However, faced with this kind of external environment, the Board is putting in place measures that will address these challenges and future proof our business.

Transitioning to a holding company

Since the Great Recession of 2008, regulators have been pushing for more transparency in the way financial institutions are structured in terms of ownership, capital structure and how they are governed. In Kenya, the Central Bank issued a regulatory mandate separating the core banking operations, which are heavily regulated, from the rest of the business through a holding company model. This allows the regulator, management, customers and investors to clearly see the risk that our banks face, vis-à-vis their true earnings potential.

The holding company gives management leeway to pursue opportunities without the conflict of interest that would be inherent in our balance sheet if there is no clear separation of the capital that is supporting the various initiatives. The Bank can now therefore invest in projects such as Fintech, insurance, investment banking, CSR, and affordable housing among others.

The two-year process of transitioning into a full-fledged holding company got off to a good start in 2016, with good progress made in consolidating the business. We are on schedule to meet the regulatory targets, and our plan is to complete the process in the third quarter of 2017.

During the year, shareholders gave us approval to progress with the transitioning exercise given that this is the future of banking since it guarantees a sustainable business.

Entrenching a good governance culture

KCB Group strongly believes that if the banking industry is to solve the core problem of trust, this effort must start with the Board. Looking at the journey that KCB is taking over the next five years, building a strong reputation based on cultivating trust with our stakeholders and strong corporate governance will be a key market differentiator. It is the only way that your Board and Management can unite all our employees across our subsidiaries around a common goal of a shared vision and purpose, and confidently say that we are doing the right things when it comes to our conduct in the marketplace.

Corporate governance is key to the growth and sustenance of KCB Group and it is therefore essential that we have the right structures in place. Banking is based on trust, and, we demonstrate this to our stakeholders through a robust governance structure and framework.

In 2016, we engaged one of the leading governance consultants to deliver tailored training to the Board. The Board members were also taken through an elaborate training to ensure that there was an understanding, consensus and appreciation of the changing regulatory regime and the fiduciary responsibility that the Board collectively owe to the shareholder.

In the same spirit, the Group started the development of the Group Board Charter which we expect to roll out in 2017. The Board Charter, incorporating aspects of the Companies Act 2015 and the Capital Markets Authority Act, integrates Basel International Principles of Governance in addition to adopting best practices of Boards in the world. Our aim is to become one of the best run institutions in Africa.

Key Reporting Highlights

Going forward, the Group is focusing on full disclosure in line with global best practice. We have many stakeholders who pay keen attention to the way we do business and more so, how it is captured in our Integrated Report.

KCB Group has over 7,000 staff members in seven countries, local and foreign shareholders as well as corporate and individual relationships. All these stakeholders have a right to full disclosure to the extent that is allowed by law and supported by best practice. The Group is seeking to do more to enhance accountability, transparency and good ethical behavior. It is a journey that will contribute positively to our integrated reporting.

Raising capital

The Bank's shareholders remained very supportive of our capital raising initiatives, and the issuance of the first scrip dividend during the year was a milestone for us. The Bank also raised Tier 2 capital and, upon reviewing the performance of the year and our capital ratios, we subsequently cancelled the rights issue shareholders had granted approval for.

On behalf of the Board, I commend the Bank's management for their efficiency in managing resources and steering the ship as they continue to lay a strong foundation for the Bank to continue playing a leading role in the financial sector.

Outlook for 2017

Kenya is in an election year and a general slowdown in the business environment is therefore expected. The five-year cycle leads to a slowdown in businesses, but it is our expectation that we have built a strong brand and franchise supported by a strong balance sheet that is resilient to cyclical disruptions.

We expect the effects of the interest rates regime to be felt fully in 2017, though, once again, our continued investments in financial technology is expected to absorb some of the anticipated slowdown in earnings from the other products.

Undoubtedly, the future lies in leveraging technology to drive efficiencies in our operations in order to serve our customers better with relevant products that meet their expectations. KCB is among the pioneers in this emergent space. Our focus will be on generating higher growth rates, and over the next three years, we will be seeing a bigger and more efficient bank.

Ngeny Biwott

GROUP CHAIRMAN

TAARIFA YA MWENYEKITI MKUU WA KUNDI

"Ufanisi katika siku za usoni utategemea matumizi bora ya teknolojia kuimarisha shughuli zetu."

Kuangazia changamoto na fursa zilizopo

Sekta ya benki na fedha katika kanda hii ilipata changamoto nyingi na pia fursa nyingi mwaka 2016. Licha ya hayo, ukuaji wa uchumi katika mataifa ya eneo hili uliendelea kuwa imara na mazingira mazuri ya kisheria yaliwezesha kunawiri kwa biashara.

Changamoto kuu ambao wengi hawakuitarajia ni Sheria ya Benki (Marekebisho) ya mwaka 2016, ambayo iliweka kipimo katika viwango vya riba inayotozwa na benki. Pia, iliweka kiwango cha chini zaidi cha riba inayoweza kulipwa na benki kwa pesa zilizowekwa kwenye benki na wateja. Athari kamili za sheria hii zitashuhudiwa mwaka wa 2017. Bado kunayo mapendekezo mapya ambayo yatapunguza zaidi mapato iwapo yataidhinishwa kuwa sheria. Tunashuhudia suala hili pia likijadiliwa katika mataifa mengine ya eneo hili.

Katika miaka miwili iliyopita, sekta ya benki ilitikiswa na kuporomoka kwa benki tatu nchini Kenya na moja nchini Uganda. Benki moja nchini Tanzania na nyingine Kenya ziliwekwa chini ya mrasimu. Visa hivi viliathiri imani ya wateja na umma kwa jumla katika sekta ya benki na fedha kanda hii.

Katika mwaka tunaoangazia, kulikuwa na hatari ya kisiasa ambayo huendelea kujitokeza kila taifa la Afrika Mashariki linapoandaa uchaguzi. Mwaka jana, KCB ilikabiliwa na wakati mgumu kutokana na athari za vita nchini Sudan Kusini. Vita hivyo viliathiri shughuli zetu nchini humo na tulilazimika kufunga baadhi ya matawi ambapo hatungeweza kuhakikisha usalama wa wafanyakazi wetu na mali pia. Kwa sasa, tunaendesha shughuli zetu katika nchi ambayo inakabiliwa na mfumuko wa bei, kutotabirika kwa soko na kudorora kwa sarafu. Mambo haya yameathiri matokeo ya kifedha ya kitengo chetu cha biashara Sudan Kusini.

Sekta ya benki kwa jumla nchini Kenya, na maeneo mengine, imeathiriwa na kupotea kwa imani machoni pa umma kutokana na matukio makubwa ya kusikitisha yaliyogonga vichwa vya habari. Miongoni mwa haya ni: kuporomoka kwa benki kadha, usimamizi mbaya na kutokuwepo kwa uwiano kati ya mchango wa biashara kwa jamii na ukuaji wa uchumi. Kumekuwepo pia na kuvurugwa kwa mifumo ya biashara kutokana na teknolojia mpya. Jambo hili limetulazimu kutafakari upya mfumo wetu wa zamani wa biashara. Mfumo wa zamani uliathiriwa sana na mfumo wa kidijitali, jambo ambalo limebadilisha pakubwa sekta ya benki.

Hata hivyo, baada ya kukabiliwa na mambo haya yote, mtazamo wa bodi ni kwamba kampuni hii inafaa kuchukua hatua na kuwa na mkakati wa kuangazia changamoto za kibiashara kwa kipindi cha wastani na kipindi kirefu. Tumeamua kufikiria siku za usoni. Tunatambua hili kuwa muhimu sana katika kulinda biashara yetu siku zijazo.

Kubadilisha muundo wa kampuni

Tangu kutokea kwa mgogoro mkubwa wa kiuchumi mwaka wa 2008, serikali zimekuwa zikipigania uwazi zaidi katika

muundo wa taasisi za kifedha, sana kuhusu umiliki, mtaji na usimamizi. Nchini Kenya, Benki Kuu iliagiza shughuli halisi za benki zitenganishwe na sehemu nyingine za biashara kupitia muundo wa kuwa na kampuni mama. Muundo huu huhusisha kuwa na kampuni moja kubwa inayomiliki kampuni nyingine ndogo. Hii itawezesha serikali, bodi, wasimamizi, wateja na wawekezaji kutazama hatari zinazokabili kampuni tanzu za benki yetu, na uwezo wake halisi wa kuzalisha mapato.

Kuwepo kwa kampuni mama, kungewezesha wasimamizi kuendelea kutafuta fursa za kibiashara bila kuwepo kwa mgongano wa maslahi. Hili lingetokea katika taarifa zetu za kifedha iwapo mtaji haungetenganishwa vyema kuangazia biashara mbalimbali. Muundo huu wa kampuni mama utarahisisha uwekezaji katika miradi yenye manufaa kama vile kutumia teknolojia ya kisasa katika biashara za kifedha, bima, mipango ya benki ya uwekezaji na pia kuangazia fursa katika masoko mengine kupitia kununua kampuni nyingine.

Shughuli hii ya miaka miwili ya kubadilika na kuwa na kampuni moja mama ilianza vyema Januari 2016. Tulipiga hatua kubwa katika kufungamanisha biashara zetu. Tuna matumaini kwamba tutatimiza masharti ya kisheria kwa wakati, na mpango wetu ni kukamilisha shughuli hii katika robo ya tatu ya mwaka 2017. Shughuli hii ya mabadiliko haijakumbana na matatizo yoyote.

Katika mwaka huu, wenyehisa walitupatia idhini ya kuendelea na shughuli hii ya mabadiliko kwani ndiyo nguzo yetu ya siku za usoni kibiashara.

Kudumisha utamaduni wa usimamizi bora

Mimi kama mwenyekiti wenu, ninaamini kwa dhati kwamba juhudi za kutatua tatizo la umma kutokuwa na imani na benki lazima zianze katika bodi. Tukiangalia safari iliyochukuliwa na KCB kwa miaka mitano ijayo, ya kujijengea sifa nzuri na kupata imani kutoka kwa wenyehisa, itakuwa muhimu kuwa na usimamizi bora. Hii ndiyo njia pekee inayoweza kuwezesha bodi na wasimamizi kuunganisha wafanyakazi wote katika nchi mbalimbali na kuwa na mpango wa pamoja na lengo la pamoja. Hii itatuwezesha kusema kwamba tunafanya mambo yote ifaavyo.

Usimamizi bora ni muhimu katika kuhakikisha ukuaji wa KCB. Na kwa hivyo, ni muhimu sana kwetu kuwa na ujasiri, nguvu na pia kuwa na mifumo bora. Sekta ya benki hutegemea sana kuaminika machoni pa umma. Kama KCB, tumeonyesha hili kwa wenyehisa wetu kupitia muundo na mfumo wetu wa usimamizi. Mwaka 2016, tulitumia mojawapo ya washauri bora zaidi kutoa mafunzo na kufanyia utathmini bodi yetu.

Wanachama wa bodi pia walipokea mafunzo ya kina kuhakikisha kwamba wanafahamu na kuelewa vyema mabadiliko katika mfumo wa usimamizi na wajibu ambao kwa pamoja tunao kwa mwenyehisa.

KCB itaendelea kutoa mafunzo yanayofaa mwaka wa 2017 kuhakikisha malengo yetu yanaeleweka vyema. Kwa moyo huo, tumeanza kutayarisha Mkataba wa Utendakazi wa Bodi ambao tunatarajia kuuzindua mapema mwaka 2017. Mkataba huo, ambao utajumuisha baadhi ya mambo makuu katika Sheria ya Kampuni ya mwaka wa 2015 na Sheria ya Mamlaka ya Masoko ya Mtaji, pia utajumuisha maadili ya kimataifa ya utawala bora ya Basel. Kadhalika, utajumuisha baadhi ya maadili ya utendakazi mzuri wa Bodi mbalimbali duniani. Lengo letu ni kuwa mojawapo ya taasisi za kifedha zinazosimamiwa vyema zaidi eneo hili.

Mambo Muhimu

Kampuni hii kwa sasa inaangazia zaidi kuwa na uwazi, kuambatana na kanuni za kimataifa. Tunafahamu kwamba tunao wenyehisa wengi walio makini sana kuangalia tunavyoendesha biashara zetu na jinsi haya yanavyoelezwa kwenye ripoti kamilifu ya kifedha.

KCB ina jumla ya wafanyakazi 7,000 katika nchi saba. Tuna wawekezaji kutoka humu nchini na nje ya nchi ambao wamechanganyikana, kampuni na watu binafsi.

Wenyehisa hawa wote wana haki ya kufahamu yote, kadiri inavyokubalika kisheria, kuhusu biashara zetu. KCB inalenga kupiga hatua zaidi na kufichua zaidi ya yale yanayohitajika kisheria. Kufikia sasa, tumefanya vyema katika hili lakini bado tunataka kukumbatia utamaduni wa uwazi, kuwajibika na maadili mema. Haya yataboresha ripoti yetu kamilifu ya kifedha na kuwafanya wenyehisa kutuamini zaidi.

Kuongeza mtaji

Wenyehisa wa KCB waliendelea kuunga mkono juhudi za benki hii za kuongeza mtaji. Waliunga mkono pia kugeuzwa kwa faida ya mgawo kuwa hisa. Hii ilikuwa hatua kubwa sana kwetu. Wasimamizi wamekuwa pia waadilifu katika kusimamia mali ya kampuni na ingawa kulikuwa na changamoto mwaka huo, walifanya kazi nzuri. KCB imejenga msingi bora wa kuiwezesha kuendelea kufana katika sekta ya kifedha.

Matarajio ya mwaka 2017

Kenya itaandaa uchaguzi mwaka huu na hivyo tunatarajia kupungua kwa biashara. Kila mwaka wa uchaguzi, biashara hushuka. Hata hivyo, ni matumaini yetu kwamba tumeweka mikakati ya kutosha, kupitia rasilimali na pia wafanyakazi na wasimamizi, kutuwezesha kufanya vyema kibiashara. Hatuna wasiwasi kuhusu mwaka huu.

Tunatarajia sheria kuhusu viwango vya riba kuwa na matokeo yake kamilifu mwaka huu. Hata hivyo, kutokana na uwekezaji wetu mzuri katika teknolojia, tunatarajia kwamba baadhi ya athari za kushuka kwa mapato zitamezwa na faida itakayotokana na matumizi haya ya teknolojia.

Tunafahamu pia madhara ambayo yametokana na ukame mbaya ambao umeendelea kwa muda mrefu Kenya. Tunatambua pia changamoto za kufanya biashara Jamhuri ya Sudan Kusini. Tuko tayari kukabiliana na matatizo haya, na tuna matumaini kwamba tutayashinda.

Ufanisi katika siku za usoni bila shaka utategemea matumizi bora ya teknolojia kuimarisha shughuli zetu na kuwahudumia wateja wetu kwa njia bora zaidi. Nina furaha kwamba KCB ni moja ya taasisi zanaoongoza katika hili. Tutaangazia zaidi kuongeza ukuaji, na katika miaka mitatu ijayo, tutakuwa na KCB ambayo itakuwa kubwa zaidi na itakuwa inaendesha shughuli zake kwa njia bora zaidi.

Ngeny Biwott

MWENYEKITI MKUU WA KUNDI.

GROUP CEO & MD MESSAGE

Building a Resilient Bank

As one of the largest banks in the region with deep and strong roots that support the economic foundation of the countries we operate in, we are not only the standard bearer when it comes to how we serve our customers and conduct ourselves, but we will continue playing a leadership role in our industry, economy and society.

As a demonstration of KCB's strength, we successfully bid to work closely with the Kenya Depositors Insurance Corporation to operationalize Chase Bank (IR). I am happy to report that KCB successfully implemented its one-year mandate to support Chase Bank (IR) in three months, and we thereafter handed back the bank to the regulator who will determine the next phase of its future.

A few years ago, one would have argued about the necessity for an institution like KCB Bank to burden itself with helping solve other societal problems that goes beyond lending to customers. We however see KCB as a catalyst in East Africa's economic journey and the well-being of society in the markets that we operate in. We also must remain adaptable to the changing operating landscape if the Bank is to continue to be a key player in the sector. As legislators enact laws to streamline the sector's operations, the cost of compliance has been on the rise, and banks therefore have to integrate technology into their operations and implement other strategic initiatives to keep the Bank on the cutting edge of innovation.

Finding our Purpose

The cornerstone of our success lies in finding our purpose and defining our role in society. Our purpose as a business enabling progress, whether it is for our employees, customers, partners and the economy at large. When it comes to society, we are now delivering on our purpose through various platforms, all intended to uplift the lives of the communities we operate in. We have several programs such as Inua Jamii (money transfer programme to the aged and people with disabilities), 2Jiajiri (for youth empowerment) and mifugo ni mali (empowering pastoralists) among others that we have implemented and whose positive impact we can now see.

Empowering the youth

Youth unemployment and climate change remains two of the greatest challenges for us. As we seek to maximize shareholder value, we must also look into the future and lay a solid foundation for the youth. Climate change remains a matter of global concern and as a Bank, we appreciate the fact that we have a responsibility to future generations and all our operations are therefore geared towards sustainability.

In Kenya for instance, we have an acute problem of youth unemployment, with only ten percent of the estimated one million entering the job market getting formal employment. In trying to alleviate the problem, the bank set aside Sh50 billion for a five-year program aimed at creating a new cadre of employers. By the end of this program, we expect to have created at least one million direct and indirect jobs.

Our sustainability program is geared towards not only ensuring that our day to day operations leave a negligible carbon footprint but in the process, we lift as many people as we can from poverty. We have instituted measures to ensure that we achieve the status of a green Bank in the near future.

Rolling out ICAAP

Optimizing capital allocation and risk management remains key to building a sustainable institution. As a result, KCB Group has adopted the International Capital Adequacy Assessment Process (ICAAP) framework. The Central Bank of Kenya has now made it mandatory for banks to comply with this new requirement in 2017. We commenced the ICAAP process in 2015 and successfully completed it in the first quarter of 2016, becoming the first bank to receive CBK's approval on ICAAP. Having reviewed our risk weighted assets, the Group remains well within CBK's prudential guidelines on capital.

Before we implemented ICAAP, the Bank operated on a Basel II framework which mainly looked at credit, market and operational risk, and assigned an amount of capital to it. To assess capital adequacy, we are now looking at other aspects such as market risk, interest rate risk, foreign exchange risk and operational risk.

Seeking opportunities in large infrastructure lending

KCB has been instrumental in driving East Africa's infrastructure development through various commitments to key projects across the region. However, as an industry, we haven't been able to fully consolidate the capacity to finance huge infrastructure projects.

The industry therefore needs to start nurturing partnerships that will allow syndications and enable participation in large infrastructure projects such as railway and energy projects that have traditionally been driven by global banks.

We are also growing the Bank so that we can have a stronger balance sheet that allows us to lend more to single clients or projects. We strongly hold the view that we can have a trillion-shilling balance sheet for KCB in the next couple of years, giving us an additional capacity to lend to a single project/sector. This will open a window for us to be a big player in project financing.

Embracing Fintech

As financial services industry continues to attract non-traditional competitors, we already see a real risk of disruption to our business model. Companies such as Facebook, Google, Apple are seeing opportunities in the payment space and making serious inroads into it. The reality is that customers want real time transactions, 24/7, 365 days, and banks have not been delivering on this. KCB is implementing new solutions to deliver on this promise. We continue to innovate with new products that we believe will revolutionalise the way our customers interact with us.

Going forward, payments will become the biggest part of our business. Mobile algorithms will come in handy in determining credit scores, easing borrowing and making payments. As part of the strategy to prepare us for this shift, we are creating an Innovation Center at our new Upper Hill offices to nurture relevant skills and harness technology as we embark on the Fintech journey.

Today, mobile constitutes at least 80% of our digital channels, much more than what is transacted through agents, ATMs, internet and branches combined. Our Fintech model is based on fine tuning the digital channels then connecting them to the branches, ATM's, agents, merchants and our customers. The Bank is creating new solutions to monetize these channels and add value to the transactions, something we are looking at realizing going forward.

Looking ahead

Because of the law capping interest rates in our main market, there has been a fundamental change in the operating environment. As a result, the Bank reorganized some aspects of the business by setting up a new push for digital financial services to be launched in 2017.

By 2020, Fintech should be driving at least 40% of our business in terms of payments, lending, credit scoring for our customers, transactions' processing and acquiring. The Bank is no longer building branches like before. We have also been gradually restructuring our cost structure to prepare us for the new era of lean institutions.

The Bank is pushing for higher volumes, more agile lending, and making a foray into new sectors that we were not active in before. The Bank is also building capacity to assure us of sustained growth, and it is our expectation that we will continue growing in 2017 despite the increased regulation in our markets.

The major take-out is that we should listen more to our stakeholders and make decisions that will propel the industry forward, while paying keen attention to the changing needs of our customers.

Joshua Oigara

CHIEF EXECUTIVE OFFICER & MANAGING DIRECTOR

UJUMBE KUTOKA MKURUGENZI MKUU NA MKURUGENZI MTENDAJI

Kujenga Benki Stahimilivu

Kama mojawapo ya benki kubwa katika eneo hili la Afrika Mashariki na tukiwa na mizizi imara inayotegemea misingi ya kiuchumi ya nchi ambazo tunafanyia kazi, twaongoza katika kutumikia wateja wetu na katika mienendo yetu, na pia twaendelea kutekeleza jukumu la uongozi katika sekta zetu kiuchumi, kwa viwanda vyetu, na kijamii kwa ujumla.

Kama kionyesho cha uwezo wa KCB, tulifanikiwa kushirikiana na shirika la kiserikali la Kenya Depositors Insurance Corporation (KDIC) katika jitihada za kufanya kazi kwa kuanzisha tena benki ya Chase Bank. Nina furaha kuripoti kwamba KCB ilifanikiwa kutekeleza mamlaka yake kwa miezi mitatu mbadala wa mwaka mmoja uliokusudiwa kuimarisha Chase Bank na baada ya hapo KCB ikairudisha benki hiyo ya Chase Bank kwa mdhibiti. Baada ya hayo, mdhibiti ambaye ni Benki Kuu ya Kenya, ndiye atakayeamua awamu itakayofuata.

Miaka michache iliyopita, mtu angehoji umuhimu wa taasisi kama KCB Bank, kujipatia mzigo wa kusaidia kutatua matatizo mengine ya jamii badala ya kushughulikia biashara za benki. Hata hivyo, sisi twaona KCB kama kichocheo katika safari ya kiuchumi ya Afrika Mashariki na ustawi wa jamii katika masoko mahali tunapofanya kazi. Sisi pia lazima tukae chonjo, kwa kuwa mazingira ya uendeshaji-kazi inabadilika kama Benki ya KCB itaendelea kuwa mhusika mkuu katika sekta yetu. Wabunge wakitunga sheria kwa kuhuisha shughuli za sekta, gharama ya ufuataji imekuwa ikipanda, na kwa hiyo benki ikaunganisha teknolojia katika shughuli zao na kutekeleza mipango mingine ya kimkakati ili iweke benki katika ubunifu wa kiteknolojia.

Kutafuta Kusudi Letu

Msingi wa mafanikio yetu upo katika kutafuta lengo letu na kufafanua wajibu wetu katika jamii. Lengo letu kama biashara ni kuwezesha maendeleo, iwe ni kwa wafanyakazi wetu, wateja, washirika na uchumi kwa ujumla. Linapokuja suala la jamii, twatekeleza kusudi letu kupitia majukwaa mbalimbali, zote zikiwa na nia ya kuboresha maisha ya jamii mahali pote tunapofanyia kazi. Tuna mipango kadhaa kama vile Inua Jamii (mpango wa kuhamisha fedha kwa wazee na walemavu), 2Jiajiri (kwa uwezeshaji wa vijana) na Mifugo ni Mali (kuwawezesha wafugaji) miongoni mwa mengineyo tumetekeleza na ambayo athari zake sasa tunaweza kuyaona.

Kuwawezesha Vijana

Ukosefu wa ajira kwa vijana na mabadiliko ya hali ya anga ni changamoto mbili kubwa zinazotukumba leo. Tunapotafuta kuongeza thamani ya wadau, ni lazima pia tuangalie siku za usoni na kuweka msingi imara kwa ajili ya vijana. Mabadiliko ya hali ya anga na nchi bado ni suala la wasiwasi la kimataifa na sisi kama benki, tunakubali kwamba tuna wajibu kwa vizazi vijavyo na shughuli zetu zote zalenga uendelevu. Katika Kenya kwa mfano, tuna tatizo kubwa la ukosefu wa ajira kwa vijana, na asilimia kumi tu ya wastani watu milioni moja ndio wanaoingia soko la ajira kupata ajira rasmi. Katika harakati ya kutatua shida hii, benki imeweka bilioni 50 kando kwa ajili ya mpango wa miaka mitano ikiwa na lengo la kujenga kada mpya ya waajiri. Mwishowe wa mpango huu, tunatarajia kutengeza kazi milioni moja.

Lengo la mpango wetu uendelevu sio tu kuhakikisha kwamba shughuli zetu za kila siku hupunguza matokeo mabaya na husaidia kuinua watu wengi iwezekanavyo kutoka umaskini. Tumeunda hatua za kuhakikisha kwamba tutafikia hadhi ya benki ya kijani siku zijazo.

Matumizi bora ya mgao wa mtaji na usimamizi wa hatari bado ni muhimu kwa kujenga taasisi endelevu. Kwa hivyo KCB Group limepitisha mfumo wa International Capital Adequacy Assessment Process (ICAAP). Benki Kuu ya Kenya sasa imelazimisha benki zote zifuate mahitaji ya mfumo huu kuanzia mwaka wa 2017. Sisi huku KCB tulianza mchakato huu wa ICAAP mwaka 2015 na tukaikamilisha katika robo ya kwanza ya mwaka 2016, tukiwa benki ya kwanza kupokea idhini ya CBK ya ICAAP. Baada ya kupima na kudhibitisha hatari ya mali yetu, kundi letu liko ndani ya miongozo ya Benki Kuu la Kenya ya maagizo yanawajibika ya mitaji.

Kabla ya kutekeleza ICAAP, benki ilifanya kazi kwa mfumo wa Basel II ambayo hasa ilitazama mikopo, soko na hatari za kazi, na kupea mtaji kiasi. Kutathmini utoshelevu wa pesa, twangalia mambo mengine kama vile hatari ya soko, kiwango cha riba hatari, fedha za kigeni hatari na hatari za uendeshaji.

Kutafuta Fursa Katika Mikopo ya Miundombinu Kubwa

KCB imekuwa mhusika mkuu katika kuendesha maendeleo ya miundombinu Afrika Mashariki kupitia ahadi mbalimbali kwa miradi muhimu katika kanda. Hata hivyo, kama sekta, sisi hatujaweza kuimarisha kikamilifu uwezo wa kufadhili miradi mikubwa ya miundombinu. Kwa hiyo itabidi sekta ianze kuleta ushirikiano ambao itaruhusu mashirikisho na kuwezesha ushiriki katika miradi mikubwa ya miundombinu kama vile reli na nishati ambayo kawaida yamekuwa yakiendeshwa na mabenki ya kimataifa.

Pia tunaikuza benki ili tuweze kutoa mikopo zaidi kwa wateja moja kwa moja au miradi moja kwa moja. Sisi tunaona kwamba tunaweza kuwa na mizania ya shilingi trilioni katika miaka miwili hivi ijayo, itupe uwezo nyongeza ya kutoa mikopo kwa mradi moja kubwa au sekta moja iliyonawairi. Hii itatufungulia nafasi tuwe mchezaji mkubwa katika fedha za miradi.

Kukubali Fintech

Kama sekta ya huduma za fedha inaendelea kuvutia washindani wasiyo wa jadi, sisi tayari twaona hatari ya kweli ya usumbufu kwa mtindo wa biashara yetu. Makampuni kama vile Facebook, Google na Apple ni wanaotambua fursa katika nafasi ya malipo na wanajipenyeza sana katika sekta hii. Ukweli ni kwamba wateja wanataka kupata huduma za benki kwenye mtandao was simu sasa kwa sasa, usiku na mchana kila siku ya wiki, siku 365, na benki hazijakuwa zikiwapa wateja wake huduma hii vile inavyohitajika. KCB inatekeleza suluhisho mpya ya kutimiza ahadi hii. Tunaendelea kuvumbua bidhaa mpya ambayo tunaamini zitapindua njia wateja wetu hushirikiana nasi. Kwenda mbele, malipo yatakuwa sehemu kubwa ya biashara yetu. Mipangilio ya mkononi, yaani mobile algorithms, zitatusaidia kuamua alama ya mikopo na kurahisisha kukopa na kulipa. Kama sehemu ya mkakati wa kutuandaa kwa mabadiliko haya, tunajenga kituo cha Ubunifu katika ofisi zetu mpya huko Upper Hill kulea ujuzi inayohusika na kutumia teknolojia tukianza hii safari ya Fintech.

Leo, simu husababisha angalau 80% ya njia yetu ya kidijitali, mengi zaidi kuliko kile ni kiupendeleo kupitia kwa mawakala, ATM, biashara na matawi pamoja. Mtindo wetu wa Fintech umewezeshwa kwa kufanya marekebisho ndogo ndogo kwa idhaa zetu za kidijitali kisha kuyaunganisha na matawi, ATM, mawakala, wafanyabiashara na wateja wetu. Benki yetu inatengeza suluhisho mpya ya kutumia njia hizi kutengeza pesa na kuongeza thamani ya mashirikiano, kitu sisi twatambua tukitekeleza kwenda mbele.

Kuangalia Mbele

Kwa sababu ya sheria inayoweka kiwango kwa riba katika soko letu kuu, kumekuwa na mabadiliko ya msingi katika mazingira yetu ya uendeshaji. Kwa sababu ya hiyo, benki imepanga nyanja mbalimbali za biashara kwa kuanza msukumo mpya kwa ajili ya huduma za fedha za kidijitali kuzinduliwa mwaka 2017. Kufikia mwaka wa 2020, Fintech lazima inafaa iwe ikiendesha angalau asilimia 40 ya biashara yetu katika suala la malipo, mikopo, mikopo bao kwa wateja wetu, usindikaji shughuli 'na kujipatia. Benki sasa haijengi matawi kama ilivyokuwa awali. Tumekuwa tukifanya marekebisho ya muundo wa gharama wetu tukijiandaa kwa enzi mpya ya mataasisi konda.

Nia ya benki ni kuongeza juzuu, kuzaidisha mikopo ya rahisi, na kufanya kuiingia katika sekta mapya ambazo hatukukuwa awali. Benki pia inaongeza uwezo kutuhakikishia ukuaji endelevu, na ni matarajio yetu kwamba tutaendelea kukua mwaka wa 2017 licha ya udhibiti kuongezeka katika masoko yetu.

Funzo kuu tuliolipata ni kwamba tunapaswa kuwasikiliza wadau wetu zaidi na kufanya maamuzi ambayo yatasongeza sekta mbele, hivi tukiwepa nia na mahitaji za wateja wetu kipaumbele.

Joshua Oigara

MKURUGENZI MKUU NA MKURUGENZI MTENDAJI

GROUP BOARD OF DIRECTORS

FROM RIGHT to LEFT: Gen. (Rtd) Joseph Kibwana, Tom Ipomai, Lawrence Kimathi (Group Chief Financial Officer), Georgina Malombe, Julius Mutua*, Joseph Kania (Group Company Secretary).

***Alternate for Henry Rotich.**

FROM LEFT to RIGHT: Ngeny Biwott (Group Chairman), Charity Muya Ngaruiya, Joshua Oigara (Chief Executive Officer & MD), John Nyerere, Catherine Kola, Adil Khawaja.

GROUP EXCO

GROUP EXCO

FROM RIGHT to LEFT: Joshua Oigara (Group CEO & MD), Samuel Makome (Group Chief Operating Officer), Joseph Kania (Group Company Secretary), Judith Sidi Odhiambo (Group Head of Corporate And Regulatory Affairs), Apollo Ongara (Director Credit).

FROM LEFT to RIGHT: Lawrence Kimathi (Group Chief Financial Officer), Paul Russo (Group Human Resources Director), Jane Mwangi (Executive Director, KCB Foundation), John Mukulu (Ag. Chief Risk Officer), Rose Kinuthia (Director, Special Projects).

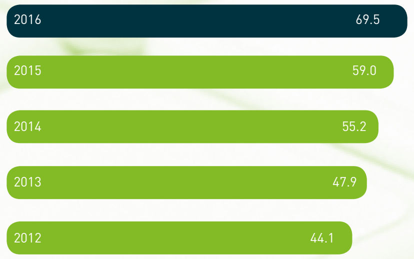
STRATEGIC ISSUE	STRATEGIC OBJECTIVES
 **Customer experience** This is the end to end engagement all our internal and external customers have with the bank.	• Customer Satisfaction index 85% • Customer retention 95% • Brand affinity 40% • Employee Satisfaction 85% • Staff turn over 5.0%
 **Network spread** The increase in channels available for transactions is important to achieving convenience and cost efficiencies for our customers. This continues to move towards the digital platforms	• Increase mobile banking customers from 10 million to 12 million • Grow the agency network to 20,000 • Increase number of customers to 15 million
 **Youth Agenda** The agenda on the youth continues to grow with the introduction of new initiatives to identify and build on entrepreneurs	Commence a Youth engagement programme (Bankika Revamp and 2jiajiri) • 2Jiajiri is a wealth and job creation programme of the KCB Foundation targeting the youth and small business owners. The 3-step approach: **Inception** - Training in Construction, Automotive Engineering, Beauty, Domestic Services and Agribusiness. **Incubation** - Business Development Services (BDS) for a period of 12 months - Financial support for existing or new businesses **Maturity** small and medium businesses are linked to markets. In 2016 2,234 students were enrolled in the pilot phase of the programme in 114 vocational training centers in 20 counties. 40% female 60% male.
 **Digital Financial Services** The bank is keen on the provision of mobile, POS and the internet banking functionality for its customers. This is now becoming more than a transfer channel but more importantly a payment gateway.	• Card payments: acquiring, issuing, online, contactless • Cashless transport (Issue 1.5 million transit cards) • Cashless Government • Money Remittance • Build Fintech capabilities

STRATEGIC ISSUE	STRATEGIC OBJECTIVES
 **New businesses** This strategic initiative is targeted at opportunities within the industry or region for KCB to expand into and deliver a higher return for its shareholders	• Double investment in existing business • Grow insurance contribution • Drive advisory and brokerage business • Islamic Banking
 **Robust IT** Robust IT Platform being the key enabler of business in the world today, KCB's focus is not only to have the best in class technology solutions but to deliver the highest possibly uptime (availability to the customer)	Improve T24 reliability to 99.5% Increase Mean Time Between Failures (MTBF) to 180 days
 **Strategic Partnerships** KCB pursues partnership opportunities to deliver mutually beneficial products and services to our customers	• Tele-Communication • Energy • Transport • Governments

CONSOLIDATED STATEMENT OF FINANCIAL POSITION	31-Dec-12 KShs'millions Audited Restated	31-Dec-13 KShs'millions Audited	31-Dec-14 KShs'millions Audited	31-Dec-15 KShs'millions Audited	31-Dec-16 KShs'millions Audited
Assets					
Government and other securities	89,291	92,996	97,198	96,948	102,470
Loans and advances to customers (net)	211,664	227,722	283,732	345,969	385,745
Property and equipment	8,896	8,485	8,838	9,028	9,373
Other assets	58,168	61,649	100,570	106,149	97,652
Total Assets	**368,019**	**390,852**	**490,338**	**558,094**	**595,240**
Liabilities					
Customer deposits	288,038	305,659	377,272	424,391	448,174
Lines of credit	18,257	14,371	27,030	43,268	36,105
Other liabilities	7,429	7,467	10,402	9,181	14,395
Total Liabilites	**313,724**	**327,497**	**414,704**	**476,840**	**498,674**
Total Equity	**54,295**	**63,355**	**75,634**	**81,254**	**96,566**
TOTAL LIABILITIES AND EQUITY	**368,019**	**390,852**	**490,338**	**558,094**	**595,240**

CONSOLIDATED STATEMENT OF PROFIT OR LOSS	31-Dec-12 KShs'millions Audited Restated	31-Dec-13 KShs'millions Audited	31-Dec-14 KShs'millions Audited	31-Dec-15 KShs'millions Audited	31-Dec-16 KShs'millions Audited
Interest income	43,082	41,613	47,478	56,443	62,806
Interest expense	(12,446)	(8,629)	(11,527)	(17,148)	(15,779)
Net interest income	**30,636**	**32,984**	**35,951**	**39,295**	**47,027**
Non-interest income	13,423	14,878	19,233	19,732	22,449
Operating income	**44,059**	**47,862**	**55,184**	**59,027**	**69,476**
Expenses	(24,753)	(26,743)	(28,308)	(30,310)	(33,104)
Impairment on Loans and advances	(2,098)	(996)	(3,089)	(2,179)	(3,823)
Opearating expenses	**(26,851)**	**(27,739)**	**(31,397)**	**(32,489)**	**(36,927)**
Profit before tax & Loss on monetary position	**17,208**	**20,123**	**23,787**	**26,538**	**32,549**
Loss on monetary position	**-**	**-**	**-**	**-**	**(3,458)**
Profit before tax	**17,208**	**20,123**	**23,787**	**26,538**	**29,091**
Income tax expense	(5,005)	(5,782)	(6,938)	(6,915)	(9,368)
Profit for the year	**12,203**	**14,341**	**16,849**	**19,623**	**19,723**

OPERATING INCOME
KShs 69.5B



Operating income increased by KShs 7.56 billion or 15% to KShs 69.5 billion in 2016.

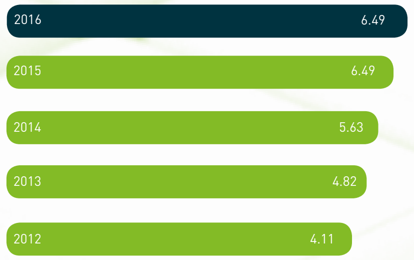
Future focus on growth of non – funded income through digital financial services and market share.

DIVIDEND PER SHARE
KShs 3.00

Dividend payout increased to KShs 3.00 per share.

The Bank's dividend policy is to maintain a dividend payout of upto 50% of PAT.

EARNINGS PER SHARE
KShs 6.46



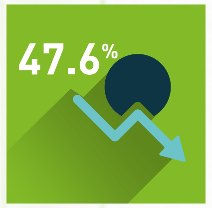
EPS remained broadly flat YoY.

REVENUE
KShs 69.5 billion

OPERATING PROFIT
KShs 29 billion

NET INTEREST INCOME
KShs 47 billion

NET INTEREST MARGIN
Up from 8.8% (2015)



COST TO INCOME
Down from 50.1% (2015)

CORE CAPITAL
Up from 14.1% (2015)

"23% growth in operating profit to KShs. 32.5 billion before loss on Monetary Position."

CHIEF FINANCIAL OFFICER'S REPORT

Key highlights - 2016

KCB Group had a mixed bag of fortunes during the year, with some subsidiaries operating optimally while in others, we faced some serious challenges that negatively impacted the bottom line.

In Kenya, the operating environment was much more predictable, with inflation and foreign exchange remaining largely stable. There were no major spikes in interbank and interest rates which contributed to a fairly stable operating environment. We also managed the bank's liquidity well, making forecasting a lot easier.

We also posted good asset growth mainly towards the end of the year following a resurgence in economic growth in Kenya, which unlocked a pipeline of projects that were awaiting disbursement. The low cost of funds generated good year-on-year savings mostly from the Kenyan business.

During the year, we were able to let go of expensive deposits resulting in a reduction in interest expense by 8%.

The South Sudan market remained a major challenge due to hyper-inflation occasioned by the floating of the currency. Whilst business operations and volumes were retained in local currency, the impact on translation and application IFRS29 (financial reporting in hyper-inflationary economies) led to the Group taking a KShs 3.4 billion loss on net monetary position.

Business Performance

KCB Group reported a profit before tax of KShs 29.1 billion compared to the previous year's KShs 26.5 billion, a 10% increase. This increase was driven by growth in the loan book, good management of our assets, focused investments, cost containment, and positive developments in the mobile banking space. Net interest income grew by a remarkable 20% to KShs 47.0 billion from KShs 39.3 billion.

We also witnessed good performance in the Group's balance sheet which grew by 7 %, to KShs 595.2 billion from 558.1 billion during the year, with loans and advances growing by 12%, to KShs 385.7 billion from KShs 346 billion. On the funding side, Customer deposits grew by 6% to KShs 448.2 billion from KShs 424.4 billion. The bank took on additional long-term debt which resulted in an increase of 14% to KShs 22.9 billion from KShs 20.1 billion. Shareholders equity grew by 19% to KShs 96.6 billion from KShs 81.3 billion due to profit for the period and the Scrip Dividend taken up by shareholders.

Total operating expenses went up 9% to KShs 33.1 billion from KShs 30.3 billion This represents a Cost to Income ration of 48%. Net Interest margin was down to 9.6% Across the Group, good yields generated positive net interest income which grew by 20%. Non funded income grew by 14% at the group level.

On asset quality, we have been focusing on cleaning our books. The Group closed the year with an NPL of 8.0% slightly ahead of the Kenya business at 7.8% which is now below the industry average of 9.1% as at Q3 2016.

The Bank raised US$75 million tier two capital during the year, boosting the Total capital adequacy ratio to 19.9%. Core capital adequacy grew to 16.8%, 630 basis points above regulatory minimum. As a result of taking on more debt and optimizing our capital structure, the bank has adequate head room to grow into the future.

Dividend per share has increased by 50% to KShs 3.00 from KShs 2.00 the previous year.

2017 Outlook

The Bank expects a challenging operating environment in 2017 due to the prevailing drought at the beginning of the year and the attendant inflationary pressures. The full impact of interest capping will also become apparent to the entire banking sector during the year. Being an election year in Kenya also means that economic growth may see some moderate challenges.

The effect of global geopolitics such as Brexit, the economic policy direction in the United States and a slowdown in China's economy fosters uncertainty but things will become clearer during the year.

Lawrence Kimathi

CHIEF FINANCIAL OFFICER

2016 Key Highlights

20% KSh	NET INTEREST INCOME	KShs 47.0 billion
9% KSh	TOTAL OPERATING EXPENSES	KShs 33.1 billion
19% KSh	SHAREHOLDERS FUNDS	KShs 96.6 billion
50%	DIVIDENDS PER SHARE	KShs 3
7%	TOTAL ASSETS	KShs 595.2 billion
23% KSh	PBT BEFORE LOSS ON MONETARY POSITION	KShs 32.5 billion

2017 Key Intiatives

01 Experientially grow our digital financial services and Fintech

02 Excellence in Customer Experience

03 Achieve Stronger International Business Perfomance

04 Growing non interest revenue

05 Best in class information technology

06 Champion our sustainable business priorities

07 Manage emerging risks in a difficult environment

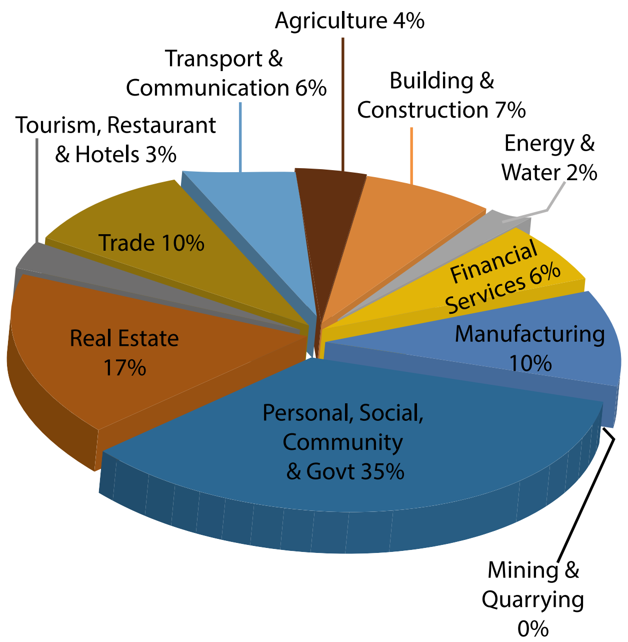
CREDIT

The Bank's loan book grew by 11% to KShs 386 billion, driven by increased consumer loans which now consist of almost half our loan book.

In the fourth quarter, and against all expectations, the loan book grew by 11% in the second half of the year, on the back of renewed loan demand following the capping of interest rates which led to an explosion of pent up demand, especially in the retail sector which translated to more loans during the latter half of the year.

The salary check off system and mobile money remained the biggest driver of growth during the year, with corporate loans growing moderately.

The Bank's loan distribution by sector is as follows:



The Bank, instituted processes to make sure that accounts showing some weaknesses are identified before they get worse.

The Bank, applying prudent guidelines, holds sufficient provisions to cover for Non Performing Loans.

KYC Standards

In keeping with the Regulator's requirements, international best practice and prudent banking guidelines, KCB Bank maintains top notch KYC (Know your Customer) standards.

The Bank has an automated process to make sure that all the information relating to customers is collected at the branch level at the beginning of the relationship.

As the customer is transacting, we make sure we understand the type of transactions that the customer is engaged in. As per CBK's regulations, transactions exceeding KShs 1 million require detailed information about the source of the funds and what they will be used for.

Backed by a world class software and a team of analysts, KCB is able to keep track of all transactions taking place in real time, and any suspicious transactions are flagged and actioned as appropriate.

Assessing risk

KCB has developed various credit models to assess customers. These models run on corporate, retail and consumer portfolios. On the consumer side, we have the KCB-M-Pesa loans and salary advance on the mobile for which customers get an assessment and a decision communicated instantly.

The Bank also has internal risk ratings which are used to determine the price of credit. This helps in making lending decisions based on a clear risk assessment.

With business growth comes the need to manage associated risks. We have invested heavily to ensure that we understand and mitigate the risks associated with technology—based products which are the future of our business.

The Bank has a collection model that profiles customers based on the probability of payment rather than on the probability on default. This helps us focus on which customers we should pay particular attention to in terms of collection.

Risk Appetite

This is determined by the board of directors every year and cascaded down to the entire business as part of strategic planning. During this process, risk appetite is determined and limits set. The business has to operate within the limits that have been set.

MARKETING

The marketing landscape has been evolving at a rapid pace, with the digital disruption changing the way we approach marketing. We have seen the rise of digital at the expense of more traditional media.

At the Bank, we continue to employ integrated communication channels to allow us make full use of both mediums for maximum benefit to the Bank and our clients.

Branch rebranding and youth targeting

2016 was a busy one for the Bank, with rebranding of the branches with the updated look and feel of the bank starting in earnest. We have done this alongside launching our brand purpose and values which we have now extended after starting a cultural program for the staff.

As part of a deliberate effort targeting the youth, we customized our communication to appeal to their areas of interest and encourage them to start a business, aim at becoming employers rather than employees.

These efforts were enhanced through the bankika.co.ke portal that brought together entrepreneurs from different industries who have established businesses and understand the intricacies and challenges of starting a business.

Lion's Den was one of the projects that we undertook during the year, with a massive national appeal. The TV program links experienced mentors and investors with start-ups that have ambitions of growing their businesses.

It was an unrivalled success, attracting a large online following and created a buzz in the industry. We are looking forward to season two in the coming year, where we expect more brand exposure. Further along, we will consider how to scale that impact significantly beyond the TV show.

When we relaunched the KCB App, we employed influencer marketing and conveyed our message through a popular comedian of the need to adopt the convenience of mobile banking. We invested in an unorthodox but impactful channel of messaging by leveraging on the comedian's influence and on our digital channels.

The KCB M-PESA campaigns addressed the small loans sector in the country. From this, we realized there was a very big unmet demand for small loans and as a result, we witnessed very fast growth, from 5 million customers to over 12 million customers. The investments in apps and platforms were aimed at ensuring that the Bank is literally a keyboard away. We continue improving the customer experience, starting with all the touchpoints with the brand because one weak link in the chain can undermine the brand purpose.

Communication is key to the Bank's brand growth, and we witnessed this with the Bankika campaign for the youth, with 600,000 accounts opened. The future lies with embracing technology as a bank, we apply this technology to make life easier for our customers.

As the marketing ecosystem evolves, the opportunity for a future-facing network is clear; One that embraces the principles of modern marketing, alongside a progressive structure that encourages agility and best practice.

(Lions Den season 1 2016)

SAHL BANKING

Since Sahl banking was introduced in 2015 at KCB, we have rolled out Shariah compliant products including mortgages, investments, Asset Based Financing and Takaful (Bancassurance).

The loan book for Islamic finance now stands at KShs 1.5 billion, contributing KShs 112 million to KCB Group's bottom line, an impressive performance for a business that has been operational for only a year.

We conducted training on Islamic Banking, with a number of intense training programmes held for the Board and Management. A total of 100 branches have so far been covered in the training programme, with a total of 200 employees having been taken through the programme.

In particular, Board members received training on: application of Shariah in Islamic Finance; Islamic Finance Regulatory Framework and Governance; Risk management Frameworks for Banking Supervision; Islamic Finance Architecture for Islamic Banking; and Global Developments and Opportunities for Islamic Finance on the African Region.

The training was conducted by the Institute of Islamic Banking Finance – Malaysia (IBFIM), an industry-owned and regulator-linked institute that focuses on talent and business development.

The Bank has been using Shariah scholars to disseminate information on Islamic banking via the media, through well-articulated media articles meant to educate the public about Islamic banking.

The business has now broken even into a self-sustaining unit, complete with its own Shariah-compliant IT infrastructure to take the business to the next level.

The success of the business model has been felt across the region and, at the international level, we have shared experiences through global platforms in Tunisia, New York, Oman and Dubai.

The Bank has also made useful contributions to the National Steering Committee that is looking at providing structures to overcome teething problems in the industry as we move towards entrenching Islamic finance in the banking sector. Our shared experience will provide the Committee with insights that will help in crafting guidelines for the industry.

Training on Shariah

KCB is committed to investing in human resource that is well versed in Islamic financing who will be involved in consumer education to allow current and potential clients understand the various products we offer, how they are structured and most critically how customers can access the facilities we offer.

In carrying out education campaigns, special focus will be placed on the untapped SME market. SMEs have traditionally been locked out from access to loans because they lack collateral. However, with Islamic finance, the collateral is the underlying asset, thereby easing access to Islamic financing facilities by qualifying SMES.

KCB Mortgages

The Bank's mortgage division plays a central role in the development of the housing sector in Kenya. Given the dynamic nature of this sector, KCB Bank is re-looking and re-imagining the possibilities of creating bridging the housing gap.

For the industry to thrive, the mortgage market must breach the one million customers mark by 2020, a goal that we believe is achievable with industry collaboration. Currently, the entire mortgage market in Kenya consists of slightly over 23,000 mortgages.

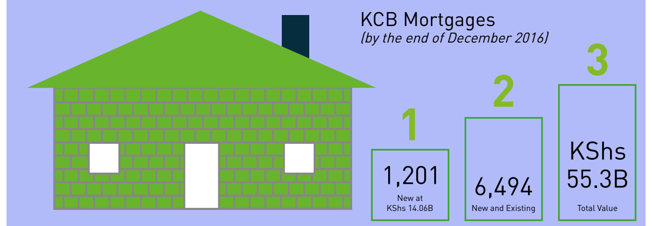
The growth of the industry has been stifled by several factors, key among them affordability. The demand for lower cost housing is more than what the market can supply, and this is an area that the Bank is taking a keen interest in.

KCB is creating partnerships that will ameliorate this housing crisis. We are looking at all available options to reduce the price of houses to affordable levels. One way of fast tracking supply is changing the building technology and reducing time taken in putting up a house. Housing is expensive in Kenya partly because it takes too long to build.

When we re-model, the Bank will be able to finance the developer and also the off-taker, making it a highly integrated approach to financing.

This is the model we proposed for the police housing which will realize the dream of 20,000 housing units by 2020 for the police force.

During the year, we established a property centre at the head office which serves as a one stop shop for all property related services.



Digital Financial Services

The growth of digital financial services in Kenya has been nothing short of phenomenal. At KCB Group, we have witnessed the number of customers on the digital financial platform far outpace those on traditional platforms over the past two years.

The future is definitely here. And we have to lead this charge. KCB Group has invested heavily – and will continue investing – in making the customer experience frictionless. Our first task was to create a dedicated unit within the bank – Digital Financial Services - that will drive the process.

Special emphasis has been laid on improving channels convenience, as we shift towards Fintech in a bid to helping our clients access their accounts conveniently through the digital platform.

This shift has seen many of our customers migrate their activities onto the mobile and digital platforms. Today, our customers can open accounts, send money to their mobile money accounts, make payments and even take loans from their mobile devices. At least 75 % of all transactions are now on the mobile platform, further demonstrating the impact the mobile platform has had on our customers and banking as a whole.

As a result of us taking leadership in the Fintech space, our customer numbers have grown to 8 million customers through the digital platforms, compared to a total of 4.5 million customers the Bank had prior to the introduction of this platform.

Going forward, the Bank is implementing an elaborate digital finance proposition that will us further deepen financial inclusion and build a sustainable business.

This platform is expected to benefit from the recent upgrade of the Bank's core banking system. With technology adoption and integration, the focus will remain on supporting the customer, wherever they are; the Bank will not be limited by jurisdictions.

Customer Experience

The Bank anticipates and manages the entire customer life cycle taking into account a changing technology landscape and increased customer demands. Our performance has been quite good on this front.

We have been voted two years in a row as the number 1 bank in Africa in the SOMA awards. We have over 1 million unique connections with customers on Facebook & Twitter & were No. 1 trending for 12 weeks of Lions' Den. On our philosophy, we focus on engaging customers rather than hard sell of products to build connections with humor and tips on how to build financial freedom. We strive to resolve all customer queries within 24 hours regardless of complexity.

Towards the end of the year, we posted another major first when we were ranked first in net promoter score across all banks in Kenya based on a question that was posed to the respondents: "Would you recommend KCB?"

Our subsidiaries are also continuously improving and optimizing their customer experience function. We continue to work on streamlining customer experience throughout the group by continuous staff training and resourcing. We have engaged staff to take care of our social media, contact center and problem and root cause analysis. We continue to sensitize our executives on how best to serve a much younger customer in the age of the millennials.

During the year, we recruited and assimilated some new employees into the work flow. This ties in quite well with our growth strategy. We are also currently modernizing our customer service center to be aligned to our customers' needs.

BUSINESS REVIEW

To further improve customer experience, we embarked on a programme where senior management "adopt" a cluster of branches with a view to regularly interacting with customers and offering solutions to any arising issues.

The update in the core banking system also went a long way in putting us in sync with global banking trends. We also initiated a new call center system to address all growing customer needs with an interactive voice response system with automated call routing.

During the year, we also installed a customer relationship management system that is now being used across the banks with well over 2,500 users in KCB Bank alone. It offers a single view of our customer giving us the advantage to be more proactive in our service delivery, track our customers' issues and queries and also improve our turnaround times. The Group has invested heavily in technology to deliver exemplary service.

HR: Investing in our people

To grow the Group to a level that we are aspiring to, and to remain there, we must continually invest in our people because they are the cornerstone of the business.

Our employees remain the backbone of the Group's growth, and that is the reason we invest in empowering them through training programmes to build the necessary capacity to propel the business forward.

Leadership Development

One of the flagship projects during the year was the Leadership Development Programme covering the Bank's top 200 staff members. The programme revisited staff competencies and identified areas particular managers can enhance their skills to remain attuned to the Bank's values of being friendly, inspiring and simple in our endeavor to be enablers of progress.

The training was expected to anchor down competencies through a programme of action learning, where the trainees are expected to implement their ideas.

A total of 270 branch managers were also taken through an employee development programme to instill in them knowhow that will enable them run their operations more effectively.

Diversity remains a major deliverable for us and it is in this light that we embedded gender diversity programmes allowing women employees to ascend the management ladder by providing support mechanisms to enable them reach their full potential. We also implemented coaching and mentorship programmes throughout the organization.

The Women in Leadership Programme seeks to achieve a 50:50 split in the ratio of men and women in management.

The Bank also has set a target of achieving at least a 30% women representation at senior management level.

This will be achieved by: improving KCB's ability to attract, develop and retain diverse women talent; advocate for women career advancement; drive inclusivity at all levels; inspire and motivate women and celebrate excellence at all levels.

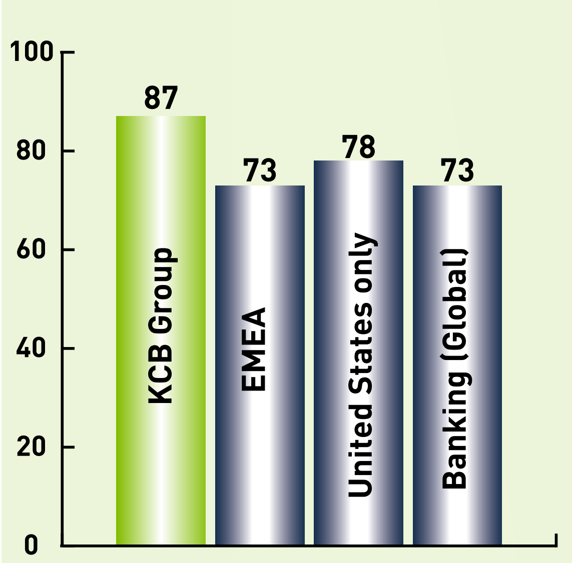
Our focus is on building a strong institution anchored on our people. It is with this in mind that we undertook a staff engagement circuit throughout the Group with the intention of establishing a one-on-one engagement, with an underlying expectation that we will break down barriers amongst staff members.

Corporate structure

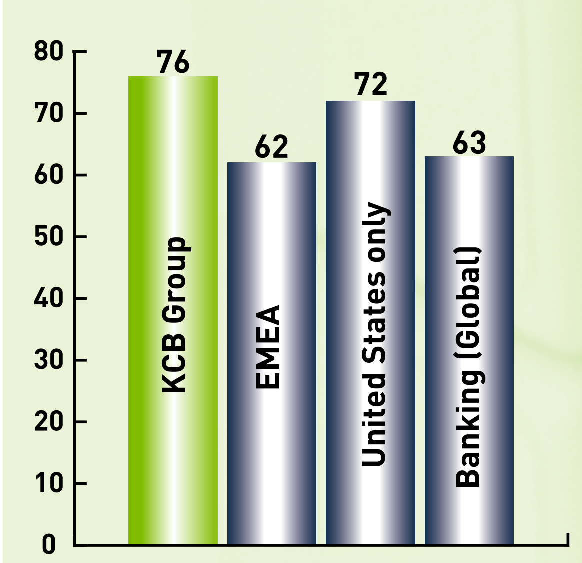
The corporate structure is designed to drive harmonization of shared services across all the Group. Since the Group operates in different markets, it behooves us to be dynamic bearing in mind that every market has its cultural nuances, challenges and a regulatory framework that is unique to each market. We have gone out of our way to understand and integrate within all our markets.

Employee turnover was in the 4-5 % range which is well within the industry average due to natural attrition. We continued enhancing employee welfare by introducing a programme involving conducting a comprehensive medical check-up as well as introducing wellness programmes for all staff members.

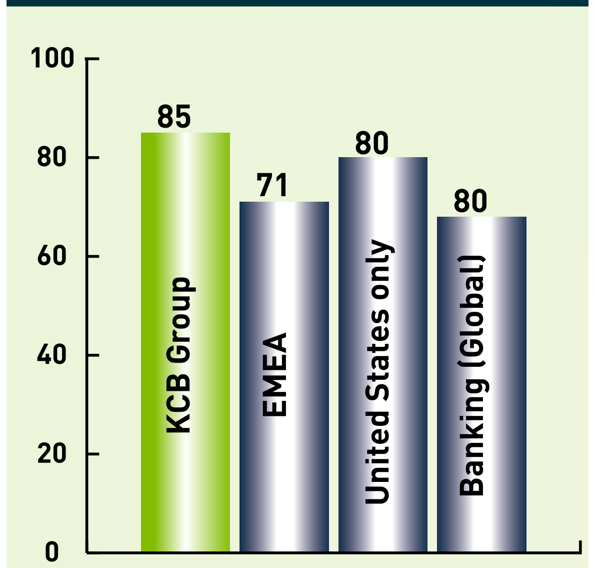
Engagement index (2016)



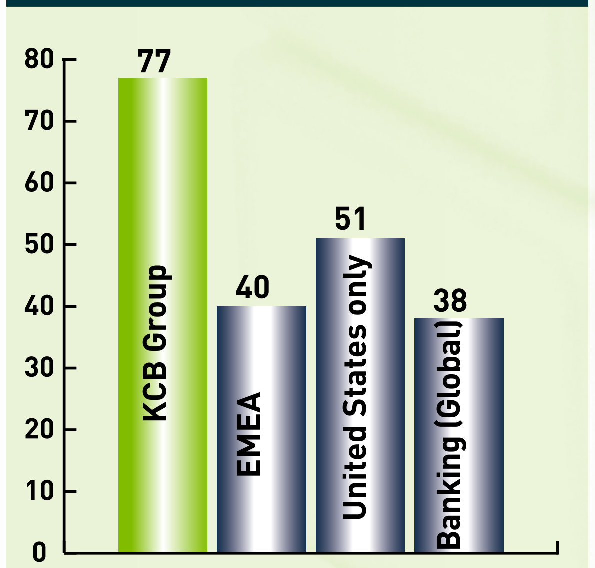
Percent favorable – S. Agree or Agree favourable to the company



Intent to stay



Champions – number of staff highly engaged and high intent to stay



EMPLOYEE ENGAGEMENT 2016 SURVEY RESULTS

BUSINESS REVIEW

Employee satisfaction levels

Overall, the employee engagement level improved substantially by 5% to 87% in 2016, driven by growth in advocacy for KCB and a better understanding of how their role impacts the Group.

A total of 85% of KCB staff also indicated they intended to stay with the Bank for the next 12 months while 77% of staff were totally committed to the institution making them true champions.

Key Focus area

Human resource development is a continuous exercise and therefore, we will continue laying emphasis on leadership development for our staff members.

The Bank will develop, implement and embed matrix reporting across the group while we continue to review the business operating model in addition to developing suitable organizational design.

Retail Banking

Our operations are premised on the Bank's brand promise: enable our clients' progress. In retail, we are continually facilitating business growth through a bouquet of products that are tailor-made to suit the needs and requirements of our clients.

The capping of interest rates was a big development in the retail business. Our retail business however remained resilient and alive to the customers' needs. Following the interest rate cap, the Bank was among the first to reprice the loan book, including those on the mobile platform.

The Group loan book for the retail business amounted to 39% of the entire portfolio, during the year, reflecting the resilience of the retail segment despite the general slow-down in the economy.

Agriculture

KCB sees agriculture as a key driver of the economies of the countries that we operate in, averaging between 15 % contribution to GDP for South Sudan and almost 45 % for Burundi. This has necessitated a focus on increasing the proportion of the facilities that are extended to this sector.

Not enough funds have however been channeled into this critical sector, even though there is a huge pent up demand in agriculture, especially for the small and medium players. In Kenya alone, we have 6.4 million farmers, most of whom have never interacted with a financial institution.

We have piloted a lending programme targeting this sector in Turbo Kenya and the response clearly demonstrates that this is an area that has been starved of funding.

We are also working with the Mastercard Foundation to build capacity in the agricultural sector to make farmers bankable and therefore allow them get easier access to credit. We intend to build a credit history for the farmer.

The KShs 3 billion partnership will promote financial inclusion for at least two million smallholder farmers in Kenya and Rwanda. Both KCB Group and MCF have set aside an investment of $15 million (KShs.1.5 billion) into this partnership. The programme aims to reach farmers, 60% of whom are women, in the dairy, livestock and food sub-sectors in the two countries

The Bank is also rolling out a programme called M-Kulima which is essentially premised on building a database of farmers and their essential needs. The end result is the bridging of the information gap through use of technology.

Given the drastic changes that the banking sector has experienced driven by regulatory changes, technological innovations and change in the competitive space, banks have been forced to rethink the role branches will continue playing. Our plan is to refocus our branches on building client relationships rather than having them remain transactional.

We have worked tirelessly to improve our customer experience, refreshing the brand promise, improving branch efficiency and changing the mindset of all our staff members to be more customer centric.

Bancassurance

The Group formally incorporated KCB Insurance Agency as a fully-fledged subsidiary to meet the insurance needs of KCB customers in May 2010. The Agency commenced business in 2010 and is licensed under the Insurance Act to offer both life and non-life insurance products and services, and operates as an underwriting agent for all classes of insurance business, claims advisers and risk management consultants.

The Agency has laid a firm foundation for the Bancassurance Business by successfully rolling out a 5-year Strategic Plan, helping KCB Group to consolidate its position towards realizing the goal of being a leader in provision of financial services.

The Agency has a new robust Bancassurance structure to support roll-out of Insurance Business across the branches. We now have 172 dedicated Insurance staff to drive the insurance business across the KCB Branch Network which has enabled KCBIA to operationalize the offering of insurance products and services across approximately 150 branches.

We have established partnerships with a number of strategically aligned underwriting partners, developed and rolled-out a whole range of insurance products to address the diverse needs of the Kenyan market.

We are currently focusing on growing our short-term business but we are looking at getting a slice of the life Insurance and Pension business within the medium term.

KCB Insurance will continue to drive non-funded income through digital distribution of insurance products, roll out individual life insurance products, branch sales activation, and systems integration to manage TAT and controls. To drive new business, KCB insurance will support the regional subsidiaries to commence Bancassurance and develop capability for rolling out Personal Pension business.

Reputation and Corporate Affairs

Reputation is the life blood of the banking business. It is a sensitive matter that touches at the very essence of the business. Banks must therefore provide adequate resources to safeguard their reputation which is essential for business continuity.

Social media

In line with rapid technological changes across all channels, the Bank has engaged resources to ensure that all the communication coming through social media is addressed in real time. In cyber sphere, news travels at the speed of light, and the Bank must therefore guard against any negative sentiments that might arise.

Social media can also be used to engage clients, especially the youth, because this is the language they are comfortable with. We understand the youth dynamics in banking and we are therefore focusing on making sure they are able to communicate with the Bank in the channel that best suits them.

Industry relations

It is important that the Bank stays ahead of the curve in terms of industrial trends. We work closely with industry leaders and the government on various matters given the bank's many touchpoints with all segments of society. KCB has developed systems and policies to make sure we are aligned to global best practices.

KCB Bank has an ICAAP document to guide its capital planning and formulating its risk appetite. The document provides an informative description of the methodology and procedures that the Bank uses to assess and mitigate its risks to ensure that adequate capital remains within the minimum regulatory requirements.

Through ICAAP, the Bank assesses its forecast capital supply and demand relative to its regulatory and internal capital targets, under various scenarios.

County Governments

The Bank has continually engaged the county governments to understand their expectations and how we can work together to meet their needs. Devolution opened new opportunities which the Bank has provided expertise on.

We have been providing county governments with banking administrative services, guiding them through allocation, spending and business intelligence.

The Bank also continued to assist the county governments with revenue collection systems, by replacing the manual processes to allow for better accountability.

IT

The Bank has hinged its growth and future success on a robust IT platform.

The Bank is currently implementing an overarching five-year IT strategy approved by the board in 2015. The strategy has four pillars;

- Customer management component where we look at and having the right information with the customers;
- making our product propositions better;
- enabling our channels;
- Increasing internal efficiencies.

In 2016, we remained focused on the IT journey successfully transitioned to an upgraded core banking system.

The system allows us to manage our products better in terms of speed to market, how we report, as well as providing a platform through which we can deliver the various products that we have for our customers.

The new platform allows us to deepen the implementation of a one branch bank strategy allowing us to have a 360-degree view of our customers.

Securing the digital bank

The Bank has a layered security architecture pegged on best global practices and continues to ring-fence both transactions and customer information to ensure that all malicious or ill-intended traffic does not breach the system. We have put in place detection mechanisms that allow us to filter any ill-intentioned traffic.

Banking in the digital age

In the last five years, there has been a deliberate move to automate more, increase internal efficiencies and introduce customer-centric digital products.

Your Bank understands the fluid nature of technology and we therefore continue to challenge ourselves on how we can be more agile to allow us face the challenges that come with growth.

Banking is no longer a place you go to; it's an experience. It is about the speed and efficiency of the channels we use, whether it's mobile, Internet or social media.

Going forward, our focus will be on improving the integration of our systems.

Our approach to sustainability

As one of the leading financial services provider in Eastern Africa, we understand that our operations have a significant impact on the economic, social and environmental prospects of the region. We owe it to our stakeholders to be considerate of the impact this has not only to our profitability, but also on the society and the environment we operate in.

Our vision is to grow our existing business competitively in the market place and in the process, deliver long lasting and impactful benefits to society. We view sustainability as a key driver of our corporate strategy and a means for creating value and a competitive advantage.

KCB Group sustainability framework

Our sustainability framework formalizes our approach to sustainability. It provides guidelines for the introduction, development and maintenance of proactive social and environmental management processes and procedures. The framework has been integrated into our Group corporate strategy which is anchored on four key pillars of financial, economic, social and environmental stability. The framework contributes to the growth and maintenance of a stable society in line with our corporate values of simplifying your world to enable progress.

CORPORATE STRATEGY

SUSTAINABILITY, VISION AND STRATEGY
Developing the corporate and business strategy on sustainability

FINANCIAL STABILITY

- Sustainable banking products and services
- Embracing technology and innovation
- Regulatory compliance
- Economic development
- Financial Performance

ECONOMIC SUSTAINABILITY

- Risk management and mitigation
- Long-term profitability
- Community investment strategy
- Market strategy and analysis

SOCIAL SUSTAINABILITY

- Employee development
- Employment practices
- Community health and well being
- Corporate social responsibility
- Enterprise development

ENVIRONMENTAL SUSTAINABILITY

- Energy efficiency
- E-waste
- Supply chain
- Resource usage
- Water management
- Business travel

Sustainability Capability Development

Developing the policies, processes and tools, skills and capabilities to achieve KCB's sustainability and business objectives

Stakeholder Management, Partnerships and Communications

Building trust, brand and reputation through effective stakeholder engagement and thought leadership on sustainability

Sustainability Performance Management

Providing actionable performance data, producing sustainability reports and effectively managing performance

SUSTAINABILITY REVIEW

How we manage sustainability

We have broken down our sustainability framework into a 10 point action plan that outlines the various short, medium and long-term strategic initiatives, running from 2015 to 2020. We believe that these initiatives will go a long way in putting us at par with our global peers and truly living the purpose of being a sustainable enterprise.

10 point action plan

Capacity Building

Boost our capacity building proposition.

Responsible Lending

Responsible lending which forms the basis for the KCB Group lending model.

Employee development

Develop employees and build a critical human capital mass to drive the business in the years to come.

Environmental Impact

Measure our environmental impact and implement projects to drive down energy, transport, water and waste costs across KCB.

Ethics and Integrity

Enhance the external compliance process and improve transparency while adopting zero-tolerance for unethical behaviour.

Community Investment

Undertake analysis of community investment programmes to identify value at stake, benefits delivered and opportunities.

Energy Conservation

Manage the energy consumption through utilization of green energy and intelligent building technologies.

Security

Continuous update of IT security policy.

Diversity

Ensure diversity is a key determinant of our decisions.

Financial Inclusion

Promote financial inclusion in our region.

Short term strategy | Medium term strategy | Long term strategy

Sustainability performance

Over the last one year, the Group has made significant progress in executing the sustainability strategic initiatives and addressing the material issues that impact the business. We continue to play our role in tackling socio-economic and environmental challenges including financial inclusion, infrastructure development, climate change as well as productivity and promoting the youth development agenda while also meeting our stakeholders' expectations.

We owe our achievements not only to the dedication of the 7,000 employees across the seven countries in which we operate, but also to our strategic partners from whom we benefit by rolling out value adding solutions. Partnerships are a key driver of our sustainability initiatives. We have partnered with several public and private organizations in the government, private sector, development partners and United Nations Organizations in a variety of sectors from telecommunications, social welfare schemes, education, agriculture, transport and energy.

Our sustainability performance as presented below is tracked based on the short, medium and long-term strategic initiatives outlined in our 10 point action plan.

Short term strategy

Capacity Building

We support, train and encourage all employees working across the Group to ensure that they have the right capabilities, commitment and enthusiasm to achieve our business goals. As a business, we are focused on creating awareness with all stakeholders by adopting the industry based Sustainable Finance Initiative (SFI) e-learning platform spearheaded by the Kenya Bankers Association (KBA). SFI is a set of guiding principles drawn and harmonized from several global best practices in balancing business goals with the economy's development priorities and socioenvironmental concerns.

During the 2016 Sustainable Finance Catalyst Awards, KCB was recognized as a catalyst to the SFI. The Bank scooped five awards in various categories cementing its leadership profile in adopting, embedding and executing sustainability into its business strategy and making it a way of life. This recognition has been a journey and as a Bank, we are proud to benchmark ourselves with the best in the industry and learn from our peers and those who have excelled in this field.

During the year, we continued with the implementation of our Environmental and Social Management System (ESMS). 3,633 key staff of the Bank have been trained on Environmental and Social Risk Assessments. In every branch and Head Office unit we have sustainability champions who interpret the sustainability vision into action plans and targets and monitor progress.

Responsible Lending

In 2016, we fully integrated our Environmental and Social Management System (ESMS) into our lending decisions to align our key business operations with our sustainability framework. The ESMS provides guidelines on the assessment of environmental risks as part of our lending due diligence process. This process began in 2015, where we utilized the provisions of the ESMS in assessing loans above KShs 500 Million in corporate banking and SME lending. In 2016, the assessment threshold was revised downwards to KShs 100 Million and a total of 42 social-environmental assessments were undertaken for facilities worth KShs 89 Billion. In 2017, this process will also be implemented in micro-lending.

Sustainability awareness

2015	30%
2016	80%

* Target 90%

Number of staff trained on Industry Sustainable Finance Initiative

2015	0
2016	3,786

* Target 5,000

Number of staff trained on Environmental and Social Risk Assessments.

2015	300
2016	3,633

* Target 5,000

KSHs

Number of Social-environmental Assessments undertaken in the year

2015	41
2016	42

* Target 100

Value of facilities that have undergone Social-environmental Assessments

2015	Ksh 98.7 Billion
2016	Ksh 89.1 Billion

* Target N/A

Employee Development

The Bank continues to pride itself as the employer of choice in the East African region. We have been successful over the years because of our employee value proposition on remuneration, learning and development programmes, staff wellness programmes, performance management, awards and recognition, employee retention strategy, diversity and staff engagement, all of which are covered in our various Human Resource policies and procedures. In addition, we have invested in multi-level leadership training for all employees and branch managers across cadres to reinforce the values of our brand purpose.

Every year we engage external consultants to gain feed back from employees on satisfaction and engagement. In 2016, the results of the employee satisfaction survey was 87%, indicating a healthy engagement score.

KCB has Occupational Health and Safety (OHS) Committees in all branches with more than 20 employees. The committees, charged with the responsibility of overseeing the implementation of OHS matters, meet on a quarterly basis to deliberate on the current status of OHS within the Bank. The committees are composed of management and unionsable staff representatives. All workplaces have trained fire marshals and first aiders.

Employee Satisfaction

2015	82%
2016	87%

* Target 85%

Staff attrition Rate

2015	4.8%
2016	5.8%

* Target <5%

Environmental Impact

We continue to measure our carbon footprint and engage experts in this area to advise and guide us on measures to reduce our carbon footprint across the various business activities that we undertake and support. Our sustainability policy and framework offer key provisions for protection and enhancement of the natural environment.

The Bank is keen on maintaining operational efficiencies on all aspects contributing to our carbon footprint. We monitor progress at the Group level, cascaded down to the subsidiaries and all the way to the branches. Our consumption statistics have been on an upward trajectory owing to expanding operations across the region. The Bank has however put in place measures that are expected to manage this trend including:

- Introduction of video-conferencing and e-boards for our board meetings;
- Adoption of the KCB Green Agenda initiative across the Group, currently at 30% (up from 20% in the prior year);
- Investing in low carbon emitting vehicles, leasing as opposed to buying and outsourcing transport; and
- Use of an electronic document management system and adoption of paperless transactions (mobile and internet banking and online electronic forms).

All these interventions are expected to lead to a 10-15 percent drop in the Bank's carbon footprint in 2017.

Diesel consumption (generators and fleet in litres)

2015	2,227,826
2016	2,937,797

* Target 2,116,435

Electricity consumption (MWh)

2015	13,982
2016	20,970

* Target 13,283

Adoption of Green Agenda

2015	20%
2016	30%

* Target 100%

Medium term strategy

Ethics and Integrity

Our business is run on trust, and public and investor confidence in the market. Therefore issues of governance, integrity, accountability and transparency are at the forefront of our day to day operations.

In 2016, KCB Bank Kenya through the umbrella body of the KBA signed the "Code of Ethics for Business in Kenya", developed on behalf of the private sector by Kenya Private Sector Alliance (KEPSA), Global Compact Network Kenya and Kenya Association of Manufacturers (KAM) and endorsed by the President of Kenya as a key intervention towards addressing corruption and unethical practices within the government and private sector. This code was designed to change the way we do business, in line with global best practices (the ten principles of the UN Global Compact in the areas of Human Rights, Labour Standards, Environment and Anti-corruption) and has been extended to our suppliers and service providers as part of the Bank's strategic agenda in enhancing the ethics of business conduct within our supply chain.

The issue of fraud both internally and externally is a prevalent risk in the financial services industry. As a Bank, we have taken proactive steps to monitor and manage fraud risk by making use of various anti-fraud measures including risk assessments, fraud risk awareness training, whistle blowing hotlines and audit reviews. We also benchmark ourselves against other financial institutions through engagement in forums like the Kenya Bankers' Association (KBA) security & forensics committees with independent assurance provided through both internal and external audit functions. These measures have resulted in more robust reviews of fraud cases in the period leading to an increased detection rate and subsequently increase in number of dismissals.

Fraud training

2015	73%
2016	98%

* Target 85%

Number of Fraud cases that resulted to dismissals

2015	20
2016	31

* Target 100

Fraud cases (Number of cases reported)

2015	87
2016	57

* Target Nil

Community Investment

The Group carries out its community initiatives through the KCB Foundation. Among the many initiatives supported through the Foundation, "2jiajiri" (youth empowerment programme), "Mifugo ni Mali" (agriculture) and KCB scholarships programme (education) stood out in 2016 in line with our sustainability pillars.

"2jiajiri", launched in March 2016, is a KShs. 50 billion skills development and job creation program that seeks to catalyse employment and wealth creation among existing informal sector entrepreneurs and the youth through vocational training in the areas of Construction, Automobile Engineering, Domestic Skills, Beauty, Personal care and Agribusiness. The programme is expected to benefit at least 500,000 entrepreneurs in 5 years, thereby creating at least 2.5 million direct and indirect jobs.

The "Mifugo ni Mali" program (a pro-poor livestock value chain development initiative that seeks to help livestock farmers commercialize the sector) continued to generate positive momentum, with marked progress made in 2016 where the number of farmers positively impacted by the programme increased to 30,000.

The Group also partners with public and private organizations in a variety of sectors from telecommunications, social welfare schemes, education, agriculture, transport and energy.

2jiajiri program (Number of youths trained)

2015	0
2016	3,000

* Target 10,000

Mifugo ni Mali project (Number of farmers reached)

2015	26,000
2016	30,000

* Target 50,000

KCB scholarships programme

2015	240
2016	240

* Target 240

Energy Conservation

The Group is mindful of innovations in energy efficiency and changing technologies with respect to energy conservation even as we continue to grow our operations. The Bank has put in place several measures to manage efficient energy use including:

- Use of green building technology in our new headquarters in Upperhill;
- Use of energy efficient lighting with motion sensors and LED lighting in some of our branches;
- Energy saving devices; and
- Occupancy Sensors.

Green technology adoption

2015	20%
2016	30%

* Target 100%

LED Lighting adoption

2015	20%
2016	30%

* Target 100%

Security

KCB considers security, both physical and technological, as being of paramount importance to our business. The Bank is committed to being proactive in protecting clients in the face of growing cyber security risks like fraud, data and information theft, third-party attacks and vulnerabilities of critical infrastructure.

We continue to run anti-fraud, anti-phishing and anti-corruption programmes to protect our data and that of our customers by state-of-the-art security measures on our operations and continually monitoring our business for weakness and breaches.

The Bank maintains a comprehensive an Anti-Money Laundering (AML) Control Framework and AML and Sanctions policies which are continuously enhanced through employee training, automated transaction monitoring and sanctions screening.

*Note: The AML training statistic for 2016 cover only the period from October – Dec 2016. Training is carried out all year round.

% achievement of anti-money laundering awareness across the group

2015	80%
2016	70%

* Target 100%

Long term strategy

Diversity

At KCB we value all types of diversity, but our current focus is on gender balance within teams and at all levels of the business. To understand and strengthen gender balance, we analyse the proportion of male and female staff within the Bank, new hires and leavers.

Part of our sustainability agenda for the Group is to incorporate gender diversity as part of a strategic initiative to ensure that at all levels in the organization we encourage more women to take up key roles at all levels of management.

% composition of women on the KCB Board

2015	27%
2016	27%

* Target 33%

% composition of women at senior management level

2015	27%
2016	30%

* Target 50%

Number of women trained under the Women In Leadership Programme.

2015	200
2016	250

* Target 250

Power Her
WOMEN IN LEADERSHIP

SUSTAINABILITY REVIEW

Financial Inclusion

KCB continues to work tirelessly to remove barriers and make banking more accessible for customers, particularly for the vulnerable and under-served populations. Our broad geographic footprint within the Eastern African region, use of alternative banking channels fuelled by technology and innovation, and strategic partnerships with other organizations means that we can we can service a diverse portfolio of clients from individuals to SMEs to corporates and governments.

In 2016, our partnership with Safaricom in delivering on the KCB M-PESA banking channel continued to grow and saw us register over 7.8 million customers on the platform. This has facilitated Ksh 9.1 billion in loans to date. This product enables a customer to access loan facilities using their mobile phone with a flexible repayment period ranging from one to six months.

KSHs

Number of registered mobile banking users

2015	Over 2 Million
2016	3.3 Million

* Target 4 Million

Number of customers on KCB M-PESA

2015	4.7 Million
2016	7.8 Million

* Target 10 Million

Number of agency banking outlets

2015	11,948
2016	13,562

* Target 12,500

Looking Ahead

Going forward and looking into the year ahead, KCB Group will align the Sustainable Development Goals commonly known as SDGs into our business. These are 17 set of global goals and 169 objectives that replaced the Millennium Development Goals (MDGs) agreed upon by the United Nations (UN) member states, ranging from social and economic issues to be achieved by the year 2030. As a Company, we have made a conscious decision to incorporate SDGs into all processes in relation to the goals we have picked out.

The Group is planning to release its first True Value Report in the year 2017. The purpose of this report is to create value to all our stakeholders through the various products and services in our business. This monetization methodology will assess earnings, economic value add, social externalities, environmental externalities and quantify them into financial earnings.

The Group is also keen to transition into the green economy which is new to the industry. We want to partner as an industry to raise Green Bonds within 2017. Green bonds are issued to fund projects that have a positive environmental impact. The Group is also looking at raising funds from the Global Climate Fund to support some of the green financing projects such as Mifugo in Mali, agribusiness and Inua Jamii. The journey has so far been fulfilling and we are optimistic that we will keep the momentum going into the coming years.

Corporate Governance is central to the Group's approach toward the enhancement of shareholder value. The KCB Group Plc. Board of Directors ("Board") recognizes that the maintenance and consistent practice and application of good corporate governance practices is key to the long term success of the Group's business and will enable the businesses deliver sustainable shareholder value.

Over the last five years, the regulators in Kenya, and indeed in the countries in the region in which the Group operates, have enhanced regulatory and risk management guidelines. The Group has fully embraced the changes and remains at the forefront in adopting best practices in corporate and risk management in the rapidly evolving financial and business landscape.

The Board and management of the Group continue to comply with the Corporate Governance Guidelines as prescribed by the Central Bank of Kenya being the primary regulatory authority of the Group and KCB Bank Kenya Limited as well as the Capital Markets Authority Code of Corporate Governance Practices.

THE BOARD OF DIRECTORS

KCB Group Plc. is governed by a Board of Directors ("Directors" or "Director") each of whom is, with the exception of the Group Chief Executive Officer and Group Chief Financial Officer, elected by the Company's shareholders.

The Board is accountable to the shareholders for the overall Group performance and is collectively responsible for the long term success of the Group. The Board achieves such success by setting appropriate business strategy and overseeing delivery against the set strategy. It ensures that the Group manages risks effectively and monitors financial performance and reporting.

Board Charter

The Board has adopted a Board Charter and a Group Governance Policy that clearly define its role and how its powers and responsibilities are exercised, having regard to principles of good corporate governance, international best practice and applicable laws. The Board Charter regulates Board composition, the Board meeting process and defines the relationship and interactions between the Board and management.

The Board Charter sets out the roles and responsibilities of the Board to include:

i. Reviewing the strategic direction of the Group and adopting business plans proposed by management for the achievement of the strategic direction set.

ii. Approving specific financial and non-financial objectives and policies proposed by management.

iii. Reviewing processes for the identification and management of business risk and processes for compliance with key regulatory and legal areas.

iv. Delegating authority for lending and provisioning and write-off limits, with capital expenditure, investment, capital and funding proposals being reserved for the Board's approval.

v. Reviewing succession planning for the management team and making senior executive appointments, organizational changes and high level remuneration issues.

vi. Providing oversight of performance against targets and objectives.

vii. Providing oversight of reporting to shareholders on the direction, governance and performance of the Group as well as other processes that need reporting and disclosure.

viii. Provide oversight over the activities of the subsidiaries of the Group.

Authority and Delegation

The Board Charter sets out the Board authority and matters reserved for determination and approval by the Board. These include decisions concerning strategy and long term objectives of the Group, the Group's capital, financial planning and financial budgets, significant contracts and various statutory and regulatory approvals. Matters related to the approval of the remuneration policy, resource management, risk management framework and risk appetite are also Board reserve matters. To assist it in discharging these responsibilities, the Board has established Board Committees to give detailed consideration to key issues. Further details of the Board Committees including their respective roles, key responsibilities, composition and membership are provided later in this Statement.

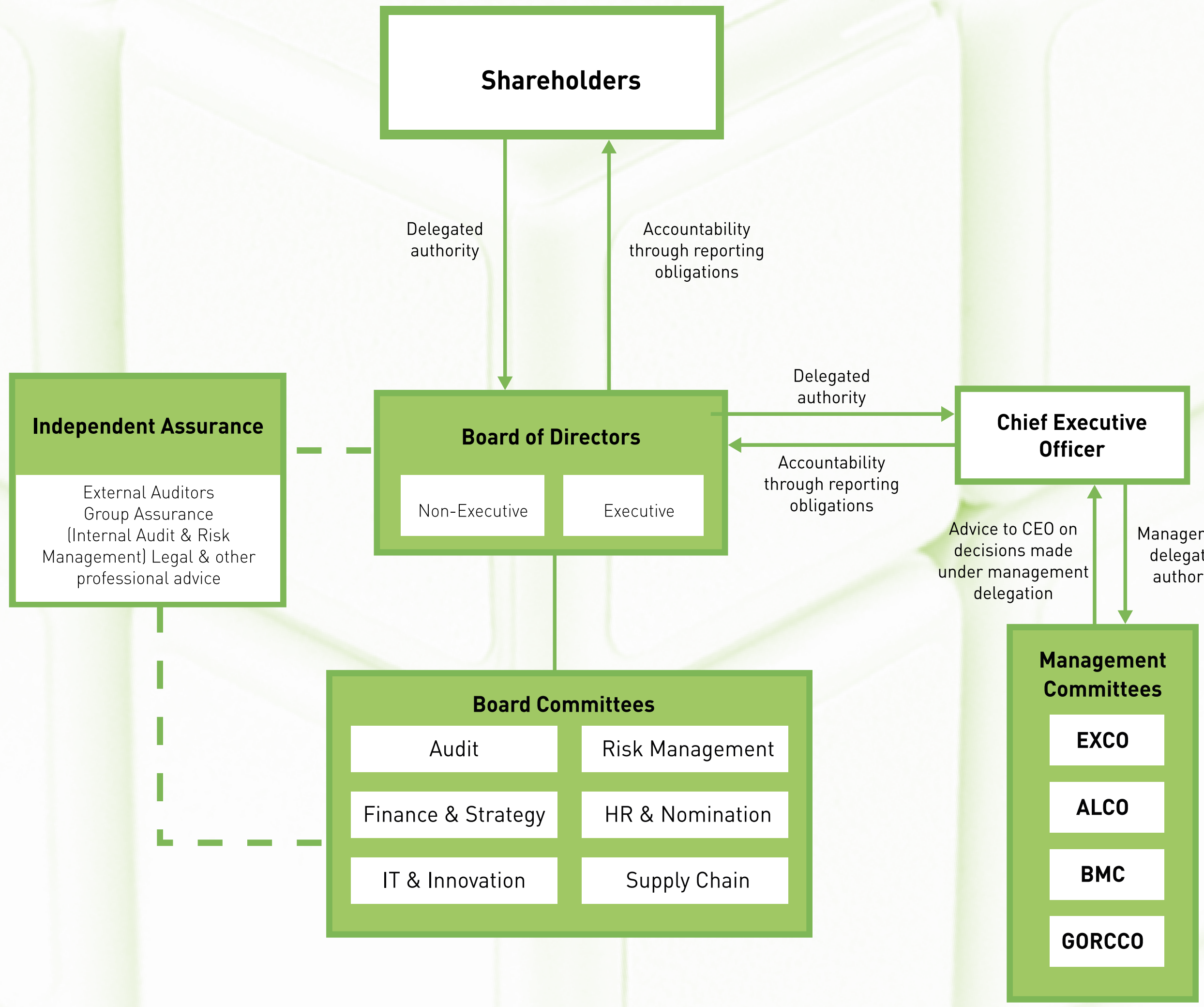
The roles and responsibilities of the Group Chairman and the Group Chief Executive Officer are separate with a clear division of responsibility between the running of the Board and the executive responsibility of running KCB Group's business.

The Group Chairman is responsible for the strategic leadership of the Board and is pivotal in creating conditions for the overall effectiveness of the Board. He promotes an open environment for debate and ensures all Directors are able to speak freely and contribute effectively. The Group Chairman plays a pivotal role in fostering constructive dialogue between shareholders, the Board and management at the Annual General Meeting and other shareholder meetings.

The Board, in the Board Charter, delegates responsibility for the day-to-day management of the business to the Group Chief Executive Officer. The Group Chief Executive Officer in turn delegates aspects of his own authority to members of the Group Executive Committee. The scope of, and limitations to, these delegations are clearly documented and cover areas such as operating expenditure, capital expenditure and investments. These delegations balance effective oversight with appropriate empowerment and accountability of senior executives.

To adequately undertake responsibilities in the day-to-day management of the business, in line with the authority delegated by the Board, management committees have been established. The management committees in include the Executive Management Committee (EXCO), the Assets and Liabilities Management Committee (ALCO), the Business Management Committee (BMC) and the Group Operational Risk and Compliance Committee (GORCCO).

Corporate Governance Framework



Board and Committee Membership

The Board currently comprises eleven Directors, two of whom are Executive Directors, one Non-Executive Director and eight Independent Non-Executive Directors including the Group Chairman. The Board determines its size and composition, subject to the Company's Articles of Association, Board Charter and applicable law.

Full details of the current Directors, their qualifications, skills, experience and tenure are set out on pages 163 to 165 of the 2016 Integrated Report.

The current Board and Committee membership details are set out below:

			Committees					
	Director	Board	Risk	Audit	Finance & Strategy	HR & Nomination	IT & Innovation	Supply Chain
1.	Ngeny Biwott	Chairman Non-Executive Independent						
2.	Henry Rotich (Alternate - Julius Mutua)	Non-Executive*	✓(C)			✓	✓	
3.	Charity Muya-Ngaruiya	Non-Executive Independent	✓	✓(C)	✓	✓		
4.	Adil Khawaja	Non-Executive Independent	✓		✓			
5.	Gen. (Rtd.) Joseph Kibwana	Non-Executive Independent		✓	✓			✓
6.	Catherine Kola	Non-Executive Independent			✓		✓	
7.	Tom Ipomai	Non-Executive Independent				✓(C)	✓	✓
8.	Georgina Malombe	Non-Executive Independent	✓	✓			✓(C)	✓
9.	John Nyerere	Non-Executive Independent	✓	✓	✓	✓		✓(C)
10.	Joshua Oigara	Chief Executive Officer	✓		✓	✓	✓	
11.	Lawrence Kimathi	Chief Financial Officer			✓(A)			

* Deemed as non-independent by virtue of being the representative of the Government of Kenya, the single largest shareholder.

(C) – Chairman of Committee

(A) – Permanent Attendee

Director Skills, Experience and Diversity

KCB Group seeks to have a Board that has the right mix of individuals with relevant attributes skills, knowledge and experience and who jointly have the overall collective competence to deal with current and emerging issues and effectively guide management in ensuring the highest performance for the Company.

STATEMENT OF CORPORATE GOVERNANCE

The Non-Executive Directors are expected to have a clear understanding of the strategy of the Company as well as knowledge of the industry and markets in which the Group operates.

The aggregate mix of skills and experience of the Directors seeks to challenge management, ensure robust and constructive debate and augments and challenge the strategic thinking of the executives thereby adding value to the Group.

The current skills and industry experience represented on the Board are as follows:

DIRECTOR	INDUSTRY EXPERIENCE
Ngeny Biwott	Strategy, Risk and crisis management
Henry Rotich (Alternate - Julius Mutua)	Financial services, Public sector
Charity Muya-Ngaruiya	Financial consulting, Financial accounting and Audit
Adil Khawaja	Legal and Commercial services and Advisory
Gen. (Rtd.) Joseph Kibwana	Strategy, Administration and Public Sector
Catherine Kola	Legal and Financial services
Tom Ipomai	Information Technology, Audit and Accounting
Georgina Malombe	Audit Quality Assurance, Accounting and Financial advisory
John Nyerere	Strategy and Economics
Joshua Oigara	Business management, Financial accounting and Financial Services
Lawrence Kimathi	Financial advisory, Financial accounting, Business management

Board Appointments

Where a vacancy occurs in the Board for any reason, the Articles of Association of the Company provide that the Board of Directors may appoint a new Director to fill in the casual vacancy.

The appointment of new directors to the Board follows a formal, rigorous and transparent procedure. Appointments to the Board are done by the whole Board of Directors only after receiving recommendations from the HR and Nominations Committee.

Board Tenure, Election and Re-election

The Board Charter provides that Non-Executive Directors are normally expected to serve a term not exceeding a total of eight years, subject to re-election by shareholders as required under the Company's Articles of Association, the Board Charter and applicable law. The Group Chairman would normally be expected to serve a maximum term of five years in that capacity.

As provided for in the Articles of Association, at every Annual General Meeting ("AGM"), at least one-third of the Non-Executive Directors retire from the Board. Directors appointed to fill casual vacancies are also expected to stand down for election by shareholders at the first AGM following their appointment.

INDEPENDENCE OF DIRECTORS AND CONFLICT OF INTEREST

The Board Charter, prepared in line with the Prudential Guidelines issued by the Central Bank of Kenya, provides that a majority of its directors should be independent.

In accordance with the Board Charter, the Board only considers directors to be independent where they are independent of management and free of any business or other relationship that could materially interfere with, or reasonably be perceived to materially interfere with, the directors capacity to bring an independent judgement to bear on issues before the Board and to act in the best interest of the Company or the shareholders generally.

All Directors of the Company must avoid any situation which might give rise to a conflict between their personal interest and that of the Group. The Directors are each responsible to notify the Group Chairman and the Group Company Secretary of any actual or potential conflict of interest situations as soon as they arise. The Articles of Association permit the Board to authorise the conflict, subject to conditions and limitations as the Board may determine.

Any Director who considers that they may have a conflict of interest or a material personal interest in any matter concerning the Company is immediately required to declare the potential conflict of interest for the Board to review. Any Director with a material personal interest in any matter being considered during any Board of Committee meeting will not vote on the matter or be present when the matter is being discussed and considered.

ACCESS TO INFORMATION AND INDEPENDENT ADVICE

The Board is entitled to seek any information it requires from any Group employee or from any other source. Procedures are in place, through the Group Board Chairman and the Group Company Secretary, enabling the Directors to have access, at reasonable times, to all relevant company information and to senior management, to assist them in the discharge of their duties and responsibilities and to enable them to take informed decisions. The Directors are also entitled to obtain independent legal, accounting or other professional advice at the Company's expense.

Directors are expected to strictly observe the provisions of the statutes applicable to the use and confidentiality of information.

DIRECTOR INDUCTION AND PROFESSIONAL DEVELOPMENT

Each new Director is provided with a letter of appointment and participates in a comprehensive and tailored induction program. Typical induction programmes consist of a series of meetings with other Directors and senior executives to enable new Directors familiarise themselves with the business. Directors also receive comprehensive guidance from the Group Company Secretary on Directors' duties and liabilities.

All Directors are expected to maintain the skills required to carry out their obligations. The Chairman regularly reviews the professional development needs of each Director. The program of continuing education ensures that the Board is kept up to date with developments in the industry both locally and globally. It includes sessions with local and overseas experts in the areas of general corporate governance and also in the particular fields relevant to the Group's operations.

During the year 2016, amongst other individual professional development courses, the Board of Directors underwent training sessions to familiarize themselves with the Companies Act, 2015 and the Insolvency Act, 2015. The Board further underwent a comprehensive corporate governance training facilitated by an international consultant.

PERFORMANCE & EVALUATION

The Board has in place a formal process for reviewing its performance and that of its Committees and individual Directors. Evaluation of the Board is externally facilitated after every two years.

For the 2016 financial year, the Board engaged an external consultancy firm to conduct the Board and Committee performance evaluation. Each director completed a detailed questionnaire designed to obtain feedback on the Board's performance in the following areas:

- Strategic objectives
- Risk governance
- Board composition and skills
- Board meetings and preparation
- Board interaction and support
- Performance of governance functions
- Performance of the Chairman, respective Committees and individual Directors.

The questionnaire also included a series of questions for each director to assess their own performance and the performance of each other individual director to identify development opportunities.

There was a noted 100% participation with a 98.4% answer rate of the questions asked in the evaluation. 92% satisfaction (Strongly Agree and Agree) was noted across the total range of questions relating to collective performance. This was noted as an acceptable result comparable with the external consultant's international peer group databank. Key areas of dissatisfaction noted related to the composition, diversity and nomination of Board members, which appeared to reflect in meeting conduct and professional development.

The Board evaluation was conducted in February 2017 and the results discussed with the Board. One-on-one discussion sessions were held with all the Directors.

The 2016 financial year review concluded that the Board continues to operate effectively and is well positioned to address any challenges faced by the Group. The results of the evaluation were submitted to the Central Bank of Kenya in the first quarter of the year in line with regulatory requirements.

STATEMENT OF CORPORATE GOVERNANCE

INTERACTION WITH SHAREHOLDERS

The Board recognizes the importance of maintaining transparency and accountability to its shareholders. The Board ensures that all the Company's shareholders are treated equitably and the rights of all shareholders are protected. The Board has put in place a sustainable programme of engagement which offers all shareholders an opportunity to receive information directly and enable them share their views with the Board.

The Group makes use of the Annual General Meeting (AGM) as well as the published annual report as an opportunity to communicate with its shareholders. The Group also communicates with its shareholders electronically through its website. Shareholders are encouraged to visit www.kcbbankgroup.com for general information about the Group and to be able to view annual reports and results briefing presentations.

The Group has an investor relations function that is responsible for facilitating communications with the investment community on a timely basis. The investor relations team has the primary responsibility for managing and developing the Group's external relationships with existing and potential institutional equity investors. Supported by the Group Chief Executive Officer and the Group Chief Financial Officer, they achieve this through a combination of briefings to analysts and institutional investors (both at results briefings and throughout the year). Their responsibilities include drafting certain market announcements, providing feedback to management and the Board on market views and perceptions about the Group, liaising with rating agencies, providing assistance to investors, brokers and analysts and coordinating roadshows, including for the half-year and full-year results announcements.

The Group Company Secretary has a dedicated team responsible for managing services and communication for and with retail shareholders. The Group engages directly with retail shareholders to respond to enquiries that are specific to the Group covering topics such as legacy matters.

BOARD MEETINGS

The Board has in place an annual work plan that sets out the Board activities in a year. The Board meets at least once every quarter, and additionally when necessary, to consider all matters relating to the overall control, business performance and strategy of the Company and in succession planning.

The Group Chairman, in conjunction with the Group Chief Executive Officer and the Group Company Secretary, sets the agenda for each meeting. Typically the Board works to an annual agenda encompassing periodic reviews of the Group operating business units and site visits; approval of strategy, business plans, budgets and financial statements; and review of statutory obligations and other responsibilities identified in the Board Charter.

The notice, agenda and detailed board papers are circulated in advance of the meetings. Directors are entitled to request additional information where they consider further information is necessary to support informed decision-making.

During the year ended 31 December, 2016, the Board held ten Board meetings. In addition, a strategic planning session was held in conjunction with the November Board meeting. A number of Directors also made site visits during the year. Details of Directors' attendance at Board and Committee meetings are set out in the table below:

	Board	Audit	Risk	Finance & strategy	HR & Nominations	IT & innovation	Supply Chain
Number of meetings	**10**	**5**	**4**	**6**	**10**	**7**	**2**
Ngeny Biwott	10						
Henry Rotich (Alternate - Julius Mutua)	10		4		10	7	
Charity Muya-Ngaruiya	9	5	4	5	10		
Adil Khawaja	8		3	5	1*		
Gen. (Rtd.) Joseph Kibwana	10	5		6			1
Catherine Kola	10			6		6	
Tom Ipomai	10				10	7	2
Georgina Malombe	8	5	3			7	1
John Nyerere	9	3	4	4	9		2
Joshua Oigara	7		3	5	9	6	
Lawrence Kimathi	10			6**			

*Adil Khawaja ceased being a member of the HR & Nomination Committee at the end of the first quarter.

**Lawrence Kimathi is a permanent attendee.

BOARD COMMITTEES

The Board is assisted in discharging its responsibilities by the six standing Board Committees described below. The Board may establish ad-hoc Committees as may be required. The membership of the Committee is structured to spread responsibility and make best use of the range of skills across the Board.

These Committees review matters on behalf of the Board in accordance with the Committee Terms of Reference. The Committees may:

- Refer matters to the Board for decision, with a recommendation from the Committee; or,
- Determine matters (where the Committee is acting in line with delegated authority), which the Committee then reports to the Board.

The Board periodically reviews the appropriateness of the existing Committee structure, as well as the membership and the terms of reference of each Committee.

A summary of the role of each of the Committees is set out below.

Risk Management	Audit
The Committee oversees the enterprise-wide view of risks and controls and brings together the overall risk appetite and risk profile of the business. It meets quarterly to advise the business on all matters pertaining to credit, market, operations, legal, environmental, compliance and other risks. Business continuity issues are also discussed by this Committee.	In accordance with regulatory requirements, the Committee comprises of only non-executive members of the Board who are independent of the day-to-day management of the Company's operations. It takes a largely backward-looking view, focused on financial reporting and control issues, including overseeing any control issue remediation plans.
HR & Nomination Committee	**Finance & Strategy Committee**
This Committee reviews human resource policies and makes suitable recommendations to the Board on senior management appointments. This Committee also oversees the nomination functions and senior management performance reviews. The Committee keeps under review the structure, size and composition of the Board as well as succession planning for Directors. It leads the process for identifying, nominating for approval by the Board, candidates to fill Board vacancies.	The Committee reviews and recommends to the Board for approval matters pertaining to: business strategic plans including its implementation and monitoring process; new markets expansion; significant investment and divestment decisions; annual business and financial plans and budgets and sustainability.
Supply Chain Committee	**IT & Innovation Committee**
The Committee ensures transparency in procurement and dealings with suppliers/service providers. It meets review and approve high value procurement needs of the Company deemed necessary for efficient service delivery.	The Committee reviews the scope and the effectiveness of IT operations and provide direction on enhancing the utility of IT resources through clearly laid down processes, procedures and time frames.

The Group Company Secretary

The Group Company secretary is responsible for advising the Board and providing good information flows and practical support for directors. The Company Secretary places particular emphasis on supporting Non-Executive Directors in maintaining the highest standard of probity and corporate governance. The Company Secretary ensures that Board procedures and all applicable rules and regulations are followed. Each member of the Board has direct access to the Company Secretary.

The Company Secretary is also the Chief Legal Officer reporting independently and directly to the Board and provides professional advice on any matters affecting the Company and its Subsidiaries.

The performance of the Group Company Secretary is assessed by the Board as part of the annual Board performance evaluation process.

STATEMENT OF CORPORATE GOVERNANCE

AUDIT

The Audit Committee assists the Board in fulfilling its statutory, regulatory and fiduciary responsibilities. It provides and objective and non-executive review of the effectiveness of:

- The external reporting of financial information including correct application of accounting requirements.
- Internal control environment of the Group including governance of financial and accounting risks.
- The Group's internal audit and external audit functions, including an assessment of the independence adequacy and effectiveness of those functions.
- The Group Risk Management Framework in conjunction with the Risk Management Committee.

The Audit Committee consists of Independent Non-Executive Directors who between them have the financial and accounting expertise and sufficient understanding of the business and industry to be able to discharge the Committees mandate effectively. The external auditor and Group internal auditor are invited to meetings with the Committee. Meetings are held from time to time with the external auditor and Group internal auditor respectively without management or others being present.

Whereas the directors are responsible for preparing the accounts and for presenting a balanced and fair view of the financial position of the Company, the external auditor examines and gives their opinion on the reasonableness of the financial statements. The external auditor report independently and directly to the Board at the half year and end year Board meetings.

DIRECTORS EMOLUMENTS AND LOANS

The aggregate amount of emoluments paid to Directors for services rendered during the Year 2016 is disclosed in Note 19 to the Financial Statements.

Neither at the end of the financial year, nor at any time during the year, did there exist any arrangement to which the Company is a party, under which Directors acquired benefits by means of acquisition of the Company's shares.

Additional details are provided in the Directors' Remuneration Report on page 71 of the Integrated Report.

SHAREHOLDING

The Company files monthly investor returns to meet the continuing obligations as prescribed by the Capital Markets Authority and the Nairobi Securities Exchange

DIRECTORS INTERESTS AS AT 31 December, 2016

NAME OF DIRECTOR	NUMBER OF SHARES HELD	%
Permanent Secretary to the Treasury of Kenya	537,378,947	17.53
Mr. Joshua Nyamweya Oigara	35,157	0.00
Mrs. Catherine Adongo Kola	26,178	0.00
Gen (Rtd) Joseph Raymond Kibwana	89,957	0.00
Mr. Ngeny Biwott	1,537	0.00
Mr. John O. A. Nyerere	27,142	0.00
Mr. Adil A. Khawaja	0	0.00
Mrs. Charity Muthoni Muya-Ngaruiya	0	0.00
Mr. Tom Ipomai	0	0.00
Ms. Georgina M. Malombe	0	0.00
Mr. Lawrence Kimathi Kiambi	0	0.00
Mr. Joseph Kania	0	0.00

SHAREHOLDERS PROFILE AS AT 31 DECEMBER, 2016		NUMBER OF SHARES HELD	
Kenyan Individual Investors	147,579	817,377,916	26.66
Kenyan Institutional Investors	5,146	1,267,657,272	41.34
East African Individual Investors	265	16,481,729	0.54
East African Institutional Investors	53	77,644,900	2.53
Foreign Individual Investors	543	54,199,898	1.77
Foreign Institutional Investors	155	832,701,772	27.16
	153,741	3,066,063,487	100.00

SUMMARY OF TOTALS	Shareholders	Shares held	%
Shares Range			
1 to 5000	124,257	203,257,753	6.63
5,001-50,000	27,499	289,034,940	9.43
50,001-100,000	805	54,740,174	1.79
100,001-1,000,000	916	260,621,636	8.50
1,000,001-10,000,000	231	689,457,181	22.49
10,000,001 and above	33	1,568,951,803	51.17
	153,741	3,066,063,487	100.00

Major Shareholders	Number of Shares Held	% Shareholding
Permanent Secretary to the Treasury of Kenya	537,378,947	17.53
National Social Security Fund	185,573,948	6.05
Standard Chartered Nominees a/c KE17682	76,417,233	2.49
Standard Chartered Nominees Non Resident a/c 9867	73,626,780	2.40
CFC Stanbic Nominees Ltd a/c NR3530153-1	61,500,000	2.01
Standard Chartered Kenya Nominees Ltd a/c KE002742	52,782,570	1.72
Standard Chartered Kenya Nominees Ltd a/c KE002382	46,268,787	1.51
Standard Chartered Nominees a/c 9688	45,778,323	1.49
Standard Chartered Kenya Nominees Ltd a/c KE20531	33,799,800	1.10
Standard Chartered Kenya Nominees Ltd a/c KE18972	32,458,215	1.06
	1,145,584,603	37.36

FINANCIAL STATEMENTS AND NOTES

DIRECTORS

Mr. Ngeny Biwott	-	Chairman
Mr. Joshua N. Oigara	-	Chief Executive Officer & Managing Director
Mr. Henry K Rotich		
Mrs. Catherine Kola		
Mrs. Charity M. Muya-Ngaruiya		
Mr. Adil A. Khawaja		
Gen. (Rtd) Joseph R.E. Kibwana		
Mr. Tom D. Ipomai		
Mr. Lawrence Kimathi	-	Chief Financial Officer
Mr. John O.A. Nyerere		
Ms. Georgina M. Malombe		

SECRETARY

Mr. Joseph Kania
P.O. Box 48400 - 00100
Nairobi, Kenya

AUDITORS

KPMG Kenya
Certified Public Accountants
8th Floor, ABC Towers
ABC Place, Waiyaki Way
P.O. Box 40612 - 00100
Nairobi, Kenya

REGISTERED OFFICES AND PRINCIPAL PLACES OF BUSINESS

KCB Group PLC	KCB Bank Tanzania Limited
Kencom House	Harambee Plaza
Moi Avenue	Ali Hassan Mwinyi Road/Kaunda Road Junction
P.O. Box 48400 - 00100	P.O. Box 804
Nairobi, Kenya	Dar es Salaam, Tanzania

KCB Bank South Sudan Limited	KCB Bank Uganda Limited
KCB Plaza	Commercial Plaza
Ministry Road	7 Kampala Road
P.O. Box 47	P.O. Box 7399
Juba, Southern Sudan	Kampala, Uganda

KCB Bank Rwanda Limited	KCB Bank Burundi Limited
Avenue de la Paix	Boulevard Patrice Lumumba
P.O. Box 5620	P.O. Box 6119
Kigali, Rwanda	Bujumbura, Burundi

KCB Bank Kenya Ltd	KCB Group PLC (Ethiopia Representative Office)
Kencom House	Morning Star Mall 4th Floor
Moi Avenue	Bole Medhanialem
P.O. Box 48400 - 00100	Addis Ababa,
Nairobi, Kenya	Ethiopia

SOLICITORS
Various. A list is available at the Bank

DIRECTORS' REPORT

The Directors submit their report together with the audited financial statements for the year ended 31 December 2016, in accordance with the Kenyan Companies Act, 2015 which disclose the state of affairs of KCB Group PLC (the "Group") and its subsidiaries.

1. Change of name

On 17 January 2016, Kenya Commercial Bank Limited, with the sanction of a special resolution of the Company and with the approval of the Registrar of Companies, changed its name to KCB Group Limited. Subsequently, in compliance with the Kenyan Companies Act, 2015, KCB Group Limited changed its name to KCB Group PLC on 23 August 2016.

2. Principal activities

The Company is licensed as a non-operating holding company under the Banking Act (Cap 488).

The principal activities of its main subsidiaries is provision of corporate, investment and retail banking services.

3. Transfer of assets and liabilities from KCB Group PLC (formerly Kenya Commercial Bank Limited)

On 1 January 2016, KCB Group PLC (formerly Kenya Commercial Bank Limited) transferred its banking business and the related assets and liabilities to its wholly owned subsidiary, KCB Bank Kenya Limited, by operation of Section 9(3) of the Banking Act, in line with the approval of the shareholders of the company during the annual General Meeting held on 15 May 2015. The assets and liabilities were transferred to KCB Bank Kenya Limited at their carrying amounts, without any fair value uplift, in exchange for equivalent share capital in the subsidiary. The agreement to transfer assets was signed by both companies and approved by the Central Bank of Kenya to take effect from 1 January 2016.

4. Results

The results of the Group and the Company are set out on pages 80 to 91.

5. Dividend

The Directors recommend a dividend of KShs 9,198,190,461 which represents KShs 3.00 per share in respect of the year ended 31 December 2016 (2015 – KShs 6,050,426,000 representing KShs 2.00 per share).

6. Directors

The Directors who served during the year and up to the date of this report are set out on page 68.

All the Directors are non-executive other than the Chief Executive Officer and the Chief Financial Officer.

7. Business overview

The Group Consolidation includes the results of the entities owned by 'KCB Group PLC'. The entities operate in Kenya, Tanzania, South Sudan, Rwanda, Uganda and Burundi mainly in the Banking Business.

The Group recorded improved performance as the profit before tax increased by 9.6% from KShs 26.5 billion to 29.1 billion. The increase is mainly due to increase in net interest income by 19.7% from KShs 39 billion to KShs 47 billion. The increase in interest income was mainly as attributable to the growth in the loan book during the year by KShs 40 billion coupled by a decline in interest expense by 8.0% in the year from KShs 17.1 billion to KShs 15.8 billion.

Total Operating expenses were up 9.2% from KShs 30.3 billion to KShs 33.1 billion mainly attributable to expenses to support business growth including system migration and channel expansion.

Customer deposits were up 5.6% from KShs 424 billion to KShs 448 billion attributable to customer number growth and improved customer confidence with the KCB brand.

Loans and advances improved by 11.5% from KShs 346 billion to KShs 386 billion .The improved liquidity is due to the increase in deposits and customer credit appetite attributed to this phenomenal growth.

The Group will continue to innovate products to satisfy its customers ever changing needs. Going forward the focus is to improve the non-funded income ratio through alternative channels and technology.

8. Relevant audit information

The Directors in office at the date of this report confirm that:

(i) There is no relevant audit information of which the Group's auditor is unaware; and

(ii) Each director has taken all the steps that they ought to have taken as a director so as to be aware of any relevant audit information and to establish that the Group's auditor is aware of that information.

8. Auditors

The auditors of the Company, KPMG Kenya, continue in office in accordance with Section 719 of the Kenyan Companies Act, 2015.

9. Approval of financial statements

The financial statements were approved by the Board of Directors on 8 March 2017.

BY ORDER OF THE BOARD

Joseph Kania

GROUP COMPANY SECRETARY

Date: 8 March 2017

The KCB Group Plc. approach towards reward and recognition is to ensure that individuals are adequately compensated and recognized for their role towards the overall success of the Groups business.

KCB Group Plc. presents the Director's Remuneration report for the year ended 31 December, 2016 in line with the CMA Code of Corporate Governance Guidelines on Director's remuneration and in line with the provisions of the Companies Act, 2015.

During the year ended 31 December, 2016, the Board of Directors consisted of:

a) Two Executive Directors: Joshua Oigara and Lawrence Kimathi;

b) One Non-executive Director: Henry Rotich (CS National Treasury) (Alternate: Julius Mutua); and

c) Eight Independent Non-Executive Directors: Ngeny Biwott, Charity Muya-Ngaruiya, Gen. (Rtd.) Joseph Kibwana, Adil Khawaja, Catherine Kola, Tom Ipomai, Georgina Malombe and John Nyerere.

The remuneration for Executive Directors is as per the negotiated employment contracts.

The details of the Non-Executive Directors Remuneration and Privileges Policy has been provided herein for ease of reference.

The Company will not propose to make any changes in the remuneration level during the current financial year.

DIRECTORS EMOLUMENTS AND LOANS

For the financial year ended 31 December, 2016, the consolidated Directors fees was KShs 128 million.

The aggregate amount of emoluments paid to Directors for services rendered during the year 2016 is disclosed in Note 19 to the Financial Statements.

Neither at the end of the financial year, nor at any time during the year, did there exist any arrangement to which the Company is a party, under which Directors acquired benefits by means of acquisition of the Company's shares.

NON-EXECUTIVE DIRECTORS REMUNERATION AND PRIVILEGES POLICY

The Group has put in place a policy that adequately defines the remuneration and related privileges received by the Non-Executive Directors of the Company.

All the remuneration and privileges accorded to the Directors and enumerated under the policy are competitive and reviewed according to the prevailing market trends for companies of a similar size and complexity of the Company.

The following components are provided to the Directors:

Director's Monthly Fees

These are paid to the Non-Executive Directors taking into account their responsibility as a director of the Company. These are paid monthly

Director's Sitting Allowance

A sitting allowance if paid to each Non-Executive Directors for attending a duly convened and constituted meeting of the Board or of any of the Committees.

Directors Duty Travel-day(s) Allowance

An allowance is paid to a Non-Executive Director for any day of travel away from his regular station in order to attend to duties of the Company.

Directors Duty Day Allowance

An allowance paid to a Non-Executive Director for any day away his regular station in order to attend to duties of the Company.

Travel and Accommodation

KCB Group provides travel and accommodation costs in line with the Company policy.

Telephone Allowance

Non-Executive Directors are entitled to a telephone allowance paid monthly.

Club Membership

Non-Executive Directors are entitled to paid membership to a social or fitness club.

Medical Insurance Cover

Provided to all Non-Executive Directors for their individual medical requirements covering both out-patient and in-patient requirements.

Professional Indemnity Cover

This is provided in line with best market practice to provide protection for the Non-Executive Directors in undertaking their duties in such capacity.

BY ORDER OF THE BOARD

Joseph Kania

8 March 2017

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The Directors are responsible for the preparation and presentation of the financial statements of KCB Group Plc and its subsidiaries set out on pages 80 to 160 which comprise the consolidated and separate statements of financial position at 31 December 2016, consolidated and separate statements of profit or loss and consolidated and separate statements of other comprehensive income, statements of changes in equity and statements of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

The Directors' responsibilities include: determining that the basis of accounting described in note 2 is an acceptable basis for preparing and presenting the financial statements in the circumstances, preparation and presentation of financial statements in accordance with International Financial Reporting Standards and in the manner required by the Kenya Companies Act, 2015 and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatements, whether due to fraud or error.

Under the Kenya Companies Act, 2015 the Directors are required to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Group and of the Bank as at the end of the financial year and of the operating results of the Group for that year. It also requires the Directors to ensure the Group keeps proper accounting records which disclose with reasonable accuracy the financial position of the Group and the Bank.

The Directors accept responsibility for the annual financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgments and estimates, in conformity with International Financial Reporting Standards and in the manner required by the Kenya Companies Act, 2015. The Directors are of the opinion that the financial statements give a true and fair view of the state of the financial affairs of the Group and the Bank and of the Group operating results.

The Directors further accept responsibility for the maintenance of accounting records which may be relied upon in the preparation of financial statements, as well as adequate systems of internal financial control.

The Directors have made an assessment of the Bank and its subsidiaries' ability to continue as a going concern and have no reason to believe the Bank and its subsidiaries will not be a going concern for at least the next twelve months from the date of this statement.

Approval of the financial statements

The financial statements, as indicated above, were approved by the Board of Directors on 8 March 2017 and were signed on its behalf by:

Ngeny Biwott
Chairman

Joshua N. Oigara
Chief Executive Officer & Managing Director

Charity M. Muya-Ngaruiya
Director

Joseph Kania
Secretary

KPMG

Report on the audit of the financial statements

Opinion

We have audited the consolidated and separate financial statements of KCB Group PLC set out on pages 80 to 160 which comprise the Consolidated and Company statements of financial position as at 31 December 2016, the Consolidated and Company statements of profit or loss, statements of other comprehensive income, statements of changes in equity and statements of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements give a true and fair view of the Consolidated and Company financial position of KCB Group PLC as at 31 December 2016, and the Consolidated and Company's financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards and in the manner required by 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 'Auditors Responsibilities for the Audit of the Financial Statements' section of our report. We are independent of the Group and Company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements that are relevant to our audit of the financial statements in Kenya, and we have fulfilled our other ethical responsibilities in accordance with these requirements and with the IESBA Code. 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 financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Impairment of loans and advances to customers	
See accounting policy note 3 (f) (iii) - Significant accounting policies and disclosure note 29 – Loans and advances to customers (Net).	
The Key audit matter	**How the matter was addressed in our audit**
Impairment of loans and advances to customers is a key audit matter due to the significance of the balances, and complexity and subjectivity over estimating timing and amount of impairment. The risk is that the amount of impairment may be misstated.	Our audit procedures in this area included, among others: - Assessing the trends in the local credit environment, considering their likely impact on the Group's exposures and using this information to focus our testing on the key risk areas;

KPMG

Report on the audit of the financial statements (continued)

Key audit matters (continued)

Impairment of loans and advances to customers (continued)	
See accounting policy note 3 (f) (iii) - Significant accounting policies, disclosure note 29 – Loans and advances to customers (Net) (continued)	
The Key audit matter	**How the matter was addressed in our audit**
The estimation of the impairment loss allowance on an individual basis requires management to make judgements to determine whether there is objective evidence of impairment and to make assumptions about the financial condition of borrowers and expected future cash flows. The collective impairment loss allowance relates to losses incurred but not yet identified (IBNR loss allowance) on other loans. The audit matters include controls over the models used, accuracy of input and appropriateness of model overlays. The model overlays are required to address certain known data and system issues and to reflect economic conditions at the year end.	- Assessing and testing the design and operating effectiveness of the controls over the Group's loans impairment process; - Testing a sample of model overlays, including evaluating the rationale for adjustments, the source of data used, key assumptions and sensitivity of the overlays to these assumptions. We compared the assumptions used to selected externally available industry, financial and economic data. - Re-performing certain credit procedures as follows: • For individually significant non-performing loans, performing a credit assessment to determine whether the grading was appropriate and assess the reasonableness of the amount and timing of estimated recoverable cash flows, including realisable value of collateral. Where available, we compared the assumptions and estimates made by management to the externally available; • Performing a credit assessment of the performing loans to determine whether their grading was appropriate and testing the accuracy of key inputs into the models, assessing the appropriateness of the impairment calculation methodology and re-performing certain calculations. • Assessing whether disclosures in the financial statements appropriately reflect the Group's exposure to credit risk.

Report on the audit of the financial statements (continued)

Key audit matters (continued)

IAS 29 Financial Reporting in Hyperinflationary Economies	
See accounting policy note 3 (c) (ii) – Significant accounting policies; disclosure note 20 – Loss on monetary position and disclosure note 51 – Hyperinflation.	
The key audit matter	**How the matter was addressed**
The Group has a significant foreign subsidiary in operating in South Sudan. For the financial year ended 31 December 2016, the subsidiary's financial statements were restated for hyperinflationary adjustments in accordance with inflation statistics published by the South Sudan National Bureau of Statistics and the consumer price indices stated by International Monetary Fund classified South Sudan which classified South Sudan as a hyperinflationary economy for the year ended 31 December 2016. We have considered hyperinflationary adjustments as a key audit matter due to the complex calculations and disclosures involved in re-statement of financial statements to conform to the requirements of International Accounting Standard ("IAS") 29, Financial Reporting in Hyperinflationary Economies. The standard requires significant judgments to be made by Directors in determination of whether an economy is hyperinflationary.	Our audit procedures in this area included, among others: - Assessing and testing for the indicators of hyperinflation on the South Sudan economy as well as judgments and assumptions made by the Directors during the application of the requirements of IAS 29. This included comparing the assumptions used to externally available industry, financial and economic data; - Inspecting and validating the source of date used in the workings provided by the management by verifying the Consumer Price Index ('CPI') and inflation rates provided against those published by the South Sudan National Bureau of Statistics and the International Monetary Fund; and - Assessing whether disclosures in the consolidated financial statements appropriately reflect the effects of the applying IAS 29 requirements.

Report on the audit of the financial statements (continued)

Key audit matters (continued)

Information Technology (IT) systems and controls	
The key audit matter	**How the matter was addressed**
Effective 12 August 2016, KCB Group PLC upgraded its core banking system from T24 R08 to T24 R14. Due to the inherent risks associated with a system upgrade and the processes around data migration, we identified IT systems and controls over financial reporting as a Key audit matter. There is a risk that automated accounting procedures and related IT dependent manual controls are not designed and operating effectively.	Our audit procedures in this area included, among others: - Reviewing the data migration process, testing general IT controls around system access and change management and testing controls over computer operations within specific applications which are required to be operating correctly to mitigate the risk of misstatement in the financial statements; - With the support of our own IT specialists, testing these controls through examining whether changes made to the systems were appropriately approved, and assessing whether appropriate restrictions were placed on access to core systems through reviewing the permissions and responsibilities of those given that access; and - Where we identify the need to perform additional procedures, place reliance on manual compensating controls, such as reconciliations between systems and other information sources or performing additional testing, such as extending the size of our sample sizes, to obtain sufficient appropriate audit evidence over the financial statement balances that were impacted.

Other information

The directors are responsible for the other information. The other information comprises the information included in the *Integrated Report & Financial Statements*, but does not include the financial statements and our auditor's report there on.

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

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

If, based on the work 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.

Report on the audit of the financial statements (continued)

Directors' responsibilities for the financial statements

As stated on page 73, the directors are responsible for the preparation of financial statements that give a true and fair view in accordance with International Financial Reporting Standards, and in the manner required by the Kenyan Companies Act, 2015 and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

The directors are responsible for overseeing the Group's and Company's financial reporting process.

Auditors' responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' 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 skepticism 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 Group'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 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 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.

REPORT OF THE INDEPENDENT AUDITORS
TO THE MEMBERS OF KCB GROUP PLC

Report on the audit of the financial statements (continued)

Auditors' responsibilities for the audit of the financial statements (Continued)

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

We communicate with 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.

We also provide the Directors with a statement that we have complied with relevant ethical requirements regarding independence, and 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 the Directors, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' 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 and Regulatory 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 purpose 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 statement of financial position and statement of profit or loss of the Company are in agreement with the books of account.

The Engagement Partner responsible for the audit resulting in this independent auditors' report is CPA Jacob Gathecha – P/1610.

KPMG Kenya

KPMG Kenya

Certified Public Accountants

PO Box 40612 – 00100

Nairobi

Date: 8 March 2017

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the year ended 31 December 2016

	Note	2016 KShs'million	2015 KShs'million
Interest income	9	62,806	56,443
Interest expense	9	(15,779)	(17,148)
Net interest income		**47,027**	**39,295**
Fees and commission income	10	13,319	14,160
Fees and commission expense	10	(695)	(1,058)
Net fees and commission income		**12,624**	**13,102**
Net foreign exchange income	11	5,494	4,068
Net income from financial instruments carried at fair value through profit or loss	12	-	(59)
Dividend income	13	-	1
Other operating income	14	4,331	2,620
Total income		**69,476**	**59,027**
Provision for impairment of loans and advances to customers	15	(3,823)	(2,179)
Net operating income		**65,653**	**56,848**
Employee benefits	16	(17,719)	(15,311)
Depreciation and amortization	17	(2,428)	(2,435)
Other operating expenses	18	(12,957)	(12,564)
Profit / Loss before tax and loss on monetary position	19	**32,549**	**26,538**
Loss on monetary position	20	(3,458)	-
Profit / Loss before income tax		**29,091**	**26,538**
Income tax expense	21(a)	(9,368)	(6,915)
Profit for the year		**19,723**	**19,623**
Attributable to:			
Owners of the parent		**19,723**	**19,623**
Earnings per share (KShs)			
Basic earnings per share	22	**6.46**	**6.49**
Diluted earnings per share	22	**6.46**	**6.49**
Dividends (KShs millions)			
Proposed final		**9,198**	**6,050**

The notes set out on pages 92 to 160 form an integral part of these financial statements.

CONSOLIDATED STATEMENT OF OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2016

	Note	2016 KShs'million	2015 KShs'million
Profit for the year		**19,723**	**19,623**
Other comprehensive income, net of income tax			
Items that will not be reclassified subsequently to profit or loss			
Re-measurement of defined benefit pension fund	48	(297)	(1,092)
Related tax at 30%		89	328
		(208)	**(764)**
Hyper Inflation translation		240	-
Items that are or may be reclassified subsequently to profit or loss			
Exchange differences on translation of foreign operations		77	(6,154)
Available for sale financial assets:			
- Unrealized (loss)/gain arising from measurement at fair value		(31)	(1,477)
Related tax at 30% - current year		9	443
		(22)	**(1,034)**
Other comprehensive income for the year, net of income tax		87	(7,952)
Total comprehensive income for the year		**19,810**	**11,671**
Attributable to:			
Owners of parent		**19,810**	**11,671**

The notes set out on pages 92 to 160 form an integral part of these financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
As at 31 December 2016

	Note	2016 KShs'million	2015 KShs'million
ASSETS			
Cash and balances with Central Banks	23	56,920	68,219
Loans and advances to banks	24	16,018	20,287
Financial assets held for trading	25	-	806
Financial assets available-for-sale	26	61,968	38,298
Clearing house	27	950	892
Other assets and prepayments	28	15,703	10,166
Loans and advances to customers (Net)	29(a)	385,745	345,969
Financial assets held to maturity	30	40,502	57,844
Tax recoverable	21(b)	217	161
Property and equipment	31(a)	9,373	9,028
Intangible assets	32	3,167	1,428
Prepaid operating lease rentals	33	134	137
Retirement benefit asset	48	811	980
Deferred income tax	35	3,732	3,879
TOTAL ASSETS		**595,240**	**558,094**
LIABILITIES AND EQUITY			
Liabilities			
Deposits from banks	36	13,123	23,138
Deposits from customers	37	448,174	424,391
Bills payable	38	2,277	1,527
Other liabilities and accrued expenses	39	11,082	7,240
Deferred tax liability	35	166	100
Tax payable	21(b)	870	314
Borrowings	41	22,982	20,130
Total liabilities		**498,674**	**476,840**
Share capital	42	3,066	3,025
Share premium	43	21,647	20,136
Regulatory reserve	43	10,240	8,948
Other reserves	43	(6,998)	(7,085)
Retained earnings	43	59,413	50,180
Proposed dividend	44	9,198	6,050
Total equity		**96,566**	**81,254**
TOTAL LIABILITIES AND EQUITY		**595,240**	**558,094**

The financial statements set out on pages 80 to 160 were approved by the Board of Directors on 8 March 2017 and were signed on its behalf by:

Ngeny Biwott
Chairman

Joshua N. Oigara
Chief Executive Officer & Managing Director

Charity M. Muya-Ngaruiya
Director

Joseph Kania
Company Secretary

The notes set out on pages 92 to 160 form an integral part of these financial statements.

COMPANY STATEMENT OF PROFIT OR LOSS
For the year ended 31 December 2016

	Note	2016 KShs'million	2015 KShs'million
Interest income	9	-	48,772
Interest expense	9	-	(15,063)
Net interest income		-	**33,709**
Fees and commission income	10	-	8,862
Fees and commission expense	10	-	(1,073)
Net fees and commission income		-	**7,789**
Net foreign exchange gain	11	-	2,203
Net Income from financial instruments carried at fair value through profit or loss	12	-	(59)
Dividend income	13	87	553
Other operating income	14	120	1,886
Total income		**207**	**46,081**
Provision for impairment of loans and advances to customers	15	-	(656)
Net operating income		**207**	**45,425**
Employee benefits	16	(249)	(12,107)
Depreciation and amortization	17	(3)	(1,668)
Other operating expenses	18	(45)	(8,205)
(Loss)/Profit before income tax	19	**(90)**	**23,445**
Income tax expense	21(a)	(36)	(6,945)
(Loss)/Profit for the year		**(126)**	**16,500**
Attributable to:			
Owners of the parent		**(126)**	**16,500**
Earnings per share (KShs)			
Basic	22	**(0.04)**	**5.45**
Diluted	22	**(0.04)**	**5.45**
Dividends (KShs millions)			
Proposed final		**9,198**	**6,050**

The notes set out on pages 92 to 160 form an integral part of these financial statements.

COMPANY STATEMENT OF OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2016

	Note	2016 KShs'million	2015 KShs'million
(Loss)/Profit for the year		**(126)**	**16,500**
Other comprehensive income, net of income tax			
Items that will not be reclassified subsequently to profit or loss			
Re-measurement of defined benefit pension fund	48	-	(1,092)
Related tax at 30%			328
		-	**(764)**
Items that are or may be reclassified subsequently to profit or loss			
Available for sale financial assets:			
- Unrealized (loss)/gain arising from measurement at fair value		(20)	(1,363)
Related tax at 30% - current year		-	397
		(20)	**(966)**
Other comprehensive income for the year, net of income tax		-	(1,730)
Total comprehensive income for the year		**(146)**	**14,770**
Attributable to:			
Owners of the parent		**(146)**	**14,770**

The notes set out on pages 92 to 160 form an integral part of these financial statements.

COMPANY STATEMENT OF FINANCIAL POSITION

As at 31 December 2016

	Note	2016 KShs'million	2015 KShs'million
ASSETS			
Cash and balances with Central Banks	23	951	31,419
Loans and advances to banks	24	-	9,254
Financial assets held for trading	25	-	806
Financial assets available-for-sale	26	57	33,904
Clearing house	27	-	863
Other assets and prepayments	28	-	10,355
Loans and advances to customers (Net)	29(a)	-	312,080
Financial assets held to maturity	30	-	43,257
Property and equipment	31(b)	564	7,046
Intangible assets	32	-	1,296
Prepaid operating lease rentals	33	-	135
Balances due from related companies	40	808	297
Investment in subsidiaries	34	67,130	12,709
Retirement benefit asset	48	-	980
Deferred income tax	35	-	3,340
TOTAL ASSETS		**69,510**	**467,741**
LIABILITIES AND EQUITY			
Liabilities			
Deposits from banks	36	-	14,760
Deposits from customers	37	-	347,702
Bills payable	38	740	1,451
Other liabilities	39	-	5,140
Tax payable	21(b)	36	247
Borrowings	41	-	17,555
Total liabilities		**776**	**386,855**
Equity			
Share capital	42	3,066	3,025
Share premium	43	21,647	20,136
Regulatory reserve	43	-	8,044
Other reserves	43	(20)	(536)
Retained earnings	43	34,843	44,167
Proposed dividend	44	9,198	6,050
Total equity		**68,734**	**80,886**
TOTAL LIABILITIES AND EQUITY		**69,510**	**467,741**

The financial statements set out on pages 80 to 160 were approved by the Board of Directors on 8 March 2017 and were signed on its behalf by:

Ngeny Biwott
Chairman

Joshua N. Oigara
Chief Executive Officer & Managing Director

Charity M. Muya-Ngaruiya
Director

Joseph Kania
Secretary

The notes set out on pages 92 to 160 form an integral part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
for the year ended 31 December 2016

2016	Note	Share capital KShs'million	Share premium KShs'million	Statutory credit risk reserve KShs'million	Proposed Dividend KShs'million	Translation reserve KShs'million	Available -for-sale- reserve KShs'million	Retained earnings KShs'million	Defined benefit reserve KShs'million	Hyper inflation KShs'million	Total KShs'million
At 1 January 2016		3,025	20,136	8,948	6,050	(6,480)	(1,127)	50,180	522	-	81,254
Profit for the year		-	-	-	-	-	-	19,723	-	-	19,723
Other comprehensive income (net of taxes)											
Foreign currency translation differences for foreign operations		-	-	-	-	77	-	-	-	-	77
Change in fair value of available for sale increments		-	-	-	-	-	(22)	-	-	-	(22)
Transfer to statutory credit risk reserve		-	-	1,292	-	-	-	(1,292)	-	-	-
Hyperinflationary impact	19	-	-	-	-	-	-	-	-	240	240
Re-measurement of defined benefit asset/ liability (net of taxes)	48	-	-	-		-	-	-	(208)	-	(208)
Total comprehensive income		**-**	**-**	**1,292**	**-**	**77**	**(22)**	**18,431**	**(208)**	**240**	**19,810**
Transactions with owners recorded directly in equity											
Scrip Shares	42(a)	41	1,511	-		-	-	-	-	-	1,552
Dividend paid – 2015		-	-	-	(6,050)	-	-	-	-	-	(6,050)
Dividends Proposed – 2016		-	-	-	9,198	-	-	(9,198)	-	-	-
Total contributions and distributions		**41**	**1,511**	**-**	3,148	**-**	**-**	**(9,198)**	**-**	**-**	**(4,498)**
At 31 December 2016		**3,066**	**21,647**	**10,240**	**9,198**	**(6,403)**	**(1,149)**	**59,413**	**314**	**240**	**96,566**

The notes set out on pages 92 to 160 form an integral part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
for the year ended 31 December 2015

2015	Note	Share capital KShs'million	Share premium KShs'million	Statutory credit risk reserve KShs'million	Proposed dividends KShs'million	Translation reserve KShs'million	Available -for-sale- reserve KShs'million	Retained earnings KShs'million	Defined benefit reserve KShs'million	Total KShs'million
At 1 January 2015		3,025	20,136	5,265	6,050	(326)	(93)	40,290	1,286	75,633
Profit for the year		-	-	-	-	-	-	19,623	-	19,623
Other comprehensive income (net of taxes)										
Foreign currency translation differences for foreign operations		-	-	-	-	(6,154)	-	-	-	(6,154)
Change in fair value of available for sale increments (net of tax)		-	-	-	-	-	(1,034)	-	-	(1,034)
Transfer to statutory credit risk reserve		-	-	3,683	-	-	-	(3,683)	-	-
Re-measurement of defined benefit asset/ liability (net of taxes)	48	-	-	-	-	-	-	-	(764)	(764)
Total comprehensive income		**-**	**-**	**3,683**	**-**	**(6,154)**	**(1,034)**	**15,940**	**(764)**	**11,671**
Transactions with owners recorded directly in equity										
Dividend paid – 2014		-	-	-	(6,050)	-	-	-	-	(6,050)
Dividend proposed – 2015		-	-	-	6,050	-	-	(6,050)	-	-
Total contributions and distributions		**-**	**-**	**-**	**-**	**-**	**-**	**(6,050)**	**-**	**(6,050)**
At 31 December 2015		**3,025**	**20,136**	**8,948**	**6,050**	**(6,480)**	**(1,127)**	**50,180**	**522**	**81,254**

The notes set out on pages 92 to 160 form an integral part of these financial statements.

COMPANY STATEMENT OF CHANGES IN EQUITY
for the year ended 31 December 2016

2016	Note	Share capital KShs'million	Share Premium KShs'million	Statutory credit risk reserve KShs'million	Proposed dividend KShs'million	Available -for-sale reserve KShs'million	Retained earnings KShs'million	Defined benefit reserve KShs'million	Total KShs'million
At 1 January 2016		3,025	20,136	8,044	6,050	(1,058)	44,167	522	80,886
Profit for the year		-	-	-	-	-	(126)	-	(126)
Other comprehensive income (net of taxes)									
Change in fair value of available for sale increments (net of tax)		-	-	-	-	(20)	-	-	(20)
Total comprehensive income		-	-	-	-	(20)	(126)	-	(146)
Transactions with owners recorded directly in equity									
Script shares	42(a)	41	1,511	-	-	-	-	-	1,552
Transfer to statutory KCB Bank Kenya Limited	50	-	-	(8,044)	-	1,058	-	(522)	(7,508)
Dividend paid - 2015	44	-	-	-	(6,050)	-	-	-	(6,050)
Dividend proposed - 2016	44	-	-	-	9,198	-	(9,198)	-	-
Total contributions and distributions		41	1,511	(8,044)	3,148	1,058	(9,198)	(522)	(12,006)
At 31 December 2016		3,066	21,647	-	9,198	(20)	34,843	-	68,734

The notes set out on pages 92 to 160 form an integral part of these financial statements.

COMPANY STATEMENT OF CHANGES IN EQUITY (CONTINUED)
for the year ended 31 December 2016

2015	Note	Share capital KShs'million	Share Premium KShs'million	Statutory credit risk reserve KShs'million	Proposed Proposed KShs'million	Available -for-sale reserve KShs'million	Retained earnings KShs'million	Defined benefit reserve KShs'million	Total KShs'million
At 1 January 2015		3,025	20,136	4,005	6.050	(92)	37,757	1,286	72,167
Profit for the year		-	-	-	-	-	16,499	-	16,499
Other comprehensive income (net of taxes)									
Transfer to statutory credit risk reserve		-	-	4,039	-	-	(4,039)	-	-
RRe-measurement of defined benefit asset/liability (net of taxes)	48	-	-	-	-	-	-	(764)	(764)
Change in fair value of available for sale increments (net of taxes)		-	-	-	-	(966)	-	-	(966)
Total comprehensive income		-	-	4,039	-	(966)	12,460	(764)	14,769
Transactions with owners recorded directly in equity									
Dividend paid – 2015	44	-	-	-	(6,050)	-	(6,050)	-	(6,050)
Dividend proposed - 2016	44	-	-	-	6,050	-	-	-	-
Total contributions and distributions		-	-	-	6,050	-	(6,050)	-	(6,050)
At 31 December 2015		3,025	20,136	8,044	6,050	(1,058)	44,167	522	80,886

The notes set out on pages 92 to 160 form an integral part of these financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2016

	Note	2016 KShs'million	2015 KShs'million
Net cash flows generated from operating activities	45(a)	(9,082)	4,427
Investing activities			
Proceeds from disposal of property and equipment		-	79
Purchase of intangible assets	32	(2,537)	(574)
Purchase of property and equipment	31(a)	(1,334)	(3,264)
Effects of exchange rate changes on translation of foreign operation		(610)	(4,686)
Net cash flows used in investing activities		(4,481)	(8,445)
Financing activities			
Net movement in borrowings	41	2,852	7,395
Shares issued	42	1,552	-
Dividends paid	44	(6,050)	(6,050)
Net cash flows used in financing activities		(1,646)	1,345
(Decrease)/increase in cash and cash equivalents		(15,209)	(2,673)
Cash and cash equivalents at the beginning of the year		68,227	70,900
Cash and cash equivalents at the end of the year	45(b)	53,018	68,227

The notes set out on pages 92 to 160 form an integral part of these financial statements.

COMPANY STATEMENT OF CASH FLOWS

For the year ended 31 December 2016

	Note	2016 KShs'million	2015 KShs'million
Net cash flows generated from operating activities	45(a)	5,884	17,147
Investing activities			
Proceeds from disposal of property and equipment		-	93
Purchase of intangible assets	32	-	(546)
Purchase of property and equipment	31	-	(2,975)
Investment in subsidiaries	34	(435)	(1,392)
Net cash flows used in investing activities		(435)	(4,820)
Financing activities			
Cash transferred to KCB Bank Kenya Limited	50	(25,035)	-
Shares Issued	42	1,552	-
Net movement in borrowings	41	-	5,945
Dividends paid	44	(6,050)	(6,050)
Net cash flows used in financing activities		(29,533)	(105)
(Decrease)/Increase in cash and cash equivalents		(24,084)	12,222
Cash and cash equivalents at the beginning of the year		25,035	12,813
Cash and cash equivalents at the end of the year	45(b)	951	25,035

The notes set out on pages 92 to 160 form an integral part of these financial statements.

1. GENERAL INFORMATION

KCB Group PLC (formerly Kenya Commercial Bank Limited), transferred certain assets and liabilities to KCB Bank Limited at book values in exchange for equity in KCB Group PLC. KCB Group PLC is now the parent company to KCB Bank Kenya Limited.

The Group is incorporated in Kenya under the Kenyan Companies Act, 2015 and has subsidiaries in Kenya, South Sudan, Tanzania, Uganda, Rwanda and Burundi. The consolidated financial statements of the Company as at and for the year ended 31 December 2016 comprise the Group and its subsidiaries (together referred to as the "Group" and individually referred to as the "Company") and the Group's interest in associates. The address of its registered office is as follows:

Kencom House

Moi Avenue

PO Box 48400 - 00100

Nairobi, Kenya

The Company has a 100% ownership in KCB Bank Kenya Limited, Kenya Commercial Finance Company Limited, Savings & Loan Kenya Limited, Kenya Commercial Bank Nominees Limited, Kencom House Limited, KCB Bank Tanzania Limited, KCB Bank South Sudan Limited, KCB Bank Rwanda Limited, KCB Bank Uganda Limited, KCB Bank Burundi Limited, KCB Insurance Agency Limited, KCB Capital Limited and a 45% ownership in United Finance Limited.

The shares of the Company are listed on the Nairobi Securities Exchange, Uganda Securities Exchange, Dar-es-Salaam Stock Exchange and Rwanda Stock Exchange.

For the Kenyan Companies Act, 2015 reporting purposes, the balance sheet is represented by the statement of financial position and the profit and loss account by the statement of profit or loss in these financial statements.

2. BASIS OF PREPARATION

(a) Statement of compliance

The consolidated financial statements of the Company and its subsidiaries as well as the separate financial statements of the Company, together referred to as "the financial statements", have been prepared in accordance with International Financial Reporting Standards (IFRSs) as issued by the International Accounting Standards Board (IASB) and in compliance with the Kenyan Companies Act, 2015.

(b) Basis of measurement

The financial statements have been prepared on the historical cost basis except for the following:

- Financial instruments at fair value through profit or loss are measured at fair value;
- Available-for-sale financial assets are measured at fair value;
- The liability for defined benefit obligations is recognised as the present value of the defined benefit obligation less the net total of the plan assets, plus unrecognised actuarial gains less unrecognised past service cost and unrecognised actuarial losses.

(c) Functional and presentation currency

The financial statements are presented in Kenya Shillings (KShs), which is the Company's functional currency. Except as otherwise indicated, financial information presentation in Kenya shillings has been rounded to the nearest thousand (KShs'000). Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured.

(d) Use of estimates and judgements

In preparing these consolidated financial statements, management has made judgements, estimates and assumptions that affect the application of the Group's accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are recognised prospectively.

The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 5.

3. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to all years presented on these financial statements and have been applied consistently by the Group.

(a) Changes in accounting policies and disclosures

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

The Group has adopted the following new standards and amendments during the year ended 31 December 2016, including consequential amendments to other standards with the date of initial application by the Group being 1 January 2016.

The nature and effects of the changes are explained below:

New standard or amendments
– Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments to IFRS 10 and IAS 28)
– Accounting for Acquisitions of Interests in Joint Operations (Amendments to IFRS 11)
– Amendments to IAS 16 and IAS 38 – Clarification of Acceptable Methods of Depreciations and Amortisation
– Amendments to IAS 41 - Bearer Plants (Amendments to IAS 16 and IAS 41)
– Equity Method in Separate Financial Statements (Amendments to IAS 27)
– IFRS 14 Regulatory Deferral Accounts
– Investment Entities: Applying the Consolidation Exception (Amendments to IFRS 10, IFRS 12 and IAS 28)
– Disclosure Initiative (Amendments to IAS 1)
– Annual improvements cycle (2012-2014) – various standards

Accounting for Acquisitions of Interests in Joint Operations (Amendments to IFRS 11)

The amendments require business combination accounting to be applied to acquisitions of interests in a joint operation that constitutes a business. Business combination accounting also applies to the acquisition of additional interests in a joint operation while the joint operator retains joint control. The additional interest acquired will be measured at fair value. The previously held interest in the joint operation will not be re-measured. The amendments apply prospectively for annual periods beginning on or after 1 January 2016.

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

Amendments to IAS 41- Bearer Plants (Amendments to IAS 16 and IAS 41)

The amendments to IAS 16 Property, Plant and Equipment and IAS 41 Agriculture require a bearer plant (which is a living plant used solely to grow produce over several periods) to be accounted for as property, plant and equipment in accordance with IAS 16 Property, Plant and Equipment instead of IAS 41 Agriculture. The produce growing on bearer plants will remain within the scope of IAS 41.The new requirements are effective from 1 January 2016.

The Group does not have any bearer plants. Consequently the adoption of these changes did not have a significant impact its financial statements.

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

The amendments to IAS 16 Property, Plant and Equipment explicitly state that revenue-based methods of depreciation cannot be used for property, plant and equipment.

The amendments to IAS 38 Intangible Assets introduce a rebuttable presumption that the use of revenue-based amortisation methods for intangible assets is inappropriate. The presumption can be overcome only when revenue and the consumption of the economic benefits of the intangible asset are 'highly correlated', or when the intangible asset is expressed as a measure of revenue. The amendments apply prospectively for annual periods beginning on or after 1 January 2016.

Clarification of Acceptable Methods of Depreciation and Amortisation (Amendments to IAS 16 and IAS 38) - continued

The adoption of these changes did not affect the amounts and disclosures of the Group's property, plant and equipment and intangible assets.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

Equity Method in Separate Financial Statements (Amendments to IAS 27)

The amendments allow the use of the equity method in separate financial statements, and apply to the accounting not only for associates and joint ventures but also for subsidiaries. The amendments apply retrospectively for annual periods beginning on or after 1 January 2016.

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

IFRS 14 Regulatory Deferral Accounts

IFRS 14 provides guidance on accounting for regulatory deferral account balances by first-time adopters of IFRS. To apply this standard, the entity has to be rate-regulated i.e. the establishment of prices that can be charged to its customers for goods and services is subject to oversight and/or approval by an authorised body.

The standard is effective for financial reporting years beginning on or after 1 January 2016.

The adoption of these changes did not have a significant impact on the financial statements of the Group given that it is not a first time adopter of IFRS.

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

The amendment to IFRS 10 Consolidated Financial Statements clarifies which subsidiaries of an investment entity are consolidated instead of being measured at fair value through profit and loss. The amendment also modifies the condition in the general consolidation exemption that requires an entity's parent or ultimate parent to prepare consolidated financial statements. The amendment clarifies that this condition is also met where the ultimate parent or any intermediary parent of a parent entity measures subsidiaries at fair value through profit or loss in accordance with IFRS 10 and not only where the ultimate parent or intermediate parent consolidates its subsidiaries.

The amendment to IFRS 12 Disclosure of Interests in Other Entities requires an entity that prepares financial statements in which all its subsidiaries are measured at fair value through profit or loss in accordance with IFRS 10 to make disclosures required by IFRS 12 relating to investment entities.

The amendment to IAS 28 Investments in Associates and Joint Ventures modifies the conditions where an entity need not apply the equity method to its investments in associates or joint ventures to align these to the amended IFRS 10 conditions for not presenting consolidated financial statements.

The amendments introduce relief when applying the equity method which permits a non-investment entity investor in an associate or joint venture that is an investment entity to retain the fair value through profit or loss measurement applied by the associate or joint venture to its subsidiaries.

The amendments apply retrospectively for annual periods beginning on or after 1 January 2016. The adoption of these changes did not have a significant impact on the amounts and disclosures of the Group's interests in other entities.

Disclosure Initiative (Amendments to IAS 1)

The amendments provide additional guidance on the application of materiality and aggregation when preparing financial statements. The amendments apply for annual periods beginning on or after 1 January 2016 and early application is permitted. The adoption of these changes did not affect the amounts and disclosures of the Group's interests in other entities.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

Annual improvements cycle (2012-2014) – various standards

Standard	Amendments
IFRS 5 Non-current Assets Held for Sale and Discontinued Operations	**Changes in methods of disposal.** Adds specific guidance in IFRS 5 for cases in which an entity reclassifies an asset from held for sale to held for distribution or vice versa and cases in which held-for-distribution accounting is discontinued.
IFRS 7 Financial Instruments: Disclosures with consequential amendments to IFRS 1)	**Servicing contracts.** Adds additional guidance to clarify whether a servicing contract is continuing involvement in a transferred asset for the purpose of determining the disclosures required. **Applicability of the amendments to IFRS 7 to condensed interim financial statements.** Clarifies the applicability of the amendments to IFRS 7 on offsetting disclosures to condensed interim financial statements.
IAS 19 Employee Benefits	**Discount rate: regional market issue.** Clarifies that the high quality corporate bonds used in estimating the discount rate for post-employment benefits should be denominated in the same currency as the benefits to be paid (thus, the depth of the market for high quality corporate bonds should be assessed at currency level).
IAS 34 Interim Financial Reporting	**Disclosure of information 'elsewhere in the interim financial report'.** Clarifies the meaning of 'elsewhere in the interim report' and requires a cross-reference

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

(ii) New and amended standards and interpretations in issue but not yet effective for the year ended 31 December 2016

A number of new standards, amendments to standards and interpretations are not yet effective for the year ended 31 December 2016, and have not been applied in preparing these financial statements.

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

New standard or amendments	Effective for annual periods beginning on or after
– Disclosure Initiative (Amendments to IAS 7)	1 January 2017
– Recognition of Deferred Tax Assets for Unrealised Losses (Amendments to IAS 12	1 January 2017
– IFRS 15 Revenue from Contracts with Customers	1 January 2018
– IFRS 9 Financial Instruments (2014)	1 January 2018
– Classification and Measurement of Share-based	1 January 2018
– Payment Transactions (Amendments to IFRS 2)	1 January 2018
– Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts (Amendments to IFRS 4)	1 January 2018
– IFRS 16 Leases	1 January 2019
– Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments to IFRS 10 and IAS 28).	To be determined

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

(ii) New and amended standards and interpretations in issue but not yet effective for the year ended 31 December 2016- continued

Disclosure Initiative (Amendments to IAS 7)

The amendments in Disclosure Initiative (Amendments to IAS 7) come with the objective that entities shall provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities.

The International Accounting Standards Board (IASB) requires that the following changes in liabilities arising from financing activities are disclosed (to the extent necessary): (i) changes from financing cash flows; (ii) changes arising from obtaining or losing control of subsidiaries or other businesses; (iii) the effect of changes in foreign exchange rates; (iv) changes in fair values; and (v) other changes.

The IASB defines liabilities arising from financing activities as liabilities "for which cash flows were, or future cash flows will be, classified in the statement of cash flows as cash flows from financing activities". It also stresses that the new disclosure requirements also relate to changes in financial assets if they meet the same definition.

The amendments state that one way to fulfil the new disclosure requirement is to provide a reconciliation between the opening and closing balances in the statement of financial position for liabilities arising from financing activities.

Finally, the amendments state that changes in liabilities arising from financing activities must be disclosed separately from changes in other assets and liabilities.

The amendments are effective for annual periods beginning on or after 1 January 2017, with early application permitted. Since the amendments are being issued less than one year before the effective date, entities need not provide comparative information when they first apply the amendments.

The Group is assessing the potential impact on the financial statements resulting from the application of IAS 7.

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

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

– Unrealised losses on debt instruments measured at fair value and measured at cost for tax purposes give rise to a deductible temporary difference regardless of whether the debt instrument's holder expects to recover the carrying amount of the debt instrument by sale or by use.

– The carrying amount of an asset does not limit the estimation of probable future taxable profits.

– Estimates for future taxable profits exclude tax deductions resulting from the reversal of deductible temporary differences.

– An entity assesses a deferred tax asset in combination with other deferred tax assets. Where tax law restricts the utilisation of tax losses, an entity would assess a deferred tax asset in combination with other deferred tax assets of the same type.

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

The adoption of these changes is not expected to affect the amounts and disclosures of the Company and Group's financial statements.

IFRS 15 Revenue from Contracts with Customers

This standard replaces IAS 11 Construction Contracts, IAS 18 Revenue, IFRIC 13 Customer Loyalty Programmes, IFRIC 15 Agreements for the Construction of Real Estate, IFRIC 18 Transfer of Assets from Customers and SIC-31 Revenue – Barter of Transactions Involving Advertising Services.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

(ii) New and amended standards and interpretations in issue but not yet effective for the year ended 31 December 2016- continued

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

The standard contains a single model that applies to contracts with customers and two approaches to recognising revenue: at a point in time or over time. The standard specifies how and when an IFRS reporter will recognise revenue as well as requiring such entities to provide users of financial statements with more informative, relevant disclosures.

The standard provides a single, principles based five-step model to be applied to all contracts with customers in recognising revenue being: Identify the contract(s) with a customer; identify the performance obligations in the contract; determine the transaction price; Allocate the transaction price to the performance obligations in the contract; and recognise revenue when (or as) the entity satisfies a performance obligation.

IFRS 15 is effective for annual reporting periods beginning on or after 1 January 2018, with early adoption permitted.

The Group is assessing the potential impact on the financial statements resulting from the application of IFRS 15.

IFRS 9: Financial Instruments (2014)

On 24 July 2014 the IASB issued the final IFRS 9 Financial Instruments Standard, which replaces earlier versions of IFRS 9 and completes the IASB's project to replace IAS *39 Financial Instruments: Recognition and Measurement.*

This standard introduces changes in the measurement bases of the financial assets to amortised cost, fair value through other comprehensive income or fair value through profit or loss. Even though these measurement categories are similar to IAS 39, the criteria for classification into these categories are significantly different. In addition, the IFRS 9 impairment model has been changed from an "incurred loss" model from IAS 39 to an "expected credit loss" model.

The standard is effective for annual period beginning on or after 1 January 2018 with retrospective application, early adoption permitted.

The Group is assessing the potential impact on the financial statements resulting from the application of IFRS 9. The impact is expected to be significant to the Group.

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

The following clarifications and amendments are contained in the pronouncement:

– *Accounting for cash-settled share-based payment transactions that include a performance condition*

  Up until this point, IFRS 2 contained no guidance on how vesting conditions affect the fair value of liabilities for cash-settled share-based payments. IASB has now added guidance that introduces accounting requirements for cash-settled share-based payments that follows the same approach as used for equity-settled share-based payments.

– *Classification of share-based payment transactions with net settlement features*

  IASB has introduced an exception into IFRS 2 so that a share-based payment where the entity settles the share-based payment arrangement net is classified as equity-settled in its entirety provided the share-based payment would have been classified as equity-settled had it not included the net settlement feature.

– *Accounting for modifications of share-based payment transactions from cash-settled to equity-settled*

  Up until this point, IFRS 2 did not specifically address situations where a cash-settled share-based payment changes to an equity-settled share-based payment because of modifications of the terms and conditions. The IASB has introduced the following clarifications:

- On such modifications, the original liability recognised in respect of the cash-settled share-based payment is derecognised and the equity-settled share-based payment is recognised at the modification date fair value to the extent services have been rendered up to the modification date.

- Any difference between the carrying amount of the liability as at the modification date and the amount recognised in equity at the same date would be recognised in profit and loss immediately.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

(ii) New and amended standards and interpretations in issue but not yet effective for the year ended 31 December 2016- continued

Classification and Measurement of Share-based Payment Transactions (Amendments to IFRS 2) - continued

The amendments are effective for annual periods beginning on or after 1 January 2018. Earlier application is permitted. The amendments are to be applied prospectively. However, retrospective application if allowed if this is possible without the use of hindsight. If an entity applies the amendments retrospectively, it must do so for all of the amendments described above.

The Group and Company are assessing the potential impact on the financial statements resulting from the application of the IFRS 2 amendments.

Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts (Amendments to IFRS 4)

The amendments in Applying IFRS 9 'Financial Instruments' with IFRS 4 'Insurance Contracts' (Amendments to IFRS 4) provide two options for entities that issue insurance contracts within the scope of IFRS 4:

– an option that permits entities to reclassify, from profit or loss to other comprehensive income, some of the income or expenses arising from designated financial assets; this is the so-called overlay approach;

– an optional temporary exemption from applying IFRS 9 for entities whose predominant activity is issuing contracts within the scope of IFRS 4; this is the so-called deferral approach.

The application of both approaches is optional and an entity is permitted to stop applying them before the new insurance contracts standard is applied.

An entity applies the overlay approach retrospectively to qualifying financial assets when it first applies IFRS 9. Application of the overlay approach requires disclosure of sufficient information to enable users of financial statements to understand how the amount reclassified in the reporting period is calculated and the effect of that reclassification on the financial statements.

An entity applies the deferral approach for annual periods beginning on or after 1 January 2018. Predominance is assessed at the reporting entity level at the annual reporting date that immediately precedes 1 April 2016. Application of the deferral approach needs to be disclosed together with information that enables users of financial statements to understand how the insurer qualified for the temporary exemption and to compare insurers applying the temporary exemption with entities applying IFRS 9. The deferral can only be made use of for the three years following 1 January 2018. Predominance is only reassessed if there is a change in the entity's activities.

The adoption of these changes is not expected to affect the amounts and disclosures of the Company and Group's financial statements.

IFRS 16: Leases

On 13 January 2016 the IASB issued IFRS 16 Leases, completing the IASB's project to improve the financial reporting of leases. IFRS 16 replaces the previous leases standard, IAS 17 Leases, and related interpretations.

IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract, i.e. the customer ('lessee') and the supplier ('lessor'). The standard defines a lease as a contract that conveys to the customer ('lessee') the right to use an asset for a period of time in exchange for consideration.

A company assesses whether a contract contains a lease on the basis of whether the customer has the right to control the use of an identified asset for a period of time.

The standard eliminates the classification of leases as either operating leases or finance leases for a lessee and introduces a single lessee accounting model. All leases are treated in a similar way to finance leases. Applying that model significantly affects the accounting and presentation of leases and consequently, the lessee is required to recognise:

a) assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. A company recognises the present value of the unavoidable lease payments and shows them either as lease assets (right-of-use assets) or together with property, plant and equipment. If lease

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2016

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

(ii) New and amended standards and interpretations in issue but not yet effective for the year ended 31 December 2016- continued

payments are made over time, a company also recognises a financial liability representing its obligation to make future lease payments.

b) depreciation of lease assets and interest on lease liabilities in profit or loss over the lease term; and

c) separate the total amount of cash paid into a principal portion (presented within financing activities) and interest (typically presented within either operating or financing activities) in the statement of cash flows

IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently. However, compared to IAS 17, IFRS 16 requires a lessor to disclose additional information about how it manages the risks related to its residual interest in assets subject to leases.

The standard does not require a company to recognise assets and liabilities for:

(a) short-term leases (i.e. leases of 12 months or less) and;

(b) leases of low-value assets

The new Standard is effective for annual periods beginning on or after 1 January 2019. Early application is permitted insofar as the recently issued revenue Standard, IFRS 15 Revenue from Contracts with Customers is also applied.

The Group and Company are assessing the potential impact on the financial statements resulting from the application of IFRS 15.

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

The amendments require the full gain to be recognised when assets transferred between an investor and its associate or joint venture meet the definition of a 'business' under IFRS 3 Business Combinations. Where the assets transferred do not meet the definition of a business, a partial gain to the extent of unrelated investors' interests in the associate or joint venture is recognised. The definition of a business is key to determining the extent of the gain to be recognised.

The effective date for these changes has now been postponed until the completion of a broader review.

The Group and Company are assessing the potential impact on the financial statements resulting from the application of these amendments.

(b) Basis of consolidation

(i) Subsidiaries

The consolidated financial statements comprise the financial statements of the Group and its subsidiaries as at 31 December 2016. The subsidiaries are shown in Note 34.

Subsidiaries are entities controlled by the Group. Control exists when the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable are taken into account. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. The financial statements have been prepared using uniform accounting policies for like transactions and other events in similar circumstances.

Losses within a subsidiary are attributed to the non-controlling interest even if that results in a deficit balance. 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:

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(b) Basis of consolidation (continued)

(i) Subsidiaries (continued)

- Derecognises the assets (including goodwill) and liabilities of the subsidiary;
- Derecognises the carrying amount of any non-controlling interest;
- Derecognises the cumulative translation differences, recorded in equity;
- Recognises the fair value of the consideration received;
- Recognises the fair value of any investment retained. Subsequently, it is accounted as an equity accounted investee or as an available-for-sale financial asset depending on the level of influence retained; and
- Recognises any surplus or deficit in profit or loss.

(ii) Associate

The Group has an investment in an associate which is dormant.

Associates are entities in which the Group has significant influence, but not control, over the financial and operational policies. The Group's investment in its associate is accounted for using the equity method and is recognized initially at cost.

The cost of the investment includes transaction costs. Subsequent to initial recognition, the financial statement includes the Group's share of the profit or loss and other comprehensive income of equity accounted investee until the date in which significant influence ceases.

When the Group's share of losses exceeds its interest in an equity accounted investee, the carrying amount of the investment including any long-term interests that form part thereof, is reduced to zero, and the recognition of further losses is discontinued except to the extent that the Group has an obligation or has made payments on behalf of the investee.

The Company's investment in associate is accounted for at cost in its separate financial statements.

(iii) Loss of control

When the Group loses control over a subsidiary, it derecognizes the assets and liabilities of the subsidiary, and any related non controlling interest and other components of equity.

Any resulting gain or loss is recognised in profit or loss. Any interest retained in the former subsidiary is measured at fair value when control is lost.

(iv) Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised income and expenses (except for foreign currency transaction gains or losses) arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

(c) Foreign currency translation

(i) Transactions and balances

Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized as profit or loss, except when deferred in other comprehensive income as qualifying cash flow hedges and qualifying net investment hedges.

Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented in the income statement within "finance income or costs". All other foreign exchange gains and losses are presented in the statement of profit or loss for the year within "other gains/losses-net".

Changes in the fair value of monetary securities denominated in foreign currency classified as available for sale are analysed between translation differences resulting from changes in the amortised cost of the security and other changes in the carrying amount of the security.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(c) Foreign currency translation (continued)

(i) Transactions and balances (continued)

Translation differences related to changes in amortised cost are recognised in profit or loss, and other changes in carrying amount are recognised in other comprehensive income.

Translation differences on non-monetary financial assets and liabilities such as equities held at fair value through profit or loss are recognised in profit or loss as part of the fair value gain or loss.

Translation differences on non-monetary financial assets, such as equities classified as available for sale, are included in other comprehensive income.

(ii) Group Companies

The results and financial position of all the group entities (one of which has the currency of a hyper-inflationary economy as at 31 December 2016 based on our assessment. The financial statements for KCB Bank South Sudan Limited have been presented in line with IAS 29 for hyperinflationary economies. Judgment has been used in the various assumptions used such as the consumer price indices for the various years due to limitation of data available. Refer to Note 51. The subsidiaries that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

(i) assets and liabilities of foreign subsidiaries are translated into Kenya Shillings at the rate of exchange ruling at the reporting date;

(ii) income and expenses for each statement of comprehensive income are translated at the weighted average exchange rates for the period; and

(iii) exchange differences arising on translation are recognised in other comprehensive income and accumulated in equity in the translation reserve. On disposal of a foreign entity, the deferred cumulative amount recognised in equity relating to that particular foreign operation is reclassified from equity to profit or loss when the gain or loss on disposal is recognised.

(d) Recognition of income and expense

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 income and expense

Interest income and expense are recognised in profit or loss using the effective interest method. The 'effective interest rate' is the rate that discounts the estimated future cash payments and receipts through the expected life of the financial asset or financial liability (or, where appropriate, a shorter period) to the carrying asset or financial liability. When calculating effective interest rate, the Group estimates future cash-flows considering all contractual terms of the financial instrument, but not future credit losses.

The calculation of the effective interest rate includes transaction costs and fees and points paid or received that are an integral part of the effective interest rate. Transaction costs include incremental costs that are directly attributable to the acquisition or issue of a financial asset or liability.

Interest income and expense recognized in profit or loss include

- Interest on financial assets and financial liabilities measured at amortised cost calculated on an effective interest basis.
- Interest on available for sale investment securities calculated on an effective interest basis.

  Interest income and expense on all trading assets and liabilities are considered to be incidental to the Group's trading operations and are presented together with all other changes in the fair value through profit and loss in the income statement.

(ii) Dividend income

Dividend income is recognised when the Group's right to receive payment is established, which in the case of quoted securities is the ex-dividend date.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(d) Recognition of income and expense (continued)

(iii) Fees and commission income

Fees and commission income and expense are recognised on an accrual basis when the service has been provided. Commission and fees arising from negotiation of transactions with third parties, or participating in the negotiation of a transaction for a third party is recognised on completion of the underlying transaction. Fees and commission that are integral to the effective interest rate on a financial asset or liability are included in the measurement of the effective interest rate.

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

(iv) Rental income

Rental income in respect of operating leases is accounted for on a straight-line basis over the lease terms on ongoing leases.

(v) Net trading income

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

(e) Income tax

Tax on the operating results for the year comprises current tax and deferred tax. Current tax and deferred tax are recognised in profit or loss except to the extent that they relate to items recognised directly in equity or in other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustments to tax payable in respect of previous years. Current tax is provided on the results in the year as shown in the financial statements adjusted in accordance with tax legislation.

Deferred tax is recognized in respect of temporary differences between carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for:

- temporary differences on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss;
- temporary differences related to investments in subsidiaries to the extent that it is probable that they will not reverse in the foreseeable future; and
- taxable temporary differences arising on the initial recognition of goodwill.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

A deferred tax asset is recognised for unused tax losses and deductible temporary differences to the extent that it is probable that future taxable profit will be available against which the tax asset can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised. Deferred tax is calculated on the basis of the tax rates enacted at the reporting date.

In determining the amount of current and deferred tax, the Group considers the impact of tax exposures, including whether additional taxes and interest may be due. This assessment relies on estimates and assumptions and may involve a series of judgments about future events. New information may become available that causes the Group to change its judgment regarding the adequacy of existing tax liabilities; such changes to tax liabilities would impact tax expense in the period in which such a determination is made.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(f) Financial assets and liabilities

(i) Recognition

The Group initially recognises loans and advances, deposits and debt securities on the date at which they are originated. All other financial assets and liabilities (including assets designated at fair value through profit and loss) are initially recognised on the trade date at which the Group becomes a party to the contractual provision of the instrument.

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

Subsequent to initial recognition, financial liabilities (deposits and debt securities) are measured at their amortized cost using the effective interest method except where the group designates liabilities at fair value through profit and loss.

(ii) Classification

Financial assets

The Group classifies its financial assets in one of the following categories:

- loans and receivables;
- held to maturity;
- available-for-sale; or

Management determines the classification of its investments at initial recognition.

Financial liabilities

The Group classifies its financial liabilities, other than financial guarantees and loan commitments, as measured at amortized cost or fair value through profit or loss.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Group provides money directly to a debtor with no intention of trading the receivable. These include mortgage and advances to customers, staff loans and placements with other banks. Loans and advances are subsequently measured at their amortised cost using the effective interest method.

Held-to-maturity

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group's management has the positive intention and ability to hold to maturity. If the Group were to sell other than an insignificant amount of held-to-maturity assets, the entire category would be tainted and reclassified as available for sale. These include treasury bills, treasury bonds and government stock. Subsequent to initial recognition, held to maturity financial assets are measured at amortised cost using the effective interest method, less any impairment losses.

Available-for-sale

Available-for-sale financial assets are those non-derivative financial assets that are designated as available for sale or are not classified as (a) loans and receivables (b) held-to-maturity or (c) financial assets at fair value through profit and loss.

(ii) Classification - continued

Subsequent to initial recognition, they are measured at fair value and changes therein, other than impairment losses and foreign currency differences on available for sale debt instruments are recognized in other comprehensive income and presented in the fair value reserve in equity. When an investment is derecognized, the gain or loss accumulated in equity is re-classified to profit or loss.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(f) Financial assets and liabilities (continued)

Other financial liabilities

The Group classifies financial liabilities other than financial guarantees and loan commitments at fair value less any directly attributable transaction costs. Subsequent to initial recognition these liabilities are measured at amortised cost using the effective interest rate method.

(iii) Identification and measurement of impairment of financial assets

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

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

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

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

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

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

Impairment losses on available-for-sale investment securities are recognised by transferring the difference between the amortised acquisition cost and current fair value out of equity to the profit or loss. Changes in cumulative impairment losses attributable to the effective interest method are reflected as a component of interest income. When a subsequent event causes the amount of impairment loss on an available-for-sale debt security to decrease, the impairment loss is reversed through profit or loss.

However, any subsequent recovery in the fair value of an impaired available-for-sale equity security is recognised in other comprehensive income directly in equity.

(iv) Derecognition

The Group derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or when it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Group is recognised as a separate asset or liability.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(f) Financial assets and liabilities (continued)

(iv) Derecognition (continued)

The Group derecognises a financial liability when its contractual obligations are discharged or cancelled or expire.

The Group enters into transactions whereby it transfers assets recognised on its statement of financial position, but retains either all or substantially all of the risks and rewards of the transferred assets or a portion of them. If all or substantially all risks and rewards are retained, then the transferred assets are not derecognised from the statement of financial position. Transfers of assets with retention of all or substantially all risks and rewards include, for example, securities lending and repurchase transactions.

(v) Offsetting

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Group has a legal right to set off the amounts and it intends either to settle them on a net basis or to realise the asset and settle the liability simultaneously.

Income and expenses are presented on a net basis only when permitted under IFRS, or for gains and losses arising from a group of similar transactions such as in the Group's trading activity.

(g) Impairment for non-financial assets

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

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

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

(h) Cash and cash equivalents

Cash and cash equivalents comprise balances with less than three months maturity from the date of acquisition, including: notes and coins on hand, unrestricted balances deposited with the Central Bank of Kenya and highly liquid assets, subject to insignificant risk of changes in their fair value and are used in the Group in the management of short term commitments.

Cash and cash equivalents are measured at amortized cost using effective interest method in the statement of financial position.

(i) Property and equipment

(i) Recognition and measurement

Items of property and equipment are measured at cost, less accumulated depreciation and accumulated impairment losses. Costs include expenditure that is directly attributable to the acquisition of the asset. Purchased software that is integral to the functionality of the related equipment is capitalized as part of that equipment.

Property and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Gains and losses arising on disposal of an item of property and equipment are determined by comparing the net proceeds from disposal with the carrying amount of the item and are recognised net within 'other operating income' in profit or loss.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(i) Property and equipment (continued)

(ii) Depreciation

Depreciation is recognised in profit or loss on a straight line basis over the estimated useful lives of each part of property and equipment. The annual depreciation rates in use are:

Freehold land	Nil
Leasehold improvements	Rates based on the shorter of the lease term or estimated useful lives
Motor vehicles	25%
Furniture and fittings	10%
Office equipment	20%
Computers	20%

The residual values, useful lives and methods of depreciation are reviewed, and adjusted if appropriate, at each reporting date. Changes in the expected useful life, residual values or methods of depreciation are accounted for as changes in accounting estimates.

(iii) Subsequent costs

Subsequent expenditure is capitalized only when it is probable that future economic benefits of the expenditure will flow to the Group. Recurrence repairs and maintenance are expensed as incurred.

(j) Intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is the fair value as at the date of acquisition. Following initial recognition, intangible assets are measured at cost less any accumulated amortization and any accumulated impairment losses. Internally generated intangible assets, excluding capitalized development costs, are not capitalized and expenditure is recognised in profit or loss in the year in which the expenditure is incurred.

Intangible assets with finite lives are amortized on a straight-line basis in profit or loss over their estimated useful economic lives, from the date that they are available for use.

The amortization method, useful life and the residual value are reviewed at each reporting date and adjusted if appropriate. Changes in the expected useful life, residual value or amortization method are accounted for as changes in accounting estimates. The amortization 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.

The useful lives of intangible assets are assessed to be either finite or indefinite. Costs associated with maintaining computer software programmes are recognised as an expense as incurred. However, expenditure that enhances or extends the benefits of computer software programmes beyond their original specifications and lives is recognised as a capital improvement and added to the original cost of the software. Computer software development costs recognised as assets are amortized using the straight-line method over a period of five years.

There are no intangible assets with indefinite useful lives.

(k) Leases

Leases, where a significant portion of the risks and rewards of ownership are retained by the lessor, are classified as operating leases. Payments made under operating leases are charged to the profit and loss account on a straight-line basis over the period of the lease.

Where the Group is a lessor, it presents assets subject to operating leases in Statement of Financial Position according to the nature of the asset. Lease income from operating leases is recognised in income on a straight line basis over the lease term. Costs, including depreciation, incurred in earning the lease income are recognised as an expense.

Leases where substantially all the risks and rewards of ownership of an asset are transferred to the lessee are classified as finance leases. Upon recognition, the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset as follows:

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2016

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(k) Leases (Continued)

(i) Operating lease

The total payments made under operating leases are charged to profit or loss on a straight-line basis over the period of the lease. When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty is recognised as an expense in the period in which termination takes place.

(ii) Finance lease

When assets are held subject to a finance lease, 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.

(l) Employee benefits

The Group operates both a defined contribution plan and defined benefit plan.

(i) Defined contribution plans

A defined contribution plan is a post-employment benefit plan under which the Group pays fixed contributions into a separate entity and has no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution plans are recognised as staff costs in profit or loss in the periods during which related services are rendered. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in future payments is available.

The Group also contributes to the statutory defined contribution in the various countries in which it operates. The Group's contribution to these schemes are charged to the income statement.

(ii) Defined benefit plans

The Group's net obligation in respect of defined benefit plan is calculated separately for each plan by estimating the amount of future benefit that employees have earned in the current and prior periods, discounting that amount and deducting the fair value of any plan assets. The calculation of defined benefit obligation is performed annually by a qualified actuary using the projected unit credit method. When the calculation results in a potential asset for the Group, the recognised asset is limited to the present value of the economic benefits available in the form of any refunds from the plan or deductions in future contributions to the plan. To calculate the present value of economic benefits, consideration is given to any applicable minimum funding requirements.

Remeasurements of the net defined benefit liability, which compromise actuarial gains and losses, the return on plan assets (excluding interest) and the effect of the asset ceiling (if any, excluding interest) are recognised immediately in other comprehensive income. The Group determines the net interest (income) on the net defined benefit liability (asset) for the period by applying the discount rate used to measure the defined obligation at the beginning of the annual period to the then-net defined benefit liability (asset), taking into account any changes in the net defined benefit liability (asset) during a period as a result of contributions and benefit payments. Net interest expense and other expenses related to the defined benefit plans are recognised in profit or loss.

When the benefits of a plan are changed or when a plan is curtailed, the resulting change in benefit that employees have earned in return for their service or the gain or loss on curtailment is recognised immediately in profit or loss. The Group recognises gains and losses on settlement of a defined benefit plan when the settlement occurs.

(iii) Other long term employee benefits

The Group's net obligation in respect of long-term employee benefits other than pension plans is the amount of future benefit that employees have earned in return for their service in the current and prior periods. That benefit is discounted to determine its present value. Remeasurements are recognised in profit or loss in the periods in which they arise.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(l) Employee benefits (continued)

(iv) Short-term benefits

Short-term benefits consist of salaries, bonuses and any non-monetary benefits such as medical aid contributions and free services. They exclude equity based benefits and termination benefits. Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided.

(iv) Short-term benefits (Continued)

A liability is recognised for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

(v) Termination benefits

Termination benefits are expensed at the earlier of when the Group can no longer withdraw the offer of those benefits and when the Group recognises costs for a restructuring. If benefits are not expected to be settled wholly within 12 months of the end of the reporting period, then they are discounted.

(vi) Share-based payment transactions

The grant date fair value of equity-settled share-based payment awards (i.e. stock options) granted to employees is recognised as an employee expense, with a corresponding increase in equity, over the period in which the employees unconditionally become entitled to the awards. The amount recognised as an expense is adjusted to reflect the number of share awards that do meet the related service and non-market performance conditions at the vesting date.

The fair value of the amount payable to employees in respect of share appreciation rights that are settled in cash is recognised as an expense with a corresponding increase in liabilities over the period in which the employees unconditionally become entitled to payment. The liability is re-measured at each reporting date and at settlement date. Any changes in the fair value of the liability are recognised as personnel expense in profit or loss.

(m) Fiduciary assets

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

(n) Contingent liabilities

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

(o) Earnings per share

Basic and diluted earnings per share (EPS) data for ordinary shares are presented in the financial statements. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the period. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares, if any.

(p) Dividends

Dividends are recognised as a liability in the period in which they are declared.

(q) Sale and repurchase agreements

Securities sold under sale and repurchase agreements (Repos) are retained in the financial statements with the counterparty liability included in amounts due to banking institutions.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(q) Sale and repurchase agreements (continued)

Securities purchased from the Central Bank of Kenya under agreement to resell (reverse Repos), are disclosed as treasury bills as they are held to maturity after which they are repurchased and are not negotiable or discounted during the tenure.

The difference between sale and repurchase price is treated as interest and accrued over the life of the agreements using the effective interest method.

(r) Related parties

In the normal course of business, the Company has entered into transactions with related parties. The related party transactions are at arm's length.

(s) Operating segments

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components, whose operating results are reviewed regularly by the Group's Management Committee (being the chief operating decision maker) to make decisions about resources allocated to each segment and assess its performance, and for which discrete financial information is available.

(t) Share capital and reserve

Ordinary shares are classified as share capital in equity. Any premium received over and above the par value of the shares is classified as share premium.

4. FINANCIAL RISK MANAGEMENT

The Group's activities expose it to a variety of financial risks, including credit risk, liquidity risk, market risks and operational risks. The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Group's financial performance.

The Board of Directors has overall responsibility for the establishment and oversight of the Group's risk management framework. The Board of Directors of the Group has established the Credit, Audit, Risk, Human Resources and Procurement and Information Technology committees, which are responsible for developing and monitoring the Group risk management policies in their specified areas. All Board committees have both executive and non-executive members and report regularly to the Board of Directors on their activities.

The Group's risk management policies are established to identify and analyze 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 Risk Committee is responsible for monitoring compliance with the Group's risk management policies and procedures and for reviewing the adequacy of the risk management framework in relation to the risks faced by the Group. The Committee is assisted in these functions by a Risk and Compliance department which undertake reviews of risk management controls and procedures, the results of which are reported to the Risk Committee.

(a) Credit risk

Credit risk is the risk of suffering financial loss, should any of the Group's customers, clients or market counterparties fail to fulfil their contractual obligations to the Group. Credit risk arises mainly from commercial and consumer loans and advances, credit cards, and loan commitments arising from such lending activities, but can also arise from credit enhancement provided, financial guarantees, letters of credit, endorsements and acceptances. For risk management reporting purposes, the Group considers and consolidates all elements of credit risk exposure.

The Company is also exposed to other credit risks arising from investments in debt securities and other exposures arising from its trading activities ('trading exposures'), including non-equity trading portfolio assets and settlement balances with market counterparties and reverse repurchase loans.

4. FINANCIAL RISK MANAGEMENT (Continued)

(a) Credit risk (Continued)

(i) Governance and oversight

The Board of Directors has delegated responsibility for the management of credit risk to its Board Credit Committee. Credit Division, reporting to the Board Credit Committee, is responsible for the day-to-day management of credit risk, while the Group Risk Committee is responsible for independent credit risk oversight., including:

- Formulating credit policies in consultation with business units, covering collateral requirements, credit assessment, risk grading and reporting, documentary and legal procedures, and compliance with regulatory and statutory requirements;
- Periodically reviewing the credit risk strategy, credit risk management policies, and the underlying credit risk management process of the Group as a whole, including the Group's tolerance or appetite for credit risk;
- Establishing the authorization structure for the approval and renewal of credit facilities. Authorization limits are allocated to business unit credit managers. Larger facilities require approval by the Board;
- Reviewing and assessing credit risk. The credit department assesses all credit exposures in excess of designated limits, prior to facilities being committed to customers by the business unit concerned. Renewals and reviews of facilities are subject to the same review process;
- Limiting concentrations of exposure to counterparties, geographies and industries (for loans and advances), and by issuer, credit rating band, market liquidity and country (for investment securities);
- Developing and maintaining the Group's risk grading in order to categorize exposures according to the degree of risk of financial loss faced and to focus management on the attendant risks. The risk grading system is used in determining where impairment provisions may be required against specific credit exposures;
- Regular audits of business units and the Group's credit processes are undertaken by Internal Audit Department.

The Credit Risk Management Committee is responsible for reviewing the Group's credit risk strategy and overseeing the implementation of the Credit Risk Management policies, standards and practices as well as providing advice, guidance and specialist skills to business units to promote best practice throughout the Group in the management of credit risk. The committee also regularly reviews and reports on the quality of the Company's loan portfolio and compliance of business units with agreed exposure limits, including those for selected industries and product types.2

(ii) Management and monitoring

The credit risk management framework enables the Company to manage credit risk within the limits of its evolving risk appetite, develop risk-response strategies and optimise risk-taking by anticipating and acting on potential opportunities or threats. Specifically, it relies on the Company's well-established dual control structure, sound credit processes and clear delegation of decision-making authority, amongst other considerations, for the approval of loans.

Credit risk exposures are managed through the Company's robust credit assessment, structuring and monitoring process. The latter, under the responsibility of the Credit Division, involves the daily monitoring of credit limit excesses as well as the review of all exposures, the frequency of which is increased in accordance to the size and likelihood of potential credit losses to ensure the timely detection of possible default loans. Exposures showing signs of deterioration are placed on early alert list for closer monitoring where appropriate.

The risk division is responsible for independent risk portfolio monitoring and risk measurement methodologies.

(iii) Credit risk measurement

Credit risk measurement consists of appraising the track record of customers as appropriate for the prediction of the likely future behaviour of existing accounts for ongoing credit risk management. Ultimately, the Company assesses whether individual business areas provide sufficient contribution to the targeted risk-return profile, with the aim to ensure that capital allocation generates an optimum return for the Company. This is achieved by channeling risk capital away from low-return to high-return business areas, in a manner commensurate with the risks assumed.

4. FINANCIAL RISK MANAGEMENT (Continued)

(iii) Credit risk measurement (continued)

The Group's rating grades reflect the range of parameters developed to predict the default probabilities of each rating class in line with international best Practices and in compliance with regulatory requirements. The suitability of the classification of the debt and of the collectible amount is examined by Credit Division.

The Group's ratings scale is as follows:

Grade 1 - Normal risk

Grade 2 - Watch risk

Grade 3 - Sub-standard risk

Grade 4 - Doubtful risk

Grade 5 – Loss

The Group also assesses the probability of default of customer or counterparty using internal rating scale tailored to the various categories of counter party as described below;

Retail

Retail credit comprising mainly residential mortgages, unsecured loans and credit cards are managed on a portfolio basis and assessed, based on credit scoring models, records from the Credit Reference Bureaus, customers' behavioral records, as well as the application of relevant risk acceptance criteria. To ensure the robustness and adequacy of the scoring models, the Risk Division independently conducts formal validation of those models. In collaboration with the Credit Division, Risk regularly analyses default trends, identifies the underlying root causes and subsequently and where applicable results in appraisal of the credit scoring parameters.

Corporate

Large corporate credits are assessed using credit softwares which evaluates the counterparty's financial standing and specific non-quantitative factors such as industry risk, access to funding, market standing and management strength. The ratings generated are used to measure the risk profile of the corporate banking customer segment which consumes a sizeable proportion of capital resources of the Group. The ratings are also used to set tolerance limits for management of excesses. The counterparty risk rating assigned to smaller business borrowers is primarily based on the counterparty's financial position and strength.

(iv) Impairment and allowance policies

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

The impairment allowance recognized in the statement of financial position at year-end is derived from each of the five rating grades. However, the impairment allowance is composed largely of the bottom two grades.

The Group's policy requires the review of individual financial assets regularly when individual circumstances require. Impairment allowances on individually assessed accounts are determined by an evaluation of the impairment at reporting date on a case-by-case basis, and are applied to all individually significant accounts. The assessment normally encompasses collateral held (including re-confirmation of its enforceability) and the anticipated receipts for that individual account.

4 FINANCIAL RISK MANAGEMENT (Continued)

(a) Credit risk (continued)

(iv) Impairment and allowance policies (continued)

	GROUP		COMPANY	
	2016	2015	2016	2015
Individually impaired	KShs'million	KShs'million	KShs'million	KShs'million
Grade 3	7,184	4,402	-	3,257
Grade 4	5,401	7,725	-	6,577
Grade 5	19,227	11,351	-	9,455
Gross amount	31.812	23,478	-	19,289
Allowance for impairment	(11,708)	(8,052)	-	(6,294)
Carrying amount	**20,104**	**15,426**	**-**	**12,995**
Collectively impaired				
Grade 1	311,240	301,659	-	276,053
Grade 2	55,574	30,550	-	24,396
Gross amount	366,814	332,209	-	300,449
Allowance for impairment	(1,173)	(1,666)	-	(1,364)
Carrying amount	**365,641**	**330,543**	**-**	**299,085**
Total carrying amount	**385,745**	**345,969**	**-**	**312,080**

The other financial assets, other than loans and advances, are neither impaired nor past due.

Loans and advances graded 3, 4 and 5 in the Group's credit risk grading system include items that are individually impaired. These are advances for which the Group 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.

Loans and advances graded 1 and 2 are not individually impaired. Allowances for impairment losses for these loans and advances are assessed collectively.

The Group also complies with Central Banks' prudential guidelines on general and specific provisioning. Excess allowances for loan losses required to comply with the requirements of Central Banks' prudential guidelines are transferred to statutory credit risk reserve.

The internal rating scale assists management to determine whether objective evidence of impairment exists, based on the following criteria set out by the Group:

- Delinquency in contractual payments of principal or interest;
- Cash flow difficulties experienced by the borrower;
- Breach of loan covenants or conditions;
- Initiation of Group bankruptcy proceedings;
- Deterioration of the borrower's competitive position;
- Deterioration in the value of collateral.

(V) Past due but not impaired loans and advances

Past due but not impaired loans and advances are those for which contractual interest or principal payments are past due, but the Group believes that impairment is not appropriate on the basis of stage of collection of amounts owed to the Group. As at 31 December, the ageing analysis of past due but not impaired loans and advances was as follows:

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2016

4. FINANCIAL RISK MANAGEMENT (Continued)

(a) Credit risk (continued)

	GROUP		COMPANY	
	2016	2015	2016	2015
	KShs'million	KShs'million	KShs'million	KShs'million
Less than 60 days	55,086	30,716	-	23,664
Between 60 and 120 days	4,674	1,442	-	1,309
Greater than 120 days	-	1,110	-	-
	59,760	**33,268**	**-**	**24,973**

(Vi) Credit related commitment risk

The Group makes available to its customers guarantees which may require the Group to make payments on their behalf and enters into commitments to extend lines to secure their liquidity needs. Letters of credit and guarantees (including standby letters of credit) commit the Group to make payments on behalf of customers in the event of a specific act, generally related to the import or export of goods. Such commitments expose the Group to similar risks to loans and are mitigated by the same control processes and policies.

(Vii) Write-off policy

The Group writes off a loan balance as and when the Credit Committee 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.

(viii) Collateral on loans and advances

The Group holds collateral against loans and advances to customers in the form of mortgage interests over property and other registered securities over assets and guarantees. Estimates of fair value are based on the value of collateral assessed at the time of borrowing and generally are not updated except when a loan is individually assessed as impaired.

(ix) Concentration of credit risk

The Group focuses on the diversification of its lending portfolio by setting industry sector limits based on forecasts spanning a one-year horizon to ensure that its performance is not negatively impacted by a large sectoral exposure default. Additionally, regular stress tests are performed on the portfolio to ensure that the Bank holds sufficient capital to withstand any loss arising from significant exposure to a sector, single customer and group of closely related customers.

Overall, it is the policy of the Group to limit credit risk exposures and concentrations within the constraints of its capital base. An analysis of concentrations of credit risk at the reporting date is shown below:

	GROUP		COMPANY	
	2016	2015	2016	2015
	KShs'million	KShs'million	KShs'million	KShs'million
Construction	72,323	60,187	-	54,369
Micro credit	84,873	76,694	-	71,446
Agriculture	17,190	13,721	-	13,046
Small & Medium Enterprises	43,594	37,165	-	31,644
Corporate	180,646	167,919	-	149,232
	398,626	**355,686**	**-**	**319,737**

4. FINANCIAL RISK MANAGEMENT (Continued)

(a) Credit risk (continued)

(x) Fair value of collateral held

The Group holds collateral against loans and advances to customers in the form of cash, residential, commercial and industrial property; fixed assets such as plant and machinery; marketable securities; bank guarantees and letters of credit.

The Group also enters into collateralised reverse purchase agreements. Risk mitigation policies control the approval of collateral types. Collateral is valued in accordance with the Group's risk mitigation policy, which prescribes the frequency of valuation for different collateral types. The valuation frequency is driven by the level of price volatility of each type of collateral.

Collateral held against impaired loans is maintained at fair value. The valuation of collateral is monitored regularly and is back tested at least annually.

Collateral generally is not held over loans and advances to banks, except when securities are held as part of reverse purchase and securities borrowing activity. Collateral usually is not held against investment securities, and no such collateral was held as at 31 December 2016 and 2015. An estimate of fair values of collaterals held against loans and advances to customers at the end of the year was as follows:

	GROUP		COMPANY	
	2016	2015	2016	2015
	KShs'million	KShs'million	KShs'million	KShs'million
Impaired loans	9	12	-	6
Performing loans	1,577	1,433	-	1,401
	1,586	**1,445**	**-**	**1,407**

(b) Liquidity risk

Liquidity risk is the risk that the bank, though solvent either does not have sufficient financial resources available to meet all its obligations and commitments as they fall due or can secure them only at excessive costs.

The Group'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 Group's reputation.

The Group's treasury 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 Group 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.

The key measure used by the Group for managing liquidity risk is the ratio of net liquid assets to deposits from customers.

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

	GROUP	
	2016	2015
At close of the year	37.5%	48.3%
Average for the year	38.9%	50.9%
Maximum for the year	42.8%	68.7%
Minimum for the year	36.8%	44.4%

4. FINANCIAL RISK MANAGEMENT (Continued)

(b) Liquidity risk (Continued)

The table below summarizes the Group's liquidity risk as at 31 December 2016 and 31 December 2015, categorized into relevant maturity groupings based on the earlier of the remaining contractual maturities.

As at 31 December 2016	Up to 1 month KShs'million	1 - 3 months KShs'million	3 - 12 months KShs'million	1 - 5 years KShs'million	Over 5 years KShs'million	Total KShs'million
Cash and balances with Central Banks	56,920	-	-	-	-	56,920
Loans and advances to Banks	6,094	9,924	-	-	-	16,018
Financial Assets Available for sale	-	-	61,968	-	-	61,968
Financial Assets held to maturity	-	512	6,211	18,679	15,100	40,502
Loans and advances to customers	44,547	19,996	16,372	138,474	166,356	385,745
Clearing house	950	-	-	-	-	950
Total financial assets	**108,511**	**30,432**	**84,551**	**157,153**	**181,456**	**562,103**
Deposits from banks	-	13,123	-	-	-	13,123
Deposits from customers	187,511	87,447	111,823	61,393	-	448,174
Bills payable	2,277	-	-	-	-	2,277
Borrowings	290	1,503	5,658	7,836	7,695	22,982
Total financial liabilities	**190,078**	**102,073**	**117,481**	**69,229**	**7,695**	**486,556**
	(81,567)	**(71,641)**	**(32,930)**	**87,924**	**173,761**	**75,547**

4. FINANCIAL RISK MANAGEMENT (Continued)

(b) *Liquidity risk (Continued)*

As at 31 December 2015	Up to 1 month KShs'million	1 - 3 months KShs'million	3 - 12 months KShs'million	1 - 5 years KShs'million	Over 5 years KShs'million	Total KShs'million
Cash and balances with Central Banks	68,219	-	-	-	-	68,219
Loans and advances to Banks	20,287	-	-	-	-	20,287
Financial Assets held for trading	806	-	-	-	-	806
Financial Assets Available for sale	-	-	38,298	-	-	38,298
Financial Assets held to maturity	-	-	9,000	3	48,841	57,844
Loans and advances to customers	43,716	208,166	1,386	4,176	88,525	345,969
Clearing house	892	-		-	-	892
Total financial assets	**133,920**	**208,166**	**48,684**	**4,179**	**137,366**	**532,315**
Deposits from banks	23,138	-	-	-	-	23,138
Deposits from customers	258,946	73,631	82,128	9,686	-	424,391
Bills payable	1,527	-	-	-	-	1,527
Borrowings	276	433	7,436	11,985	-	20,130
Total financial liabilities	**283,887**	**74,064**	**89,564**	**21,671**	**-**	**469,186**
	(149,967)	**134,102**	**(40,880)**	**(17,492)**	**137,366**	**63,129**

The amounts in the tables above have been compiled based on undiscounted cash flows, which include estimated interest payments.

4. FINANCIAL RISK MANAGEMENT (Continued)

(c) Market risk

(i) *Currency risk*

The Group takes on exposure to effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. The Board sets limits on the level of exposure by currency and in total for both overnight and intra-day positions which are monitored daily and hedging strategies used to ensure that positions are maintained within the established limits. Foreign exchange risk arises from our non trading asset and liability positions, denominated in currencies other than the functional currency of the respective entity.

Transactions in foreign currency are recorded at the rate in effect at the date of the transaction. The Group translates monetary assets and liabilities denominated in foreign currencies at the rate of exchange in effect at the reporting date. The Group records all gains or losses on changes in currency exchange rates in profit or loss.

The table below summarizes the foreign currency exposure as at 31 December 2016 and 31 December 2015:

	GROUP		BANK	
	2016 KShs'million	2015 KShs'million	2016 KShs'million	2015 KShs'million
Assets in foreign currencies	125,525	132,324	-	80,127
Liabilities in foreign currencies	(126,271)	(127,926)	-	(75,187)
Net foreign currency exposure at the end of the year	**(746)**	**4,398**	**-**	**4,940**

31 December 2016:	USD KShs'million	GBP KShs'million	Euro KShs'million	Other KShs'million	Total KShs'million
ASSETS					
Cash and balances with Central Bank of Kenya	30,490	985	2,479	2,576	36,530
Placements with Banks	1,790	74	202	369	2,435
Loans and advances to customers	79,828	-	1,509	2,774	84,111
Other assets	2,240	19	161	29	2,449
At 31 December 2016	**114,348**	**1,078**	**4,351**	**5,748**	**125,525**
LIABILITIES					
Deposits from banks	4,496	21	158	957	5,632
Deposits from customers	75,140	1,037	3,712	6,611	86,500
Other liabilities	33,636	18	186	299	34,139
At 31 December 2016	**113,272**	**1,076**	**4,056**	**7,867**	**126,271**
Net statement of financial position exposure	**1,076**	**2**	**295**	**(2,119)**	**(746)**

4. FINANCIAL RISK MANAGEMENT (Continued)

(c) Market risk (Continued)

(ii) Currency risk - continued

Group

31 December 2015	USD KShs'million	GBP KShs'million	Euro KShs'million	Other KShs'million	Total KShs'million
ASSETS					
Cash and balances with Central Bank of Kenya	34,122	632	1,609	1,974	38,337
Placements with banks	2,801	44	426	51	3,322
Loans and advances to customers	81,286	73	2,587	2,511	86,457
Other assets	3,752	18	207	231	4,208
At 31 December 2015	**121,961**	**767**	**4,829**	**4,767**	**132,324**
LIABILITIES					
Deposits from banks	4,764	9	66	2,122	6,961
Deposits from customers	74,594	788	3,402	5,420	84,204
Other liabilities	35,724	58	609	370	36,761
At 31 December 2015	**115,082**	**855**	**4,077**	**7,912**	**127,926**
Net statement of financial position exposure	**6,879**	**(88)**	**752**	**(3,145)**	**4,398**

Company

31 December 2015	USD	GBP	Euro	Other	Total
ASSETS					
Cash and balances with Central Bank of Kenya	9,633	535	770	214	11,152
Loans and advances to customers	64,066	73	2,587	-	66,726
Other assets	2,007	10	59	173	2,249
At 31 December 2015	**75,706**	**618**	**3,416**	**387**	**80,127**
LIABILITIES					
Deposits from banks	850	8	11	41	910
Deposits from customers	36,522	542	2,397	106	39,567
Other liabilities	33,885	45	567	213	34,710
At 31 December 2015	**71,257**	**595**	**2,975**	**360**	**75,187**
Net statement of financial position exposure	**4,449**	**23**	**441**	**27**	**4,940**

The following table demonstrates the sensitivity to a reasonably possible change in the below mentioned exchange rates, with all other variables held constant, of the Group's profit before tax (due to changes in the fair value of monetary assets and liabilities).

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2016

'Million'	At 31 December 2016 Currency Carrying Amount	At 31 December 2016 10% Depreciation	At 31 December 2016 10% Appreciation	At 31 December 2015 Currency Carrying Amount	At 31 December 2015 10% Depreciation	At 31 December 2015 10% Appreciation
Assets						
USD	114,348	(11,435)	11,435	121,960	(12,196)	12,196
GBP	1,078	(108)	108	767	(77)	77
Euro	4,350	(435)	435	4,830	(483)	483
Other	5,783	(575)	575	4,767	(477)	477
		(12,553)	**12,553**		**(13,233)**	**13,233**
Liabilities						
USD	113,272	11,327	(11,327)	115,093	11,509	(11,509)
GBP	1,076	108	(108)	855	86	(86)
Euro	4,057	406	(406)	4,077	408	(408)
Others	7,866	787	(787)	7,901	790	(790)
		12,628	**(12,628)**		**12,793**	**(12,793)**
Total (decrease)/increase		**75**	**(75)**		**(440)**	**440**
Tax charge at 30%		23	23		(132)	132
Effect on net profit		52	(52)		(308)	308
Percentage of net profit		0.26%	(0.26%)		(1.57%)	1.57%

At 31 December 2016 if the shilling had weakened / strengthened by 10% against the major trading currencies, with all other variables held constant, net profit would have been KShs 346 million (2015: KShs 126 million) lower/higher.

(ii) Interest rate risk

Interest rate is the risk that the future cash flows of financial instruments will fluctuate because of changes in the market interest rates. Interest margin may decrease as a result of such changes but may increase losses in the event that unexpected movement arises.

The Group closely monitors interest rate movements and seeks to limit its exposure by managing the interest rate and maturity structure of assets and liabilities carried on the statement of financial position. Assets and Liabilities Committee monitors compliance with the set interest rate gaps.

The table below shows interest rate sensitivity position of the Group at 31 December based on the earlier of maturity or re-pricing dates. Items not recognized on the statement of financial position do not pose any significant interest rate risk to the Group.

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2016

4. FINANCIAL RISK MANAGEMENT (Continued)
(c) Market risk (Continued)

(ii) Interest rate risk - continued

As at 31 December 2016	Weighted interest rates	Up to 1 month KShs'million	1 - 3 months KShs'million	3 - 12 months KShs'million	1 - 5 years KShs'million	Over 5 years KShs'million	Non-interest bearing KShs'million	Total KShs'million
Cash and balances with Central Banks	-	-	-	-	-	-	56,920	56,920
Loans and advance to banks	1%	6,094	9,924	-	-	-	-	16,018
Financial assets available-for-sale	11.9%	-	4,739	17,853	25,807	13,569	-	61,968
Clearing house	-	950	-	-	-	-	-	950
Loans and advances to customers	13.5%	44,547	224,908	64,911	5,892	45,487	-	385,745
Financial assets held to maturity	10.9%	-	513	6,210	18,679	15,100	-	40,502
Total assets		**51,591**	**240,084**	**88,974**	**50,378**	**74,156**	**56,920**	**562,103**
Deposits from banks	8.9%	-	13,123	-	-	-	-	13,123
Deposits from customers	7.4%	232,786	198,296	16,982	110	-	-	448,174
Bills payable	-	2,277	-	-	-	-	-	2,277
Borrowings	3.8%	-	22,982	-	-	-	-	22,982
Total liabilities and equity		**235,063**	**234,401**	**16,982**	**110**	**-**	**-**	**486,556**
Interest rate sensitivity gap		**(183,472)**	**5,683**	**71,992**	**50,268**	**74,156**	**56,920**	**75,547**

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for the year ended 31 December 2016

4. FINANCIAL RISK MANAGEMENT (Continued)
(c) Market risk (Continued)

(ii) Interest rate risk - continued

As at 31 December 2015	Weighted interest rates	Up to 1 month KShs'million	1 - 3 months KShs'million	3 - 12 months KShs'million	1 - 5 years KShs'million	Over 5 years KShs'million	Non-interest bearing KShs'million	Total KShs'million
Cash and balances with Central Banks	-	-	-	-	-	-	68,219	68,219
Loans and advances to banks	7.8%	20,287	-	-	-	-	-	20,287
Financial assets held for trading	10.6%	806	-	-	-	-	-	806
Financial assets available-for-sale	11.0%	-		38,221	-	-	77	38,298
Loans and advances to customers	17.5%	43,716	208,166	1,386	4,176	88,525	-	345,969
Clearing house	-	892	-	-	-	-	-	892
Financial assets held to maturity	10.6%	-	-	9,000	3	48,841	-	57,844
Total assets		**65,701**	**208,166**	**48,607**	**4,179**	**137,366**	**68,296**	**532,315**
Deposits from banks	8.2%	23,138	-	-	-	-	-	23,138
Deposits from customers	4.0%	258,946	73,631	82,128	9,686	-	-	424,391
Bills payable	-	1,527	-	-	-	-	-	1,527
Borrowings	3.8%	276	433	7,436	11,985	-	-	20,130
Total liabilities and equity		**283,887**	**74,064**	**89,564**	**21,671**	**-**	**-**	**469,186**
Interest rate sensitivity gap		**(218,186)**	**134,102**	**(40,957)**	**(17,492)**	**137,366**	**68,296**	**63,129**

4. FINANCIAL RISK MANAGEMENT (Continued)

(c) Market risk (Continued)

(ii) Interest rate risk - continued

An analysis of the Group's sensitivity to an increase or decrease in market interest rates assuming no asymmetrical movement in yield curves and a constant financial position is as follows on profit or loss (balances in millions):

GROUP	2016 Carrying amount	2016 1% Increase	2016 1% Decrease	2015 Carrying amount	2015 1% Increase	2015 1% Decrease
Cash and balances with Central Banks	56,920	-	-	68,219	-	-
Loans and advances to banks	16,018	(160)	160	20,287	(203)	203
Financial assets held for trading	-	-	-	806	(8)	8
Financial assets available-for-sale	61,968	(620)	620	38,297	(383)	383
Clearing house	950	(10)	10	892	(9)	9
Other assets and prepayments	15,703	(157)	157	10,166	(102)	102
Loans and advances to customers (Net)	385,745	(3,857)	3,857	345,969	(3,460)	3,460
Financial assets held to maturity	40,502	(405)	405	57,845	(578)	578
	577,806			**542,481**		
LIABILITIES & EQUITY						
Deposits from banks	13,123	131	(131)	23,138	231	(231)
Deposits from customers	448,174	4,482	(4,482)	424,391	4,244	(4,244)
Bills payable	2,277	-	-	1,527	-	-
Other liabilities and accrued expenses	11,082	-	-	7,240	-	-
Deferred tax liability	166	-	-	100	-	-
Tax payable	870	-	-	314	-	-
Borrowings	22,982	230	(230)	20,130	201	(201)
	498,674			**476,840**		
Net interest income Increase/ (decrease)	-	(366)	366	-	(67)	67
Tax Charge @ 30%	-	110	(110)	-	20	(20)
Impact on profit after tax	**-**	**(256)**	**256**	**-**	**(47)**	**47**

(d) Operational risk management

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Group'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 behavior. Operational risks arise from all of the Group's operations and are faced by all business units.

The Group's objective is to manage operational risk so as to balance the avoidance of financial losses and damage to the Group'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 Group standards for the management of operational risk in the following areas:

4. FINANCIAL RISK MANAGEMENT (Continued)

(d) Operational risk management (Continued)

- Requirements for appropriate segregation of duties, including the independent authorization of transactions.
- Requirements for the reconciliation and monitoring of transactions.
- Compliance with regulatory and other legal requirements.
- Documentation of controls and procedures.
- Requirements for the yearly 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.
- Risk mitigation, including insurance where this is effective.

Compliance with Group's standards is supported by a program of regular reviews undertaken by both the Internal Audit and Compliance department. The results of internal audit reviews are discussed with the management of the business unit to which they relate, with summaries submitted to the Audit Committee and senior management of the Group.

5. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

In preparing these consolidated financial statements, management has made judgments, estimates and assumptions that affect the application of the Group's accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and the underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are recognized prospectively.

(a) Judgments

There are no noted judgments that have been made in applying accounting policies that would have significant effects on the amounts recognized in the consolidated financial statements.

(b) Assumptions and estimation uncertainties

The information relating to assumptions and estimation uncertainties that have a significant risk of resulting in material adjustment in the financial statements are set out below.

(i) Impairment Losses on loans and advances

The estimation of potential credit losses is inherently uncertain and depends upon many factors, including general economic conditions, changes in individual customers' circumstances, structural changes within industries that alter competitive positions and other external factors such as legal and regulatory requirements.

Impairment is measured for all accounts that are identified as non-performing. All relevant considerations that have a bearing on the expected future cash flows are taken into account which include but not limited to future business prospects for the customer, realizable value of securities, the Group's position relative to other claimants and the existence of any court injunctions placed by the borrower. Subjective judgments are made in this process of cash flow determination both in value and timing and may vary from one person to another and team to team. Judgments may also change with time as new information becomes available.

The Group reviews its loans and advances at each reporting date to assess whether an allowance for impairment should be recognized in profit or loss. In particular, judgment 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.

The Group also makes a collective impairment measurement for exposures which, although not specifically identified as non-performing, have an inherent risk of default. The portfolio constitutes a large number of loan and advances account cutting across various industries. Assets with similar risk characteristics are grouped together for the purpose of determining the collective impairment within the group.

5. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS (Continued)

(ii) Fair value of financial instruments

Fair value is the price that would be received to sell an asset or paid to transfer a liability in orderly transaction between market participants at the measurement date.

All financial instruments are initially recognized at fair value, which is normally the transaction price. Subsequent to initial recognition, some of the Group's financial instruments are carried at fair value. The fair values of quoted financial instruments in active markets are based on current prices with no subjective judgments. If the market for a financial instrument does not exist or is not active including for unlisted securities, the Group establishes fair value by using valuation techniques.

These include the use of recent arm's length transactions, discounted cash flow analysis, option pricing models and other valuation techniques commonly used by market participants. Where representative prices are unreliable because of illiquid markets, the determination of fair value may require estimation of certain parameters, which are calibrated against industry standards and observable market data, or the use of valuation models that are based on observable market data.

The fair value for the majority of the Group's financial instruments is based on observable market prices or derived from observable market parameters. Changes in assumptions about these factors could affect the reported fair value of financial instruments.

(iii) Retirement benefits

The cost of the defined benefit pension plan is determined using actuarial valuation. The actuarial valuation involves making assumptions about discount rates, expected rates of return on assets, future salary increases, mortality rates and future pension increases. Due to the long term nature of these plans, such estimates are subject to significant uncertainty and a change in any of the assumptions will alter the carrying amount of pension obligations.

The assumptions used in determining the net cost (income) for pensions include the discount rate. The Bank determines the appropriate discount rate at the end of each year. This is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the pension obligations.

In determining the appropriate discount rate, the Bank considers the interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid and that have terms to maturity approximating the terms of the related pension liability. Other key assumptions for pension obligations are based in part on current market conditions.

(iv) Property and equipment

Property and equipment is depreciated over its useful life taking into account residual values, where appropriate. The actual lives of the assets and residual values are assessed annually and may vary depending on a number of factors. In reassessing asset lives, factors such as technological innovation, product life cycles and maintenance programs are taken into account which involves extensive subjective judgment. Residual value assessments consider issues such as future market conditions, the remaining life of the asset and projected disposal values. The rates used are set out on accounting policy 2.3(ii).

(v) Income taxes

Significant estimates are required in determining the provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. Where the final tax outcome is different from the amounts that were initially recorded, such differences will impact the income tax balances and deferred tax provisions in the period in which such determination is made.

6. FAIR VALUE OF FINANCIAL INSTRUMENTS

(a) Accounting classification and fair values

The tables below show the carrying amounts and fair values of financial assets and financial liabilities, including their levels in the fair value hierarchy. It does not include fair value information for financial assets and financial liabilities not measured at fair value if the carrying amount is a reasonable approximation of fair value.

	Carrying amount						Fair value			
2016 - Group	**Held for trading KShs'million**	**Held to maturity KShs'million**	**Loans and receivables KShs'million**	**Available for sale KShs'million**	**At amortized cost KShs'million**	**Total carrying amount KShs'million**	**Level 1 KShs'million**	**Level 2 KShs'million**	**Level 3 KShs'million**	**Fair value KShs'million**
Assets										
Financial assets										
Cash and balances with Central Banks	-	-	56,920	-	-	56,920	-	-	-	-
Due from other banks	-	-	16,018	-	-	16,018	-	-	-	-
Financial assets held to Maturity	-	40,502	-	-	-	40,502	-	40,502	-	40,502
Financial assets available for sale	-	-	-	61,968	-	61,968	61,968	-	-	61,968
Loans and advances to customers	-	-	384,745	-	-	384,745	-	384,745	-	384,745
Clearing house	-	-	950	-	-	950	-	-	-	-
Total financial assets	-	40,502	458,633	61,968	-	561,103	61,968	425,247	-	487,215
Liabilities										
Due to other banks	-	-	-	-	13,123	13,123	-	-	-	-
Deposits from customers	-	-	-	-	448,174	448,174	-	448,174	-	448,174
Bills payable	-	-	-	-	2,277	2,277	-	-	-	-
Long term debt	-	-	-	-	22,982	22,982	-	22,982	-	22,982
Total financial liabilities	-	-	-	-	486,556	486,556	-	471,156	-	471,156

6. FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

(a) Accounting classification and fair values (Continued)

	Carrying amount						Fair value			
2015 - Consolidated	Held for trading KShs'million	Held to maturity KShs'million	Loans and receivables KShs'million	Available for sale KShs'million	At amortized cost KShs'million	Total carrying amount KShs'million	Level 1 KShs'million	Level 2 KShs'million	Level 3 KShs'million	Total Fair value KShs'million
Financial assets										
Cash and balances with Central Banks	-	-	68,219	-	-	68,219	-	-	-	-
Due from other banks	-	-	20,287	-	-	20,287	-	-	-	-
Financial assets held for trading	806	-	-	-	-	806	806	-	-	806
Financial assets held to Maturity		57,845	-		-	57,845	-	57,845	-	57,845
Financial assets available for sale	-	-	-	38,298	-	38,298	38,298	-	-	38,298
Loans and advances to customers	-	-	345,969	-	-	345,969	-	345,969	-	345,969
Clearing house	-	-	892	-	-	892	-	-	-	-
Total financial assets	-	-	-	-	-	-	-	-	-	-
Liabilities	**806**	**57,845**	**435,367**	**38,298**	**-**	**532,316**	**39,104**	**403,814**	**-**	**442,918**
Due to other banks										
Deposits from customers	-	-	-	-	23,138	23,138	-	-	-	-
Bills payable	-	-	-	-	424,391	424,391	-	424,391	-	424,391
Long term debt	-	-	-	-	1,527	1,527	-	-	-	-
Total financial liabilities	-	-	-	-	20,130	20,130	-	20,130	-	20,130
	-	**-**	**-**	**-**	**469,186**	**469,186**	**-**	**444,521**	**-**	**444,521**

6. FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

(a) *Accounting classification and fair values (Continued)*

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal, or in its absence, the most advantageous market to which the Group has access at that date. The fair value of a liability reflects its non-performance risk.

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

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

The following sets out the Group's basis of establishing fair values of financial instruments:

Investment securities with observable market prices including equity securities are fair valued using that information. Investment securities that do not have observable market data are fair valued either using discounted cash flow method or quoted market prices for securities with similar yield characteristics. The table above includes KShs 348 million (2015: KShs 878 million) of securities in both carrying amount and fair value columns that were measured at cost and for which disclosure at fair value was not provided because their fair value was not considered to be reliably measurable.

Loans and advances to customers are net of allowance for impairment. The estimated fair value of loans and advances represents the discounted amount of future cash flows expected to be received. Expected cash flows are discounted at current market rates to determine fair value. A substantial proportion of loans and advances are on floating rates and re-price within 12 months, hence their fair value approximates their carrying amounts.

The estimated fair value of deposits with no stated maturity is the amount repayable on demand. Estimated fair value of fixed interest bearing deposits without quoted market prices is based on discounting cash flows using the prevailing market rates for debts with a similar maturities and interest rates. A substantial proportion of deposits mature within 12 months and hence the fair value approximates their carrying amounts.

Cash and balances with Central Banks are measured at amortized cost and their fair value approximates their carrying amount.

(b) Valuation hierarchy

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

Level 1	Level 2	Level 3	
Fair value determined using;	Unadjusted quoted prices in active markets for identical assets or liabilities;	Other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly;	Valuation models using significant non-market observable inputs.
Types of financial assets	Actively traded government and other agency securities. Listed derivative instruments. Listed equities.	Corporate and other government bonds and loans. Over-the-counter (OTC) derivatives.	Corporate bonds in illiquid markets. Highly structured OTC derivatives with unobservable parameters.
Types of financial liabilities	Listed derivative instruments.	Over-the-counter (OTC) derivatives.	Highly structured OTC derivatives with unobservable parameters.

The fair value hierarchy of financial assets and liabilities has been disclosed in note 6(a).

7. MANAGEMENT OF CAPITAL

Regulatory capital – Kenya

The Central Bank of Kenya sets and monitors capital requirements for all banks.

The objective of the Central Bank of Kenya is to ensure that a bank maintains a level of capital which:

- is adequate to protect its depositors and creditors;
- is commensurate with the risks associated with its activities and profile
- promotes public confidence in the bank.

In implementing current capital requirements, the Central Bank of Kenya requires banks to maintain a prescribed ratio of total capital to total risk-weighted assets. Banks are expected to assess the Credit risk, Market risk and the Operational risk of the risk weighted assets to derive the ratios. The Capital adequacy and use of regulatory capital are monitored regularly by management employing techniques based on the guidelines developed by the Basel Committee, as implemented by the Central Bank of Kenya for supervisory purposes.

The Central Bank of Kenya requires a bank to maintain at all times:

- hold the minimum level of regulatory capital of Kshs 1 billion.
- Total risk weighted assets, plus risk weighted off- balance sheet assets at above the required minimum of 10.5%.
- Maintain a ratio of total regulatory capital; to
- a core capital of not less than 8% of its total deposit liabilities
- a total capital of not less than 14.5% of its total risk weighted assets, plus risk weighted off-balance sheet items.

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

- Tier 1 capital. This includes ordinary share capital, share premium, retained earnings and after deduction of investment in subsidiaries, goodwill, other intangible assets and other regulatory adjustments relating to items that are included in equity which are treated differently for capital adequacy purposes.
- Tier 2 capital. This includes 25% of revaluation reserves of property, subordinated debt not exceeding 50% of core capital, collective impairment allowances and any other approved reserves.

The regulatory capital position for KCB Bank Limited being the Kenyan banking subsidiary was as follows:

	2016 KShs'million	2015 KShs'million
Share capital	53,986	3,025
Share premium	-	21,116
Retained earnings	20,094	44,689
Less:		
Investment in subsidiary	-	(10,910)
Deferred Tax	(1,548)	(1,816)
Total core capital	**72,532**	**56,104**
Supplementary capital (Tier 2):		
Term subordinated debt	7,695	-
Statutory loan loss reserve	5,385	4,968
	13,080	**4,968**
Total capital	**85,612**	**61,072**
Total risk weighted assets		
Credit risk weighted assets	352,879	321,665
Market risk weighted assets	1,640	4,471
Operational risk weighted assets	76,320	71,354
Total risk weighted assets	**430,839**	**397,490**
Total Deposits	**386,611**	**347,702**

7. MANAGEMENT OF CAPITAL (Continued)

Regulatory capital – Kenya (continued)

	2016 KShs'million	2015 KShs'million
Capital ratios		
Core capital/Total deposits (CBK min 8%)	18.8%	16.1%
Core capital/total risk weighted assets (CBK min 10.50%)	16.8%	14.1%
Total capital/total risk weighted assets (CBK min 14.50%)	19.9%	15.4%

Regulatory capital – Tanzania

KCB Bank Tanzania had the following capital adequacy ratios:-

	2016	2015
Core capital (Tier 1)		
Tier I (Minimum required 10%)	19.0%	15.9%
Tier I + Tier II (Minimum required 12%)	19.7 %	16.5 %

Regulatory capital – Rwanda

KCB Bank Rwanda had the following capital adequacy ratios:-

	2016	2015
Core capital (Tier 1)		
Tier I (Minimum required 10%)	15.0%	14.0%
Tier I + Tier II (Minimum required 12%)	18.0 %	16.7 %

Regulatory capital – South Sudan

KCB Bank South Sudan had the following capital adequacy ratios:

	2016	2015
Core capital (Tier 1)		
Tier I (Minimum required 10%)	149.2%	116.8%
Tier I + Tier II (Minimum required 12%)	186.3 %	125.9 %

Regulatory capital – Burundi

KCB Bank Burundi had the following capital adequacy ratios:-

	2016	2015
Core capital (Tier 1)		
Tier I (Minimum required 10%)	30.7%	35.5%
Tier I + Tier II (Minimum required 12%)	31.4 %	36.1%

Regulatory capital – Uganda

KCB Bank Uganda had the following capital adequacy ratios:-

	2016	2015
Core capital (Tier 1)		
Tier I (Minimum required 10%)	22.1%	20.1%
Tier I + Tier II (Minimum required 12%)	23.8 %	20.2 %

8. SEGMENT REPORTING

Reportable segments

The Group's main business comprises of the following reportable segments:

Retail banking – incorporating banking services such as customer current accounts, savings and fixed deposits to individuals. Retail lending are mainly consumer loans and mortgages based lending.

Corporate banking – incorporating banking services such as current accounts, fixed deposits, overdrafts, loans and other credit facilities both in local and foreign currencies.

Mortgages – incorporating the provision of mortgage finance.

Treasury – operates the Group's funds management activities

Other Group's operations comprise of trade finance and forex business. The Group also participates in investments in Treasury Bills and Bonds from the Central Banks.

The table below analyses the breakdown of segmental assets, liabilities, income and expenses;

Income Statement For the year ended 31 December 2016	Corporate banking KShs million	Retail banking KShs million	Treasury KShs million	Mortgages KShs million	Other KShs million	Total KShs million
Interest income	20,211	22,011	12,719	7,721	144	62,806
Interest expense	(8,096)	(4,668)	(1,842)	(451)	(722)	(15,779)
Net interest income	12,115	17,343	10,877	7,270	(578)	47,027
Net fees and commission income	3,483	8,508	-	224	409	12,624
Other income	492	1,139	6,728	-	1,466	9,825
Depreciation and amortization	(462)	(1,936)	-	(30)	-	(2,428)
Impairment	(1,776)	(1,492)	-	(548)	(7)	(3,823)
Operating expenses	(3,446)	(14,607)	(788)	(611)	(11,224)	(30,676)
Profit before monetary items	10,406	8,955	16,817	6,305	(9,934)	32,549
Loss on monetary items	-	-	-	-	(3,458)	(3,458)
Profit before tax	10,406	8,955	16,817	6,305	(13,392)	29,091
Tax expense	(3,351)	(2,884)	(5,416)	(2,031)	4,314	(9,368)
Profit after tax	**7,055**	**6,071**	**11,401**	**4,274**	**(9,078)**	**19,723**
For the year ended						
31 December 2015						
Interest income	20,272	19,768	9,354	6,923	126	56,443
Interest expense	(9,995)	(3,719)	(2,579)	(269)	(586)	(17,148)
Net interest income	10,277	16,049	6,775	6,654	(460)	39,295
Net fees and commission income	3,359	9,557	-	151	35	13,102
Other income	161	706	3,871	-	1,892	6,630
Depreciation and amortization	(463)	(1,942)	-	(30)	-	(2,435)
Impairment	(1,142)	(722)	-	(311)	(4)	(2,179)
Operating expenses	(5,386)	(15,438)	(927)	(466)	(5,658)	(27,875)
Profit before tax	6,806	8,210	9,719	5,998	(4,195)	26,538
Tax expense	(1,774)	(2,139)	(2,532)	(1,563)	1,093	(6,915)
Profit after tax	**5,032**	**6,071**	**7,187**	**4,435**	**(3,102)**	**19,623**

8. SEGMENT REPORTING (Continued)

Financial position **As at 31 December 2016**	Corporate banking KShs million	Retail banking KShs million	Treasury KShs million	Mortgages KShs million	Other KShs million	Total KShs million
Short term funds	-	46,536	113,300	-	15,573	175,409
Loans and advances	179,204	150,538	-	55,255	748	385,745
Other assets	-	-	3,438	-	30,648	34,086
Total assets	**179,204**	**197,074**	**116,738**	**55,255**	**46,969**	**595,240**
Customer deposits	231,571	205,555	-	11,048	-	448,174
Borrowed funds	-	-	1,394	-	21,588	22,982
Other liabilities	-	161	22,354	152	4,851	27,518
Shareholders' funds	-	-	-	-	96,566	96,566
Total liabilities and shareholders' funds	**231,571**	**205,716**	**23,748**	**11,200**	**123,005**	**595,240**
Financial position						
As at 31 December 2015						
Short term funds	10,087	20,765	119,721	-	13,252	163,825
Loans and advances	181,299	114,640	-	49,366	663	345,968
Other assets	-	-	-	-	48,301	48,301
Total assets	**191,386**	**135,405**	**119,721**	**49,366**	**62,216**	**558,094**
Customer deposits	211,422	199,410	13,484	8	67	424,391
Borrowed funds	-	-	-	-	20,130	20,130
Other liabilities	630	1,091	5,379	220	24,999	32,319
Shareholders' funds	-	-	-	-	81,254	81,254
Total liabilities and shareholders' funds	**212,052**	**200,501**	**18,863**	**228**	**126,450**	**558,094**

Major Customers

The Group does not have major customers contributing to 10% or more of the Group's income.

Geographical information

Five of the Group companies, KCB Bank Tanzania Limited, KCB South Sudan Limited, KCB Bank Uganda Limited, KCB Bank Rwanda Limited and KCB Bank Burundi Limited operate outside the domestic financial market. The following table analyses the regional segments in which the Group operates.

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for the year ended 31 December 2016

8. SEGMENT REPORTING (Continued)

(a) Geographical information (Continued)

Income Statement Consolidated For the year ended 31 December 2016	Kenya KShs'million	Tanzania KShs'million	South Sudan KShs'million	Uganda KShs'million	Rwanda KShs'million	Burundi KShs'million	Elimination KShs'million	Total KShs'million
Interest income	56,219	2,186	265	1,831	1,942	403	(40)	62,806
Interest expense	(13,254)	(928)	(7)	(852)	(699)	(79)	40	(15,779)
Net interest income	42,965	1,258	258	979	1,243	324	-	47,027
Net fees and commission income	9,441	452	1,679	470	447	135	-	12,624
Other income	6,522	240	2,617	206	170	157	(87)	9,825
Impairment	(3,759)	(78)	99	39	(87)	(39)	-	(3,825)
Depreciation and amortization	(2,019)	(100)	(36)	(77)	(127)	(69)	-	(2,428)
Operating expenses	(24,478)	(1,342)	(1,572)	(1,539)	(1,291)	(452)	-	(30,674)
Profit before tax and monetary loss	28,672	430	3,045	78	355	56	(87)	32,549
Loss on monetary position	-	-	(3,458)	-	-	-	-	(3,458)
Profit before income tax	28,672	430	(413)	78	355	56	(87)	29,091
Tax	(8,813)	(138)	(346)	54	(105)	(20)	-	(9,368)
Profit after tax	**19,859**	**292**	**(759)**	**132**	**250**	**36**	**(87)**	**19,723**

For the year ended 31 December 2015	Kenya KShs'million	Tanzania KShs'million	South Sudan KShs'million	Uganda KShs'million	Rwanda KShs'million	Burundi KShs'million	Elimination KShs'million	Total KShs'million
Interest income	48,832	1,985	2,098	1,421	1,829	338	(60)	56,443
Interest expense	(15,063)	(725)	(24)	(547)	(768)	(81)	60	(17,148)
Net interest income	33,769	1,260	2,074	874	1,061	257	-	39,295
Net fees and commission income	8,168	495	3,313	550	478	98	-	13,102
Other income	4,602	255	1,582	267	297	179	(552)	6,630
Impairment	(656)	(276)	(879)	(269)	(63)	(36)	-	(2,179)
Depreciation and amortization	(1,678)	(92)	(407)	(74)	(123)	(61)	-	(2,435)
Operating expenses	(20,581)	(1,246)	(3,483)	(1,245)	(1,220)	(388)	287	(27,876)
Profit before tax	23,624	396	2,200	103	430	49	(265)	26,537
Tax	(6,965)	(120)	(416)	59	(141)	92	577	(6,914)
Profit after tax	**16,659**	**276**	**1,784**	**162**	**289**	**141**	**312**	**19,623**

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2016

8. SEGMENT REPORTING (Continued)

Geographical information (Continued)

Statement of financial position

31 December 2016	Kenya KShs million	Tanzania KShs million	South Sudan KShs million	Uganda KShs million	Rwanda KShs million	Burundi KShs million	Group Elimination KShs million	Total KShs million
Cash and short term funds	125,024	8,062	19,309	12,293	5,640	3,788	1,292	175,408
Loans and advances	353,900	12,414	616	5,782	11,550	1,483	-	385,745
Other assets	95,808	1,239	1,747	1,285	740	397	(67,129)	34,087
Total assets	**574,732**	**21,715**	**21,672**	**19,360**	**17,930**	**5,668**	**(65,837)**	**595,240**
Customer deposits	386,611	13,868	17,719	15,367	12,130	4,224	(1,745)	448,174
Borrowed funds	20,564	-	-	1,024	1,394	-	-	22,982
Other liabilities	15,662	4,623	850	480	2,508	357	3,037	27,518
Shareholders' funds	151,895	3,224	3,103	2,489	1,898	1,087	(67,129)	96,567
Total liabilities and shareholders' funds	**574,732**	**21,715**	**21,672**	**19,360**	**17,930**	**5,668**	**(65,837)**	**595,240**
31 December 2015								
Cash and short term funds	119,449	2,684	32,565	6,939	1,523	664	-	163,824
Loans and advances	312,080	12,143	1,382	7,124	12,044	1,331	(136)	345,968
Other assets	37,085	5,275	470	6,888	5,879	2,829	(10,124)	48,302
Total assets	**468,614**	**20,102**	**34,417**	**20,951**	**19,446**	**4,824**	**(10,260)**	**558,094**
Customer deposits	347,702	13,589	31,425	15,842	13,275	3,368	(810)	424,391
Borrowed funds	17,555	-	-	1,025	1,550	-	-	20,130
Other liabilities	20,469	3,560	251	1,599	2,835	407	3,199	32,320
Shareholders' funds	82,888	2,954	2,742	2,486	1,785	1,049	(12,651)	81,253
Total liabilities and shareholders' funds	**468,614**	**20,103**	**34,418**	**20,952**	**19,445**	**4,824**	**(10,262)**	**558,094**

9. INTEREST INCOME AND EXPENSE

	GROUP 2016 KShs million	GROUP 2015 KShs Million	COMPANY 2016 KShs Million	COMPANY 2015 KShs Million
INTEREST INCOME				
Interest on loans and advances	51,209	46,192	-	41,040
Available for sale securities	6,131	3,469	-	3,128
Held to maturity securities	4,590	5,630	-	4,369
Held for trading securities	146	77	-	77
Interest on impaired loans and advances	34	604	-	-
Interest on placements and bank balances	696	471	-	158
	62,806	56,443	-	48,772
INTEREST EXPENSE				
Interest on deposits	14,481	15,296	-	13,717
Interest on borrowed funds	1,298	1,852	-	1,346
	15,779	17,148	-	15,063
NET INTEREST INCOME	47,027	39,295	-	33,709

10. FEES AND COMMISSIONS INCOME

	GROUP 2016	GROUP 2015	COMPANY 2016	COMPANY 2015
Retail and corporate fee income	6,560	5,278	-	4,458
Commission income	6,628	8,794	-	4,316
Custodian fee income	131	88	-	88
	13,319	14,160	-	8,862
Commission expense	(695)	(1,058)	-	(1,073)
	12,624	13,102	-	7,789

11. FOREIGN EXCHANGE GAINS

	GROUP 2016	GROUP 2015	COMPANY 2016	COMPANY 2015
Foreign currency dealings	2,429	3,588	-	1,788
Translation gains	3,065	480	-	415
	5,494	4,068	-	2,203

12. NET INCOME FROM FINANCIAL INSTRUMENTS CARRIED AT FAIR VALUE THROUGH PROFIT OR LOSS

	GROUP 2016	GROUP 2015	COMPANY 2016	COMPANY 2015
Treasury bonds	-	(59)	-	(59)
	-	(59)	-	(59)

13. DIVIDEND INCOME

	GROUP 2016	GROUP 2015	COMPANY 2016	COMPANY 2015
Quoted investments	-	1	-	1
Dividend income from subsidiaries	-	-	87	552
	-	1	87	553

14. OTHER OPERATING INCOME

	GROUP 2016 KShs' million	GROUP 2015 KShs' million	COMPANY 2016 KShs' million	COMPANY 2015 KShs' million
Rent income	166	185	-	166
Profit on disposal of property and equipment	7	(46)	-	(46)
Management fees	462	-	-	-
Income/(loss) on disposal of securities	1,726	(352)	-	(352)
Risk premium	950	1,900	-	1,900
Miscellaneous income	1,020	933	120	218
	4,331	2,620	120	1,886

15. NET IMPAIRMENT

	GROUP 2016	GROUP 2015	COMPANY 2016	COMPANY 2015
Losses on financial assets				
Additional specific allowance (Note 29(b))	4,761	3,904	-	1,508
Additional/(reversal) collective allowance (Note 29(c))	191	810	-	691
Bad debts recovered during the year (Note 29(b)	(642)	(2,535)	-	(1,543)
Hyperinflation adjustment (Note 29(b) & 29 (c)	(487)	-	-	-
	3,823	2,179	-	656

16. EMPLOYEE BENEFITS

	GROUP 2016	GROUP 2015	COMPANY 2016	COMPANY 2015
Salaries and wages	14,921	13,016	249	10,371
Medical expenses	750	708	-	587
Pension costs – defined benefit scheme	208	231	-	68
Pension costs – defined contribution scheme	593	413	-	375
Social security contributions	118	146	-	29
Fringe benefit	598	523	-	523
Restructuring costs	186	41	-	41
Others*	345	233	-	113
	17,719	15,311	249	12,107

*Other costs relate to staff insurance, health and safety programs, recognition schemes, recruitment and other incidental costs.

The number of employees of the Group as at 31 December 2016 was 7,192 (31 December 2015 – 7,415).

17. DEPRECIATION AND AMORTIZATION

	GROUP 2016	GROUP 2015	COMPANY 2016	COMPANY 2015
Depreciation of property and equipment (Note 31)	1,631	1,912	3	1,181
Amortization of intangible assets (Note 32)	794	521	-	485
Amortization of prepaid operating lease rentals (Note 33)	3	2	-	2
	2,428	2,435	3	1,668

18. OTHER OPERATING EXPENSES

OTHER ADMINSTRATIVE COSTS	Group		Company	
	2016 KShs' million	2015 KShs' million	2016 KShs' million	2015 KShs' million
Advertising costs	1,250	1,145		822
Software license renewal fees	1,148	821		546
Computer hardware maintenance	258	356		288
Consultancy services	617	651		537
Guard services	906	965		638
Depositor's protection fund premiums	561	552		392
Staff development cost	347	469		406
Corporate social responsibility	269	251		238
Business stationery expenses	449	534		322
Staff travelling and accomodation expenses	783	931		473
Communication expenses	670	901		384
Card Expenses	173	170		170
Insurance	146	140		72
Leases	609	515		515
Rent	1,605	1,849		539
Water and Power	642	674		485
Business Subscriptions	131	94		94
Repairs	366	367		241
Other administrative costs	2,027	1,179	45	1,043
	12,957	12,564	45	8,205

19. PROFIT BEFORE INCOME TAX

Profit before tax is arrived at after charging/ (crediting):				
Depreciation	1,631	1,912	-	1,181
Amortization of intangible assets	794	521	3	485
Directors' emoluments – fees	128	110	-	35
– others	156	153	-	95
Auditors remuneration	42	39	1	16
Amortization of prepaid lease rentals	3	2	-	2
Net profit on sale of property and equipment	38	46	-	46

20. LOSS ON MONETARY POSITION

Loss on monetary position on hyperinflation	3,458	-	-	-

Loss in monetary position is as a result of the South Sudan economy being declared a hyperinflationary economy in 2016. The financial statements for KCB Bank South Sudan Limited have been adjusted for hyperinflation which resulted in a loss on monetary position of KShs 3,458 million.

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2016

20. LOSS ON MONETARY POSITION (Continued)

	1 January 2016	Net change in monetary items	31 December 2016
Monetary Items	KShs'million	KShs'million	KShs'million
Cash and balances with Bank of South Sudan	4,949	12,174	17,123
Investment in government securities	1,296	334	1,630
Placements and balances with other banking institutions	204	351	555
Amounts due from related companies	230	196	426
Loans and advances to customers	273	341	614
Other assets	17	460	477
Customer deposits	(6,224)	(11,379)	(17,603)
Balances due to other banks	(1)	1	1
Tax payable	(9)	(22)	(32)
Other liabilities	(176)	(668)	(844)
Amounts due to related companies	(64)	(337)	(401)
Net monetary assets	495	1,451	1,946
Expressed in purchasing power at 31 Dec 2016	(2,872)	(2,532)	(5,404)
Loss on net monetary position	(2,377)	(1,081)	(3,458)

21. INCOME TAX

	GROUP		COMPANY	
	2016	2015	2016	2015
(a) Income statement	KShs' million	KShs' million	KShs' million	KShs' million
Income tax expense				
Current tax expense	9,027	7,701	36	7,386
Deferred tax charge/(credit) (note 35)	197	(786)	-	(441)
Effects of Hyperinflation movement	144	-	-	-
	9,368	6,915	36	6,945
Reconciliation of effective tax				
Accounting profit/(loss) before tax	29,091	26,538	90	23,445
Tax calculated using applicable tax rates based on respective income tax laws	8,727	7,961	(27)	7,033
Effects of Hyperinflation adjustment	135	-	-	-
Effects of non-allowable expenses	701	328	89	290
Effects of non-taxable income	(195)	(1,374)	(26)	(378)
	9,368	6,915	36	6,945

21. INCOME TAX (Continued)

(b) Statement of financial position	GROUP 2016 KShs'million	GROUP 2015 KShs'million	COMPANY 2016 KShs'million	COMPANY 2015 KShs'million
At 1 January	(153)	51	(247)	138
Transfer to KCB Bank Kenya Limited	-	-	247	-
Effects of Hyperinflation adjustments	(144)	-	-	-
Tax paid during the year	8,671	7,497	-	7,001
Tax charge for the year	(9,027)	(7,701)	(36)	(7,386)
At 31 December	**(653)**	**(153)**	**(36)**	**(247)**
Comprising:				
Tax recoverable	217	161	-	-
Tax payable	(870)	(314)	(36)	(247)
	(653)	**(153)**	**(36)**	**(247)**

The Group neither has a potential tax liability out of payment of dividends nor material tax cases pending resolution with taxation authorities.

22. EARNINGS PER SHARE

Basic and diluted earnings per share is calculated on the profit attributable to ordinary shareholders of KShs 19,723 million (2015: 19,623 million) and on the weighted average number of ordinary shares during the year of 3,052 million (2015: 3,025 million shares).

	GROUP 2016 KShs'million	GROUP 2015 KShs'million	COMPANY 2016 KShs'million	COMPANY 2015 KShs'million
Basic earnings per share	6.46	6.49	(0.04)	5.45
Diluted earnings per share	6.46	6.49	(0.04)	5.45

23. CASH AND BALANCES WITH CENTRAL BANKS

	GROUP 2016 KShs'million	GROUP 2015 KShs'million	COMPANY 2016 KShs'million	COMPANY 2015 KShs'million
Cash on hand	11,375	11,965	951	7,456
Balances with Central Banks:				
Cash reserve ratio	23,077	23,354	-	17,514
Other current accounts	22,468	32,900	-	6,449
	56,920	**68,219**	**951**	**31,419**

Cash held with Central Banks represent cash ratio and other non-interest earning current accounts and is based on the value of deposits as adjusted for Central Banks' requirements. Mandatory cash reserve ratio is not available for use in the Group's day-to-day operations.

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2016

24. LOANS AND ADVANCES TO BANKS

	GROUP 2016 KShs'million	GROUP 2015 KShs'million	COMPANY 2016 KShs'million	COMPANY 2015 KShs'million
Balances in nostro accounts*	4,033	4,035	-	3,173
Placements with other banks	11,985	16,252	-	6,081
	16,018	**20,287**	**-**	**9,254**

The Group participates in the inter-bank market for the generation of revenue. Regularly, the counterparties are assessed for creditworthiness in line with the Group credit policies. The weighted average effective interest rate on balances due from other banks at 31 December 2016 was 7.8% (2015 – 7.9%).

*Nostro accounts are accounts held in other banks in a foreign country.

25. FINANCIAL ASSETS HELD FOR TRADING

	GROUP 2016 KShs'million	GROUP 2015 KShs'million	COMPANY 2016 KShs'million	COMPANY 2015 KShs'million
Treasury bonds	-	806	-	806

Treasury bonds are debt securities issued by the Government of the Republic of Kenya and acquired by the bank for the generation of revenue from short term fluctuations in interest rates. The weighted average effective interest rates on treasury bonds as at 31 December 2016 was 16.1% (31 December 2015 – 11.9%)

26. FINANCIAL ASSETS AVAILABLE FOR SALE

	GROUP 2016 KShs'million	GROUP 2015 KShs'million	COMPANY 2016 KShs'million	COMPANY 2015 KShs'million
Quoted investments	34	43	34	43
Unquoted equity investments	22	33	23	33
Corporate bonds	179	271	-	271
Treasury bonds	61,733	37,951	-	33,557
	61,968	**38,298**	**57**	**33,904**

27. CLEARING HOUSE

Un-cleared effects	**950**	**892**	**-**	**863**

The clearing house balance consists of items in transit to/from other banks through the Central Banks of various countries' clearing system. These items generally clear by end of the next business day.

28. OTHER ASSETS AND PREPAYMENTS

	GROUP		COMPANY	
	2016 KShs'million	2015 KShs'million	2016 KShs'million	2015 KShs'million
Other receivables	9,133	4,626	-	5,177
Prepayments	6,570	5,540	-	5,178
	15,703	10,166	-	10,355

Other receivables are current and non-interest bearing and are generally between 30 to 90 days terms.

29. LOANS AND ADVANCES TO CUSTOMERS

(a) Loans and advances to customers	GROUP		COMPANY	
	2016 KShs Million	2015 KShs Million	2016 KShs Million	2015 KShs Million
Gross loans and advances to customers	398,626	355,687	-	319,738
Specific allowances for impairment (Note 29(b))	(11,708)	(8,052)	-	(6,294)
Collective allowances for impairment (Note 29(c))	(1,173)	(1,666)	-	(1,364)
	385,745	345,969	-	312,080

(b) Specific allowance for impairment loss

	GROUP 2016	GROUP 2015	COMPANY 2016	COMPANY 2015
At 1 January	8,052	9,528	6,294	6,735
Reallocation of impairment	661	-	-	-
Transfer to KCB Bank Kenya Limited	-	-	(6,294)	
Allowance made during the year (Note 15)	4,761	3,904	-	1,508
Allowance recovered/un required during the year (Note 15)	(642)	(2,535)	-	(1,543)
Write downs/write offs during the year	(660)	(2,845)	-	(406)
Effects of movements in exchange rates (Note 15)	(464)	-	-	-
At 31 December	11,708	8,052	-	6,294

29. LOANS AND ADVANCES TO CUSTOMERS (Continued)

(c) Collective allowance for impairment loss

	GROUP		COMPANY	
	2016 KShs Million	2015 KShs Million	2016 KShs Million	2015 KShs Million
At 1 January	1,666	856	1,364	673
Transfer to KCB Bank Kenya Limited	-	-	(1,364)	-
Reallocation of impairment	(661)	-	-	-
Allowance made during the year (Note 15)	191	810	-	691
Effects of movements in exchanges rates (Note 15)	(23)	-	-	-
At 31 December	1,173	1,666	-	1,364

(d) Maturity analysis of gross loans and

advances to customers:

	GROUP 2016	GROUP 2015	COMPANY 2016	COMPANY 2015
Maturing within 1 month	11,706	56,045	-	51,765
Maturing after 1 month but before 3 months	56,491	16,585	-	13,869
Maturing after 3 months, but within 1 year	16,352	41,173	-	36,524
Maturing after 1 year, but within 5 years	137,982	114,402	-	101,463
Maturing after 5 years	176,095	127,482	-	116,117
	398,626	355,687	-	319,738

(e) Sectorial analysis of gross loans and

advances to customers:

	GROUP 2016	GROUP 2015	COMPANY 2016	COMPANY 2015
Private sector and individuals	374,138	332,284	-	296,639
Government and parastatals	24,488	23,403	-	23,099
	398,626	355,687	-	319,738

The weighted average effective interest rate on loans and advances as at 31 December 2016 was 13.5% (2015: 17.5%).

30. FINANCIAL ASSETS HELD TO MATURITY

	GROUP		COMPANY	
	2016 KShs'million	2015 KShs'million	2016 KShs'million	2015 KShs'million
Treasury bonds				
Maturing within 1 month	1,687	1,500	-	500
Maturing between 1 and 3 months	1,470	769	-	570
Maturing between 3 and 6 months	544	-	-	-
Maturing between 6 and 12 months	5,995	23,975	-	12,850
Maturing between 1and 5 years	15,443	19,841	-	18,008
Maturing after 5 years	15,363	11,759	-	11,329
Total investment in government securities	40,502	57,844	-	43,257

Treasury bonds are debt securities issued by the Government of the Republic of Kenya, Government of Uganda, Government of the Republic of Rwanda, United Republic of Tanzania, Government of the Republic of Burundi and the Republic of South Sudan. The bills and bonds are categorized as amounts held to maturity and carried at amortized cost.

The weighted average effective interest rates on Government securities as at 31 December 2016 was 10.6% (31 December 2015 – 10.2%).

31. PROPERTY AND EQUIPMENT

(a) Group

As at 31 December 2016: COST	leasehold premises KShs'million	Leasehold improvements KShs'million	Freehold and furniture and equipment KShs'million	Total KShs'million
At 1 January 2016	1,803	2,133	16,241	20,177
Additions	5	49	1,280	1,334
Disposals	-	-	(56)	(56)
Translation differences	-	(5,104)	(2,814)	(7,918)
Hyperinflationary change	-	5,808	3,205	9,013
At 31 December 2016	**1,808**	**2,886**	**17,856**	**22,550**
DEPRECIATION				
At 1 January 2016	334	1,024	9,790	11,148
Charge for the year	17	151	1,463	1,631
Disposals	-	-	(43)	(43)
Translation differences	-	(1,941)	(1,689)	(3,630)
Hyperinflationary change	-	2,180	1,891	4,071
At 31 December 2016	**351**	**1,414**	**11,412**	**13,177**
CARRYING AMOUNT	**1,457**	**1,472**	**6,444**	**9,373**

Included in property and equipment are fully depreciated assets amounting to KShs 9,302,631,645 which would have a notional depreciation of KShs 1,781,189,060.

As at 31 December 2015: COST:	Leasehold premises KShs'million	Leasehold improvements KShs'million	Freehold and furniture and equipment KShs'million	Total KShs'million
At 1 January 2015	1,802	3,682	14,924	20,408
Additions	3	213	3,048	3,264
Disposals	(3)	-	(796)	(799)
Translation Difference	-	(1,762)	(935)	(2,697)
At 31 December 2015	**1,802**	**2,133**	**16,241**	**20,176**
DEPRECIATION				
At 1 January 2015	320	1,557	9,694	11,571
Charge for the year	17	354	1,541	1,912
Disposals	(3)	-	(763)	(766)
Translation differences	-	(887)	(682)	(1,569)
At 31 December 2015	**334**	**1,024**	**9,790**	**11,148**
CARRYING AMOUNT	**1,468**	**1,109**	**6,451**	**9,028**

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31. PROPERTY AND EQUIPMENT (Continued)

(b) COMPANY

As at 31 December 2016:	Freehold and leasehold premises KShs'million	Leasehold improvements KShs'million	Motor vehicles, furniture and equipment KShs'million	Total KShs'million
COST:				
At 1 January 2016	1,741	77	14,190	16,008
Transfer to KCB Bank Kenya Limited	(1,156)	(77)	(14,190)	(15,423)
At 31 December 2016	**585**	**-**	**-**	**585**
DEPRECIATION				
At 1 January 2016	315	77	8,570	8,962
Transfer to KCB Bank Kenya Limited	(297)	(77)	(8,570)	(8,944)
Charge for the year	3	-	-	3
At 31 December 2016	**21**	**-**	**-**	**21**
CARRYING AMOUNT				
At 31 December 2016	**564**	**-**	**-**	**564**

Included in property and equipment are fully depreciated assets amounting to KShs 10,531,000 which would have a notional depreciation of KShs 1,053,100.

As at 31 December 2015:	Freehold and lease hold premises KShs'million	Leasehold Improvements KShs'million	Motor vehicle, furniture and Equipment KShs'million	Total KShs'million
COST:				
At 1 January 2015	1,742	77	12,008	13,827
Additions	1	-	2,974	2,975
Disposals	(3)	-	(792)	(795)
At 31 December 2015	**1,740**	**77**	**14,190**	**16,007**
DEPRECIATION				
At 1 January 2015	302	77	8,150	8,529
Charge for the year	16	-	1,164	1,180
Disposals	(3)	-	(745)	(748)
At 31 December 2015	**315**	**77**	**8,569**	**8,961**
CARRYING AMOUNT				
At 31 December 2015	**1,425**	**-**	**5,621**	**7,046**

Included in property and equipment are fully depreciated assets amounting to KShs 10,531,000 which would have a notional depreciation of KShs 1,053,100.

32. INTANGIBLE ASSETS

	GROUP		COMPANY	
	2016	2015	2016	2015
	KShs'million	KShs'million	KShs'million	KShs'million
COST				
At 1 January	4,761	4,192	4,524	3,978
Transfer to KCB Bank Kenya Limited	-	-	(4,524)	-
Additions	2,537	574	-	546
Translation differences	(8)	(6)	-	-
At 31 December	**7,290**	**4,760**	**-**	**4,524**
AMORTISATION				
At 1 January	3,332	2,817	3,228	2,743
Transfer to KCB Bank Kenya Limited	-	-	(3,228)	-
Amortization for the year	794	521	-	485
Translation differences	(3)	(6)	-	-
At 31 December	4,123	3,332	-	3,228
CARRYING AMOUNT				
At 31 December	**3,167**	**1,428**	**-**	**1,296**

The intangible assets are in respect of computer software purchase costs.

33. PREPAID OPERATING LEASE RENTALS

	GROUP		COMPANY	
	2016	2015	2016	2015
	KShs'million	KShs'million	KShs'million	KShs'million
COST				
At 1 January	223	223	220	220
Transfer to KCB Bank Kenya Limited	-	-	(220)	-
At 31 December	**223**	**223**	**-**	**220**
AMORTISATION				
At 1 January	86	84	85	83
Transfer to KCB Bank Kenya Limited	-	-	(85)	-
Charge for the year	3	2	-	2
At 31 December	89	86	-	85
CARRYING AMOUNT				
At 31 December	**134**	**137**	**-**	**135**

34. INVESTMENT IN SUBSIDIARIES AND ASSOCIATED COMPANIES

			2016	2015
Investments in subsidiaries:		**Beneficial**	**KShs'million**	**KShs'million**
Incorporated in Kenya:		**ownership**		
Company	**Activity**	**%**		
KCB Bank Kenya Limited	Commercial Banking	100	53,986	-
Kenya Commercial Finance Company Limited	Dormant	100	150	150
KCB Capital Limited	Investment	100	400	400
Savings & Loan Kenya Limited	Dormant	100	500	500
KCB Foundation	Corporate Social Responsibility	100	-	-
Kenya Commercial Bank Nominees Limited	Nominee Shareholders	100	-	-
Kencom House Limited	Property Ownership & Management	100	749	749
KCB Insurance Agency Limited	Insurance Brokerage	100	-	-
Incorporated outside Kenya:				
KCB Bank Tanzania Limited	Commercial Banking	100	3,027	3,027
KCB Bank South Sudan Limited	Commercial Banking	100	2,354	1,919
KCB Bank Rwanda Limited	Commercial Banking	100	1,883	1,883
KCB Bank Burundi Limited	Commercial Banking	100	936	936
KCB Bank Uganda Limited	Commercial banking	100	3,145	3,145
Investment in associates:				
United Finance Limited*	Dormant	45	-	-
			67,130	**12,709**

*Investment in United Finance is at KShs 125,000

	2016	2015
Movement in investment in subsidiaries	**KShs'million**	**KShs'million**
Balance at 1 January	12,709	11,317
Additional investment in KCB Bank Uganda Limited	-	461
Additional investment in KCB Bank Tanzania Limited	-	781
Additional investment in KCB Bank South Sudan Limited	435	-
Additional investment in KCB Bank Kenya Limited	53,986	-
Additional investment in KCB Capital Limited	-	150
Total additional investment in subsidiaries	54,421	1,392
Balance at 31 December	**67,130**	**12,709**

The significant risks for the various subsidiaries have been documented in Note 4.

34. INVESTMENT IN SUBSIDIARIES AND ASSOCIATED COMPANIES (Continued)

Significant restrictions

The Group does not have significant restrictions on its ability to access or use its assets and settle its liabilities other than those resulting from the supervisory frameworks within which banking subsidiaries operate. The supervisory frameworks require banking subsidiaries to keep certain levels of regulatory capital and liquid assets, limit their exposure to other parts of the Group and comply with other ratios. The carrying amounts of banking subsidiaries' assets and liabilities are KShs 86,345 million and KShs 74,544 million respectively (2015: KShs 99,741 million and KShs 88,725 million respectively).

35. DEFERRED TAX

	GROUP		COMPANY	
(a) Deferred tax asset	2016 KShs'million	2015 KShs'million	2016 KShs'million	2015 KShs'million
At 1 January	3,779	2,360	3,340	2,174
Transfer to KCB Bank Kenya Limited	-	-	(3,340)	-
Credit for the year	(197)	786	-	441
Retirement Benefit Scheme – through Equity	51	328	-	328
AFS Reserve – through Equity	(125)	443	-	397
Hyperinflation adjustment	47	-	-	-
Translation difference	11	(138)	-	-
At 31 December	3,566	3,779	-	3,340
The net deferred tax asset is attributable to the following items:				
Depreciation over tax allowances	166	182	-	333
Provisions	2,665	2,889	-	2,794
Retirement Benefit Scheme – remeasurement	(135)	(224)	-	(224)
AFS fair value movement	492	507	-	437
Tax losses carried forward	378	425	-	-
	3,566	3,779	-	3,340
Comprising:				
Deferred tax asset	3,732	3,879	-	3,340
Deferred tax liability	(166)	(100)	-	-
	3,566	3,779	-	3,340

Recognition of deferred tax asset of KShs 3,879 million (2015: KShs 2,561 million) is based on management's profit forecasts (which are based on the available evidence, including historical levels of profitability), which indicates that it is probable that the group's entities will have future taxable profits against which these assets can be used.

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36. DEPOSITS FROM BANKS

	GROUP		COMPANY	
	2016 KShs'million	2015 KShs'million	2016 KShs'million	2015 KShs'million
Deposits and balances from other banks	13,123	23,138	-	14,760
Payable within 1 month	9,936	19,134	-	12,460
Payable after 1 month, but within 3 months	1,550	2,483	-	1,679
Payable after 3 months, but within 1 year	1,637	1,521	-	621
	13,123	23,138	-	14,760

37. DEPOSITS FROM CUSTOMERS

	GROUP		COMPANY	
	2016 KShs'million	2015 KShs'million	2016 KShs'million	2015 KShs'million
(a) From government and parastatals:				
Payable within 1 month	97,589	80,645	-	56,500
Payable after 1 month, but within 3 months	18,612	26,854	-	18,602
Payable after 3 months, but within 1 year	611	20,697	-	20,689
Payable after 1 year, but within 5 years	-	23	-	23
	116,812	128,219	-	95,814
(b) From private sector and individuals:				
Payable within 1 month	277,333	178,302	-	149,110
Payable after 1 month, but within 3 months	32,130	46,775	-	39,780
Payable after 3 months, but within 1 year	21,593	61,431	-	53,632
Payable after 1 year, but within 5 years	306	9,664	-	9,366
	331,362	296,172	-	251,888
Total other customer deposits	448,174	424,391	-	347,702
Maturing as follows:				
Payable within 1 month	374,922	258,946	-	205,610
Payable after 1 month but within 3 months	50,742	73,630	-	58,382
Payable after 3 months but within 1 year	22,204	82,129	-	74,322
Payable after 1 year but within 5 years	306	9,686	-	9,388
	448,174	424,391	-	347,702

The weighted average effective interest rates on interest bearing customer deposits as at 31 December 2016 was 3.3% (31 December 2015 – 3.8%)

38. BILLS PAYABLE

	GROUP		COMPANY	
	2016	2015	2016	2015
	KShs'million	KShs'million	KShs'million	KShs'million
Bills payable	2,277	1,527	740	1,451
	2,277	**1,527**	**740**	**1,451**

Bills payable consist of cheques issued by the bank to customers and suppliers that were not presented for payment at the end of the year.

39. OTHER LIABILITIES OTHER LIABILITIES

	GROUP		COMPANY	
	2016	2015	2016	2015
	KShs'million	KShs'million	KShs'million	KShs'million
Accruals	5,221	2,099	-	2,927
Other payables	5,861	5,141	-	2,213
	11,082	**7,240**	**-**	**5,140**

40. RELATED PARTY TRANSACTIONS

A number of transactions are entered into with related parties in the normal course of business. These include loans, deposits and foreign currency transactions. The volumes of related party transactions, outstanding balances at the end of the year and the related expenses and income for the year are as follows:

	COMPANY	
	2016	2015
(a) Balances due from group companies	KShs'million	KShs'million
KCB Nominees Limited	-	-
KCB Bank Tanzania Limited	-	372
KCB Bank Burundi Limited	-	138
KCB Insurance Agency Limited	-	96
KCB Group Plc (Ethiopia Representative Office)	-	12
KCB Bank Rwanda Limited	-	122
KCB Bank South Sudan Limited	-	924
KCB Bank Kenya Limited	808	-
	808	**1,664**
(b) Balances due to group companies		
Savings and Loan Kenya Limited	-	500
Kencom House Limited	-	433
Kenya Commercial Finance Company Limited	-	115
KCB Bank Uganda Limited	-	319
	-	**1,367**
Net balances due to group companies	**808**	**297**

NOTES TO THE FINANCIAL STATEMENTS
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40. RELATED PARTY TRANSACTIONS (Continued)

Balances due from and due to group companies are non-interest bearing and are generally on 30-90 day term. The balances relate to transactions entered into with the subsidiary companies at arm's length in the ordinary course of business.

(C) Shareholders, Directors and key management personnel

	GROUP		COMPANY	
	2016	2015	2016	2015
	KShs'million	KShs'million	KShs'million	KShs'million
(i) Loans				
Government of Kenya	4,159	495	-	495
Directors - Executive	53	50	-	50
- Non Executive	45	38	-	7
Senior management	414	347	-	254
	4,671	**930**	**-**	**806**
Movement in loans to Directors and senior management				
At 1 January	435	427	311	300
Transferred to KCB Bank Limited	-	-	(311)	-
Loans issued during the year	162	140	-	114
Loans repayments during the year	(25)	(132)	-	(103)
At 31 December	**572**	**435**	**-**	**311**
Interest income earned	**21**	**57**	**-**	**21**
(ii) Deposits				
Government of Kenya	72,934	55,074	-	55,074
Directors	33	48	-	44
Senior management	21	37	-	37
At 31 December	**72,988**	**55,159**	**-**	**55,155**
At 1 January	85	91	81	53
Transferred to KCB Bank Kenya Limited	-	-	(81)	-
Deposits received during the year	760	916	-	877
Deposits withdrawn during the year	(755)	(922)	-	(849)
At 31 December	**90**	**85**	**-**	**81**
Interest expense	**1**	**6**	**-**	**5**

40. RELATED PARTY TRANSACTIONS (Continued)

Interest rates charged on balances outstanding from related parties are approximately half of the rates that would be charged in an arm's length transaction. The interest charged on balances outstanding from related parties amounted to KShs 21 million (2015: KShs 57 million). The interest paid on balances outstanding to related parties amounted to KShs 1 million (2015: 5 million). The mortgages and secured loans granted are secured over property of the respective borrowers. Other balances are not secured and no guarantees have been obtained.

No impairment losses have been recorded against balances outstanding during the period with key management personnel and no specific allowance has been made for impairment losses on balances with key management personnel at the reporting date.

(iii) Senior management personnel compensation (Included under personnel costs - Note 16)	GROUP		COMPANY	
	2016	2015	2016	2015
	KShs'million	KShs'million	KShs'million	KShs'million
Short term employee benefits	**427**	**506**	**-**	**375**

41. BORROWINGS

Maturing within one year	7,216	8,557	-	7,831
Maturing after one year, but within five years	6,694	11,426	-	9,724
Maturing after five years	9,072	147	-	-
	22,982	**20,130**	**-**	**17,555**

Reconciliation of the movement in the long term debt

	2016	2015
Group	KShs'million	KShs'million
At 1 January	20,130	12,735
Funds received - International Finance Corporation	7,672	1,588
Funds received - Standard Chartered Plc	-	10,230
Payments on principal and interest	(5,078)	(5,921)
Translation differences	258	1,498
Net movement in borrowings	2,852	7,395
At 31 December	**22,982**	**20,130**

41. LONG TERM DEBT (Continued)

	2016	2015
Company	KShs'million	KShs'million
At 1 January	17,555	11,610
Borrowings transferred to KCB Bank Kenya Limited	(17,555)	-
Funds received - Standard Chartered Plc	-	10,230
Payments on principal and interest	-	(5,763)
Translation differences	-	1,478
Net movement in borrowings	-	5,945
At 31 December	**-**	**17,555**

The long term debt includes:-

a. A 7 year loan obtained from International Finance Corporation (IFC) in 2011 of USD 100 million by KCB Bank Kenya at interest terms of Libor+2.25% p.a.

b. A 6 year loan obtained from International Finance Corporation in 2014 of USD 40 million by KCB Bank Kenya at interest terms of Libor +3.5% p.a.

c. A 3 year loan obtained from Ghana International Bank of USD 30 million in 2014 by KCB Bank Kenya at interest terms of Libor+ 3.5% p.a.

d. A 7 year loan obtained from International Finance Corporation (IFC) in 2016 of USD 75 million by KCB Group PLC ,KCB Bank Kenya being Co-borrower at interest terms of Libor+5.3% p.a.

e. A 2 year loan obtained from Standard Chartered PLC of USD 100 million in 2015 by KCB Bank Kenya at interest terms of Libor +2.5% p.a.

f. A 6 year loan obtained by KCB Bank Rwanda in 2012 from IFC of RWF 2,200,700,000, it's effective interest rate is 5.4% p.a.

g. A 5 year loan of RWF 4,412 million obtained by KCB Bank Rwanda from European Investment Bank , it's effective interest rate is 8.04% p.a.

h. A 5 year loan obtained from International Finance Corporation by KCB Bank Uganda in 2015 of USD 10 million at interest terms of Libor +3.5% p.a.

42. SHARE CAPITAL

	GROUP AND COMPANY	
(a) Share capital	2016	2015
	KShs'million	KShs'million
Authorised:		
4,500,000,000 (2015: 3,500,000,000) ordinary shares of KShs 1 each	**4,500**	**3,500**
Issued and fully paid:		
As at 1 January 3,025,212,992 (2015: 3,025,212,992) ordinary shares of KShs 1 each	3,025	3,025
Scrip Dividend Issued 40,843,655 (2015: Nil) ordinary shares of KShs 1 each	41	-
At 31 December 3,066,656,647 (2015: 3,025,212,992) ordinary shares of KShs 1 each	**3,066**	**3,025**

42. SHARE CAPITAL (Continued)

(a) Share capital (continued)

All ordinary shares rank equally with regards to the Company's residual assets, entitled to dividends as declared from time to time and are entitled to 1 vote per share at general meetings of the company.

On 2 May 2016 the Group issued scrip dividends which resulted in additional 41 million shares.

Movement of Shares	2016 No. of Shares Million	2015 No. of Shares Million
As at 1 January	3,025	3,025
Scrip Dividend Issued	41	-
At 31 December	**3,066**	**3,025**

All ordinary shares rank equally with regard to the company residual assets, are entitled to dividend as declared from time to time and are entitled to one vote per share at the general meeting of the company.

(b) Shareholding

The top ten largest shareholders of the Company as at 31 December 2016 were:

Shareholder	No. of shares	%
Permanent Secretary to the Treasury of Kenya	537,378,947	17.53
National Social Security Fund	185,573,948	6.05
Standard Chartered Nominee A/c KE 17682	76,417,233	2.49
Standard Chartered Nominee A/c Non Resident A/C 9867	73,626,780	2.40
CFC Stanbic Nominees Limited A/c NR 3530153-1	61,500,000	2.01
Standard Chartered Nominee A/c KE 2742	52,782,570	1.72
Standard Chartered Nominee A/c KE 2382	46,268,787	1.51
Standard Chartered Nominees Limited A/c 9688	45,778,323	1.49
Standard Chartered Kenya Nominees Limited, A/C KE20531	33,799,800	1.10
Standard Chartered Kenya Nominees Limited, A/C KE18972	32,458,215	1.06
Total shares	**1,145,584,603**	**37.36**

The distribution of shareholders as at 31 December 2016 was as follows:

Share range	No. of shareholders	Shares held	%
1 to 5000	124,257	203,257,753	6.63
5,001-50,000	27,499	289,034,940	9.43
50,001-100,000	805	54,740,174	1.79
100,001-1,000,000	916	260,621,636	8.50
1,000,001-10,000,000	231	689,457,181	22.49
10,000,001 and above	33	1,568,951,803	51.17
	153,741	**3,066,063,487**	**100.00**

43. RESERVES

	GROUP 2016 KShs'million	GROUP 2015 KShs'million	COMPANY 2016 KShs'million	COMPANY 2015 KShs'million
Retained earnings	59,413	50,180	34,843	44,167
Share premium	21,647	20,136	21,647	20,136
Proposed dividend	9,198	6,050	9,198	6,050
Statutory credit risk reserve	10,240	8,948	-	8,044
Other reserves:				
- Available-for-sale reserve	(1,149)	(1,127)	(20)	(1,058)
- Re-measurement of defined pension fund	314	522	-	522
- Hyperinflation reserve	240	-	-	-
- Translation reserve	(6,403)	(6,480)	-	-
	(6,998)	(7,085)	(20)	(536)
	93,500	**78,229**	**65,668**	**77,861**

The *share premium* arises from issue of shares at a price higher than the par value of the shares. This amount is not available for distribution.

The *available-for-sale reserve* arises from marking to market of investment securities classified under available-for-sale category. The reserves are recognized in income statement once the underlying asset has been derecognized. This amount is not available for distribution.

Statutory credit risk reserve represents an amount set aside to cover additional provision for loan losses required to comply with the requirements of Central Banks Prudential guidelines. This amount is not available for distribution.

The *translation reserve* arises from translation of the net investment in foreign subsidiaries to Kenya Shillings. This amount is not available for distribution.

Defined benefit reserve arises from changes in the fair value of the net assets held by the pension fund. The reserves are recognized in income statement once the underlying asset has been derecognized and is not available for distribution.

44. DIVIDEND PER SHARE

Dividends are recognized as a liability in the period in which they are declared. At the Annual General Meeting to be held on 29 April 2017, a final dividend in respect of the year ended 31 December 2016 of KShs 9,198 million (2015 – KShs 6,050million) for every ordinary share of KShs 3 is to be proposed. Payment of dividends is subject to withholding tax at the rate of 5% for residents and 10% for non-resident shareholders.

	GROUP AND COMPANY 2016 KShs'million	GROUP AND COMPANY 2015 KShs'million
Dividends per share (KShs.)	**3.00**	**2.00**

Group

At 1 January	558	558
Dividend proposed	9,198	6,050
Dividend paid	(6,050)	(6,050)
At 31 December	**3,706**	**558**
Company		
At 1 January	558	558
Dividend proposed	9,198	6,050
Dividend paid	(6,050)	(6,050)
At 31 December	**3,706**	**558**

45. NOTES TO THE STATEMENT OF CASH FLOWS

	GROUP		COMPANY	
	2016	2015	2016	2015
	KShs'million	KShs'million	KShs'million	KShs'million
(a) Cash flows from operating activities				
This has been derived as follows:-				
Profit before tax	29,091	26,538	(90)	23,445
Adjustments for:				
Depreciation of property and equipment	1,631	1,912	3	1,181
Amortisation of prepaid operating lease rentals	3	3	-	2
Amortisation of intangible assets	794	521	-	485
Net interest income	(47,027)	(39,295)	-	(33,709)
Dividend income	-	(1)	-	(553)
Hyperinflation adjustments	193	-	-	-
Retirement benefit expense	(128)	(237)	-	(237)
(Profit)/loss on disposal of property and equipment	38	(46)	-	(46)
Operating profit before movements in operating assets and liabilities	**(15,405)**	**(10,605)**	**(87)**	**(9,432)**
Cash reserve ratio	277	(5,011)	-	(3,534)
Financial assets available-for-sale	(23,567)	(2,582)	-	(254)
Financial assets held to maturity	18,230	(180)	-	(6,485)
Loans and advances	(39,776)	(62,236)	-	(63,256)
Balances due from group companies	-	-	(1,056)	(1,957)
Other assets	(5,595)	(1,217)	-	(2,716)
Deposits from banks	(10,015)	8,843	-	6,026
Other customer deposits	23,783	47,119	-	70,952
Other liabilities	4,630	(1,503)	7,027	542
	(47,438)	**(27,372)**	**5,884**	**(10,114)**
Interest received	62,806	56,443	-	48,772
Dividend received	-	1	-	553
Interest paid	(15,779)	(17,148)	-	(15,063)
Income taxes paid	(8,671)	(7,497)	-	(7,001)
Net cash flows from operating activities	**(9,082)**	**4,427**	**5,884**	**17,147**

45. NOTES TO THE STATEMENT OF CASH FLOWS (Continued)

	GROUP		COMPANY	
(b) Analysis of cash and cash equivalents	2016	2015	2016	2015
	KShs'million	KShs'million	KShs'million	KShs'million
Balances with Central Banks	22,468	32,900	-	6,448
Cash on hand	11,375	11,965	951	7,456
Financial assets held to maturity	3,157	2,269	-	1,070
Advances to banks	16,018	20,287	-	9,255
Financial assets held for trading	-	806	-	806
	53,018	**68,227**	**951**	**25,035**

For the purpose of the statement of cash flows, cash and cash equivalents comprise balances with less than three months to maturity from the date of acquisition. Cash and cash equivalents excludes, KShs 23,077 million (2015 - KShs 23,354 million) being the cash reserve requirement held with the Central Banks which is not available for use by the Group.

The cash and cash equivalent components disclosed above are same amounts included in the statement of financial position except held to maturity investments, whose reconciliation is as follows:

	GROUP		COMPANY	
	2016	2015	2016	2015
	KShs'million	KShs'million	KShs'million	KShs'million
Balance as per statement of cash flows	3,154	2,269	-	1,070
Balances with more than three months maturity from the acquisition date	37,348	55,575	-	42,187
Balance as per statement of financial position	**40,502**	**57,844**	**-**	**43,257**

46. COMMITMENTS

To meet the financial needs of the customers, the Group enters into various irrevocable commitments. Even though these obligations may not be recognized on the statement of financial position, they do contain credit risk and are therefore part of the overall risk of the Group.

	GROUP		COMPANY	
	2016	2015	2016	2015
	KShs'million	KShs'million	KShs'million	KShs'million
Capital commitments contracted for at year end	93	47	-	47
Loans committed but not disbursed at year end	32,802	25,225	-	23,967
Foreign currency commitments	1,632	4,997	-	4,997

Commitments to extend credit represent contractual commitments to make loans and other credit facilities to counterparties who, as per the Group credit risk rating model, are rated as either normal or watch. Commitments generally have fixed expiry dates, or other termination clauses. Since commitments may expire without being drawn upon, the total contract amounts do not necessarily represent future cash requirements.

47. CONTINGENT LIABILITIES

	GROUP		COMPANY	
	2016	2015	2016	2015
	KShs'million	KShs'million	KShs'million	KShs'million
Letters of credit, acceptances, guarantees, indemnities and other engagements entered into on behalf of customers at year end	61,065	73,903	-	69,859

Letters of credit, guarantees and acceptances commit the Group and its subsidiary companies to make payments on behalf of the customers in the event of a specific act, generally relating to the import and export of goods. Guarantees and letters of credit carry the same credit risk as loans.

In addition to this, litigation is a common occurrence in the banking industry in which the major operations of the Group operate due to the nature of the business. The Group and its subsidiary companies have established protocol for dealing with such legal claims. Once professional advice has been obtained and the amount of damages reasonably estimated, the Group makes adjustments to account for any adverse effects which the claim may have on its financial standing.

At year end, the Group had several unresolved legal and tax claims. However, the Group believes, based on the information currently available, that the ultimate resolution of these legal proceedings and tax claims would not likely have a material effect on its operations.

48. RETIREMENT BENEFIT OBLIGATIONS

KCB Pension Fund and Staff Retirement Benefit Scheme

KCB Bank Kenya Limited, a subsidiary of the Group operates a funded defined benefit plan.

KCB Pension Fund and Staff Retirement Benefit Scheme

The Bank operates a funded defined benefit plan. The Fund closed to new entrants effective 1 June 2006. The Fund is non-contributory with the Bank responsible for the cost of benefits accruing. The Fund is established under trust. The Fund assets are invested in a variety of asset classes comprising Government securities, corporate bonds, call and term deposits, investment properties, shares and off shore investments. Old Mutual Asset Managers and Pine Bridge Investments (East Africa) limited are responsible for the investment of assets.

Characteristics and risks of the Fund

The Fund is registered under irrevocable trust with the Retirement Benefits Authority. The Retirement Benefits Act, 1997 ("the Act") and the Regulations under the Act require the Fund to maintain a funding level of 100%. Where the funding level is below, such deficits are required to be amortized over a period not exceeding 6 years.

- The Fund is managed by a Board of Trustees. The Board is responsible for the overall operation of the Fund including making sure benefits are paid to beneficiaries on time.
- 44.5% of the Fund assets are invested in property assets. The exposure is a concentration risk to the property market for the Fund and, by extension, the Company.
- Following the closing of the Fund as at 1 June 2006, some active in-service members opted to transfer their accrued benefits under the Fund to the new Defined Contribution Plan established by the Company. The Fund therefore comprises mainly of pensioners and deferred pensioners, although some in-service members remain in the Fund. Some of the main risks relating to the benefits under the Fund are the rates of pension increases and the rates of return earned on the Fund assets. For the in-service members, rates of salary escalation will also have a direct bearing on the benefits paid under the Fund. In addition, the pension benefits are payable for the duration of the life of the pensioners. Therefore, the Fund's post-retirement mortality experience with respect to the pensioners will also have an impact on the liabilities under the Fund.

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2016

48. RETIREMENT BENEFIT OBLIGATIONS (Continued)

The information below summarizes the scheme assets and liabilities:

Composition of fund assets based on the Investment Manager's reports as at 31 December 2016.

Asset Class	KShs'million	Percentage
Property	3,468	44.5%
Government securities	2,014	25.9%
Fixed and term deposits	136	1.7%
Quoted equities	1,542	19.8%
Corporate bonds	331	4.3%
Cash and demand deposits	356	4.6%
Net current liability*	(59)	(0.8%)
Total	**7,788**	**100%**

Changes in the present value of the defined benefit obligation over the year:

	2016	2015
	KShs'million	KShs'million
At start of year	6,795	6,669
Current service cost (net of employer contributions)	75	79
Interest cost	902	862
Actuarial gain/(loss)-due to experience	-	42
Actuarial gain/(loss)-due to changes in assumptions	(366)	(213)
Benefits paid	(784)	(644)
At end of year	**6,622**	**6,795**

Changes in the fair value of plan assets over the year

At start of year	8,211	8,504
Interest income on plan assets	1,099	1,109
Employer contributions	67	69
Actuarial gains/(loss)	(805)	(827)
Benefits paid	(784)	(644)
At end of year	**7,788**	**8,211**

The amounts recognised in the statement of financial position are determined as follows;

Present value of fund obligations	6,622	(6,795)
Fair value of plan assets	(7,788)	8,211
Effect of asset ceiling at end of period	355	(436)
Asset recognized in the statement of financial position	**(811)**	**(980)**

Reconciliation of asset in the statement of financial position

At start of year	980	1,835
Net expense recognised in statement of profit and loss	61	168
Employer contribution	67	69
Amount recognised in other comprehensive income	(297)	(1,092)
At end of year	**811**	**980**

48. RETIREMENT BENEFIT OBLIGATIONS (Continued)

The amount recognised in profit and loss for the year are as follows:

	2016	2015
Service Cost	**KShs'million**	**KShs'million**
Current service cost (employer)	(75)	(79)
Total Service Cost	**(75)**	**(79)**
Interest Cost		
Interest cost on defined benefit obligation	(902)	(862)
Interest income on plan assets	1,099	1,109
Interest on the effect of the asset ceiling	(61)	-
Net interest cost on Balance Sheet liability	**136**	**247**
Net included in profit and loss in respect of the scheme	**61**	**168**
Re-measurement (Other comprehensive income)		
Actuarial loss – obligation	366	171
Return on plan assets (excluding amount in interest cost)	(805)	(827)
Change in effect of asset ceiling (excluding amount in interest cost)	142	(436)
Amount recognized in other comprehensive income	**(297)**	**(1,092)**

The principal actuarial assumptions used are as follows:

Actuarial Assumptions	**2016**	**2015**
Discount Rate (% p.a.)	14.5%	14.0%
Future salary increases (% p.a.)	6%	8.5%
Future pension increases (% p.a.)	0.0%	0.0%
Mortality (pre-retirement)	A1949-1952	A1949-1952
Mortality (post-retirement)	a(55) ultimate	a(55) ultimate
Withdrawals (voluntary)	At rates consistent with similar arrangements.	At rates consistent with similar arrangements.
Retirement age	55 years	55 years

Sensitivity Analysis

The results of the actuarial valuation will be more sensitive to changes in the financial assumptions than changes in the demographic assumptions. In preparing the sensitivity analysis of the results to the discount rate used, we have relied on our calculations of the duration of the liability. Based on this methodology, the results of our sensitivity analysis are summarized in the table below:

	Current discount rate	**Discount rate +1%**
	KShs'million	**KShs'million**
Present Value of Obligation	6.6	7.0

Given a large portion of the liability is in respect of inactive members, the sensitivity of the liability to a change in the salary escalation assumption will not be as significant as a change to the discount rate as it affects only in service members.

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2016

49. OPERATING LEASE COMMITMENTS

Operating lease commitments – Group as lessee

Non-cancellable operating lease rentals are payable as follows:

	2016	2015
	KShs'million	**KShs'million**
Within 1 year	1,189	387
After 1 year but less than 5 years	3,585	1,042
After 5 years	660	88
	5,434	**1,517**
Operating leases – Group as lessor		
Within 1 year	261	722
After 1 year but less than 5 years	76	211
After 5 years	3	8
	340	**941**

The Group leases a number of branch and office premises under operating leases. The leases typically run for a year up to ten years, with an option to renew the lease upon expiry. Lease rentals are increased accordingly to reflect market rentals.

50. TRANSFER OF ASSETS AND LIABILITIES FROM KCB GROUP PLC (FOMERLY KENYA COMMERCIAL BANK LIMITED)

As part of a re-organization program, certain assets and liabilities of KCB Group PLC (formerly Kenya Commercial Bank Limited) were transferred to KCB Bank Kenya Limited at net book values. An agreement to transfer assets was signed by both companies and the transaction was approved by the Central Bank of Kenya to take effect from 1 January 2016.

The transfer of assets and liabilities had the following effect on the Group's assets and liabilities on transfer date.

	At 1 January 2016 KShs'million
Assets	
Cash and balances with Central Banks	31,419
Loans and advances to banks	9,255
Financial assets available-for-sale	33,821
Held for trading	806
Clearing house	863
Other assets and prepayments	10,354
Loans and advances to customers	312,080
Financial assets held to maturity	43,257
Property and equipment	6,465
Intangible assets	1,296
Prepaid operating lease rentals	135
Retirement benefit asset	980
Deferred income tax	3,340
Total assets	**454,071**

50. TRANSFER OF ASSETS AND LIABILITIES FROM KCB GROUP PLC (FOMERLY KENYA COMMERCIAL BANK LIMITED) (Continued)

	At 1 January 2016 KShs'million
Liabilities and equity	
Liabilities and reserves	
Deposits from banks	14,760
Bills payable	1,451
Deposits from customers	347,702
Other liabilities and accrued expenses	4,400
Balance due to related companies	6,709
Reserve - Statutory credit risk reserve	8,045
- Re-measurement of defined benefit asset (net of taxes)	522
- Change in fair value of available for sale reserve	(1,059)
Borrowings	17,555
Total liabilities	**400,085**
Net identifiable assets and liabilities transferred to KCB Bank Kenya Limited	53,986
Less: Non cash and cash equivalent	(28,951)
Net cash and cash equivalent	**25,035**

51. HYPERINFLATION

For the financial year ended 31 December 2016, the directors evaluated and determined the economy of South Sudan to be hyperinflationary. As a result of this, KCB Bank South Sudan Limited, a significant foreign subsidiary of the Group complied with the requirements of IAS 29 - Financial reporting in Hyperinflationary Economies on the individual financial statements for the year ending 31 December 2016. The standard requires significant judgments to be made by the financial statement preparer considering guidelines provided in IAS 29. Consequently, for the individual entity, the financial statements and corresponding figures for previous periods are restated for the changes in the general purchasing power of the functional currency, and as a result are stated in terms of the measuring unit current at the end of the reporting period. The consolidated financial statements have been adjusted to reflect changes in KCB Bank South Sudan as indicated above.

The Directors considered the following factors in determining and concluding that the South Sudan economy was hyperinflationary:

(a) The population's preference to keep wealth in non-monetary assets or a relatively stable foreign currency;

(b) Prices for credit transactions being set at levels to compensate for expected loss of purchasing power during the credit period;

(c) Interest rates and wages are frequently adjusted to compensate the loss of purchasing power; and

(d) The cumulative inflation rate over the past three years exceeding 100%.

The cumulative three years inflation rate was approximately 1,285.30% as at 31 December 2016 in South Sudan. The data below represents the Consumer Price Indexes (CPI) used in 2016 and prior year restatements in the KCB Bank South Sudan individual financial statements for the year ending 31 December 2016. The source of the price indexes used was the International Monetary Fund (IMF).

CPI as at 31 December 2014	220.59
CPI as at 31 December 2015	479.76
CPI as at 31 December 2016	2,780.51
Average CPI in 2014	210.65
Average CPI in 2015	331.21
Average CPI in 2016	1,592.32

KCB GROUP PLC.

(Incorporated in Kenya under the Companies Act, 2015, Laws of Kenya)

(Registration Number C 9/88)

NOTICE IS HEREBY GIVEN that the **46TH ANNUAL GENERAL MEETING** of the Shareholders of **KCB GROUP PLC** will be held in **the Safaricom Indoor Arena, Kasarani, Nairobi,** on **Friday, 21 April, 2017 at 10:00 a.m.** when the following business will be transacted, namely:

AGENDA

1. Constitution of the Meeting

To read the notice convening the Meeting and determine if a quorum is present.

2. Ordinary Business

a) Report and Financial Statements for the Year ended 31 December, 2016

To receive, consider and, if thought fit, adopt the Audited Consolidated Financial Statements for the year ended 31 December, 2016 together with the reports of the Directors, the Group Chairman, the Group Chief Executive Officer and the Auditors' thereon.

b) Dividend

To declare a first and final dividend of KShs.3.00 per share and to approve the closure of the Register of Members on 24 April 2017.

c) Election of Directors

In accordance with Articles 94 and 95 of the Company's Articles of Association, the following Directors retire by rotation, and being eligible, offer themselves for re-election:

i. The Cabinet Secretary – National Treasury

ii. Ms. Georgina Malombe

In accordance with The Code of Corporate Governance Practices for Issuers of Securities to the Public, 2015, and the Board Charter, the following Directors, having attained the age of 70 years, retire from the Board of Directors:

i. Mrs. Charity Muya-Ngaruiya

ii. General (Rtd.) Joseph Kibwana

d) Remuneration of Directors

To authorize the Board to fix the remuneration of the Directors.

e) Appointment of Auditors

To re-appoint Messrs. KPMG Kenya, Certified Public Accountants, as the Auditors of the Company until conclusion of the next Annual General Meeting.

f) Remuneration of the Auditors

To authorize Directors to fix the remuneration of the Auditors.

3. Any other business

To transact any other business of the Annual General Meeting of which due notice has been received.

Dated at Nairobi this 29th day of March, 2017.

BY ORDER OF THE BOARD

Joseph Kania
Group Company Secretary

Note:

1. A member entitled to attend and vote at the meeting and who is unable to attend is entitled to appoint a proxy to attend and vote on his or her behalf. A proxy need not be a member of the Company. To be valid, a proxy form, which is provided by the Company, must be completed and signed by the member and must be lodged at the offices of The Registrar, KCB Group Plc., 2nd Floor, Kencom House, Moi Avenue, P.O. Box 48400, GPO 00100, Nairobi, to arrive not later than 10:00 a.m. on 19 April, 2017 i.e. 48 hours before the meeting or any adjournment thereof.

   If the appointer is a body corporate, the instrument appointing the proxy shall be given under its common seal or under the hand of an officer or duly authorized attorney of such corporation or Government office.

2. In accordance with Article 129, a copy of this Notice, Proxy Form and the entire Annual Report & Accounts may be viewed on and downloaded from the Company's website at www.kcbbankgroup.com.

3. Registration of members and proxies for the Annual General Meeting will commence at 7:30 a.m. on 21 April, 2017. Members and proxies should carry their national ID cards and a copy of the relevant Central Depository and Settlement Corporation (CDSC) account statement for ease of registration process.

4. Transport will be provided to Shareholders from Kencom House to the Safaricom Indoor Arena, Kasarani from 6:30 a.m. to 9:00 a.m. and back to Kencom House at the close of the meeting.

NAME: NGENY BIWOTT

DESIGNATION: GROUP CHAIRMAN

EDUCATION AND PROFESSIONAL BACKGROUND: Ngeny Biwott has over 39 years' experience in the aviation industry and holds an MSc Degree in Civil Emergency, Risk and Crisis Management from University of Hertfordshire. In addition, he obtained specialised certification in risk and strategy from Cranfield University, the University of Southern California, and the Langley NASA Research Centre College.

DATE OF APPOINTMENT TO DESIGNATION: Appointed Group Chairman in August 2013

DATE OF APPOINTMENT TO BOARD: June 2011

NAME: HENRY ROTICH

DESIGNATION: DIRECTOR

EDUCATION AND PROFESSIONAL BACKGROUND: Henry Rotich is Kenya's Cabinet Secretary for the National Treasury. He holds a Master's Degree in Public Administration (MPA) from the Harvard Kennedy School, Harvard University. In addition, he holds a Master's degree in Economics and a Bachelor's degree in Economics (First Class Honours), both from the University of Nairobi.

DATE OF APPOINTMENT TO BOARD: The office of the Cabinet Secretary of the National Treasury is an institutional director of KCB Group Plc.

ALTERNATE APPOINTED: Julius Mutua serves as alternate on the Board.

He serves as the Chairman of the Risk Management Committee and a member of the HR & Nomination and IT & Innovation committees.

He is a member of the Boards of KCB Bank Kenya, KCB Bank Burundi and KCB Capital and is a trustee of KCB Foundation.

NAME: CATHERINE KOLA

DESIGNATION: DIRECTOR

EDUCATION AND PROFESSIONAL BACKGROUND: Catherine Kola is an advocate of the High Court of Kenya, a Certified Public Secretary of Kenya (CPSK), a member of the Institute of Directors, and an associate member of the Chartered Institute of Arbitrators. She holds a Bachelor of Laws (LL.B) Honours degree from the University of Nairobi and has over 35 years' experience in legal practice, development banking, financial services regulation, energy sector regulation, company secretarial, administration and consultancy. Mrs. Kola served as the Chief Executive Officer of the Interim Independent Boundaries Review Commission (IIBRC) until conclusion of the IIBRC's mandate in November, 2010, and is a Director of the Nairobi Hospice.

DATE OF APPOINTMENT TO BOARD: May 2009

CURRENT KCB GROUP BOARD APPOINTMENTS: Catherine is a member of the Strategy & Finance and IT & Innovation committees. She is a member of the KCB Bank Kenya Board and also serves as the Chairman of both KCB Bank Burundi and KCB Foundation.

NAME: GEN. (RTD.) JOSEPH RAYMOND KIBWANA, EGH, CBS

DESIGNATION: DIRECTOR

EDUCATION AND PROFESSIONAL BACKGROUND: An Alumni of the Britannia Royal Naval College, the US Naval Staff College and the US Naval War College, Gen. (Rtd.) Kibwana retired from the Kenya Armed Forces in 2005 having served as Chief of the General Staff (2000-2005), Commandant of the National Defence College (1998- 2000) and Commander of the Kenya Navy (1988-1998).

DATE OF APPOINTMENT TO BOARD: June 2012

CURRENT KCB GROUP BOARD APPOINTMENTS: Gen. (Rtd.) Kibwana is a member of the Audit and Supply Chain committees and serves as Chairman of the Finance & Strategy committee. He also serves as Chairman of both KCB Bank South Sudan and the KCB Staff Pension Fund (Defined Benefit) Scheme.

APPOINTMENTS: Gen. (Rtd.) Kibwana has served as the Chairman of the Board of Directors of the Kenya Ports Authority. He is currently the Chairman of the Board of Directors of Kenya Trade Network Agency.

NAME: ADIL KHAWAJA

DESIGNATION: DIRECTOR

EDUCATION AND PROFESSIONAL BACKGROUND: Adil Khawaja holds an LLB (Hons.) degree from the University of Sheffield England, a diploma in Law from the Kenya School of Law and is a Certified Public Secretary of Kenya (CPSK). He is a member of the London Court of International Arbitration (LCIA) and is currently the Managing Partner of law firm, Hamilton Harrison and Mathews, Advocates.

DATE OF APPOINTMENT TO BOARD: June 2012

CURRENT KCB GROUP BOARD APPOINTMENTS: Adil is a member of the Risk Management and Finance & Strategy committees. He also serves as Chairman of the KCB Bank Kenya Board.

SOCIETY/MEMBERSHIP: Adil serves as trustee of Kenya Wild life Services (KWS).

NAME: CHARITY MUYA-NGARUIYA

DESIGNATION: DIRECTOR

EDUCATION AND PROFESSIONAL BACKGROUND: Charity Muya-Ngaruiya holds a Bachelor of Commerce degree and a Master's degree in Business Administration from the University of Nairobi. She is a Fellow of Institute of Certified Public Accountant (FCPAK), a Fellow of Certified Chartered Accountant (FCCA); Certified Public Secretary of Kenya (CPSK) and a Member of the Chartered Institute of Arbitrators. She holds certificate in investment banking and is a trainer in governance, member of the Institute of Directors. She is also a Member of Public Private Partnership Petition Committee; Accredited Governance Auditor and Accredited Mediator. She is a management and financial restructuring expert with more than 35 years' experience in financial management, information management systems, financial internal control systems, financial accounting and reporting, corporate restructuring, project management and privatization.

DATE OF APPOINTMENT TO BOARD: June 2012

CURRENT KCB GROUP BOARD APPOINTMENTS: Charity is a member of the Risk, HR & Nomination and Finance & Strategy committees and is Chairman of the Audit Committee. In addition, she serves as Chairman of the KCB Capital Board and is a member of the KCB Bank Kenya and KCB Bank South Sudan Boards.

SOCIETY/MEMBERSHIP: Charity has served as a council member of Institute of Certified Public Accountants (ICPAK), a member of the Registration of Accountants Board, the Examination Committee of Kenya Accountants and Secretaries National Examination Board (KASNEB).

NAME: TOM IPOMAI

DESIGNATION: DIRECTOR

EDUCATION AND PROFESSIONAL BACKGROUND: Tom Ipomai is a corporate finance specialist. He holds a degree in Computer Science from the University of Nairobi (1st Class Honours) and a Master of Philosophy (MPhil) in Management Studies from the University of Cambridge (Jesus College). He is a Certified Chartered Accountant (ACCA). Previously, Tom worked for the Central Bank of Kenya, Barclays Bank in the UK, Kenya and Zambia and with Deloitte in its Corporate Finance Advisory division. Tom runs a boutique consulting firm.

DATE OF APPOINTMENT TO BOARD: June 2013

CURRENT KCB GROUP BOARD APPOINTMENTS: Tom is a member of the Supply Chain and IT & Innovation committees and is Chairman of the HR and Nomination committee. He also serves as a trustee of KCB Foundation Board, a member of the KCB Bank Kenya Board and Chairman of KCB Bank Rwanda Board.

NAME: GEORGINA MALOMBE

DESIGNATION: DIRECTOR

EDUCATION AND PROFESSIONAL BACKGROUND: Georgina Malombe is an audit professional. She holds a Bachelors degree in Agribusiness Management from Egerton University and a Master of Business Administration, Finance Option from the University of Nairobi. She is a Certified Public Accountant (CPA (K)) and professional trainer. She also holds a Certificate in Arbitration. Her key technical competencies include Audit Quality Assurance, Auditing, Accounting, Finance and Financial Reporting. Previously, she worked for The Registration of Accountants Board as the Executive Officer, The Institute of Certified Public Accountants of Kenya (ICPAK) as Manager, Public Policy and Governance as well as the Head of Compliance and Regulatory Affairs. Malombe is currently the Managing Partner of audit firm, Gemal and Company.

DATE OF APPOINTMENT TO BOARD: June 2014

CURRENT KCB GROUP BOARD APPOINTMENTS: Georgina is a member of the Group Supply Chain, Audit and Risk committees and serves as Chairman of the IT and Innovation committee. She is also a member of the KCB Bank Tanzania Board.

OTHER BOARD/SOCIETY/MEMBERSHIP: Georgina currently serves in the Board of the Association of Women Accountants of Kenya (AWAK) as the Vice Chairperson. She is also a member of Professional Trainers Association of Kenya (PTAK).

NAME: JOHN NYERERE

DESIGNATION: DIRECTOR

EDUCATION AND PROFESSIONAL BACKGROUND: John Nyerere is a HHH (Fulbright) fellow and holds an MBA, Bachelor of Arts (Hons.) Economics, MBA General Management and Bachelor of Arts Economics and Sociology. He lectures on business management at the United States International University. He has experience in corporate planning, operations management and transformation leadership and his key technical competencies include strategy development and economics.

DATE OF APPOINTMENT TO BOARD: June 2014

CURRENT KCB GROUP BOARD APPOINTMENTS: John is a member of the Audit, Risk Management, HR & Nominations, and Finance & Strategy committees and is the Chairman of the Supply Chain committee. He also serves as a member of KCB Bank Tanzania and KCB Capital Boards.

NAME: JOSHUA OIGARA

DESIGNATION: CHIEF EXECUTIVE OFFICER & MANAGING DIRECTOR

EDUCATION AND PROFESSIONAL BACKGROUND: Joshua Oigara holds a Masters degree in Business Administration with a distinction in International Business Management from Edith Cowan University, Australia, a Bachelor of Commerce Degree, Accounting Option, from the University of Nairobi and is an Advanced Management Program Graduate from INSEAD, Fontainebleau, France. He is a graduate of the Program for Management Development (JuMP), Fuqua School of Business, Duke University, North Carolina, USA as well as a Certified Public Accountant of Kenya, CPA (K), having studied at the School of Accountancy, Strathmore University, Kenya.

DATE OF APPOINTMENT TO BOARD: He was appointed KCB Group CEO in January 2013

CURRENT KCB GROUP BOARD APPOINTMENTS: Joshua is a member of the Risk Management, HR & Nomination, IT & Innovation and Finance & Strategy committees and serves as a member of the KCB Capital and KCB Bank Kenya Boards and is a trustee of the KCB Foundation.

NAME: LAWRENCE K KIAMBI

DESIGNATION: GROUP CHIEF FINANCIAL OFFICER

EDUCATION AND PROFESSIONAL BACKGROUND: Lawrence holds a Bachelor of Science degree from the United States International University - Africa (USIU) majoring in accounting. He is also a Certified Public Accountant of Kenya (CPAK), having graduated from Strathmore University. Lawrence has vast experience in finance having held various finance leadership roles locally and internationally in a number of multinational organizations.

DATE OF APPOINTMENT TO BOARD: May 2015

CURRENT KCB GROUP BOARD APPOINTMENTS: Lawrence serves as a trustee of the KCB Staff Pension Fund (Defined Benefit Scheme).

NAME: JOSEPH KANIA

DESIGNATION: GROUP COMPANY SECRETARY

EDUCATION AND PROFESSIONAL BACKGROUND: Joseph has over 25 years' experience as an Advocate of the High Court and 10 years' experience as a Company Secretary. He holds an LLB degree from the University of Nairobi and is an Advocate of the High Court of Kenya. He is a Notary Public, Commissioner of Oaths as well as a Certified Public Secretary of Kenya. He previously served as Company Secretary at Housing Finance Limited. Other roles held include Senior Legal Officer at the Industrial and Commercial Development Corporation and the Legal Officer at Senator Cards/ Southern Credit Corporation.

DATE OF APPOINTMENT: June 2013

PROXY FORM

THE GROUP COMPANY SECRETARY
KCB GROUP PLC
8TH FLOOR, KENCOM HOUSE, MOI AVENUE
P.O. BOX 48400, NAIROBI KENYA

I/WE ____________________

Holder of ID/Passport No. ____________________

and P.O. Box ____________________

Shares / CDS Account number ____________ Mobile number ____________

Being a Member / Members of KCB Group PLC, hereby appoint:

Name ____________________

ID/Passport No. ____________________

Mobile number ____________________

Or failing him, the duly appointed Chairman of the meeting to be my / our proxy, to vote on my / our behalf at the 46th Annual General Meeting to be held on 21 April, 2017 at 10.00 am or at any adjournment.

Signed this ____________ day of ____________ 2017

Signature(s) ____________________

Note:
1. If a member is unable to attend personally, this Proxy Form should be completed and returned to reach the Company's registered Office (Kencom House. 8th Floor Nairobi) not later than 10:00 am on 19 April, 2017 i.e. 48 hours before or any adjournment thereof.
2. A person appointed as a proxy need not be a member of the Company
3. In case of a member being a corporate body, the Proxy Form must be under its common seal or under the hand of an office or duly authorized attorney of such corporate body

NOTES

www.kcbbankgroup.com