



Impacting Generations
Since 1968

National Bank of Kenya 2017 Integrated Report



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National Bank of Kenya National_Bank Nationalbank_ke



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About this Report

Our Report

We are proud to present our 2017 Integrated Annual Report. This year National Bank of Kenya is celebrating a half century of impacting generations through the provision of financial services. This report will reflect on the growth of the Bank through the years and, most importantly, highlight challenges and achievements of 2017 as well as projections for the future.

The report covers activities of the Bank, its subsidiaries, divisions and key strategic investments.

Our Target Audience

Our report is a commitment to transparency and accountability to our existing and potential investors as well as all stakeholders, internally and externally. The report is principally intended for the providers of capital to support them in decision-making regarding financial matters. We hope this report provides our stakeholders with better insights to our business.

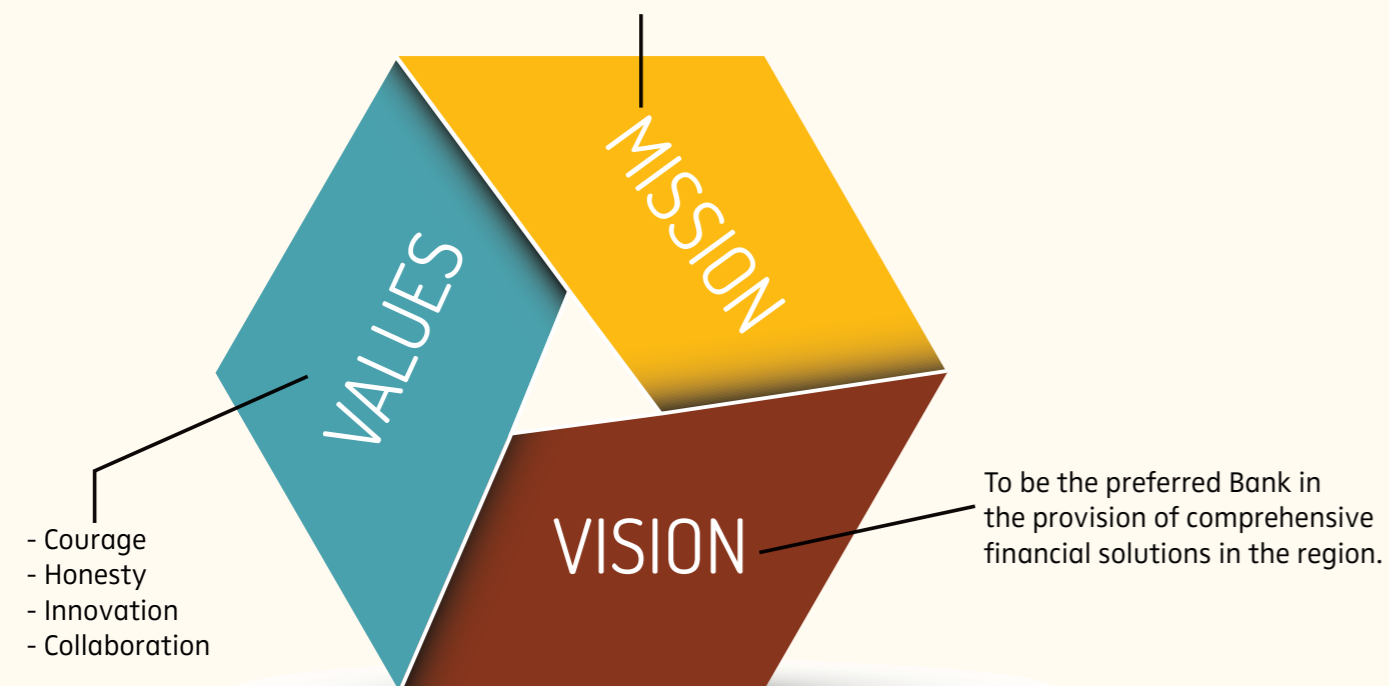
Our Reporting Framework

The report fundamentally covers the period 1st January, 2017 to 31st December, 2017 guided by the International Integrated Reporting framework. In preparation of the report, the Board of Directors and Management have taken into consideration the vital concepts, guiding principles and content as per the International Integrated Reporting Framework. In this context our report aims to present a balanced and realistic analysis of material matters identified through comprehensive stakeholder engagements.

Our Assurance

The Bank's Annual Financial Statement for the year ended 31st December, 2017 were audited by PricewaterhouseCoopers (PwC).

At National Bank, we are dedicated to excellence in providing competitive financial solutions, meeting the changing needs of our customers, being a responsible corporate citizen, providing attractive opportunities to our employees and improving shareholders value.



Impacting Lives to Enable Progress

Business Model Statement

Within our five main business units, we served a broad variety of Industries and Customers in 2017.

The units are segmented according to the characteristics of their customers, products and services.

Corporate, Business Banking & Institutions

This unit serves our medium to large corporate and institutional customers. The unit provides strategic advice, financial solutions and products in Capital Markets, Fixed Income, Currencies & Commodities and Transactional Banking.

- 63 Employees
- 4.6 Billion Total income

Retail, Personal & SME Banking

This unit provides banking activities such as proactive advice to customers through a network of branches in Kenya. The unit also makes day-to-day banking simple and efficient through innovative digital solutions.

- 47 Employees
- 3.5 Billion Total income

Islamic Banking

In a Shariah Compliant way, this unit fosters development and social progress by participating in equity capital and grant loans for productive projects and enterprises, besides providing financial assistance to the Muslim community:

- 25 Employees
- 753 Million Total income

NBK Insurance Agency

This is one of the Bank's subsidiaries, offering all types of Insurance services in partnership with major Insurance companies in Kenya at competitive pricing with flexible payment terms.

- 11 Employees
- 102 Million Total income

NatBank Trustees

This subsidiary deals with the analysis and investments in financial assets including wealth management, investment for segregated pension schemes, umbrella schemes and income draw down.

- 2 Employees
- 8.5 Million total income

Engaging our customers through multiple touch points in 2017





National Amanah, the Islamic Banking window of National Bank, offers Shari'ah compliant banking to its customers.

National Amanah adheres to the guidance of shari'ah to the Accounts and investments.

Current Account

An interest - free call account that is governed by the rules of a loan with respect to the guarantee to repay an equal amount. Credi Balance in the current Account shall, according to the principles of Shari'ah be deemed as a Qardh Hasan (Loan without return) to the Bank; on demand the credit balance in full to the customer.

Savings Account

An interest deposit for an unlimited period whereby the depositor (RAB UL MAAL) authorizes the Bank (MUDARIB) to invest the funds on the basis onf unrestricted mudaraba contract in accordance with the islamic principles of Shari'ah.

Time Deposits

An investment deposit for a limited period (3,6,9 to 12 months) in which the depositer (RAB UL MAAL) authorizes the Bank (MUDARIB) to invest the funds on the basis of unrestricted Mudaraba contract in accordance with the agreed terms and conditions.

Our Journey



National Bank was incorporated on 19th June 1968. At the time it was fully owned by the Government. It was formed to help Kenyans get access to credit. The Bank is listed on the Nairobi Securities Exchange.



Foundation Days

1968

Incorporated as a State-owned Bank



The Glory Days

1985- 1994

Pioneers the introduction of computerized online services in 1985. Privatized in 1994



Transformation

2013

Set out to become Top Tier Bank by 2017. Highly profitable and high returns to shareholders



New Look

2014

New Branch look; Retail, Amanah and Premium Look. Agency Banking; Offsite ATMs



Digital Transformation

2014-2015

Pioneers of the County Solution offering, University Smart Card. Roll out of NatConnect and NatMobile.



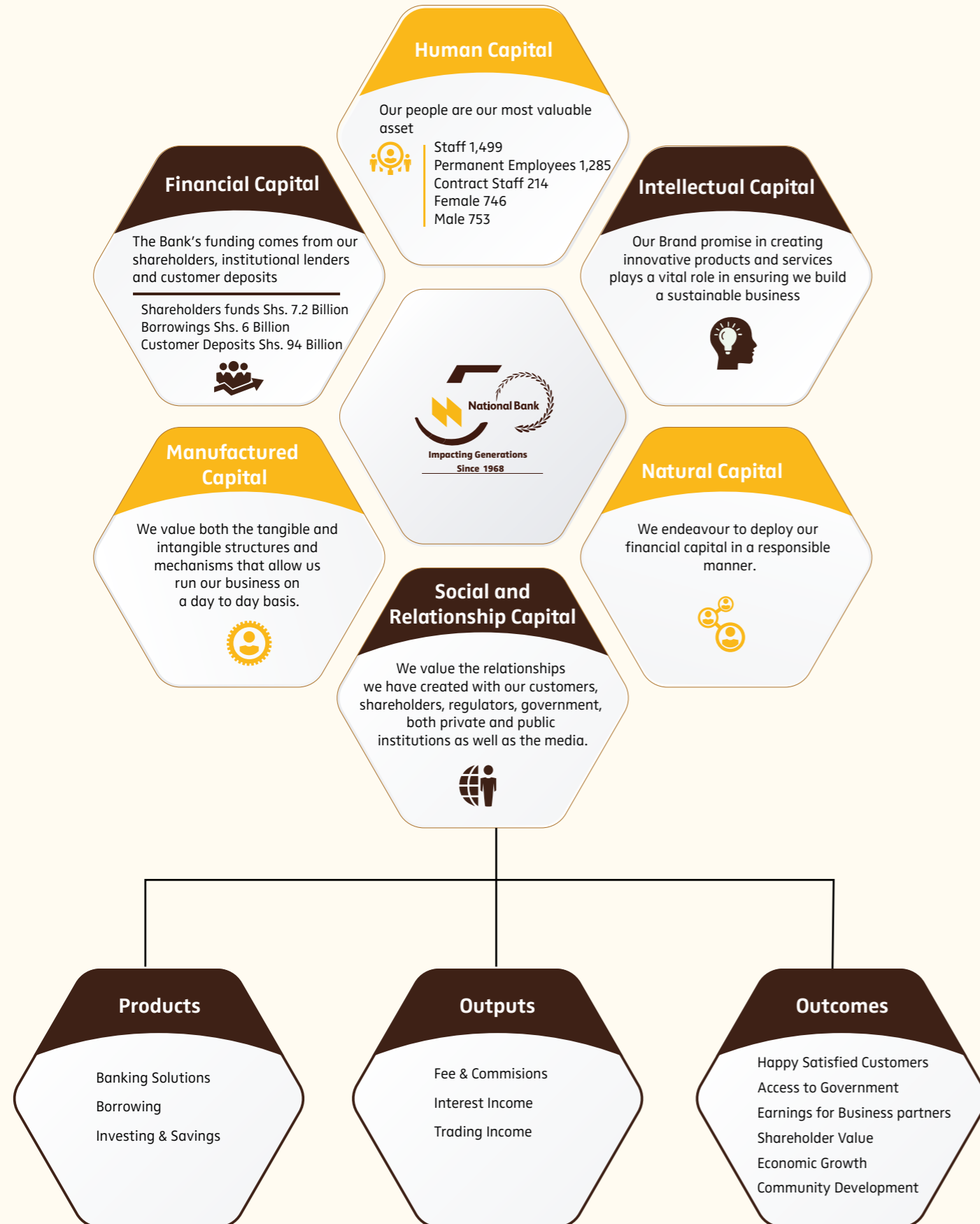
Revamped products

2013 - 2016

Business Club Launch Premium Banking National Amanah Small Enterprise Banking

Value Creation Statement

At National Bank, value is created through our business model, which acquires inputs in form of financial, manufactured, intellectual, human, social and natural capital - and transforms them through our business activities and interactions to produce valuable outputs and outcomes for the Bank, its stakeholders, society and the environment as shown in the image below:



Our Stakeholders

The value we have added to the society and wider macroeconomic environment is self-evident and something we are immensely proud of.

The key building blocks of National Bank's mission are being a responsible Corporate Citizen, improving shareholder value and growing our employees. To achieve this, sustainability considerations (social, economic and environment) are incorporated in day to day activities.

Our differentiated business model gives us a competitive advantage, enabling us to continue delivering competitive goods and services to our customers.



Distribution of value created to our stakeholders

The value we have added to the society and wider macroeconomic environment cannot be gainsaid, and is something we are immensely proud of.



SME BANKING PRODUCTS

Our Business Is About Commitment



Talk To Us On The Range of Products.

- SME current and Transactional Accounts
- Working Capital Financing
 - Term Loans
 - Overdrafts
 - LPO Financing
 - Invoice Discounting
- Asset Financing
- Insurance Premium Finance
- Mortgages
- Construction Loans

For more information please contact
Tel: +254 703 088 900 | +254 (020) 282 8900
www.nationalbank.co.ke

Notice of Annual General Meeting

NOTICE IS HEREBY GIVEN that the Forty Ninth Annual General Meeting of the Shareholders of National Bank of Kenya Limited ("the Company") will be held at the Kenyatta International Conference Centre, at the Amphitheatre Room, Harambee Avenue, Nairobi, on Monday, 28th May 2018 at 10.00 a.m. to transact the following business:-

1. To read the Notice convening the Meeting.
2. To receive, consider and adopt the Company's audited financial statements for the year ended 31st December 2017 together with the Directors' and Auditors' reports thereon.
3. To note that the Directors do not recommend payment of dividend to shareholders for the year ended 31st December 2017.
4. To elect Directors of the Company:-
 - In accordance with Article 90 of the Company's Articles of Association, Mr. Mohamed A. Hassan, retires by rotation as a Director and being eligible offers himself for re-election.
 - In accordance with Article 90 of the Company's Articles of Association, Mr. Joseph K. Kering' retires by rotation as Director and being eligible offers himself for re-election.
 - In accordance with the provisions of Section 769 of the Companies Act 2015, the following Directors being members of the Company's Board Audit Committee be elected to continue to serve as members of the said Committee:-
 - i. Mr. Jones M. Nzomo
 - ii. Mr. Joseph K. Kering'
 - iii. Ms. Linnet Mirehane
 - iv. The Cabinet Secretary, to the National Treasury
 - v. Mr. Mark J. Obuya
 - vi. The Managing Trustee, National Social Security Fund
5. To approve the Directors' Remuneration Report for the year ended 31st December 2017 and authorise the Board to fix their remuneration for the year 2018.
6. To re-appoint the Company's Auditors, M/s. PricewaterhouseCoopers, in accordance with Section 721 of the Companies Act (Act No. 17 of 2015) and Section 24(1) of the Banking Act (Cap.488). M/s. PricewaterhouseCoopers have indicated their willingness to continue in office.
7. To note the Auditors' remuneration for the year 2017 and authorise the Directors to fix the Auditors' remuneration for the year 2018.
8. To transact any other business of the Annual General Meeting in respect of which notice has been given.

By Order of the Board,

Habil A. Waswani
Company Secretary
28th March 2018

Notes:

1. A member entitled to attend and vote at the above meeting may appoint a proxy to attend and vote instead of him/her. A proxy need not be a member of the Company.
2. In the case of a member being a limited liability company or corporate body, the form must be completed under its Common Seal or under the hand of an officer or attorney duly authorised in writing.
3. The Proxy Form shall be available at the Bank's website www.nationalbank.co.ke, or, the offices of the Company's Share Registrars – Image Registrars Limited, 5th Floor, Barclays Plaza, Loita Street, P.O. Box 9287-00100, Nairobi.
4. Shareholders who will not be able to attend the Annual General Meeting are requested to complete the proxy form and return:-
 - a) by hand or email to Image Registrars Limited, 5th Floor, Barclays Plaza, Loita Street, P.O. Box 9287-00100, Nairobi, email: info@image.co.ke, or,
 - b) by hand to the Registered Office of the Company.
5. Proxy Forms must be received not less than 48 hours before the meeting i.e. not later than 5.00 p.m. on Friday 25th May 2018.
6. In accordance with Article 125 of the Company's Articles of Association, a copy of the Audited Financial Statements may be viewed on and obtained from the Company's website www.nationalbank.co.ke or from the Registered Office of the Company. An abridged set of the audited Balance Sheet, Income Statement, Statement of Changes in Equity and Cashflow Statements for year ended 31st December 2017 have been published in two daily newspapers with nationwide circulation.
7. Registration of Members and proxies attending the Annual General Meeting will commence at 7:00 a.m. and will close at 10:00 a.m. Production of a National Identification Card, Passport or other acceptable means of identification and the Member's share certificate or current Central Depository Statement of account for their shares in the Company will be required.

Notisi ya Mkutano Mkuu

NOTISI INATOLEWA KWAMBA Mkutano wa Arobaini na Tisa wa pamoja wa mwaka wa wanahisa wa National Bank of Kenya Limited (Kampuni) utafanyika katika Jumba la Mikutano ya Kimataifa Kenyatta International Conference Centre, katika ukumbi wa Amphitheatre, Harambee Avenue, Nairobi, Jumatatu Mei 28, 2018 kuanzia saa nne asubuhi ili kuangazia maswala yafuatayo kibiashara:

1. Kusoma notisi ya kuitishwa kwa mkutano.
2. Kupokea na endapo itaonekana kuwa sawa, kupitisha taarifa za matumizi ya pesa za kampuni kwa kipindi cha mwaka uliomalizika Desemba 31, 2017 pamoja na ripoti za wakurugenzi na wakaguzi wa pesa.
3. Kutambua kwamba wakurugenzi hawatoa pendekezo lolote la malipo ya mgawo wa faida kwa kipindi cha mwaka uliomalizika Desemba 31, 2017.
4. Kuwachagua wakurugenzi wa Kampuni -
 - a) Kwa mujibu wa kifungu nambari 90 cha sheria za makampuni, Bw. Mohamed A. Hassan anastaafu kwa zamu kama mkurugenzi na kwa kuwa hali inamruhusu anajitokeza ili kuchaguliwa tena.
 - b) Kwa mujibu wa kifungu nambari 90 cha sheria za makampuni, Bw. Joseph K. Kering' anastaafu kwa zamu kama mkurugenzi na kwa kuwa hali inamruhusu anajitokeza ili kuchaguliwa tena.
 - c) Kwa mujibu wa sehemu ya 769 katika sheria za makampuni ya mwaka 2015, wakurugenzi wafuatao ambao ni wanachama katika halmashauri ya kamati ya uhasibu wachaguliwe tena ili waendeele kuhudumu kama wanachama wa kamati iliyotajwa:-
1. Kusoma notisi ya kuitishwa kwa mkutano.
2. Kupokea na endapo itaonekana kuwa sawa, kupitisha taarifa za matumizi ya pesa za kampuni kwa kipindi cha mwaka uliomalizika Desemba 31 2017 pamoja na ripoti za wakurugenzi na wakaguzi wa pesa.
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 - c) Kwa mujibu wa sehemu ya 769 katika sheria za makampuni ya mwaka 2015, wakurugenzi wafuatao ambao ni wanachama katika halmashauri ya kamati ya ukaguzi wachaguliwe tena ili waendeele kuhudumu kama wanachama wa kamati iliyotajwa:-
 - (i) Bw. Jones M. Nzomo
 - (ii) Bw. Joseph K. Kering'
 - (iii) Bi. Linnet Mirehane
 - (iv) Waziri wa fedha katika hazina ya kitaifa
 - (v) Bw. Mark J. Obuya
 - (vi) Mdhamini msimamizi, National Social Security Fund
5. Kupitisha ripoti ya marupurupu ya wakurugenzi kwa kipindi cha mwaka uliomalizika Desemba 31, 2017.
6. Kuwateua tena wakaguzi wa pesa za kampuni M/s. PricewaterhouseCoopers, kwa mujibu wa sehemu ya 721 ya sheria za makampuni nchini (sheria nambari 17 ya 2015) na sehemu ya 24(1) ya sheria za benki (Cap.488). M/s. PricewaterhouseCoopers wameonyesha nia ya kuendelea mbele na jukumu lao.
7. Kutambua marupurupu ya wakaguzi wa pesa kwa kipindi cha mwaka 2017 na kuwapa uhuru wakurugenzi kuamua marupurupu ya mwaka 2018.
8. Kutekeleza majukumu mengine ya mkutano wa pamoja wa mwaka ambayo notisi yake itakuwa imetolewa

Kwa Amri ya Halmashauri



Habil A. Waswani

Katibu wa Kampuni

Machi 28, 2018

Muhimu:

- 1) Mwanachama aliye na ruhusa kuhudhuria mkutano na kupiga kura anaweza kumteua wakala kufika na kupiga kura kwa niaba yake. Si lazima kwa wakala kuwa mwanachama wa Kampuni
- 2) Katika hali ambapo mwanachama ni kampuni maalumu au shirika, ni lazima fomu ya wakala iwe imepigwa muhuri wa kawaida au chini ya afisa au wakili aliye idhinishwa kwa njia ya kuandika.
- 3) Fomu ya uwakilishi inapatikana kupitia wavuti wa benki www.nationalbank.co.ke au ofisi ya msajili wa hisa za kampuni, image registrars Limited orofa ya tano, jumba la Barclays Plaza, barabara ya Loita Slp 9287-00100 Nairobi.
- 4) Wanahisa ambao hawataweza kuhudhuria mkutano wa pamoja wa mwaka wanaombwa kujaza fomu ya wakala na kuirudisha kwa:-
 - a) Kwa njia ya kuandika au kwa njia ya barua pepe kwa; image registrars Limited orofa ya tano, jumba la Barclays Plaza, barabara ya Loita Slp 9287-00100 Nairobi, barua pepe: info@image.co.ke au
 - b) Njia ya mkono kupitia ofisi ya kampuni iliyosajiliwa
- 5) Mawakala wawe wamepokelewa na kampuni saa 48 kabla ya kuanza kwa mkutano yaani kabla ya saa kumi na moja Ijumaa Mei 25, 2018.
- 6) Kwa mujibu wa kifungu nambari 125 cha sheria za kampuni, nakala nzima ya ripoti ya mwaka na kaguzi za pesa zinaweza kupatikana kupitia wavuti wa kampuni www.nationalbank.co.ke au ofisi ya kampuni iliyosajiliwa. Muhtasari wa mizania, taarifa kuhusu mapato, taarifa kuhusu mabadiliko ya umiliki wa hisa na mtiririko wa pesa kwa kipindi cha mwaka uliomalizika Desemba 31, 2017 zimechapishwa kupitia magazeti mawili ya kila siku yanayosambazwa kote nchini.
- 7) Usajili wa wanachama na wakala watakuahudhuria mkutano utianza saa moja asubuhi na kufungwa saa tano asubuhi. Utoaji wa kitambulisho cha kitaifa, hati ya kusafiria au stakabadhi nyingine za kujitambulisha zinazokubalika na cheti cha hisa cha uanachama au taarifa ya hivi punde ya akaunti ya CDS kuhusu hisa zao katika kampuni utahitajika.

Corporate Information

Board of Directors

Non-Executive	
Mr. M A Hassan	Chairman
Cabinet Secretary, The National Treasury	(CS - National Treasury)
Managing Trustee	National Social Security Fund (MT - NSSF)
Mr. M J Obuya (Appointed on 19 May 2017)	
Mr. F L Atwoli	
Ms. L Mirehane	
Mr. J K Kering'	
Mr. J M Nzomo	
Eng. E K Mwongera (Retired on 19 May 2017)	
Executive	
Mr. W Musau	Managing Director & CEO

Board Committees

Audit Committee	Credit Committee
Mr. J Nzomo*	Mr. J K Kering'*
Mr. J K Kering'	Mr. M J Obuya
Mr. M J Obuya	Ms. L Mirehane
CS National Treasury	CS National Treasury
MT - NSSF	Mr. J Nzomo
Ms. L Mirehane	MT - NSSF
Nomination & Remuneration Committee	Risk Committee
Mr. F L Atwoli*	Ms. L Mirehane*
Mr. M J Obuya	Mr. M J Obuya
Mr. J K Kering'	MT - NSSF
CS National Treasury	Mr. J Nzomo
Mr. J Nzomo	
Ms. L Mirehane	

* - Chairperson of the Board Committee

Company Secretary	H A Waswani (CPS No B/1650)
	Certified Public Secretary (Kenya) Harambee Avenue P O Box 72866 City Square 00200 Nairobi
Registered Office	National Bank Building
	18 Harambee Avenue P O Box 72866 City Square 00200 Nairobi
Auditor	PricewaterhouseCoopers
	PwC Tower, Waiyaki Way/Chiromo Road P O Box 43963 GPO 00100 Nairobi

Risk Management Statement

Effective risk management is fundamental to the continued existence of any organization. This precept is particularly true for financial institutions. National Bank of Kenya prides itself in embedding risk management in all its strategic business decisions and has a formally documented Risk Management Framework (RMF) that details the risk management processes within the Bank.

The Bank has several committees charged with management and oversight of risk both at the senior management (executive level) and at the Board level. The Bank has a functioning Executive Risk Committee (ERC) with clearly documented Terms of Reference. The committee meets every month to discuss the top risks facing the Bank and comes up with strategies on how to manage them.

The key risk mitigation and management deliverables endorsed by the ERC are presented to the Board Risk Committee (BRC) on a quarterly and need basis. During the quarterly, the BRC considers the top risks facing the Bank and the adequacy of the strategies put in place by the senior management to mitigate them. The Bank has aligned its business strategies to risk management strategy through a clearly documented risk appetite statement.

Risk Area	Measure	Appetite	2017 actual
Capital	Total capital to total risk weighted assets	> 15%	5.4%
Liquidity	Liquid assets as a % of liquid liabilities	> 30%	36.3%
Loan loss provision	Loan loss charge as a % of gross loans	< 5%	1%
Foreign Currency Exposure	Net Open Position as a % of the Core Capital	< 7%	8%
Operational losses	Total Operational Losses as % of revenues	<1%	0.8%

1 Credit Risk

Potential loss due to failure of counter party to meet its obligations to pay the bank according to the agreed terms.

Risk Drivers

This risk arises majorly out of the Bank's core business of lending to its customers or to supports customers to meet their obligations to third parties through guarantees, letters of credit etc.

How we manage the risk

We have a clearly documented Credit Risk Policy and Credit Underwriting Standards that clearly outline the credit risk management processes, acceptable exposures and authorities to grant loans. The Bank has separated loan origination which basically lies with the businesses from credit underwriting which lies with Credit Division. These are supported by a clearly documented credit delegated authorities for individuals and committees approved by the Board.

2 Market Risk

Potential loss of earnings arising from movements in market prices.

Risk Drivers

Foreign currency trading, interest rate margins, fixed income trading, holding of foreign currency deposits and assets, revenues and expenses in foreign currency

Risk Management Statement

How we manage the risk

The Bank has put in place and an approved Market Risk Framework. All market risk exposures are monitored, managed and reported to the Assets and Liabilities Committee (ALCO), Executive Risk Committee and the Board Risk committee. Any potential risk to the Bank's financial position is quickly remedied as directed by Senior management and the Board.

3 Liquidity Risk

The risk that a 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 very high costs. It is simply the inability to meet the banks liabilities when they fall due.

Risk Drivers

The risk emanates from the Bank's banking activities of deposit taking from customers and onward lending to other customers who require funding in the form of loans which could be short-term, medium term or long-term e.g. mortgages. The Risk occurs due to mismatches in assets and liabilities.

How we manage the risk

The Bank has in place a robust Liquidity Management Policy that is overseen by Senior Management through the ALCO. This committee meets monthly to review the balance sheet structure and take required remedial actions to ensure that the Bank is not exposed to liquidity risk.

4 Operational Risk

This is the potential loss resulting from inadequate or failed internal processes, people, and systems or from external events such as terrorist attacks, flooding etc. These include losses from legal risks but excludes reputational and strategic risks.

Risk Drivers

These risks emanate from the day to day banking activities and cannot be eliminated. The risks are inherent in the ICT systems used by the bank; people relied upon to perform certain activities - processes being used and exposure to threats from the external environments.

How we manage the risk

The Bank has documented an Operational Risk Management Framework, policies and procedures for management of operational risks. In addition, all the top operational risks facing the Bank are presented to the ERC and BRC where the mitigation plans are interrogated for their effectiveness and adequacy to control the identified risks.

5 Reputational Risk

Possible damage to the Bank's image resulting in loss of earnings or inability to raise capital or liquidity from the market due to investors and customers taking negative view of the Bank.

Risk Management Statement

Risk Drivers

The key driver of reputational risk is negative media publicity (both mainstream media and social media). The negative publicity normally results from inappropriate conduct of business e.g. failure to comply with the expected environmental and social standards while conducting our business. The negative perceptions may also be as a result of poor stakeholder management, including vendors, employees, regulators and shareholders.

How we manage the risk

The Bank is committed to ethical conduct of business and strives to treat all our stakeholders fairly. The Bank has a clearly documented reputational risk management policy, policy on code of conduct, anti-bribery & corruption policy, communication policy and corporate governance standards. All these policies are strictly implemented and all stakeholders are expected to abide by them.

6 Compliance Risk

This is the risk of legal or regulatory sanctions, material financial loss, or loss to reputation the bank may suffer as a result of its failure to comply with laws and regulations.

Risk Drivers

The risk emanates from the external environment especially with respect to the many laws and regulations that the Bank is expected to comply with in the conduct of its business.

How we manage the risk

The Bank has a dedicated and independent compliance function that monitors all the Bank's activities to ensure that the Bank operates within the stipulated laws, rules and regulations of the land. The compliance function reports to the Board through the Chief Risk Officer hence assuring its independence.

7 Cyber Fraud Risk

Fraud is the potential financial loss resulting from an act of falsification of information or misrepresentation by a person (internal or external fraudsters). Cyber-crime fraud is committed using a computer and/or the Internet.

Risk Drivers

The risk derives from both the internal and external environment as a result of weak internal controls, collusion, lack of segregation of duties, process failures, lack of documented processes, bribery and corruption, dishonesty and money laundering, among others.

How we manage the risk

The Bank has in place a framework for effective integration of fraud risk management within a combined assurance environment and fraud awareness. The Bank's operations are also subjected to cyber security assessments through dedicated forensic personnel. The Bank's staff also have access to an anonymous whistle blowing reporting facility managed by the Investigations Department. All frauds are reported to ERC and BRC.

Chairman's Statement



Welcome to our Second Integrated Annual Report.

This year National Bank turns 50 years old, marking a special landmark for all stakeholders. National Bank has been and continues to be an integral part of Kenya's financial services industry which has been instrumental in the development of the country's economy.

Having operated proudly in Kenya since 1968, our intent is to continue to serve our customers diligently for the next 50 plus years. Our operations continue to present a unique opportunity for meaningful wealth creation and distribution not just to our shareholders but also to other key players in the country's affairs. They include government, regulators, customers, local community and, most critically, our 1499 employees.

On behalf of the Board, I am also pleased to announce that we recorded a profit before tax of Shs 785 million for the period ending December 31, 2017. This is indeed a remarkable progress and prove of the team's determination to deliver value for all our shareholders and other stakeholders, despite the challenges facing the domestic economy.

Operating Environment

The economic growth rate slid to a five - year low last year on account of a weak agricultural sector, coupled with heightened uncertainty and disruptions related to the election cycle.

Economic growth slowed down to 4.9 percent in 2017 compared to 5.9 percent in 2016 according to the Economic Survey 2018. Month-on-month overall inflation fell to 4.5 percent in December 2017 from 4.7 percent in November 2017, thereby remaining within the Government target range. This decline was due to lower food prices reflecting improved supply of key food commodities. The decrease in food prices outweighed the increase in fuel and electricity prices, and the rise in transport costs.

Although the rise in international oil prices is expected to exert moderate upward pressure, overall inflation is expected to remain well anchored and within the Government target range in the near term. A key contributor to our balance sheet, the foreign exchange market remained relatively balanced supported by strong diaspora remittances, resilient tea and horticultural exports, and recovery in tourism.

Averagely the banking sector remained stable and resilient. Average commercial banks' liquidity and capital adequacy ratios stood at 43.7 percent and 18.5 percent, respectively, in December 2017. The sector's ratio of gross non-performing loans (NPLs) to gross loans remained unchanged at 10.6 percent between October and December 2017. Preliminary data for 2017 showed good performance in the sector, notwithstanding an expected decline in profitability.

Global growth recovery is expected to continue in 2018, but uncertainties remain particularly with regard to the U.S. economic policies, the post-Brexit resolution, and the pace of monetary policy normalisation in advanced economies.

Regulation

There has been a great deal of change in the regulatory environment in recent years. The regulators have made good progress in improving financial stability through prudential regulation aimed at strengthening the sector to ensure greater transparency and stronger governance and to promote effective business models and innovation.

At the beginning of 2018, the Bank's major shareholders – the Government of Kenya through the National Treasury and National Social Security Fund (NSSF) - made commitments to address our capital requirements by committing to provide a comprehensive and long-term capital solution to bridge compliance, support business growth and meet ICAAP International Capital Adequacy Assessment Process) requirements.

The core capital injection will be fast-tracked and is expected to be completed within the third quarter of 2018. This solid commitment made by our major shareholders to tackle the recapitalization is an overt approval of the measures and commitment by Management to sustain the Bank's growth.

Chairman's Statement

The capital injection will unlock and bolster the key pillars of our growth going forward.

A Commitment to Good Governance

A top priority for my Board is to develop a strategy that can generate long-term sustainable returns for shareholders. We, in the Board, are confident that we have a strong and experienced Management team committed to good governance thereby enabling us to build a business that will deliver sustainable success to our shareholders and all other stakeholders.

Our Board

In the year under review, the Board experienced a number of changes. We welcomed Mr. M. Obuya to the Board. He brings on board extensive experience in the financial services industry having served in various roles in legal, commercial and risk management. His expertise will strengthen oversight on the Bank's governance in areas of risk and governance.

In the same year, we bid farewell to Eng. Erastus Mwangera after diligently serving his tenure. The Board and the rest of the National Bank team wish him well in his new postings and thank him for selflessly serving us. In 2017, the board implemented the code of corporate governance practices for issuers listed in the stock exchange as per the requirements of Capital Markets Authority. During the year, the board completed its annual self-assessment and discussed this and other feedback from stakeholders and regulators with a view to improve its operations. In addition, the Board members attended trainings to keep abreast with changing market in areas of governance and banking. I would like to assure all our stakeholders that the board is committed to growing shareholder value and continues to play an active and independent oversight role.

Transformation Agenda

Over five years ago, we set out on a five year plan to rebrand the business and become a leading bank and bank of choice for our customers. This was anchored on business growth, client service, efficiency, robust controls and people. As we come to the end of this five year cycle, I wish to report that we have made significant progress having doubled the deposit and loan base and grown to have presence in most counties in the country.

Other notable gains include diversification of revenue with activation of two subsidiaries involving bancassurance and funds management. Having invested well in digital channels and products, the Bank is well positioned to play its role in digital transformation.

Looking Ahead

In the last two years, the Bank focused on stabilization and revamping products to accelerate the growth witnessed in earlier years. The Bank is now well controlled and well positioned to actively participate in the market and deliver sustainable value to stakeholders. To deliver this, the focus areas are:

- Capitalisation of the bank and growing sustainably

- Innovating ahead of the market
- Taking calculated risks
- Supporting the real economy in wealth, job creation and channelling investments towards productive sectors of the economy
- Fully deploy technology to unleash efficiency in processes and client access
- Client focus and exceeding expectations

Conclusion

My team and the entire National Bank Community is committed to doing business fairly and responsibly to ensure we rebuild trust within our households, businesses and communities. This commitment will also rebuild our colleague's pride in our brand.

Moving forward our business model will put customers at the heart; based on traditional attributes such as prudence and a long-term view while making the most of emerging digital channels. I see an increasing evidence of us returning to the qualities that historically made our Bank a pillar of local communities. We shall apply these qualities to meet the changing demands of our customers.

As we settle into 2018, a 'milestone' year during which we celebrate 50 years, it is important that we not only look back with pride but also keep looking forward and adapt to the changing landscape. I believe we are well placed to make the most out of the opportunities that exist.

In conclusion and on behalf of my Board, I would like to thank our committed and hardworking staff for their dedication to serving customers. On behalf of whole National Bank fraternity, I would like to appreciate our stakeholders, especially you as a shareholder whose support has enabled the bank continue to grow. And to our customers, we appreciate your loyalty and the confidence you have placed in us and, most importantly, for helping keep our doors open.



MOHAMED HASSAN

Chairman, Non-Executive Director

Ripoti ya Mwenyekiti



UJUMBE KUTOKA KWA MWENYEKITI

Karibuni kwenye ripoti ya pili ya pamoja ya mwaka!

Mwaka huu, National Bank of Kenya inaadhimisha miaka 50 na kuandikisha ufanisi mkubwa kwa washikadau wote. National Bank imekuwa na itazidi kuwa sehemu muhimu kwa huduma za sekta ya benki nchini Kenya ambayo imekuwa muhimu kwa ukuaji wa uchumi wa taifa.

Baada ya kuhudumu nchini Kenya tangu mwaka 1968, nia yetu ni kuzidi kuwahudumia wateja kikamilifu kwa muda wa miaka 50 ijayo na zaidi. Shughuli zetu zinazidi kuwakilisha nafasi ya kipekee kwa uzalishaji na usambazaji wa maana ya mali sio tu kwa wanahisa wetu, lakini pia kwa washikadau wengine nchini. Hii inahusu serikali, wathibiti, wateja, jamii ya humu nchini na zaidi wafanyakazi wetu 1500.

Kwa niaba ya Halamshauri, nina furaha kutangaza pia kuwa tulisajili faida kabla ya ushuru ya shilingi milioni 785 kipindi cha mwaka uliomalizika Desemba 31 2017. Hakika huu ni ufanisi mkubwa na ushuhuda wa timu kuzalisha thamani kwa wanahisa wetu na washikadau wengine licha ya changamoto zinazokumba uchumi wa taifa hili.

Mazingira ya utekelezaji

Kiwango cha ukuaji uchumi kinatarajiwa kuanza kwa kasi ya chini kwa muda wa miaka 5 kuanzia mwaka jana kutokana na sekta hafifu ya kilimo pamoja na kuongezeka kwa

taharuki na michafuko inayohusiana na uchaguzi. Ukuaji wa uchumi ulishuka kwa asilimia 4.7 ikilinganishwa na asilimia 5.8 mwaka 2016.

Mwezi baada ya mwezi, mfumuko wa bei za bidhaa ulishuka kwa asilimia 4.5 mwezi Desemba mwaka 2017 kutoka asilimia 4.7 mwezi Novemba 2017 na kusalia kwenye makadirio ya viwango vya serikali. Upungufu huu ulitokana na bei za chini za vyakula zilizoashiria usambazaji ulioimarika wa vyakula. Kushuka kwa bei za vyakula kulizidi ongezeko la bei za mafuta na kawi na gharama za juu za usafiri. Ingawa kupanda kwa bei za mafuta katika soko la kimataifa kunatarajiwa kuchochea shinikizo la juu, mfumuko wa jumla wa bei za bidhaa unatarajiwa kusalia vyema kwenye makadirio ya serikali kipindi cha hivi karibuni.

Soko la ubadilishaji fedha za kigeni ambalo ni mchangiaji mkuu kwenye mizania yetu lilikuwa sawa na la kati likisaidiwa na utumaji wa pesa kutoka mataifa ya kigeni, uuzaji wa chai, kilimo cha maua na utalii uliofufuka.

Kwa wastani, sekta ya benki ilikuwa thabiti na stahimilivu. Viwango vya mtaji wa benki za wastani na uwepo wa pesa ulisalia kwa asilimia 43.7 na asilimia 18 mtawalia mwezi Desemba mwaka 2017. Uwiano wa mapato kwa sekta kwa mikopo isiyolipika (NPLs) na mapato ya mikopo haukubadilika na ulisalia kwa asilimia 10.6 baina ya Oktoba na Desemba 2017. Matokeo ya awali ya utafiti wa mwaka 2017 yanaonyesha kuwa bora kwenye sekta bila kujali kupunguka kwa faida.

Ufufuzi wa uchumi duniani unatarajiwa kuendelea mwaka 2018 lakini shaka bado ingalipo hasa kuhusiana na sera za uchumi za taifa la Marekani, maazimio ya Uingereza kujiondoa kwenye mkataba wa bara la Ulaya na kasi ya sera za uwakaji sawa wa fedha kwenye chumi zilizoendelea.

Uhalalishaji

Kumekuwa na mabadiliko makubwa kwenye mazingira ya uhalalishaji miaka ya hivi karibuni. Wahalalishaji wameafikia hatua kubwa kuimarisha uthabiti wa kifedha kupitia masharti bora ambayo nia yake ni kuimarisha sekta na kuhakikisha uwepo wa uwazi mkubwa na usimamizi thabiti ili kuhamasisha miundo ya biashara na ubunifu.

Mwanzoni mwa mwaka huu (2018), wanahisa wakuu wa benki – Serikali ya Kenya kupitia wizara ya fedha na hazina ya kitaifa ya uzeeni (NSSF) walifanya mkataba kuangazia mahitaji yetu ya mtaji kwa kuazimia kuandaa suluhu la muda mrefu la mtaji kuafikia uhalalishaji, kusaidia ukuaji wa biashara na kutimiza mahitaji ya Mchakato wa Mtaji (ICAAP).

Uongezaji mtaji mkuu utafanyika haraka na unatarajiwa kukamilika ndani ya kipindi cha muhula wa tatu mwaka 2018. Kujitolea huku kulikofanywa na wanahisa wetu wakubwa kukabiliana na mabadiliko ya mtaji ni idhini la wazi la hatua na uwajibikaji wa usimamizi kudumisha ukuaji. Uongezaji mtaji mkuu utafunguana kuimarisha nguzo muhimu za ukuaji wetu siku za usoni.

Ripoti ya Mwenyekiti

Kujitolea kwa usimamizi bora

Kipaumbele cha halmashauri ni kubuni mkakati ambao unaweza kuzalisha mapato ya muda mrefu na ya kudumu kwa wanahisa. Sisi kwenye halmashauri tuna imani kwamba tuna timu ya usimamizi iliyo na ujuzi na iliyojitolea kwa uongozi bora na hivyo kutuwezeshwa kujenga biashara ambayo itazalisha matokeo ya kudumu kwa wanahisa wetu na washikadau wengine.

Halmashauri yetu

Chini ya muda wakipindi cha mwaka unaongaziwa, halmashauri ilishuhudia mabadiliko mbali mbali. Tunamkaribisha Bw. M. Obuya kwenye halmashauri. Anaitolea halmashauri tajriba kwenye maswala ya usimamizi wa fedha baada ya kuhudumia majukumu mbali mbali kwenye sheria, uchumi na udhibiti wa hasara. Tajriba yake itaimarisha usimamizi wa benki kwenye maeneo ya kudhibiti hasara na usimamizi.

Katika kipindi hiki cha mwaka, tulimuaga Mhandisi Erastus Mwongela baada ya kuhudumu kwa bidii wakati wa kipindi chake. Sisi katika halmashauri na timu yote ya National Bank tunamtakia kila la heri kwenye majukumu yake mapya na kumshukuru kwa kujitolea kuhudumia benki.

Mwaka 2017, halmashauri ilizindua maadili bora ya usimamizi wa shirika kwa matoleo yaliyoorodheshwa katika soko la hisa kufungamana na mahitaji ya halmashauri ya soko la mtaji. Wakati wa kipindi cha mwaka, halmashauri ilikamilisha tathmini ya kibnafi ya mwaka na kuangazia hili na majibu mengine kutoka kwa washikadau na wahalalishaji ikiwa na lengo la uimarishaji. Zaidi ya hayo, wanachama wa halmashauri walihudhuria mafunzo ili kujifahamisha na mabadiliko ya masoko maeneo ya utawala na benki.

Ningependa kuwahakikisha washikadau wetu kwamba, halmashauri imejitolea kukuza thamani ya mwanahisa na itaendelea kutekeleza wajibu muhimu wa usimamizi ulio huru.

Agenda ya mabadiliko

Kwa muda wa zaidi ya miaka 5 iliyopita, tuliandaa mpango wa miaka 5 kubadilisha sura ya biashara na kuwa benki inayoongoza na iliyo chaguo kwa wateja wetu. Hili liliongozwa kupitia ukuaji wa biashara, huduma kwa mteja, ufanisi, udhibiti thabiti na watu. Tunapokaribia mwisho wa kipindi hiki cha miaka 5, ningependa kutambua kwamba tumefikia hatua kubwa kuongeza maradufu akiba na kiwango cha mikopo na kuweza kuwa na uwakilishi katika kaunti nyingi. Mafanikio mengine ya kutambuliwa ni pamoja na upanuzi wa mapato kwa kuanzisha kampuni mbili tanzu zinazohusu uwakala wa bima na usimamizi wa hazina. Baada ya kuwekeza vyema kwenye miundo na bidhaa za kidijitali, benki imejiweka vyema kutekeleza wajibu wake kwenye mabadiliko ya kidijitali.

Kuangazia siku za usoni

Kwa muda wa miaka 2 iliyopita, benki ilianguzia uthabiti na ufufuaji wa bidhaa kuchochea ukuaji ulioshuhudiwa miaka ya hapo nyuma. Kwa sasa, benki inathibitiwa vyema na kujiweka vyema kushiriki kikamilifu kwenye soko na

kuzalisha thamani kwa washikadau. Ili kuzalisha hili, maeneo ya kuangaziwa ni pamoja na:-

- Mabadiliko ya mtaji kwa benki na kuendelea kujikuza
- Ubunifu mbele ya soko
- Kuchukua tahadhari zinazofaa kukabiliana na athari
- Kusaidia uchumi ili kuzalisha mali, kubuni nafasi za kazina kuelekeza uwekezaji kwenye sekta za uzalishaji wa uchumi.
- Kutumia kikamilifu teknolojia ili kurahisisha utendaji kazi na kuwafikia wateja
- Kuangazia wateja na kuzidisha matarajio yao

Hitimisho

Timu yangu na jamii yote ya National Bank tumejitolea kufanya biashara kwa usawa na kwa uwajibikaji kuhakikisha tunajenga imani majumbani mwetu, kwenye biashara na jamii. Uwajibikaji huu pia utajenga fahari miongoni mwa wenzetu kuhusu bidhaa zetu.

Kuendelea mbele, muundo wa biashara yetu utawaweka wateja kwenye nyoyo kwa kuegemea sifa kama vile busara na mtazamo wa muda mrefu huku tukitumia vyema nafasi zinazojitokeza za miundo ya kidijitali. Ninaona ushuhuda tukirejelea sifa ambazo kihistoria ziliifanya benki yetu kuwa nguzo ya jamii. Tutatumia sifa hizi kuwafikia mahitaji ya wateja wetu. Huku tunapojihami mwaka 2018, mwaka wa ufanisi ambapo tunasherehekea miaka 50, ni muhimu tukianguzia nyuma kwa ufahari lakini pia tuangalie mbele na kujifahamisha na mazingira ya siku za usoni. Nina imani kwamba tumejiweka vyema kutumia vyema nafasi zitakazojitokeza.

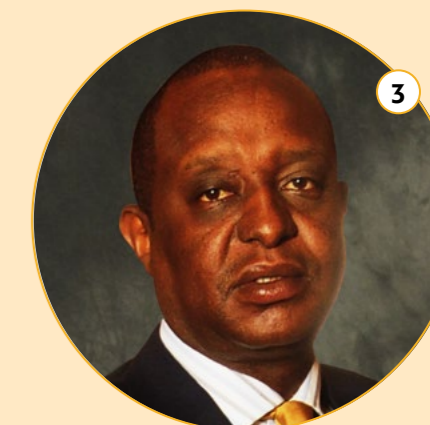
Nikitamatisha, kwa niaba ya Halmashauri, nachukua fursa hii kuwashukuru wafanyakazi wetu waliojitolea na wenye bidii kwa uwajibikaji wao kuwahudumia wateja.

Kwa niaba ya National Bank yote ningependa kuwashukuru washikadau wetu hasa wewe mwanahisa kwa mchango wako ambao umeiwezesha benki kuendelea kustawi. Na ninyi wateja wetu, tunatambua imani ambayo mmedhihirisha kwetu na zaidi sana kutusaidia kuhakikisha kwambadaima milango yetu imefunguliwa.

MOHAMED HASSAN

Chairman, Non-Executive Director

Board of Directors



1. Mr. Mohamed Hassan (46)

Chairman, Non-Executive Director

Mr. Hassan joined the National Bank Board in June 2011. He holds a Master of Science degree in Finance, (MSc.) of the University of Strathclyde, Glasgow. He also holds a Bachelor of Commerce (BCom. Hons.) Finance major, from the University of Nairobi, is a Chartered Financial Analyst® (CFA®) designate and a graduate of the Advanced Management Programme (AMP) from Strathmore Business School and IESE Business School, Universidad de Navarra, Barcelona.

Mr. Hassan has over 21 years experience in the international and regional capital markets. He is a former Joint Managing Director and CEO of Dyer and Blair Investment Bank and Chairman of Kenya National Trading Corporation. He is a member of the Board of Trustees, Northern Kenya Education Trust, and a former Director of the Kenya Community Development Foundation, and NEPAD Kenya National Steering Committee.

2. Mr. Wilfred Musau (43)

Managing Director & CEO

Mr. Musau joined the Bank in September 2015. He was appointed as the Managing Director and CEO in April 2016 and confirmed to the position in October 2016. He has 20 years extensive banking experience in Consumer and Business Banking. He has worked for Barclays Bank Kenya Limited, Standard Chartered Bank, KCB Bank Group in Kenya and Rwanda and NIC Bank PLC.

Wilfred is a B.Com holder from Kenyatta University - Major in Banking and Finance, holds a Masters Class certification in Strategy - USB University of Stellenbosch Business School - SA, Extensive training in Banking and is an alumnus of Strathmore Business School (SBS) in leadership training programs, and completed the Advanced Management Leadership Program at the SBS 2017. He is an SME Champion and has managed tough turnaround assignments in his various Banking assignments in the last 10 years.

3. Mr. Henry K. Rotich (47)

Cabinet Secretary, The National, Treasury, Non-Executive Director

Mr. Rotich is the Cabinet Secretary - The National Treasury. He holds a Masters Degree in Economics and a Bachelors Degree in Economics (First Class Honours), both from the University of Nairobi. He also holds a Masters Degree in Public Administration (MPA) from the Kennedy School of Government, Harvard University.

Prior to his appointment as Cabinet Secretary, he had been the Head of Macroeconomics at the Treasury, Ministry of Finance since March 2006. Under this capacity, he was involved in the formulation of macroeconomic policies that ensured an affordable and sustainable path of public spending aimed at achieving the Government's development priorities. In addition, he was also involved in the preparation of key budget documents including the Budget Statements, as well as providing strategic coordination of structural reforms in the fiscal and financial sector. Prior to joining the Ministry of Finance, Mr. Rotich worked at the Research Department of the Central Bank of Kenya from 1994. Between 2001 and 2004, he was attached to the International Monetary Fund (IMF) local office in Nairobi as an economist. Mr. Rotich has also been a Director on several Boards of State Corporations, including; Insurance Regulatory Board, Industrial Development Bank, Communication Commission of Kenya and Kenya National Bureau of Statistics.

Board of Directors



4. Dr. Anthony Omerikwa (41)

Ag. Managing Trustee, National Social Security Fund, Non-Executive Director

Dr. Omerikwa is the Acting Managing Trustee/CEO of the National Social Security Fund. Prior to his current position, he served as the Acting General Manager Operations in the same institution overseeing Information Technology, Human Resource, Administration and Procurement.

He holds a Doctoral degree from the University of Georgia, a specialist advanced degree in workforce development from Pittsburg State University, Masters of Science degree in human resource development, a bachelor of Arts degree in Economics and a Diploma in IT from the Institute for the Management of Information Systems (UK).

Dr. Omerikwa is a member of the Institute of Human Resource Management, Institute of Directors and the Kenya Institute of Management.

5. Mr. Mark J. Obuya (61)

Non-Executive Director

Mr. Obuya joined National Bank of Kenya Board of Directors in May, 2017. He holds a Bachelor of Laws Degree (LLB) and Master of Laws Degree (LLM) in Law Science and Technology from the University of Nairobi majoring in Intellectual Property, Telecommunications and Medical Law. He also holds a Diploma in Law from the Kenya School of Law and a Certificate in Environmental Impact Assessment/Audit.

He is an Advocate of the High Court of Kenya, Associate of the Chartered Insurance Institute (ACII) London, an Associate of the Insurance Institute of Kenya (AIK), a Chartered Insurer and a Patent Agent(KIPI). Currently he is the Chief Executive Officer/ Principal Officer of Corporate Insurance Company Limited. He is the National President of the Federation of Kenya Employers (FKE), a Trustee of the National Social Security Fund and a Board Member of the National Aids and Control Council. He is a past Chairman of the Association of Kenya Insurers (AKI), past Deputy Governor (Finance) of the Kenya Private Sector Alliance, a past Board Member and Trustee of the Insurance Training and Education Trust (College of Insurance) and a past Director of the Insurance Institute of Kenya. He is a seasoned professional with a wealth of experience in corporate governance, finance, law, insurance and social security protection.

6. Mr. Francis Atwoli (68)

Non-Executive Director

Mr. Atwoli was appointed to the National Bank Board in April 2003. He is a long serving career trade unionist and a member of the Board of Trustees of National Social Security Fund (NSSF).

He is a member of ILO Governing Body, General Secretary, Kenya Plantation and Agricultural Workers Union (KPAWU) Secretary General, Central Organisation of Trade Union - Kenya (COTU K) Chairman/ Spokesperson East African Trade Union Confederation (EATUC) - Arusha, President - Trade Union Federation of Eastern Africa (TUFEA) - Khartoum, President Organisation of African Trade Union Unity (OATUU) - Ghana, President International Trade Confederation Brussels, Vice President, International Labour Conference "ILC" (ILO 2012) - Geneva and Chairman Flat International.

Board of Directors



7. Mr. Jones Nzomo (64)

Non-Executive Director

Mr. Nzomo joined the National Bank Board of Directors in June 2016. He holds a Bachelor of Commerce Degree in Accounting of the University of Nairobi and is a Certified Public Accountant. Jones has attended numerous Executive Development Programmes and capacity building seminars both locally and internationally ranging from Kenya Institute of Management, Kellogg School of Management, Northwest University and Kennedy School of Government, Harvard University.

Mr. Nzomo has over 38 years working experience in various organizations in Audit and Finance Capacities. He worked as an audit assistant at PriceWaterhouseCoopers from July 1979 to 1980 before moving to Bamburi Portland Cement Limited in 1980 as the Cost and Financial Accountant. He later became the Chief Accountant and Company Secretary in July 1985. He worked as the Financial Controller for Johnson & Johnson from April 1991 to May 1994 and then moved to Central Bank of Kenya where he held several positions including Finance Director, Chief Banking Manager, Director Bank Supervision, Director Finance and Resource Planning and Director HR & Services.

During his stint at the Central Bank of Kenya, Mr. Nzomo also served as the Alternate Director to the Governor in the following institutions; Export Promotion Council, University of Nairobi Enterprises & Services Limited (UNES), Capital Markets Authority (CMA), Insurance Regulatory Authority (IRA), The Export Processing Zone Authority (EPZA) and Council member Kenya Institute of Bankers (KIB). Mr. Nzomo chairs the Audit Committees at Fountain Global Investors Plc and AAR Insurance Holdings (AARIH).

8. Ms. Linnet Mirehane (51)

Non-Executive Director

Ms. Mirehane was appointed to the National Bank Board in March 2015. She has over 7 years' experience in the Political and Civil Society having worked with institutions like Constitution Reform Education Consortium (CRECO) and the Bureau for Development Services.

Ms. Mirehane has extensively participated in the development, design, management and implementation of various programmes in areas of good governance, human rights, democracy, gender and HIV/ AIDs related issues. She holds a Bachelor of Education degree from Kenyatta University and has attended various professional management and corporate governance capacity building courses.

9. Mr. Joseph Kering' (49)

Non-Executive Director

Mr. Kering' joined National Bank Board in March 2015. He holds an MBA from Strathmore University and a Bachelor of Science (Hons) Chemistry, from Kenyatta University. He also holds a Certificate in Global Business Strategy from IESE Business School, Universidad de Navarra, Barcelona.

Mr. Kering' is an energy consultant with a wealth of experience in the energy sector gained over the past 20 years in the oil industry in both the public and private sector. He is highly specialized in negotiations, stakeholder management, project management, business evaluation and turnaround. In addition to his role at National Bank, Mr. Kering' is a Board Member at Lites Kenya, a division of CPF Group.

Board of Directors



10. Ms. Beatrice Gathirwa (61)

Representative of the Cabinet Secretary to The National Treasury, Non-Executive Director

Ms. Gathirwa joined the National Bank Board of Directors in September 2014 as the representative to the Cabinet Secretary to The National Treasury. She is currently the Senior Deputy Accountant General / Director Investment at the Department of Government Investment and Public Enterprises at The National Treasury. She holds a Masters of Business Administration Degree of Moi University, Bachelor of Commerce Degree in Accounting from The University of Nairobi and is a Certified Public Accountant. She has also attended short term courses in Management, Leadership, Accounting, Finance, Corporate Governance, and Audit.

Ms. Gathirwa has over 30 years experience in the public sector, having previously worked in various departments at the Ministry of Finance and State Corporations. She has represented the Cabinet Secretary to The National Treasury on various Boards in the past and currently on Communication Authority of Kenya and Privatisation Commission. Ms. Gathirwa also represents the National Treasury in the Registration and Quality Assurance Committee of the Institute of Certified Public Accountants of Kenya and serves on the Secretariat of the Public Accounting Standards Board.

11. Mr. Habil A. Waswani (41)

Company Secretary

Mr. Waswani joined National Bank in August 2013. He holds a Bachelor of Laws (LL.B) Degree from The University of Nairobi, a Diploma in law of the Kenya School of Law and is a graduate of the Global Executive Master of Business Administration (GEMBA) Degree programme from United States International University in collaboration with the Columbia Business School, Columbia University, New York.

He has attended various professional management and corporate governance capacity building courses. Habil is an Advocate of the High Court of Kenya and a registered Certified Public Secretary. He is a member of the Law Society of Kenya (LSK), the Institute of Certified Public Secretaries of Kenya (ICPSK) and the Institute of Directors (IOD- Kenya).

Mr. Waswani was previously the Corporation Secretary and Head of Legal at Kenya Reinsurance Corporation Limited, a publicly listed reinsurance company, for 4 years, prior to which, he held a similar position at Diamond Trust Bank Kenya Limited (DTB).



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National Bank is regulated by the Central Bank of Kenya



1 | Mr. Mohamed Hassan
Chairman, Independent Non-Executive Director

2 | Dr. Anthony Omerikwa
Ag. Managing Trustee, National Social Security Fund, Non-Executive Director

6 | Ms. Beatrice Gathirwa
Representative of the Cabinet Secretary to The National Treasury, Non-Executive Director

7 | Mr. Francis Atwoli
Non-Executive Director

3 | Mr. Henry K. Rotich
Cabinet Secretary, The National Treasury
Non-Executive Director

9 | Ms. Linnet Mirehane
Independent Non-Executive Director

8 | Mr. Jones Nzomo
Independent Non-Executive Director

4 | Mr. Mark J. Obuya
Non-Executive Director

5 | Mr. Joseph Kering'
Independent Non-Executive Director

10 | Mr. Wilfred Musau
Managing Director & CEO

11 | Mr. Habil A. Waswani
Company Secretary

Statement of Corporate Governance

Corporate Governance is the system of rules, practices and processes by which a company is directed and controlled. At National Bank of Kenya Limited, the Board of Directors is mandated to control and direct the activities, affairs, operations and property of the Bank with a view to maximizing shareholders value, increasing profitability and guaranteeing sustainable business.

Good corporate governance practices are essential to the delivery of sustainable shareholder and stakeholder value and the Board of Directors of the Bank is committed to upholding principles of Corporate Governance by ensuring full compliance with all relevant and applicable laws in the banking industry, including but not limited to following, the Banking Act and the Central Bank of Kenya (CBK) Prudential Guidelines, the Capital Markets Authority Code of Corporate Governance Practices for Issuers of Securities to the Public (2015), internal policies and procedures as well as other best practices.

The overall control over the activities, affairs, operations, business and property of the Bank is vested in the Bank's Board of Directors.

Corporate governance continues to be a key priority of the Board in exercise of its mandate as it accounts and reports to all stakeholders of the Bank about the procedures, systems and controls it has put in place to safeguard their interests in line with the highest standards of corporate governance. In line with the requirements of the Capital Markets Authority Code of Corporate Governance Practices for Issuers of Securities to the Public (2015), the Bank has undertaken a corporate governance audit to ascertain the robustness and effectiveness of its governance structures.

The Bank has in place a Board Charter as well as all critical Policies including Conflict of Interest and Code of Ethics and Conduct that govern operations of the Board and Management in the stewardship of the Bank within the confines of the Memorandum and Articles of Association of the Bank. Copies of these documents are available on the Bank's website (www.nationalbank.co.ke).

During the year under review, the Bank continued to embrace and adhere to tenets of good Corporate Governance and is committed to ensuring that the Bank's business and operations are conducted with integrity and in compliance with the law, internationally accepted principles and best practices of corporate governance and business ethics.

Board of Directors

The Bank is governed by a competent and versatile Board of Directors which is mandated to drive the Bank's strategic plan and monitor its implementation.

The Board fulfills its fiduciary obligations to the shareholders and other stakeholders by maintaining control over the strategic, financial, operational and compliance issues of the Bank as guided by the Board Charter and other operating regulations.

Whilst the Board provides direction and guidance on strategic and general policy matters and remains responsible for establishing and maintaining overall internal controls over financial, operational and compliance issues, the Managing Director & Chief Executive Director leads the Management team in exercising delegated authority to conduct the day-to-day business of the Bank.

All Board members are expected to act in a professional manner, thereby upholding the core values of integrity and enterprise with due regards to their fiduciary duties and responsibilities and in accordance with the Bank's Code of Ethics and Conduct.

Board Composition

The current Board comprises of eight (8) Non-Executive Directors (including the Chairman) and one Executive Director (being the Managing Director & Chief Executive Officer). Four (4) members of the Board are independent Non-Executive Directors. The independent Non-Executive Directors are expected to be independent and free of any business relationship or other circumstances that could materially interfere with the exercise of objective or independent judgment of matters seized by them relating to the bank's operations.

The Board members possess extensive experience in a variety of disciplines, including; banking, labour relations, general business, law and financial management, all of which are applied in the overall stewardship of the Bank. All non-executive directors are subject to periodic retirement and re-election to the Board, in accordance with the Bank's Articles of Association.

Board Meetings

The Board meets once every quarter but may from time to time organize special meetings in response to business needs. The Bank has an Annual Work Plan to guide the Board on areas of focus during the year. The Directors are also given appropriate and timely notice of Board meetings and are supplied with complete and accurate information to enable them to maintain full and effective control over strategic, business, financial, operational and compliance issues. The Chairman ensures Board meetings are structured to facilitate open discussion on issues placed before the Board.

The Board recognizes the importance of independent judgement and constructive debate on all issues under consideration. Directors are expected to bring views and judgement to Board deliberations that are independent of management and free of any business relationship or circumstances that would materially interfere with the exercise of objective judgement, having regard to the best interest of the organization and its stakeholders as a whole.

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

Statement of Corporate Governance

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 Bank or the shareholders generally. All Directors of the Bank must avoid any situation which might give rise to a conflict between their personal interest and that of the Bank. The Directors are expected to make a disclosure on an annual basis to the Company Secretary cases of actual or potential conflict of interest situations or as soon as such a situation arises. Any Director with a material personal interest in any matter being considered during a Board or Committee meeting is expected to disclose the same and will not vote on the matter or be present when the matter is being discussed and considered.

The Company Secretary facilitates scheduling and the agenda of Board meetings in conjunction with the Chairman and the Managing Director & Chief Executive Director, and assists directors monitor implementation by Management of the Bank's strategic objectives. The Company Secretary is responsible for facilitating good information flows within the Board and its Committees and between the Directors and Management as well as the induction of new Directors and professional development of Directors. Each member of the Board has direct access to the Company Secretary.

Board Committees

To facilitate discharging of its obligations, the Board has established and delegated authority to various committees whose membership constitutes of directors with appropriate skill set and expertise in particular disciplines in order to deal with specific issues with a view to operating optimally, and giving appropriate attention and consideration to these matters. The Board Committees play a pivotal role in ensuring that high standards of corporate governance are maintained throughout the Bank. Board Committees are constituted and governed by specific terms of reference formulated and reviewed regularly by the Board.

Operations of Board Committees are aligned to the regular Board process, and all Committees are provided with sufficient resources to perform their functions adequately. Board Committees from time to time invite members of Executive Management, service providers or if need be, independent consultants at the Bank's expense to enable them execute their mandates effectively.

The following Board Committees have been established by the Bank:

Board Credit Committee

The Committee comprises six (6) non-executive directors and the Managing Director & Chief Executive Director, out of which three (3) are independent non-executive directors. The Committee meets at least once every month.

The Credit Committee determines the Credit Policies of the Bank and is responsible for its periodic review and oversight on all credit matters. The Committee deliberates and considers loan proposals beyond the credit discretion limits extended to Executive Management, on an ongoing basis, reviews lending approved by the Executive Management

within its discretionary limits, as well as ensure that the loan book / asset quality and portfolio are within the thresholds prescribed by the relevant regulations.

The Committee further reviews and considers all issues that may materially impact the present and future quality of the Bank's credit risk management and assists the Board in discharging its responsibility to review the quality of the loan portfolio and ensure adequate bad debts provisions are maintained in line with the CBK prudential guidelines. The Committee also provides oversight over all remedial measures being taken on non-performing loans.

Board Nomination and Remuneration Committee

The Nomination and Remuneration Committee comprises six (6) Non-Executive Directors and the Managing Director & Chief Executive Director, out of which three (3) are independent Non-Executive Directors.

The Committee which meets at least once every quarter, is responsible for reviewing and proposing new nominees to the Board, assessing the performance and effectiveness of Directors and staff and ensuring, through annual performance reviews appropriate rewards and sanctions are extended to executive directors and all Bank staff. The Committee is tasked with the responsibility of ensuring the Board has the mix of skills and expertise required to run the business. The Committee is also inter alia mandated to periodically review and recommend to the full Board an appropriate remuneration structure for the Board and the Bank staff in general staff, as well as development of an appropriate bank-wide organisation structure.

Board Risk Committee

This Committee comprises four (4) Non-Executive Directors and the Managing Director & Chief Executive Director, out of which two (2) are independent Non-Executive Directors. The Committee meets at least once every quarter.

The Committee is mandated to provide oversight on overall bank-wide risk management and the compliance issues facing the Bank and ensuring quality, integrity, effectiveness and reliability of the Bank's risk management and compliance monitoring framework is effective and well maintained. The Committee defines the scope of the risk management work, ensures that there are adequate policies and strategies in place to effectively identify, measure, monitor and appropriately mitigate the various risks which the Bank is exposed to from time to time, and ultimately, monitors the Bank's compliance with relevant legislation, regulations and guidelines issued by regulatory bodies, as well as the Bank's laid-down policies and procedures.

Board Audit Committee

This Committee comprises six (6) Non-Executive Directors, out of which three (3) are independent Non-Executive Directors, and meets at least once every quarter. The Chairman of the Committee is an independent non-executive director and a member of the Institute of Certified Public Accountants of Kenya in good standing.

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The Audit Committee assists the Board in assessing the effectiveness of the Bank's internal control, risk management & compliance framework. The Committee is mandated to check the quality of financial reporting, reviewing and strengthening the control environment and the effectiveness of the internal and external audit functions, reviewing of the Bank's financial statements including correct application of accounting requirements, advising the Board on best practices, monitoring compliance with relevant local legislation, regulations and guidelines issued by regulatory bodies, as well as the Bank's laid-down policies and procedure; and ensuring quality, integrity, effectiveness and reliability of the Bank's systems. The Committee is also mandated to review the implementation of the approved work plans for the Internal Audit function each year.

The attendance records for the Committee meetings held in 2017 is as follows:

Name of Audit Committee member	No. of meetings attended
Mr. Jones Nzomo	8 out of 8
Mr. Joseph Kering'	8 out of 8
Cabinet Secretary – National Treasury	8 out of 8
Managing Trustee –NSSF	3 out of 8
Ms. Linnet Mirehane	1 out of 1
Mr. Mark Obuya*	1 out of 1

*Ms. Linnet Mirehane and Mr. Mark Obuya were appointed members of the Committee later in 2017 hence the fewer meetings attended in year 2017.

Board and Director Evaluation

In line with prescribed regulatory stipulations, the Board undertakes an annual evaluation of its own performance, the performance of the Chairperson, individual members, the Managing Director & Chief Executive Officer and Company Secretary, and the respective returns made to the Central Bank of Kenya by 31st March every year.

Board Remuneration

The remuneration of Executive and Non-Executive Directors of the Bank is governed by the Board Remuneration and other Benefits Policy as disclosed in detail in the Directors' Remuneration Report contained herein on pages 58 - 61.

Attendance of Board Meetings

The Board meets regularly and has a formal schedule of matters reserved for periodic deliberation. The directors receive appropriate and timely information to enable them exercise full and effective control over strategic, financial, operational, compliance and governance matters of the Bank in line with the approved Board work plan.

Name of Non-executive Director	No. of meetings in the year 2017	No. of meetings attended	% Attendance
Mr. Mohamed Hassan	11	11	100
Managing Trustee –NSSF	11	10	91
Cabinet Secretary – National Treasury	11	10	91
Mr. Francis Atwoli	11	10	91
Ms. Linnet Mirehane	11	9	82
Mr. Joseph Kering'	11	11	100
Mr. Jones Nzomo	11	11	100
Mr. Mark Obuya*	2	1	50
Mr. Wilfred Musau	11	11	100

*Mr. Obuya was appointed as a Director of the Bank at the 2017 AGM (19th May 2017) hence the fewer meetings attended in year 2017.

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Internal Control Systems

The Bank has well defined written policies and procedures to ensure that best practices are followed in conducting the day-to-day operations and financial reporting as well as in implementing strategic action plans approved by the Board. A well-structured organization structure ensures that there is adequate segregation of duties and proper oversight. Structures and systems have been defined in the Bank's policies and procedures to facilitate complete, accurate and timely execution of transactions, operations and commitments and the safeguarding of assets. Financial information is prepared using appropriate accounting policies, which are applied consistently. The Board is committed to managing risk and controlling its business and financial activities in a manner which enables it to maximise profitable business opportunities, manage and ensure compliance with applicable laws and regulations and enhance resilience to external events. The Internal Audit and Independent External Audit functions of the Bank as well as the Risk Management functions, assist the Board to streamline areas of weakness as well as maintain proper oversight of all critical operations from a controls perspective.

Management Committees

To assist management in fulfilling its mandate in running the business operations of the Bank and to ensure compliance with the laid-down policies and procedures, various management level committees have been established. The roles, responsibilities and composition of some of the key management committees are given below:

Executive Management Committee ("EMC")

The EMC is chaired by the Managing Director and comprises other senior management staff. It meets regularly and ensures that all financial and operational plans of the Bank are monitored and implemented as per the Strategy Approved by the Board. The Committee tracks the implementation of Bank's business projects, financial and staff performance trends, forecasts and actual performance against budgets and prior periods and regularly reports the same to the Board.

Executive Credit Committee ("ECC")

In accordance with the Bank's Credit Policy, the ECC is chaired by the Managing Director and comprises other senior management staff including the Director of Credit. The Committee reports to the Board Credit Committee on credit risk, asset quality and credit approval matters every month. The ECC meets regularly to review and approve customer credit applications within limits delegated by the Board and from time to time to analyse the Bank's overall credit risk portfolio health and related credit risk management.

Assets and Liability Committee ("ALCO")

This Committee is chaired by the Managing Director and comprises the Head of Treasury and other members of senior management staff. The ALCO, which meets at least once each month, is mandated to optimise returns, while prudently managing and monitoring the assets and liabilities of the Bank. The ALCO is responsible for controlling and managing the Bank's interest rate risk (price), market risk, currency risk and liquidity risk, in addition to ensuring compliance with the Bank's Investment Policy, and statutory requirements relating to liquidity, foreign exchange exposure and cash ratios.

Executive Risk Committee ("ERC")

The ERC reports to the Board Risk Committee and is chaired by the Managing Director and comprises the Chief Risk Officer and other senior management staff including the Head of Compliance. The ERC meets at least once every month and is responsible for identifying major areas of business operations prone to operational risks, implementing respective mitigations and implementing suitable policy guidelines for managing and mitigating operational risk and reviewing audit irregularities relating to operations. The ERC also reviews the overall Bank compliance status vis a vis the various prevailing regulatory frameworks and internal policies stipulations.

ICT Steering Committee

This Committee is chaired by the Director, Information and Communication Technology and comprises other senior management staff. The Committee meets at least once every quarter and is responsible for provision of oversight in the development and implementation of the ICT strategy, review of the Bank's ICT systems and environment, as well as ensuring the management and review of the organization's ICT plans are consistent with the goals, objectives and strategy of the Bank, it also assists with resolving strategic level issues and risks and providing advice and guidance on business issues facing ICT. The Board has put in place a robust ICT Policy framework which is aligned to the Central Bank of Kenya guidelines that dictates the manner in which the Bank's ICT environment and systems are governed. The Bank's external auditors conduct independent audits of the Bank's systems against this policy framework and give periodic reports to the regulator.

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Relations with Shareholders

The Board recognizes the importance of good communication with all shareholders. The Annual General Meeting (AGM) as well as published annual reports and financial statements are used as opportunities to communicate with all shareholders. The Bank always gives its shareholders requisite notice of the AGM as defined in its Memorandum and Articles of Association and in compliance with the Companies Act and the Capital Markets Act.

Shareholders have direct access to the Bank, its Company Secretary and the Shares Registrar (Image Registrars Limited), who respond to queries and correspondence received from the shareholders on a wide range of issues in a timely manner. The Bank through its Share Registrar files returns regularly in line with the requirements of the Companies Act and the Capital Markets Act.

The number of shareholders as at 31st December 2017 was 48,832 distributed as shown below:

A. Top 10 Shareholders as at 31st December 2017

No.	Names	Address	Number of Shares	% of shares
1.	National Social Security Fund	P.O. Box 30664 - 00100 Nairobi, Kenya	162,802,746	48.10%
2.	The Permanent Secretary To The Treasury	P.O. Box 30007 - 00100 Nairobi, Kenya	76,230,000	22.50%
3.	Kenya Reinsurance Corporation Limited	P.O. Box 40984 - 00100 Nairobi, Kenya	4,840,000	1.40%
4.	Best Investment Decisions Limited	P.O. Box 40127 - 00100 Nairobi, Kenya	2,350,271	0.70%
5.	Co-op Bank Custody A/C 4003a	P.O. Box 48231 - 00100 Nairobi, Kenya	1,864,863	0.60%
6.	Craysell Investments Limited	P.O. Box 80862 - 80100 Mombasa, Kenya	1,431,069	0.40%
7.	NIC Custodial Services A/C 077	P.O. Box 44599 - 00100 Nairobi, Kenya	1,405,245	0.40%
8.	Equity Nominee Ltd A/C00084	P.O. Box 75104 - 00200 Nairobi, Kenya	1,256,343	0.40%
9.	NBK Client A/c 1	P.O. Box 72866 - 00200 Nairobi, Kenya	1,143,450	0.30%
10.	Eng. Ephraim Mwangi Maina	P.O. Box 53208 - 00200 Nairobi, Kenya	1,105,003	0.30%
11.	Others		84,371,010	24.90%
Total			338,800,000	100.00%

B. Directors' shareholding as at 31st December 2017

Range	Number of Shareholders	Number of Shares	Percentage of Shares held
1 to 1,000	30,498	15,362,114	4.53%
1,001 to 10,000	17,448	35,486,883	10.47%
10,001 to 100,000	817	19,376,875	5.72%
100,001 to 1,000,000	59	14,145,138	4.18%
1,000,001 to 10,000,000	8	15,396,244	4.54%
10,000,001 to 100,000,000	1	76,230,000	22.50%
100,000,001 to 1,000,000,000	1	162,802,746	48.10%
TOTAL	48,832	338,800,000	100.00%

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C. Investor Distribution Summary as at 31st December 2017

	Name	Number of Shares	% Shareholding
1	Mr. Mohamed Abdirahman Hassan	Nil	0
2	Cabinet Secretary, National Treasury	76,230,000	22.50
3	National Social Security Fund	162,802,746	48.10
4	Mr. Francis Atwoli	Nil	0
5	Ms. Linnet Mirehane	Nil	0
6	Mr. Joseph Kering'	Nil	0
7	Mr. Jones Nzomo	Nil	0
8	Mr. Mark Obuya	Nil	0
9	Wilfred Musau	Nil	0

D. Investor Summary Shareholding as at 31st December 2017

Category	Count of Shareholders	Sum of Shares	% of Shares
Local Corporate	1,667	267,296,045	78.89%
Foreign Individual	160	1,519,699	0.45%
Local Individual	47,000	69,959,055	20.65%
Foreign Corporate	5	25,201	0.01%
Total	48,832	338,800,000	100.00%

Managing Director's Statement



MESSAGE FROM THE MANAGING DIRECTOR & CEO

2017 was a year of continued delivery for the Bank, with the achievement of key objectives resulting in a significant transformation of the business and improved performance. For the last two years we have remained vigilant in delivering on our key strategic priorities, reshaping the Bank to focus on serving our customers and returning the balance sheet to strength. To this end, I would like to extend my thanks to the Board, the Management and all colleagues across the Bank for their determination and contribution.

Our determination to create a more sustainable business has caught the attention of the public and in turn our major shareholders have made commitments to address our capital requirements by committing to provide a comprehensive and long-term capital solution within 2018.

Given this strong strategic progress and the improvement in our financial performance and position, we now have a firm foundation to deliver on our new strategic priorities that we set out in December 2017 for the next cycle 2018 – 2022. I firmly believe that we are now well placed to continue to support and benefit from the strengthening of the economy and to be the best bank for our customers.

Key Financial Highlights

We delivered a significant improvement in our financial performance by posting a pre-tax profit of Shs 785million for the period ending 31st December 2017.

Customer deposits grew 1 percent from Shs 93.9 billion to Shs 94.3 billion on account of customer confidence in the Bank and new products such as diaspora banking, enhanced Natmobile and improved client service. As a result of growth in customer flows and deliberate rebalancing of the bond portfolio, the Bank improved its liquidity with ratio closing at 36.3 percent compared to 32.6 percent in the previous year.

Net loan and advances reduced by 5 percent over the same period driven by reduced loan volumes. However the group focused on deployment of effective recovery strategies resulting to reduction in non-performing loans (NPL) by Shs 3 billion, from Shs 27 billion to Shs 24 billion.

Loan provisions declined from Shs 2.4 billion to Shs 0.76 billion benefiting from reduction in NPL book and improved credit management ensuring minimal negative migration of existing and new book.

Net Interest income for the period was Shs 6.7 billion, a 14 percent drop from Shs 7.8 billion in the previous year mainly due to effect of interest rate capping law reducing interest earned from loans and advances. This was partially compensated by an increase in interest earned from government securities and improved funding mix which reduced interest expense by Shs 0.9 billion.

Total operating revenues closed at Shs 9.1 billion compared to Shs 10.6 billion in 2016 representing 14 percent decrease due to impact of interest capping and lower fees as volumes of new loans dropped, however total operating expenses declined by 6 percent to Shs 7.6 billion from Shs 8.1 billion over the same period last year due to improved cost management and rigour in operational controls. As part of our diversification efforts, revenues from subsidiaries (NBK Insurance Agency Limited and National Trustee Investment Services Limited) grew by 45 percent year on year from Shs 74 million to Shs 108 million.

Strategic Milestones

This year is a remarkable year as we celebrate 50 years of existence. As we celebrate our Golden Jubilee we are reminded of both our struggles and wins and take each lesson learned with pride and humility and commit to building a more sustainable business. Our strong performance in 2017 marks the culmination of two years of delivery against our strategic plan that has transformed the business for the benefit of our stakeholders. We have delivered a significant improvement in financial performance, while improving the risk profile of the bank.

Improving Customer Experience

In line with our focus to improve customer experience and provide a wider range of product offering, we successfully upgraded our core banking systems from Bank Fusion Universal Banking (BFUB) and IMAL to one instance Fusion Banking Essence (FBE), the fifth and latest version of Bank Fusion Universal Banking (BFUB) system.

Managing Director's Statement

This upgrade has enhanced our technology platform by offering enhanced performance, flexibility and real-time interfaces. Moving forward we will continue to embrace innovation while driving the digital bank agenda as a way of increasing efficiency in service delivery, ease of access for customers and driving financial inclusion.

In 2017 we also had the privilege of revamping our mobile banking service offering in pursuit of expanding our retail banking business. The Bank's NatMobile offering (App and USSD), now allows users to conveniently access an array of services via their mobile phones as it opens new opportunities for the bank to grow new revenue streams by deepening its digital banking offerings.

The Bank also entered into a strategic partnership with Visa to provide mVisa services to our customers to make it easier for them to make card-less purchases, pay bills and send or receive money from family and friends directly from their bank account both locally and internationally. Also through Integrated Payment Services Limited (IPSL) offered by PesaLink, our customers can now make Bank to Bank transfers from the comfort of their homes.

In June 2017, we partnered with digital money transfer World Remit to provide instant international remittance, a move that seeks to address the increasing demand by the Bank's Diaspora clientele. The partnership has allowed our customers and non-customers to make instant digital remittance. We have over 700,000 Diaspora customers among the three (3) million Kenyans currently living abroad.

Rebuilding Customer Trust

Rebuilding customer trust remains a key imperative for the business. To this end, we have continued to transform our corporate culture and have completely overhauled the performance and reward framework for all staff, with performance now predominantly assessed on the productivity and a 360-degree feedback mechanism.

We recognise that competition for the best talent is increasing in most markets, and our human resources team is addressing this by focusing on critical issues such as attracting talent with capabilities that are in short supply in the market, e.g. mobile technology and e-commerce and general management while ensuring that National Bank remains an attractive place to work and invest in.

We have also strengthened the control environment through changes to our organisational design, enhanced key policies, strengthened the second and third line of defence and introduced standardised tools across the Bank to assess and monitor our risk appetite. While these improvements have been essential in helping us to rebuild customer trust, we recognise there is more to do and that we still have legacy issues to work through.

Outlook

Thanks to the hard work and commitment of our colleagues, we are entering the next five year phase of our strategy from a position of strength.

At the beginning of this year we set out the next phase (2018-2022) of our strategy, highlighting our key priorities for the next five years and how we intend to deliver value and high quality experiences for customers, alongside strong and sustainable financial performance for our shareholders within a prudent risk and conduct framework.

Our guiding principles for the next cycle are anchored on:

1. Business growth driven by new products, value chain optimization and innovation.
2. Diversification of revenue by growing our subsidiaries.
3. Investing in exceptional client service
4. Prudent cost management and well controlled business
5. Risk management and governance
6. Investing in growing our people skills and capabilities

In addition to the above we will continue to create operational capabilities by becoming 'simpler and more efficient', enabling us to be more responsive to changing customer expectations and to maintain our cost leadership position as a source of competitive advantage through the simplification and increased automation of key processes, reduction of third-party spend and changes to our organisational design. We expect to deliver annually, over 10 percent reduction in operating expenses thereby creating value for our customers and improving our long-term competitiveness.

Over the next five years, we expect the country's financial services industry to undergo an unprecedented rate of change, driven by technology, changing customer behaviour and increasing regulatory requirements at a time when traditional competitors' strategies converge and new entrants compete for customers. The successful delivery of our strategic priorities over the next five years will ensure that we are well placed to anticipate and react to these changes, in turn enabling us to deliver value to our customers and shareholders.

In the shorter term, we expect the Bank to continue performing strongly in 2018, with our net interest margin expected to strengthen to around 8 per cent, continued recovery of legacy NPL book and other income to remain broadly stable. While we recognise we still have a lot more to do, our strong guiding principles give us confidence in our prospects and our ability to achieve our strategic objectives over the next five years, despite uncertainties with regard to the political, regulatory, economic and competitive environments. We are confident that we are well positioned to continue to progress towards being the best bank for our customers while delivering strong and sustainable returns for our shareholders and supporting the country's economic recovery.

WILFRED MUSAU
Managing Director & CEO

Ripoti ya Mkurugenzi Mkuu



TANGAZO NA RIPOTI YA MKURUGENZI MKUU NA AFISA MKUU

Kwa niaba ya halmashauri ya wakurugenzi, nina 2017 ulikuwa mwaka ulioendeleza uzalishaji wa benki na kuwa na mafanikio muhimu ya malengo yake na kupelekea kuwepo kwa mabadiliko muhimu ya biashara na kuimarika kwa matokeo. Kwa muda wa miaka 2 iliyopita, tumekuwa waangalivu kutimiza maeneo muhimu ya mkakati, kubadilisha sura ya benki kuangazia huduma kwa wateja wetu na kuimarisha mizania kuwa thabiti. Kufikia sasa, ningependa kutoa shukrani zangu kwa halmashauri, usimamizi na wafanyakazi wenzangu wote wa benki kwa kujitolea kwao kufanikisha hili. Nia yetu kubuni biashara imara itakayodumu imeshika hisia za umma na kupelekea wanahisa wetu wakuukujibika kuangazia mahitaji ya mtaji wetu na kujitolea kutoa suluhu la pamoja la muda mrefu mwaka 2018.

Kwa kuzingatia ufanisi wa mkakati huu thabiti na imariko kwenye matokeo yetu ya kifedha na nafasi yetu, kwa sasa, tuna msingi imara utakaotuzesha kufanikisha maeneo muhimu ya mkakati tulioanzisha mwezi Desemba 2017 kwa kipindi kijacho cha mwaka 2018 - 2022. Nina imani thabiti kwamba, sasa, tumejiweka katika nafasi ya kuendelea kusaidia na kufaidi kutokana na kuimarishwa kwa uchumi na kuwa benki bora kwa wateja wetu.

Vidokezo muhimu vya kifedha

Tulipata imariko muhimu la matokeo yetu ya kifedha kwa kuandikisha faida kabla ya ushuru ya shilingi milioni 785 kipindi cha mwaka uliomalizika Desemba 31, 2017. Akiba za wateja ziliongezeka kwa asilimia 1 kutoka shilingi bilioni 93.3 hadi shilingi bilioni 94.3. Hii ni kutokana na imani ya wateja kwa benki kuhusiana na bidhaa mpya kama vile huduma za benki kwa wateja walio mataifa ya kigeni, uimarishaji

wa huduma za benki kupitia simu tamba na ufanikishaji wa huduma kwa wateja. Kutokana na kukua na kuongezeka kwa wateja na kusudi la kuweka sawa nafasi ya dhamana benki iliimarisha ukwasi wake na kufunga kwa uwiano wa asilimia 36.6 ikilingamishwa na asilimia 32.6 mwaka uliotangulia.

Kiwango cha akiba iliyotengwa kwa mikopo na rubuni kilipungua kwa asilimia 5 kipindi sawa na hiki kutokana na kupunguka kwa viwango vya mikopo. Hata hivyo, kundi liliangazia uwekaji mikakati kurejesha hali na kupelekea kupunguka kwa mikopo isiyolipika (NPL) kwa shilingi bilioni 3 kutoka shilingi bilioni 27 hadi shilingi bilioni 24. Fedha iliyotengewa mikopo isiyolipika ilipunguka kutoka shilingi bilioni 2.4 hadi shilingi bilioni 0.76 na kufaidi kutokana na kupunguka kwa mikopo isiyolipika (NPL) na kuimarishwa kwa usimamizi wa madeni na kuhakikisha athari ndogo sana za mikopo iliyopo na mipya. Mapato ya riba kwa jumla kwa kipindi hiki yalikuwa shilingi bilioni 6.7 na kuwakilisha punguko la asilimia 14 kutoka shilingi bilioni 7.8 mwaka uliotangulia. Hasa hii ilitokana na athari za sheria iliyowekwa kuhusu kiwango cha juu cha mapato ya riba kutokana na mikopo na rubuni. Hii iliweza kufidiwa na kuongezeka kwa mapato ya riba yaliyopatikana kutokana na dhamana za serikali na kuimarishwa kwa mseto wa ufadhili ambao ulipunguza gharama za riba kwa shilingi bilioni 0.9.

Mapato kwa jumla ya utekelezaji yalifunga kwa shilingi bilioni 9.1 ikilinganishwa na shilingi bilioni 10.6 mwaka 2016 na kuwakilisha punguko la asilimia 14 kutokana na athari za kiwango cha juu cha riba kilichowekwa na ada za chini kutokana na kupungua kwa viwango vya mikopo mipya. Hata hivyo, gharama za jumla za utekelezaji zilipungua kwa asilimia 6 hadi shilingi bilioni 7.6 kutoka Kshs. bilioni 8.1 kipindi sawa na hiki mwaka jana kutokana na kuimarishwa kwa uthibiti wa usimamizi wa gharama za usimamizi. Kama sehemu moja ya juhudi za upanuzi, mapato kutoka kampuni tanzu (Mawakalawa bima wa NBK – NBK Insurance Agency Limited na National Trustee Investment Services Limited) yaliimarika kwa asilimia 45 mwaka hadi mwaka kutoka shilingi milioni 74 hadi shilingi milioni 108.

Ufanisi wa mkakati

Huu ni mwaka wa kipekee tunapoadhimisha miaka 50 ya uwepo wetu. Tunaposherehekea miaka 50, tunakumbushwa kuhusu mapambano yetu ya ushindi na kuhifadhi kila funzo tulilopata kwa fahari na uvumilivu na kujitolea kujenga biashara thabiti zaidi. Matokeo yetu imara mwaka 2017 ni kilele cha miaka 2 ya utoaji huduma dhidi ya mpango wa mkakati ambao umebadilisha biashara kwa manufaa ya wanahisa wetu. Kwa wanahisa wetu, tumeleta imariko muhimu kwa matokeo ya fedha huku tunapoiimarisha udhibiti wa hasara ya benki.

Kuimarisha hisia za wateja wetu

Kufungamana na angazio letu la kuimarisha huduma za wateja na kutoa aina mbali mbali za bidhaa, tulifaulu kuimarisha mfumo wetu muhimu wa benki kutoka Bank Fusion Universal Banking (BFUB) na IMAL hadi mfumo mkoja wa Fusion Banking Essence (FBE) ambao ni mfumo wa tano na wa kisasa wa Bank Fusion Universal Banking

Ripoti ya Mkurugenzi Mkuu

(BFUB). Uimarishaji huu umefanikisha teknolojia yetu kwakuimarisha utoaji wa huduma ulegevu na ubadilishaji wa papo kwa hapo. Kuendelea siku za usoni, tutaendelea kuzingatia ubunifu huku tukiendesha agenda ya huduma za benki kupitia mfumo wa kidijitali kama njia moja ya kuimarisha utoaji huduma, kuwarahisishia wateja kutufikia na kusimamia uwekaji pamoja wa fedha.

Mwaka 2017, tulipata nafasi ya kuimarisha mfumo wetu wa utoaji huduma za benki kupitia simu tamba kwa lengo la kupanua biashara yetu ya reja reja. Kwa sasa, mfumo wetu wa 'NatMobile' (App na USSD) unatoa nafasi kwa watumiaji kufikia aina mbali mbali za huduma kupitia simu zao. Mfumo huu unatoa njia mpya kwa benki kuimarisha mbinu mpya za mapato kwa kupanua huduma zake za kidijitali. Benki iliingia mkataba wa ushirikiano wa mkakati na Visa ili kutoa huduma za mVisa kwa wateja wetu na kufanya iwe rahisi kwao kutumia huduma zisizo hitaji kadi kununua bidhaa, kulipia ada na kutuma au kupokea pesa kutoka familia au marafiki moja kwa moja kutoka akaunti zao za benki nchini na kimataifa. Pia, kupitia mfumo wa pamoja wa Integrated Payment Services Limited (PSL) unaotolewa na 'PesaLink', wateja wetu wanaweza kutumia huduma za kuhamisha pesa wakiwa nyumbani.

Mwezi Juni 2017, tulifanya ushirikiano wa kutuma pesa kwa mfumo wa kidijitali ulimwenguni kupitia 'digital money transfer World Remit' hatua ambayo itaangazia ongezeko la hitaji la wateja walio mataifa ya kigeni. Ushirikiano huu umewazesha wateja wetu na wasio wateja kufanya huduma za moja kwa moja za utumaji pesa. Tuna zaidi ya wateja 700,000 walio mataifa ya kigeni miongoni mwa wakenya milioni 3 wanaoishi mataifa ya ng'ambo.

Kurejesha imani ya wateja

Kujenga upya imani ya wateja ingali jukumu kuu la biashara yetu. Kuunga mkono hili, tunaendelea kubadilisha wajibu wetu kijamii na tumeweza kubadilisha kabisa matokeo na mfumo wa kuwazawadi wafanyakazi wetu, matokeo ambayo kwa sasa yanafanyiwa tathmini kuhusiana na uzalishaji na mbinu ya kupokea majibu kuhusiana na bidhaa zetu zote.

Tunatambua kwamba ushindani watalanta bora zaidi unazidi kuongezeka katika masoko mengi. Timu yetu ya idara ya uajiri kazi inaangazia swala hili kwa kuangalia maswala muhimu yatakayovutia talanta zenye uwezo ambazo zinatolewa kwa muda mfupi kama vile teknolojia ya simu tamba na usimamizi wa jumla wa biashara ya teknolojia huku ikihakikisha kwamba Benki ya Nasiona Bank inaendelea kuwa kivutio kufanya kazi na kuwekeza.

Pia, tumeimarisha mazingira ya uthibiti kupitia mabadiliko ya mfumo wa utekelezaji, kuhamasisha sera muhimu na kuanzishwa kwa vifaa vya kawaida kote katika benki ili kutathmini na kuchunguza hatari zinazoweza kutokea. Huku uimarishaji huu ukiwa muhimu kutuwezeshwa kurejesha imani ya wateja, tunatambua kwamba, kuna mengi yanayostahili kufanywa na kwamba tungali na maswala ya urathi tunayofaa kuangalia.

Mtazamo

Shukrani kutokana na kazi ngumu na kujitolea kwa wenzetu,

tunaingia awamu nyingine ya miaka 5 ya mkakati wetu tukiwa kwenye nafasi thabiti.

Mwanzo wa mwaka huu, tuliandaa awamu nyingine (2018-2022) ya mkakati wetu kwa kuangazia maeneo muhimu kwa kipindi cha miaka 5 ijayo na jinsi tunavyonua kuzalisha thamani na huduma za hali ya juu kwa wateja kando na matokeo thabiti ya kifedha kwa wanahisa wetu chini ya mfumo wa busara na unaathibiti hatari.

Maadili yanayotungoza katika awamu ijayo yanaendeshwa na:

1. Ukuaji wa biashara unaoendeshwa na bidhaa mpya, kuongeza thamani na ubunifu.
2. Upanuzi wa mapato kwa kuongeza kampuni tanzu.
3. Uwekezaji katika utoaji wa huduma za hali ya juu.
4. Uthibiti bora wa gharama na usimamizi mzuri wa biashara.
5. Usimamizi wa athari na utawala bora.
6. Uwekezaji katika maendeleo ya taaluma na uwezo wa watu wetu

Zaidi ya hayo, tutaendelea mbele na uwezo wa utekelezaji kwa kuwa wepesi na wanaoweza kutenda ipasavyo ili kutuwezeshwa kukabiliana na matarajio ya wateja yanayobadilika na kudumisha uongozi katika gharama kama chanzo cha nafasi ya mbele kwenye ushindani.

Kupitia urahisishaji na ongezeko la mifumo ya teknolojia katika hatua muhimu, upunguzaji wa matumizi ya makundi ya tatu na mabadiliko kwenye mfumo wa uongozi wetu, tunatarajia kupunguza zaidi ya asilimia 10 kila mwaka ya gharama za utekelezaji hivyo kuzalisha thamani kwa wateja wetu na kuimarisha ushindani wetu wa muda mrefu.

Kwa muda wa miaka 5 ijayo, tunatarajia huduma za sekta ya fedha nchini kupata mabadiliko yasiyo na kifani kutokana na teknolojia, mabadiliko ya mienendo ya wateja na ongezeko la masharti ya kisheria wakati ambapo mikakati ya jadi ya washindani itakapoungana na washindani wapya kugombea wateja. Kufaulu kuanzishwa kwa mkakati wetu muhimu kwa muda wa miaka 5 ijayo kutahakikisha kuwa tumejiweka katika nafasi nzuri kutarajia na kukabiliana na mabadiliko haya na kutuwezeshwa kuzalisha thamani kwa wateja na wanahisa wetu.

Kwa kipindi cha muda mfupi, tunatarajia benki kuendelea kufanya vyema mwaka 2018 huku viwango vya faida kwa jumla vikiimarika kwa hadi asilimia 8, kuendelea kuimarika kwa mikopo isiyolipika (NPL) na mapato mengine kuwa imara. Huku tunapotambua kuwa tuna mengi tunayostahili kufanya, maadili yetu muhimu ya uongozi yanatupea imani kuhusiana na matarajio yetu na uwezo wetu kuafikia malengo ya mkakati kwa muda wa miaka 5 ijayo licha ya kutokuwepo na uhakika kuhusu mazingira ya kisiasa, masharti, uchumi na ushindani.

Tuna imani kuwa tumejiweka kwenye nafasi nzuri kuendelea mbele na kuwa benki bora kwa wateja wetu huku tunapozalisha mapato makubwa kwa wanahisa na kusaidia ufufuzi wa uchumi wa taifa.

WILFRED MUSAU

Mkurugenzi Mkuu na Afisa Mkuu (CEO).

Senior Management



1. Mr. Wilfred Musau Managing Director & CEO

Mr. Musau joined the Bank in September 2015. He was appointed as the Managing Director and CEO in April 2016 and confirmed to the position in October 2016. He has 20 years extensive banking experience in Consumer and Business Banking. He has worked for Barclays Bank Kenya Limited, Standard Chartered Bank, KCB Bank Group in Kenya and Rwanda and NIC Bank PLC.

Wilfred is a B.Com holder from Kenyatta University - Major in Banking and Finance, holds a Masters Class certification in Strategy - USB University of Stellenbosch Business School - SA, Extensive training in Banking and is an alumnus of Strathmore Business School (SBS) in leadership training programs, and completed the Advanced Management Leadership Program at the SBS 2017. He is an SME Champion and has managed tough turnaround assignments in his various Banking assignments in the last 10 years.

2. Mr. Peter M. Kioko Chief Finance Officer

Mr. Kioko joined the Bank in November 2016 as the Chief Finance Officer (CFO). He holds a B.Com (Accounting Option) from the University of Nairobi and is a Certified Public Accountant currently undertaking an MBA at the University of Bradford. Peter has 20 years' experience in various companies within the broader financial management domain of banking, FMCG and manufacturing sectors. These include Kenya Shell/BP Ltd (Group Financial Controller), Shell International (Global Internal Auditor), CFC Stanbic Bank (Finance Manager - Corporate and Investment Banking), EABL Group (Head of Risk & Audit). Prior to joining National Bank, he worked at EABL International Ltd as Finance Director.

3. Mr. Cromwell Kedemi Director, Retail Banking

Mr. Kedemi joined National Bank in June 2013. He holds a Bachelor's degree in Economics and Sociology from the University of Nairobi and an MSC in Entrepreneurship from Jomo Kenyatta University of Agriculture and Technology (JKUAT) and is currently pursuing an MBA at Strathmore University, Nairobi. Cromwell is a banker with more than 20 years experience leading growth and developing high performing teams and systems at leading international and in regional banks.

He has significant experience across a broad range of banking operations including, managing delivery channels and sales team and a deep expertise in business strategy. Prior to joining the Bank, Cromwell worked for Barclays Bank of Kenya as the acting Head of Small and Medium Enterprises Banking. Previously, he worked with KCB, where he was part of the team that pioneered the Retail Banking Sales.

Senior Management



4. Mr. Reuben K. Koech Director, Corporate Banking

Mr. Koech joined National Bank in August 2013. He holds a Bachelor of Arts (Economics Majors) and MBA, Strategic Management Option both from the University of Nairobi. He also has certification in credit assessment and analysis by Omega of UK and Culhanne of South Africa. Reuben is a career banker with more than 20 years of banking experience leading growth in the Corporate Banking and developing high performance teams at leading international as well as regional banks.

He has significant experience in Corporate relationship management for public and private sectors, retail banking, credit analysis & assessment and management, complex loan syndications including PPP financing projects, renewable energy finance etc. Prior to joining National Bank, Reuben worked with The Co-operative Bank of Kenya as a Senior Manager in charge of Energy and Manufacturing Sector within Corporate Banking & Trade Finance Unit.

He has also worked for Fina Bank (Now GTBank- Kenya, Uganda & Rwanda), Stanbic Bank (Kenya & South Africa) and Standard Chartered Bank in various leadership roles.

5. Mr. Musa A. Adan Director, Islamic Banking

Mr. Adan joined the Bank in March 2013 as Head of Business Development in the Islamic Banking Division. He rose to the current position of Director Islamic Banking in 2014. He is a career banker with a track record of over 20 years, having worked in various management capacities in different banks in Kenya. He has over 8 years' experience in senior management of Islamic Banking. He formerly worked at Gulf African Bank Ltd as the Regional Manager in charge of Business Growth and Market Acquisition. He is a pioneer in Shari'ah banking in different capacities. He holds B.com (Hons) and MBA from the University of Nairobi and ACIB - UK.

6. Mr. Habil A. Waswani Director, Legal Services & Company Secretary

Mr. Waswani joined National Bank in August 2013. He holds a Bachelor of Laws (LL.B) Degree from the University of Nairobi, a Diploma in law from the Kenya School of Law and is a graduate of the Global Executive Master of Business Administration (GEMBA) Degree programme at United States International University in collaboration with the Columbia Business School, Columbia University, New York.

He has attended various professional management and corporate governance capacity building courses. Habil is an Advocate of the High Court of Kenya and a registered Certified Public Secretary. He is a member of the Law Society of Kenya (LSK), the Institute of Certified Public Secretaries of Kenya (ICPSK) and the Institute of Directors (IOD- Kenya).

Mr. Waswani was previously the Corporation Secretary and Head of Legal at Kenya Reinsurance Corporation Limited, a publicly listed reinsurance company, for 4 years, prior to which, he held a similar position at Diamond Trust Bank Kenya Limited (DTB).

Senior Management



7. Ms. Bernadette Ngara

Director, Marketing, Corporate Communications & Customer Experience

Ms. Ngara joined the Bank in 2014 as the Director, Marketing and Corporate Communications. She has in the past handled the Marketing and Corporate Communications and Corporate Citizenship as well as Sustainability Reporting in the banking industry. Ms Ngara has experience in advertising handling brands in the FMCG, NGO and service industries. She has worked in the banking industry in different markets including Kenya, Uganda, Rwanda and Nigeria. She has over 15 years working experience in the banking sector and is a dynamic, passionate and customer centric marketing-communications specialist. Working in diverse industries from Manufacturing to banking (both local and international), she has brought life to both new and existing brands.

She has particular expertise in Strategic Marketing Management, PR, CSR, Customer Analytics and Digital Marketing. Bernadette has attended several executive leadership courses through Raiser Resource Group for Crestcom International, Cambridge University and Strathmore Business School. She holds an MA in International Marketing from University of Central England and is a Chartered Marketer (CIM).

8. Mr. Rodgers Mungumi

Director, Human Resources

Mr. Mungumi joined the Bank in December 2016. He holds an MBA (Human Resource Management) from the University of Nairobi, a Bachelor of Education (Business Studies) degree from Kenyatta University and various certifications in Human Resource Management, Banking and Leadership including Corporate Governance. Prior to joining National Bank, Mr. Mungumi was Chief Manager, Human Resource Development & Performance Management at Kenya Revenue Authority (KRA). He previously served as Head Talent Management & Senior HR Business Partner at the Co-operative Bank of Kenya, Senior HR Services Manager at Equity Bank and HR Business Support Manager at Kenya Commercial Bank (KCB). He has had the opportunity to work in different markets including Tanzania, Uganda, Rwanda and South Sudan.

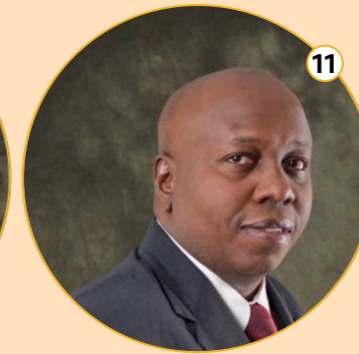
Rodgers has over 16 years of working experience and exposure in Human Resource Management. He is a member of the Institute of Human Resource Management of Kenya (IHRM) and Human Capital Institute (HCI) and a former Governing Council Member of the Kenya Institute of Bankers.

9. Mr. Paul Mureithi

Director, Operations

Mr. Mureithi, joined the Bank in July 2017. Paul is a Bachelor of Science holder from Nairobi University, majoring in Urban & Regional Planning. He also holds an Executive Masters of Business Administration majoring in Strategy & Business Systems from the Maastricht School of Management and Eastern Africa School of Management (ESAMI). He is currently pursuing a PhD in Business Systems Design in the Modern Banking Era. Paul has various certifications in Project Management, Change Management and Lean Six Sigma. Prior to joining National Bank, Paul worked in various capacities in the region, having served at Barclays Bank and Kenya Commercial Bank (KCB) in Kenya, Uganda, Tanzania, Sudan and Rwanda. His career in banking spans over 27 years.

Senior Management



10. Mr. Stephen Gathongo

Director, Credit

Mr. Gathongo joined the Bank in November 2016. He holds an MBA (Finance) of from University of Leicester - UK and Bachelors of Commerce from the University of Nairobi. He also holds professional qualifications in ACIB - London and CPA - Kenya. Stephen has 23 years working experience in the field of Credit Management. Prior to joining the Bank, he worked as a Senior Manager Credit at KCB. Previously, he worked at Barclays Bank in various positions and also at KCB Uganda as Head of Corporate Banking and Head of Credit where he set up the Credit and Corporate Banking functions (for Uganda), centralized credit approvals, credit administration and securitisation process.

11. Mr. Andrew G. Kimani

Director, Information and Communications Technology

Mr. Kimani joined the Bank in November 2016. He holds B.Sc & MBA qualifications from Kenyatta University. He also holds professional qualifications in ITIL (Foundation) and CoBIT5. Andrew has 24 years' experience in various roles in IT security, IT Risk, IT systems operations and IT project management.

12. Mr. Zablon Jowi

Director, Internal Audit

Mr. Jowi joined the Bank in November 2016. He has over 15 years' working experience in Internal Audit, having served in various organizations including Commercial Bank of Africa, I&M Bank, and Gulf African Bank where he was Assistant General Manager in-charge of Internal Audit department before joining National Bank. He holds a Master of Business Administration (Strategic Management) from the University of Nairobi and a Bachelor of Science in Business Administration (Accounting) degree from United States International University (USIU). He is also a Certified Public Accountant of Kenya and a member of the Institute of Certified Public Accountants of Kenya (ICPAK), Institute of Internal Auditors and ISACA.

13. Mr. Dancan M. Okun

Chief Risk Officer

Mr. Okun joined the Bank in November 2016. He holds an MBA (Finance) from the University of Nairobi, postgraduate diploma in Financial Management from Kenya School of Monetary Studies (KSMS) and a B.A in Economics and Management from Moi University. He is an associate of the Kenya Institute of Bankers (KIB). He is currently pursuing a qualification in Certified Securities and Investment Analysts (Section 5 completed) and has a Risk Certification Level 1 and 2 from Kenya School of Monetary Studies (KSMS).

Dancan has over 10 years' experience in senior management roles. Prior to joining the Bank, he worked with KCB as the Group Head of Operations Risk, which provides support to subsidiaries in Uganda, Rwanda, Burundi, Tanzania and Sudan. He has previously worked at Standard Chartered Bank in various positions in Risk & Compliance and at KCB under different roles where he designed and rolled out the operational risk frameworks.

Senior Management



1 | **Mr. Paul Mureithi**
Director, Operations

2 | **Ms. Bernadette Ngara**
Director, Marketing, Corporate Communications & Customer Experience

7 | **Mr. Habil A. Waswani**
Director, Legal Services & Company Secretary

8 | **Mr. Stephen Gathongo**
Director, Credit

3 | **Mr. Andrew G. Kimani**
Director, Information and Communications Technology

4 | **Mr. Wilfred Musau**
Managing Director & CEO

9 | **Mr. Reuben K. Koech**
Director, Corporate Banking

11 | **Mr. Cromwell Kedemi**
Director, Retail Banking

10 | **Mr. Zablon Jowi**
Director, Internal Audit

5 | **Mr. Musa A. Adan**
Director, Islamic Banking

6 | **Mr. Peter M. Kioko**
Chief Finance Officer

12 | **Mr. Dancan M. Okun**
Chief Risk Officer

13 | **Mr. Rodgers Mungumi**
Director, Human Resources

Business Review

As we evolve we recognise that our position in society carries a responsibility and it is important that we conduct our business in a way that is sustainable and that creates greater opportunities for current and future generations.

In 2017 we took a bold step by integrating our corporate responsibility further into our core business, which is reflected in our new strategic cycle 2018-2022, a further testament of our commitment to turn around the Bank into a sustainable business.

Our Strategic Themes for creating a Sustainable Business:

1. Financial Inclusion
2. Customer Experience
3. Innovation Geared Towards Operational Efficiency
4. Regulatory Environment
5. Empowering the community
6. Talent Management
7. Risk Management
8. Cost Management

Financial Inclusion

We continued to invest in making banking easy for everyone, everyday especially for those unable to participate in the modern economy. Rapid technological advances and changing consumer preferences mean that our digital reach is increasingly important and, to this end, we continue to develop innovative products and that are accessible, easy to use and secure. We aim to provide all this while ensuring responsible transition to digital financial platforms.

Mobile Banking

A key initiative in 2017 was the re-launch of the mobile platform known as NatMobile. The Bank enhanced its mobile banking platform to include the new mobile banking app service as a way to hand customers smarter ways to access financial services. This investment has enabled the Bank to deliver banking services more conveniently to its customers while opening up new revenue streams.

Small Enterprise Banking

In line with National Bank's vision, mission and objective of providing access to financial services for all Kenyans, the Bank established a specialised Micro-banking business segment. This was done to reach out to the unbanked while growing market share, mobilizing savings from the large number of micro-clients, and making available credit/loans to this segment of customers to empower them economically for sustainable growth. The Bank plans to achieve sustained success in microfinance in terms of growth and profitability through financial inclusion programmes anchored on sound business cases while providing internal environment that is conducive to commercial microfinance.

Diaspora Banking

Our Diaspora Banking aims to understand our client needs and provide products and services to assist them to create and manage their wealth. National Bank rolled out the Diaspora banking service designed for Kenyans living,

working and studying abroad! We recognise that they have unique financial needs that include banking in multiple currencies and having the desire to invest and create a financial base back home through convenient and reputable channels. By virtue of being abroad, they require tailor made banking facilities, designed around unique needs, delivered effortlessly with service above the ordinary.

Customer Experience

National Bank on Board with PesaLink

We integrated PesaLink into our system to enable our customers to transfer funds directly into their National Bank account from other local banks. PesaLink is a money transfer initiative of Kenya Bankers Association (KBA) that allows users to move cash across banks in real time. The PesaLink system is expected to cut the cost of transactions and transform consumer interaction with banks. Users will be able to make payments between banks around the clock without having to go through intermediaries.



WorldRemit Partnership

We partnered with leading digital money transfer service WorldRemit to enable Kenyans living abroad to make instant transfers home. WorldRemit users can now make instant bank deposits to NBK accounts held in Kenyan Shillings and US Dollars, as well as send funds for cash pickup in KES across NBK's extensive branch network. Since the start of operations in Kenya, WorldRemit customers have completed almost 2 million money transfers to the country.

They now send more than 80,000 transactions every month from the WorldRemit app and website. Globally, WorldRemit customers send almost 700,000 transfers every month to over 140 destinations. The company is currently processing 74 percent of all transfers to mobile money accounts coming from money transfer operators, according to 2016 GSMA data.

Business Review



National Bank Partners with Visa Inc.

The Bank partnered with Visa Inc. to offer mVisa services to our customers. mVisa is an innovative new mobile payments solution meant to address several consumer and merchant needs that will accelerate digital commerce in Kenya and across Africa.

mVisa whose tagline is 'The New Way to Pay' is free for all customers and is a great innovation as it's convenient and reliable. mVisa service can be accessed through our Natmobile service as well as through USSD code *625# and will allow customers to make card-less purchases, pay bills and send or receive money from family and friends directly from their bank account both locally and internationally.



The ICPAK Smart Card

National Bank partnered with the Institute of Certified Public Accountants to introduce a smart membership card that can also serve as a payment card. The card functions as an identification card which members can use to access ICPAK events as well as pay for membership and training fees. The card, which comes embedded with chip and PIN to ensure

secure transactions, can have funds loaded for spending or servicing credit lines via National Bank branches, Internet Banking, M-Pesa and National Bank agent outlets.

Benefits include discounts on tuition fees for those studying at the Kenya College of Accountancy University (KCA) and discounts on motor vehicle purchase, repairs and service at Simba Colt Motors. Other benefits include motor vehicle insurance premiums discounts at selected insurance firms, free access to the Kenya College of Accountancy library and discounts at Hilton Hotel and the Text Book Centre.



BORAQS Smart Card

National Bank also partnered with BORAQS, the professional body that regulates architects and quantity surveyors in Kenya, to offer its members a membership card that can also serve as a payment card. The main aim of the partnership is to build on the existing long standing relationship between BORAQS and National Bank that will see BORAQS members benefit from the value-added services offered through the card as well as access to other financial services of benefit to them.



Business Review

This partnership offers a customised solution to BORAQS and its members through the combination of payment and membership card functions.

The BORAQS card allows members to make purchases of goods and services at their preferred supermarket, fuel station or restaurant as well as make payments over the internet in any currency. The card is supported by Visa and has a global acceptance in over 200 countries and territories worldwide.

Innovation Geared Towards Operational Efficiency

Core Banking System Upgraded

In our effort to offer our customers enhanced performance, flexibility and real-time interfaces, we upgraded our Core banking System in September 2017 from BankFusion Universal Banking (BFUB) to Fusion Banking Essence [FBE], the fifth and latest version of BankFusion Universal Banking (BFUB) system, which now enhances our technology platform in line with the Bank's focus to improve customer experience and provide a wider range of product offering. The new outfit offers enhanced performance, flexibility and real-time interfaces.

Customised On-site Collections solution

The roll-out of this product has enabled National Bank to on-board clients like DHL, Kenya Airways, Africa Cargo Handling Ltd, Kenya Ports Authority and Kenyatta National Hospital to offer on-site cash collections. The On-Site Cash Collections solution basically transforms the customers cash office into a National Bank "branch" or collection agency point.

The solution ensures that the customer receives real time deposits to their accounts with customized narrations to aid in their cash management process.

Real Time M-Pesa Merchant Settlements

The Bank partnered with Safaricom Ltd to offer customer convenience in the mobile money space. National Bank mandate is to recruit merchants on the Lipa Na M-Pesa platform on behalf of Safaricom. The merchant's pay bill and till Numbers are then linked to a bank account held within National Bank to facilitate real-time settlements of all payments done to the tills and pay bill accounts.

This solution has enabled M-Pesa merchants to receive real-time value to their bank accounts, thus improving ease of management of their business cashflows. The service has also been extended to include the Changa na M-Pesa platform that provides fundraising for different purposes via M-Pesa. Thus the partnership enables the funds raised to be moved from the pay bill account to the owner's bank account, hence ease of utilisation.

The Bank has recruited more than 1,000 M-Pesa merchants to this platform since roll-out 6 months ago thus enjoying the benefit of cheap deposits from the real time settlements. There is rapid growth of the real-time M-Pesa settlements uptake by the Bank.

NTSA Driving License Partnership.

The Bank signed a partnership with National Transport and Safety Authority (NTSA) that together will see the two organisations bring positive transformation to the transport sector.



The Bank is working with NTSA, together other technical partners, on the Supply, Delivery, Installation and Maintenance of Second Generation Smart-Card Based Driving License and Associated Services.

Integrated Corporate Collections Solution

This solution is part of our collection offering where the Bank integrates its core systems with the customer's systems to ensure real-time reporting and reconciliation for payments done into customers' accounts. The solution ensures that the customer's bank account and internal ERP systems are synchronised and payment details are updated for seamless service.

The Integrated Collections Solution has already been deployed and is working well at KPLC, KRA, NHIF, Nakuru County, Uasin Gishu County, Bungoma County and Mombasa County. There has also been a surge in uptake of the solution by universities. Among the institutions on-boarded on this solution are Kenyatta University, Rongo University, Machakos University, Moi University, University of Eldoret and JKUAT University.

Business Review



Regulatory Environment

Central Bank Rate

The Monetary Policy Committee retained the Central Bank Rate (CBR) at 10.0 percent during the period to anchor inflation expectations. The monetary policy stance together with the CBK liquidity management ensured that there were no demand-driven inflationary pressures in the economy.

The MPC continued to monitor the impact of interest rate capping on the effectiveness of monetary policy transmission. The year under review was the first full year following the adoption of the Banking (Amendment) Act 2014. Private sector credit growth stood at 2.0 percent in October 2017 compared to 2.2 percent in April 2017.

The downward trend in credit growth witnessed since August 2015 reversed in August 2017, with strong growth in lending recorded in the domestic trade, manufacturing, and real estate sectors in October 2017. The MPC continued to monitor the impact of interest rate caps on lending, particularly to sectors such as Micro, Small and Medium Enterprises (MSMEs).

Banking Sector Review

The banking sector remained resilient during the period. The average commercial banks' liquidity and capital adequacy ratios remained above the statutory levels. The

CBK continued to implement measures to lower the cost of credit including promoting innovation in the banking sector leveraging on Information and Communications Technology (ICT), and strengthening the Credit Reference Bureaus to provide an effective credit scoring framework.

The CBK in collaboration with the Kenya Bankers Association (KBA) launched the Cost of Credit website in June 2017 to provide customers with information on fees and charges relating to loan products offered by commercial banks and microfinance banks.

Regulator Stakeholder meetings

National Bank continued to participate in the bi-monthly stakeholders meetings hosted by CBK to give and obtain feedback so as to enhance the understanding of monetary policy decisions.

IFRS9

The Bank welcomed the new rules in accounting further re-affirming its commitment to be a responsible and transparent lender. All stakeholders were taken through and thoroughly trained on the new accounting rules and therefore the Bank is ready to start implementation in this new year as from 1st January 2018.

Cyber Crime and Fraud

Attacks against the industry are becoming increasingly and highly targeted internally and externally. Historically, a common (and highly successful) method of targeting banks has been to direct email phishing to targeted customers. With latest emerging channels, such as mobile and online banking, it has been noted that cybercrimes are increasing and becoming highly sophisticated.

To decrease the effectiveness of such attacks we have invested heavily in our systems by tightening the protection of the bank's information and assets and improved our real-time tracking and business intelligence. We have also improved both our communications to educate our customers as well as rapid response when an attack occurs.

National Bank Joins Red Cross to Fight Drought



The Bank presented a cheque of Ksh 18,000,000 to the First Lady H.E. Margaret Kenyatta on the 9th March 2017 at the State House. The funds had been collected through concerted efforts from the Bank, individual staff members, customers and friends of the Bank.

The funds went a long way in supporting the 30,000 families (two million people) facing starvation in Kenya's 13 arid/semi-arid counties. We appreciate the members of staff who skipped a meal to support this impactful initiative.

Eldoret Medical Checkup



National Bank Eldoret Branch partnered with Mediheal Hospital – Eldoret to offer free medical checkup to all our customers who visited the branch for transactions. The tests included blood sugar, Body Mass Index (BMI) and Blood Pressure, among others.

Ramadhan Donations



As our Muslim brothers and sisters celebrated the Holy month of Ramadhan, the Bank reached out to the needy by donating foodstuff and toiletries to four children homes; Mama Fatuma, Muguga Muslim Centre, Good hope and Ummul - Asia.

The team representing the Bank had a great time with the lovely children and their guardians.

Don Bosco Partnership



The Bank partnered with the Shrine of Mary Help of Christians, for a free medical camp at Don Bosco in Upper hill on 11th November 2017. The well attended camp included various medical services and physical exercises.

Conjoined Twins



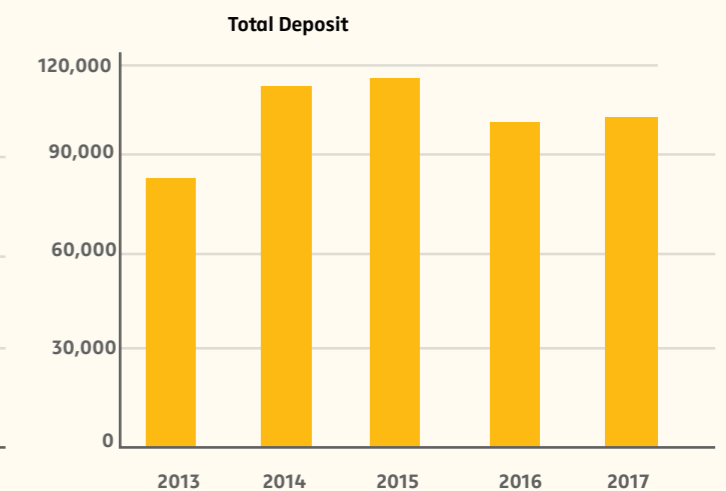
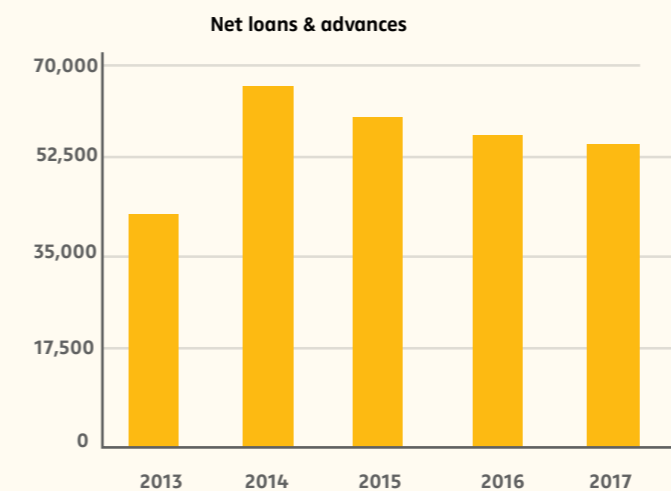
National Bank through Hospital Branch played a part in the surgery of conjoined twins, Blessing and Favour, at Kenyatta National Hospital Children's ward. The surgery, which took two years of meticulous planning due to the complex nature of the areas shared by the twins, placed our medical fraternity on the global map due to its remarkable success. The branch opened an account for them for purposes of collecting donations from well-wishers across the country to support them upon being discharged.

Bank Inter-denomination Peace Prayer Day



National Bank staff members countrywide came together as the National Bank family to pray, meditate, have a peaceful place to collect our thoughts on behalf of our beloved Nation Kenya during the election period. Staff members took time to paint a wall as a pledge to peace from the Bank.

	2013	2014	2015 Restated	2016 Restated	2017
Audited consolidated statement of financial position - (Kes) millions					
Assets					
Government securities	27,400	30,091	27,083	34,546	35,718
Net loans & advances to customers	39,566	65,641	62,531	55,020	52,361
Fixed & intangible assets	4,914	5,518	5,588	5,464	4,871
Other assets	20,676	21,842	26,048	17,057	16,923
Total assets	92,556	123,092	121,250	112,086	109,873
Liabilities					
Customer deposits	77,993	104,734	108,439	93,870	94,276
Other deposits	825	5,078	4,526	7,312	5,620
Other liabilities	1,850	1,056	1,399	3,994	2,743
Shareholder's funds	11,888	12,224	6,885	6,910	7,234
Total liabilities & equity	92,556	123,092	121,250	112,086	109,873
Audited consolidated statement of profit or loss - (Kes) millions					
Total operating income	8,494	9,933	9,192	10,649	9,154
Total operating expenses	6,395	8,105	7,588	8,154	7,612
Impairment losses	287	525	8,628	2,415	757
Profit after tax	1,112	870	(4,908)	70	410



Strategy and Progress Measurement Report

Business Growth Revenue growth & Diversification: <ul style="list-style-type: none"> New products Strategic partnerships Subsidiaries Agribusiness Agriculture is the bedrock of our economy. A dedicated business sub-unit to cater for agriculture was set up within corporate business.	New products and strategic partnerships <ul style="list-style-type: none"> Agribusiness University smart cards Diaspora banking Corporate trustee Subsidiaries Operating Income 2016 – 75 million 2017 – 110 million Non-funded Income – Drop of 17%, foreign exchange income growth 45% 2016 – 2.9 Billion 2017 – 2.4Billion Total operating income drop of 14% 2016 – 11 billion 2017 – 9 billion
Client Service Improve Customer Satisfaction Index	Customer satisfaction: 2016 – Not measured 2017 - 62% Reduction in customer TAT through automation of account opening and processing of retail loan applications. Customer complaint resolution at 86% of agreed SLAs.
Operational Excellence Processes Automation & Improved Channel Uptime	Core Banking System: upgraded to a robust core banking system which has automated most processes and reduced inefficiencies. Performance Management: implemented new performance management process with SMART targets and balanced scorecard.
Brand Improved Brand Equity and Awareness	Achieved net promoter score of +13% Increased participation in strategic events to increase customer engagement with brand. Launched superhero themed "Natman" to associate with the brand. Positioned the Bank as customer focused leading to enhanced customer loyalty and retention. Staff alignment and buy into the Brand Values.
Cost & Risk Management Credit Risk Reduction of NPL and loan loss charge Cost management Risk management and controls	Gross NPL ratio 2016 – 44% 2017 – 42% Loss ratio – Loan loss charge as % of gross loan 2016 – 4% 2017 – 1% Reduction of costs year on year by 7% 2016 – 8.2 Billion 2017 – 7.6 Billion Revised key policies including credit, delegated authority and financial controls. Improved closure of audit issues.

Corporate Strategy (2018 - 2022)

National Bank has an important role in contributing to financial stability & economic growth. Our strategy sets forth ten bold themes. With such a bold commitment, it is our aim to foster financial confidence while providing accessible finance for everyone by enabling people to make sound financial decisions and ensuring a responsible transition to future financial services.

Furthermore we will continue working to integrate our corporate citizenship in our core business by contributing to society, fostering responsible customer relationships, being a responsible employer, reducing our environmental footprint and ensuring responsible supplier relationships.

Bank's Strategic Pillars



Message from the Human Resource Director



Going forward, we will continue strengthening the capability of the leaders to enable them thrive and meet their full potential while holding them accountable for results and positive impact to the Bank's bottom line.

One of our key people agenda revolves around diversity, noting the different backgrounds, education, skills and experience our colleagues possess and therefore creation of a strong corporate culture remains essential to the Bank's long-term success as well as creation of healthy stakeholder relationships.

In 2017 we adopted a multi-pronged approach to strengthening our corporate culture. In addition to having a clear tone from the top, we focused on active employee interactions, anchored on our values and beliefs with a view to integrating further into our business processes, practices and policies.

Some of the progressive employee engagements that we adopted going hand in hand with an increased focus on robust controls and greater personal accountability includes the successful roll out of Staff Town Hall Meetings both at Head Office and in all our 5 regions to reach out and address employee issues.

To supplement the staff town halls and ensure better knowledge of the Bank's operations, products and services, we also introduced bi-weekly early learning sessions which are conducted across the Bank every fortnight.

The Bank also promotes continuous professional and personal development of all employees and has invested heavily on this. Investing in our employees is in line with our strategic priorities. Last year, a great focus was on leadership, regulatory and compliance topics. A significant part of our training is now delivered via our E-learning portal.

Wellness is a key enabler to sustainable performance. Towards this, the Bank established a unit within HR and recruited a Wellness Manager to address staff wellness issues which are but not limited to physical, social, psychological, financial and spiritual needs. A key KPI for the wellness program includes looking at preventive measures rather than curative. To this end, the Bank has been able to introduce ergonomic surveys, 24/7 free of charge counseling services, health awareness campaigns which include onsite healthy checks and talks. Other progressive measures undertaken within the unit include a fully equipped gym within the Bank plus a fully-fledged nursing centre.

As the Bank evolves and goes through a stabilisation and transformation to be aligned with the disruptive era, we continue to invest heavily in Corporate Governance and Compliance issues. Other than sensitisations, a number of Directors have been trained and certified in Corporate Governance; we also came up with objective succession plans for all critical roles in the Bank and created talent

"Key to our success has been our continued effort and investment towards ensuring that we have happy and engaged employees, with the right competencies, and aligned to our Vision, Mission & Core Values."

Investing in our employees remains vital to the success of building a transparent and sustainable business. We take cognisance that the role of HR has evolved in the recent years by requiring not only HR staff but also all line managers in an organisation to embrace the role to ensure continued success.

Key to our success has been our continued effort in addressing employee engagement, productivity and on bringing the Bank's values and beliefs to life through a long-term vision for the HR function and specific commitments underpinning that vision.

This report highlights our key people initiatives and achievements in 2017.

Our People Agenda

We continue to dedicate part of our HR investment into people skills to accelerate employees' professional and personal development. We take cognisance that to have great leaders leading our teams we need to adopt a diverse out-look for long-term success.

In the year 2017, we adopted the 360 degree assessment and feedback for our top management staff to identify both areas of strengths and growth. The feedback received from the evaluation process guided in building personal development plans that each leader committed to.

Message from the Human Resource Director

pools for critical mass roles such as Branch Managers and Relationship Managers to ensure smooth transition and business continuity. We have also enhanced our whistle blowing process.

Our current and ongoing critical Human Capital theme revolves around; employee engagement, performance and productivity while upholding the Bank's core values.

RODGERS MUNGUMI

Director, Human Resources



Staff members during the Bank's Peace Prayer Day



Staff During Strategy Cascade Session



Bank Staff during a Staff Engagement Forum - Triple T (Tuungane, Tujuane, Tujiendezeze)



CEO Race winners during the Kenya Interbank Games 2017



National Bank Choir during the Staff End Year Party



Staff Wellness Check-up Campaign



The 17 Sustainable Development Goals

Bank's Commitment to Sustainable Development Goals

Economic Pillar

Focuses on economic empowerment of the Kenyan Nation, with a focus on Women, Youth and Persons with disabilities in line with the Big Four government agenda - Food Security, Manufacturing, Construction and Health. This pillar will support the following SDG goals:

- 1 NO POVERTY** End poverty in all its forms everywhere
- 2 ZERO HUNGER** End hunger, achieve food security and improve nutrition and promote sustainable agriculture
- 8 DECENT WORK AND ECONOMIC GROWTH** Promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all

Social Pillar

To be considered a corporate citizen by promoting a just and cohesive society enjoying equitable social development in a clean and secure environment. This pillar will support the following SDG goals:

- 3 GOOD HEALTH AND WELL-BEING** Ensure healthy lives and promote well-being for all at all ages
- 4 QUALITY EDUCATION** Ensure inclusive and equitable quality education and promote life long learning opportunities for all
- 5 GENDER EQUALITY** Achieve gender equality and empower all women and girls
- 6 CLEAN WATER AND SANITATION** Ensure availability and sustainable management of water and sanitation for all
- 7 AFFORDABLE AND CLEAN ENERGY** Ensure access to affordable, reliable, sustainable and modern energy for all
- 9 INDUSTRY, INNOVATION AND INFRASTRUCTURE** Build resilient infrastructure, promote inclusive and sustainable industrialization and foster innovation
- 13 CLIMATE ACTION** Take urgent action to combat climate change and its impacts
- 14 LIFE BELOW WATER** Conserve and sustainably use the oceans, seas and marine resources for sustainable development
- 15 LIFE ON LAND** Protect, restore and promote sustainable use of terrestrial ecosystems, sustainably manage forests, combat desertification, and halt and reverse land degradation and halt biodiversity loss

Administrative Pillar

This pillar will focus on issues-based, people centred, result-oriented, and an accountable governance system to provide employees with opportunities to interact and provide support while getting inspired by the community initiatives identified in a calendar year. This pillar will contribute to the following SDG goals:

- 16 PEACE, JUSTICE AND STRONG INSTITUTIONS** Promote peaceful and inclusive societies for sustainable development, provide access to justice for all and build effective, accountable and inclusive institutions at all levels
- 17 PARTNERSHIPS FOR THE GOALS** Strengthen the means of implementation and revitalize the global partnership for sustainable development

Report of the Directors

The directors present their report together with the audited financial statements of National Bank of Kenya Limited (the "Bank") and its subsidiaries (together, the "Group") for the year ended 31 December 2017, which disclose its state of financial affairs.

Principal activities

The principal activity of the Group is the provision of banking, bank assurance, custody and related financial services.

Business review

The financial services sector was faced with tough macroeconomic environment drought, prolonged electioneering period and implementation of the interest rates capping law which led to reduction of interest rates on lending products. The continuous advances in technology provide an opportunity to leverage improved technology to ease access and enhance convenience to our customers hence improving customer experience, they also pose a risk to the sector.

The Group launched a number of new products and product enhancements including mVISA, Pesalink and Diaspora banking through a partnership with World Remit. To improve customer experience, the Group enhanced mobile banking under Natmobile, enabling full suite of payments including utilities, cash deposits, cash withdrawals, account opening and general enquiries. The Group also launched county revenue collections solutions enhancing government revenue collections systems and processes leading to enhanced service levels, improved access to information for planning and decision making.

To drive operational efficiency, the Bank upgraded its core banking system which in time will drive revenue growth and reduce operating expenses. In 2017, the Group recorded some progress in recovery of non-performing book reducing the gross non-performing loan ratio of 44% to 37%.

Operating income (net interest income and non-interest revenue) declined by 14% driven by reduced interest rates on loans and reduction of the loan book. Other income declined by 55% on account of reduced bad debt recoveries.

Total operating expenses (excluding impairment losses) declined by 6% year on year driven by realisation of cost reduction initiatives.

Profit before tax was Shs 785 million, an 883% increase year on year mainly due to decline in impairment losses on loans of 69% year on year and decline in operating expenses.

	Group		Bank	
	2017 Sh'000	2016 Sh'000 Restated	2017 Sh'000	2016 Sh'000 Restated
Profit before taxation	785,082	79,891	740,373	58,847
Taxation expense	(374,298)	(8,938)	(360,376)	(3,549)
Profit for the year	410,784	70,953	379,997	55,298

Dividend

- i) The directors do not recommend the payment of a dividend to the holders of the preference shares in respect of the financial year ended 31 December 2017 (2016 – Sh nil).
- ii) The directors do not recommend the payment of a dividend to the holders of the ordinary shares in respect of the financial year ended 31 December 2017 (2016 – Sh 153,930,000 bonus shares).

Report of the Directors

Directors

The current members of the Board are as shown on page 10. Article 100 of the Memorandum and Articles of Association of the Company provides for retirement of directors by rotation. Clause 2.5 of the Capital Markets Code of Corporate Governance Practices for Issuers of Securities to the Public 2015 provides for retirement of directors on attaining the age of seventy.

In line with the provisions above, one director, Eng. E K Mwongera, retired by rotation on 19 May 2017. Mr. M J Obuya was appointed to the board on the same day.

Disclosures to auditor

The directors confirm that with respect to each director at the time of approval of this report:

- (a) there was, as far as each director is aware, no relevant audit information of which the company's auditor is unaware; and
- (b) each director had taken all steps that ought to have been taken as a director so as to be aware of any relevant audit information and to establish that the company's auditor is aware of that information.

Terms of appointment of the auditor

PricewaterhouseCoopers continue in office in accordance with the Company's Articles of Association and Section 721 of the Kenyan Companies Act, 2015.

The directors monitor the effectiveness, objectivity and independence of the auditor. This responsibility includes the approval of the audit engagement contract and the associated fees on behalf of the shareholders.

Events after the reporting period

There have been no events after the reporting date that require adjustment to these financial statements.

ON BEHALF OF THE BOARD



H A Waswani
Company Secretary
Nairobi
28th March 2018

Statement of Directors' Responsibilities

The Kenyan Companies Act, 2015 requires the directors to prepare financial statements for each financial year that give a true and fair view of the financial position of the Group and Company as at the end of the financial year and of their profit or loss for that year. The directors are responsible for ensuring that the Group and Company keeps proper accounting records that are sufficient to show and explain the transactions of the Group and Company; disclose with reasonable accuracy at any time the financial position of the company; and that enables them to prepare financial statements of the Group and Company that comply with prescribed financial reporting standards and the requirements of the Kenyan Companies Act, 2015. They are also responsible for safeguarding the assets of the company and for taking reasonable steps for the prevention and detection of fraud and other irregularities.

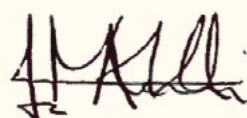
The directors accept responsibility for the preparation and presentation of these financial statements in accordance with International Financial Reporting Standards and in the manner required by the Companies Act 2015. They also accept responsibility for:

- I. Designing, implementing and maintaining internal controls as they determine necessary to enable the preparation of financial statements that are free from material misstatements, whether due to fraud or error;
- II. Selecting suitable accounting policies and then apply them consistently; and
- III. Making judgements and accounting estimates that are reasonable in the circumstances.

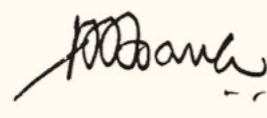
As disclosed in Note 3 in the financial statements, the directors have assessed the Group's ability to continue as a going concern. The directors believe that on the basis of the commitment given by the principal shareholders of the Bank to undertake a comprehensive and long-term capital compliance solution, together with the on-going internal capital restoration plans, the group will remain a going concern for at least twelve months from the date of this statement.

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

Approved by the board of directors on 28 March 2018 and signed on its behalf by:



Mr. M A Hassan
Chairman



Mr. W Musau
Managing Director

Directors' Remuneration Report

This is the inaugural directors' remuneration report for National Bank of Kenya Limited (the "Company"), prepared in line with the requirements of The Companies (General) (Amendment) (No.2) Regulations, 2017 promulgated under The Companies Act, (Act No. 17 of 2015), and, The Code of Corporate Governance Practices for Issuers of Securities to the Public, 2015, Regulations, promulgated under The Capital Markets Act (Cap.485A).

The Company's board of directors has set up a functional Board Nomination and Remuneration Committee (the "Committee") made up of six non-executive directors and the Managing Director. The Committee's responsibilities have been set by the board and are outlined in the Board Charter and the Committee's terms of reference.

The Committee meets at least once every quarter; and is responsible for inter alia assessing the organizational structure, performance and effectiveness of staff and that of the board of directors, proposing and vetting new nominees to the board, and ensuring, through annual reviews, that the board composition reflects an appropriate mix of skills and expertise required by the Company. The Committee is also mandated to periodically review and recommend to the full board, the remuneration of executive directors and senior management staff as well as the bank wide structure of compensation.

Through this Committee and others detailed in the Corporate Governance Report, the board ensures that the Company complies with the provisions of The Companies Act, The Banking Act, and The Capital Markets Act.

Remuneration Policy for non-executive directors

The Company has a policy that sets out the general rules and principles that govern the remuneration of non-executive directors. The policy is designed to provide guidance on the remuneration and privileges of non-executive directors of the Company as they execute their roles and responsibilities for the time required to be spent in discharging meaningful and effective contribution to the oversight, leadership and guidance for the Company.

Non-executive directors are issued with appointment letters after their respective elections at the annual general meeting and are subject to retirement by rotation as provided for by the Company's Memorandum and Articles of Association.

In November 2016, the board revised the compensation policy for the non-executive directors, the last review having been done in February 2011. The key elements of the revised compensation include:

- i) Monthly fees (honoraria);
- ii) Sitting allowance for board and board committee meetings;
- iii) Expense allowances covering airtime and club membership fees / subscriptions; and
- iv) Medical cover for inpatient, outpatient within prescribed limits.

In arriving at the remuneration care was taken to ensure that the remuneration review process was above board and comparable to market practice amongst market peers in the industry. The remuneration is subject to approval by the shareholders at annual general meetings.

Remuneration Policy for executive directors

The terms of employment for the executive directors (currently only the Managing Director and CEO) are within the Company's human resource policies for employees, and have requirements for a formal employment contract. The terms of service and remuneration for the Managing Director and CEO are reviewed by the board and are detailed in the specific contract of employment and agreed performance objectives and other parameters.

Directors' Remuneration Report

The highlights of the Board remuneration policy are as follows:

Item	Non-Executive Directors	Executive Director
Policy adoption	The revised remuneration for the non-executive directors was effected in November 2016.	There is a HR Policy approved by the Board
Fees, allowances and salaries	<ul style="list-style-type: none"> Monthly allowance is paid in arrears. A standard sitting allowance is paid to members attending the board and various Board committees' sessions. 	<ul style="list-style-type: none"> A monthly salary is paid based on contractual terms approved by the board. Periodic reviews are based on performance and industry salary benchmarking. No sitting allowances paid for board and Board committee meeting attendance.
Pension and gratuity	None	No pension is payable by the Company for staff on contract.
Benefits	<ul style="list-style-type: none"> Medical cover within prescribed limits Expense allowances for airtime 	<ul style="list-style-type: none"> Medical cover within prescribed limits Expense allowances for airtime and utilities Car allowance
Bonus or share based rewards	The policy does not include a performance based incentive for non-executive directors nor any share options	The Company has no share based rewards for staff or directors.
Performance measures	The Board sets / reviews the Company's strategic objectives annually and reviews implementation status semi-annually	Targets are set beginning of each year and reviewed semi-annually.

Statement of Voting at Annual General Meeting

During the Company's annual general meeting held on 19 May 2017, the shareholders unanimously approved the directors' remuneration for the financial reporting period ended 31 December 2016.

Directors' Remuneration Report

Information subject to audit

For the financial years ended 31 December 2017 and 31 December 2016, the Company's directors' remuneration was as shown below. The aggregate directors' emoluments are shown in Note 31 (e).

For the year ended 31 December 2016	Salary	Director's Fees	Sitting Allowance	Expense allowance	Estimated value for non-cash benefits	Total
	Sh'000	Sh'000	Sh'000	Sh'000	Sh'000	Sh'000
Executive Directors						
Mr. W Musau	26,169	-	-	650	-	26,819
Mr. M S Ahmed	38,740	-	-	-	-	38,740
Mr. B Biko	9,121	-	-	-	-	9,121
Non-Executive Directors						
Mr. M A Hassan - Chairman	-	1,884	2,094	-	-	3,978
CS - National Treasury	-	714	2,380	-	-	3,094
MT - NSSF	-	714	2,377	-	-	3,091
Mr. F L Atwoli	-	714	1,255	-	-	1,969
Ms. L Mirehane	-	714	2,911	-	-	3,625
Mr. J K Kering'	-	714	2,814	-	-	3,528
Mr. J M Nzomo	-	357	1,057	-	-	1,414
Eng. E K Mwongera	-	714	2,737	-	-	3,451
Total	74,030	6,525	17,625	650	-	98,830

For the year ended 31 December 2017	Salary	Director's Fees	Sitting Allowance	Expense allowance	Estimated value for non-cash benefits	Total
	Sh'000	Sh'000	Sh'000	Sh'000	Sh'000	Sh'000
Executive Directors						
Mr. W Musau	39,300	-	-	8,760	-	48,060
Non-Executive Directors						
Mr. M A Hassan - Chairman	-	2,400	1,331	120	128	3,979
CS - National Treasury	-	1,080	2,774	117	128	4,099
MT - NSSF	-	1,080	1,721	106	1,119	4,026
Mr. M J Obuya	-	720	770	93	73	1,656
Mr. F L Atwoli	-	1,080	1,134	120	128	2,462
Ms. L Mirehane	-	1,080	2,377	106	128	3,691
Mr. J K Kering'	-	1,080	2,724	140	1,043	4,987
Mr. J M Nzomo	-	1,080	2,736	96	124	4,036
Eng. E K Mwongera	-	450	1,390	20	55	1,915
Total	39,300	10,050	16,957	9,678	2,926	78,911

Expense allowances to non-executive directors comprises airtime allowance entitlement as per the Board remuneration policy. For the Executive Director, expense allowances comprise all cash benefits other than basic salary in line with their terms of service and Bank employment policy. Non-cash benefits include insurance premiums and social club membership paid on behalf of the directors by the Bank or Group.

Directors' Remuneration Report

Share option scheme and long term incentives

The Company does not have any share option arrangement or long term share incentive schemes.

Pension related benefits

Non-executive directors and the managing director and CEO are not entitled to participate in the Company's Pension Plan.

Compensation for past directors

There was no payment of directors' fees to past directors during the year. Payments made to the retired directors were made in the period they served as a directors.

Sums paid to third parties in respect of a director's services

The following directors are considered third party and served the Company in capacity as directors during the year. Included in the directors remuneration balances on page 13 is remuneration paid to representatives of institutions for the services as directors.

		2017	2016
		Sh'000	Sh'000
1.	B Gathirwa - Represents CS-National Treasury	4,099	3,094
2.	A Omerikwa - Represents MT-NSSF	4,026	3,091

ON BEHALF OF THE BOARD



F L Atwoli
Chairman, Board Nomination & Remuneration Committee
Nairobi
28 March 2018



Independent auditor's report to the shareholders of National Bank of Kenya Limited

Report on the audit of the financial statements

Our opinion

We have audited the accompanying separate financial statements of National Bank of Kenya Limited (the Bank) and the consolidated financial statements of the Bank and its subsidiaries (together, the Group) set out on pages 67 to 157, which each comprise a statement of financial position at 31 December 2017 and statements of profit or loss and comprehensive income, changes in equity and cash flows for the year then ended, and notes, including a summary of significant accounting policies. In our opinion, the financial statements give a true and fair view of the financial position of the Group and of the Bank at 31 December 2017 and of their financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Kenyan Companies Act, 2015.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the Bank 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 ethical responsibilities in accordance with these requirements and the IESBA Code.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Material uncertainty relating to going concern

We draw attention to Note 3(i) in the financial statements which indicates that the Bank was significantly in breach of the regulatory capital ratios at 31 December 2017. This condition indicates that a material uncertainty exists that may cast significant doubt on the Bank's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. In addition to the matter described in the Material uncertainty relating to going concern section above, we have determined the matters described below to be the key audit matters to be communicated in our report.

Key audit matter	How our audit addressed the matter
<p>Credit risk and provision for impairment loss on loans and advances to customers</p> <p>The quality of credit is one of the primary risks managed by a bank. As such, the quality of the advances book, and the resultant credit impairments held, are key considerations by management.</p> <p>As explained in Note 3(ii) in the financial statements, impairment loss provisions on loans and advances at the statement of financial position date represents management's best estimate of the losses incurred based on historical data, collateral valuations and other relevant and observable information.</p>	<p>We tested the Group's controls over the identification of loans with objective evidence of impairment, including system configuration to accurately calculate the number of days past due on loans. For a sample of loans selected using a risk based criteria, we performed independent assessment of the classification between performing and non-performing.</p> <p>We assessed the loan loss impairment models and practices applied by management against the accounting policies and for consistency with prior periods. In addition, we tested the design and effectiveness of relevant controls over the processes used to calculate impairments, including controls relating to data and models.</p>

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Partners: A Eriksson E Kerich B Kimacia K Muchiru M Mugasa A Murage F Muriu P Ngahu R Njoroge S N Ochieng' B Okundi K Saiti

Key audit matter	How our audit addressed the matter
<p>The impairment of advances is significant to the financial statements, given the considerable judgement required to be applied by management in the recognition and measurement of credit risk.</p> <p>The main portion of impairment provisions for loans and advances to customers is the specific/identified impairment calculated for individual loans and advances in the non-performing category.</p> <p>This is calculated as the difference between the carrying amount of the loan and the present value of estimated future cash flows discounted at the effective interest rate of the loan. The key judgment applied is on the value of collateral charged to the Group and the estimated period of recovery.</p> <p>Where no objective evidence of impairment exists for loans and advances, the loans are classified as performing and are grouped together based on similar credit risk characteristics and collectively assessed for impairment using a general/unidentified impairment model. The computation of unidentified impairment entails use of 'loss' ratios from past experience and an estimation of the emergence period. The emergence period is the period that it takes, on average, for the Group to identify a loan that has suffered a loss-causing event. This varies depending on the nature of the loan, and is a matter of judgment.</p>	<p>For performing loans, we tested the reasonableness of the loss ratios by validating historical data used by management and reasonableness of the emergence period based on our knowledge of the products and the Group's monitoring activities.</p> <p>For the non-performing loans, we tested a sample of loans and advances to ascertain whether the loss event (that is the point at which impairment is recognised) had been identified in a timely manner including, where relevant, how forbearance had been considered. Further, where specific impairment was calculated, we examined the reasonableness of the expected future recoverable amounts as assessed by management to support the calculation of the impairment. We also inspected a sample of legal agreements and supporting documentation to confirm the legal right to and existence of collateral. We further assessed the collateral valuation methodologies applied against historical experience and industry practice.</p>
<p>Audit of opening balances</p> <p>Being an initial audit engagement, we tested the opening balances to obtain sufficient appropriate audit evidence about whether: (i) opening balances contain misstatements that materially affect the current period's financial statements; and (ii) appropriate accounting policies reflected in the opening balances have been consistently applied in the current period's financial statements, or changes thereto are appropriately accounted for and adequately presented and disclosed in accordance with the applicable financial reporting framework.</p> <p>As detailed in Note 35, the comparative financial statements have been restated to correct errors relating to compliance with International Financial Reporting Standards and CBK prudential guidelines in the prior years.</p> <p>The identification of errors and determination of the extent of misstatements in opening balances required significant audit effort.</p>	<p>We reviewed the Group's accounting policies and practices for compliance with relevant International Financial Reporting Standards and applicable regulations.</p> <p>Where errors were identified, management determined the extent of misstatements in the opening balances, we reviewed the computations of those misstatements.</p> <p>We assessed the adequacy of the disclosures relating to the restatements in the financial statements.</p>

<p>Dependency on information technology (IT) systems and applications for accounting and financial reporting</p> <p>The Group's financial accounting and reporting processes are heavily dependent on complex information systems and applications. Specifically, the calculation, recording and financial reporting of transactions and balances related to interest and fees and commissions revenues, loans and advances and customers deposits are significantly dependent on IT automated systems and applications.</p> <p>Weaknesses in the design and operating effectiveness of the automated system dependent processes could result in material errors in the Group's financial information.</p> <p>Our audit procedures focused on the following aspects of the IT systems and applications that have a significant impact on the reliability of the Group's financial information:</p> <ul style="list-style-type: none"> • Management of logical access to critical systems including privileged access and developer access to the production environment; • Controls over changes to programs and system developments; • Automated application controls relating to accounting calculation and financial reporting; and • Interfaces between core banking systems to financial reporting modules, including any manual adjustments to financial information. 	<p>We assessed and tested the design and operating effectiveness of the controls over the continued integrity of the IT systems that are relevant to financial accounting and reporting.</p> <p>We examined the framework of governance over the Group's IT organisation and the controls over program development and changes, access to programs and data and IT operations, including compensating controls where required. We also carried out direct tests of certain aspects of the security of the Group's IT systems including logical access management and segregation of duties.</p> <p>Where controls deficiencies either in design or operating effectiveness were identified, we altered our audit approach and identified compensating controls and increased substantive procedures to mitigate the deficiencies found.</p> <p>These additional procedures mitigated the deficiencies found and provided the additional audit evidence required.</p> <p>We validated any manual adjustments to information generated by the IT systems and applications and ensured such adjustments are appropriate.</p>
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Other information

The directors are responsible for the other information. The other information comprises the Corporate information, Chairman's and Managing director's statements, Report of the directors, Statement of directors' responsibilities and the Board remuneration report (but does not include the financial statements and our auditor's report thereon), which we obtained prior to the date of this auditor's report, and the Integrated Report comprising the Value creation statement, the Business model statement, the five year financial performance report, the strategy and progress measurement report and the Risk management statement, which are expected to be made available to us after the audit report date.

Our opinion on the financial statements does not cover the other information and we do not and will 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 identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed on the other information obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.



Responsibilities of the directors for the financial statements

The directors are responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards and the requirements of the Kenyan Companies Act, 2015, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's responsibilities for the audit of the financial statements

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

As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional 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.
- 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 Group's financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

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

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

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



Report on other matters prescribed by the Kenyan Companies Act, 2015

Report of the directors

In our opinion the information given in the report of directors on pages 55 to 56 consistent with the financial statements.

Directors' remuneration report

In our opinion the auditable part of the directors' remuneration report on pages 58 to 61 has been properly prepared in accordance with the Kenyan Companies Act, 2015.

The engagement partner responsible for the audit resulting in this independent auditor's report is FCPA Michael Mugasa – Practising Certificate No. 1478.

Certified Public Accountants
Nairobi
29 March 2018

Statement of profit or loss and other comprehensive income
For the year ended 31 December 2017

	Notes	Group		Bank	
		2017	2016	2017	2016
			Restated		Restated
		Sh'000	Sh'000	Sh'000	Sh'000
Interest income	5	9,962,495	12,100,827	9,962,314	12,100,827
Interest expense	6	(3,237,573)	(4,308,945)	(3,254,365)	(4,308,945)
Net interest income		6,724,922	7,791,882	6,707,949	7,791,882
Impairment losses on loans and advances	17	(756,740)	(2,415,001)	(756,740)	(2,415,001)
Fee and commission income	7	1,435,462	1,453,236	1,378,397	1,372,414
Gains on foreign exchange dealings	8	526,963	363,863	526,963	363,863
Other operating income	9	466,254	1,039,938	466,566	1,039,938
Operating expenses	10	(7,611,779)	(8,154,027)	(7,582,762)	(8,094,249)
Profit before taxation		785,082	79,891	740,373	58,847
Income tax expense	12	(374,298)	(8,938)	(360,376)	(3,549)
Profit for the year		410,784	70,953	379,997	55,298
Other comprehensive income					
<i>Items that may be reclassified subsequently to profit or loss</i>					
Fair value loss on revaluation of available for sale financial assets	16	(124,755)	(65,000)	(124,755)	(65,000)
Income tax relating to these items		37,427	19,500	37,427	19,500
Total other comprehensive income		(87,328)	(45,500)	(87,328)	(45,500)
Total comprehensive income for the year		323,456	25,453	292,669	9,798
Earnings per share					
Basic and diluted (shillings per share)	13	1.26	0.23	1.17	0.18

Statement of financial position
As at 31 December 2017

	Notes	Group			Bank		
		2017	2016	2015	2017	2016	2015
			Restated	Restated		Restated	Restated
		Sh'000	Sh'000	Sh'000	Sh'000	Sh'000	Sh'000
Assets							
Cash and balances with Central Bank of Kenya	14	7,500,172	8,559,339	16,416,143	7,500,172	8,417,163	16,119,714
Deposits and balances due from financial institutions	15	2,460,142	1,311,975	4,257,046	2,460,142	1,311,975	4,257,046
Financial assets - Held to maturity	16	20,813,253	27,708,283	27,083,464	20,813,253	27,708,283	27,083,464
Financial assets - Available for sale	16	14,904,779	6,837,549	-	14,894,599	6,837,549	-
Loans and advances to customers	17	52,361,043	55,019,784	62,531,311	52,361,043	55,019,784	62,531,311
Other assets	18	3,689,398	3,713,880	2,199,523	3,685,782	3,682,480	2,179,421
Non-current assets held for sale	22	590,944	590,944	321,794	590,944	590,944	321,794
Other investments	19	334,134	237,007	231,647	334,134	237,007	231,647
Due from subsidiary company	31	-	-	-	69,959	778	169,991
Current income tax		486,345	506,976	505,652	479,924	504,332	510,846
Deferred income tax	20	1,862,363	2,136,531	2,115,374	1,862,181	2,135,897	2,114,743
Investment in subsidiary companies	21	-	-	-	19,963	19,963	19,963
Property and equipment	22	3,710,949	4,111,684	4,188,468	3,710,328	4,110,825	4,187,457
Intangible assets	23	1,159,618	1,352,178	1,399,365	1,159,618	1,352,178	1,399,085
Total assets		109,873,140	112,086,130	121,249,787	109,942,042	111,929,158	121,126,482
Liabilities							
Customer deposits	24	94,275,768	93,870,288	108,439,401	94,544,397	93,892,264	108,461,377
Deposits and balances due to financial institutions	25	5,620,120	7,311,668	4,526,313	5,620,120	7,311,668	4,526,313
Other liabilities	26	2,743,344	3,993,724	1,399,077	2,729,988	3,970,359	1,393,723
Total liabilities		102,639,232	105,175,680	114,364,791	102,894,505	105,174,291	114,381,413
Equity							
Share capital	27	7,368,906	7,214,976	7,214,976	7,368,906	7,214,976	7,214,976
Revaluation reserve	28	670,678	680,430	690,279	670,678	680,430	690,279
Accumulated losses		(3,525,502)	(1,367,738)	(1,020,259)	(3,711,873)	(1,523,321)	(1,160,186)
Statutory reserve	28	2,852,654	428,282	-	2,852,654	428,282	-
Other reserves	28	(132,828)	(45,500)	-	(132,828)	(45,500)	-
Total equity		7,233,908	6,910,450	6,884,996	7,047,537	6,754,867	6,745,069
Total liabilities and equity		109,873,140	112,086,130	121,249,787	109,942,042	111,929,158	121,126,482

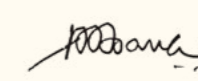
The financial statements on pages 67 to 157 were approved and authorised for issue by the Board of Directors on 28 March 2018 and were signed on its behalf by:



Mr. M A Hassan –Chairman



Mr. J Nzomo –Director



Mr. W Musau – Managing Director & CEO



Mr. H Waswani –Secretary

Consolidated statement of changes in equity

Notes	Share capital Sh'000	Revaluation reserve Sh'000	Retained earnings Sh'000	Statutory reserve Sh'000	Other reserves Sh'000	Total Sh'000
Year ended 31 December 2016						
At start of year:						
- as previously stated	7,214,976	509,752	2,709,414	619,407	-	11,053,549
- prior year adjustments	-	180,527	(3,729,672)	(619,407)	-	(4,168,552)
- as restated	7,214,976	690,279	(1,020,258)	-	-	6,884,997
Profit for the year						
Other comprehensive income for the year	-	-	70,953	-	-	70,953
Transfer of excess depreciation	-	(14,070)	14,070	-	(45,500)	(45,500)
Deferred tax on excess depreciation	-	4,221	(4,221)	-	-	-
Transfer to statutory reserve	-	-	(428,282)	428,282	-	-
At end of year	7,214,976	680,430	(1,367,738)	428,282	(45,500)	6,910,450
Year ended 31 December 2017						
At start of year:						
- as previously stated	7,214,976	660,062	3,038,128	302,573	(65,000)	11,150,739
- prior year adjustments	-	20,368	(4,405,866)	125,709	19,500	(4,240,289)
- as restated	7,214,976	680,430	(1,367,738)	428,282	(45,500)	6,910,450
Profit for the year						
Other comprehensive income for the year	-	-	410,784	-	-	410,784
Transfer of excess depreciation	-	(13,931)	13,931	-	(87,328)	(87,328)
Deferred tax on excess depreciation	-	4,179	(4,179)	-	-	-
Transfer to statutory reserve	-	-	(2,424,372)	2,424,372	-	-
Transactions with owners, recorded directly in equity						
Issue of shares	27	153,930	-	(153,930)	-	-
At end of year	7,368,906	670,678	(3,525,502)	2,852,654	(132,828)	7,233,908

Bank statement of changes in equity

Notes	Share capital Sh'000	Revaluation reserve Sh'000	Retained earnings Sh'000	Statutory reserve Sh'000	Other reserves Sh'000	Total Sh'000
Year ended 31 December 2016						
At start of year:						
- as previously stated	7,214,976	509,752	2,569,487	619,407	-	10,913,622
- prior year adjustments	-	180,527	(3,729,673)	(619,407)	-	(4,168,553)
- as restated	7,214,976	690,279	(1,160,186)	-	-	6,745,069
Profit for the year						
Other comprehensive income for the year	-	-	55,298	-	-	55,298
Transfer of excess depreciation	-	(14,070)	14,070	-	(45,500)	(45,500)
Deferred tax on excess depreciation	-	4,221	(4,221)	-	-	-
Transfer to statutory reserve	-	-	(428,282)	428,282	-	-
At end of year	7,214,976	680,430	(1,523,321)	428,282	(45,500)	6,754,867
Year ended 31 December 2017						
At start of year:						
- as previously stated	7,214,976	660,062	2,883,472	302,573	(65,000)	10,996,083
- prior year adjustments	-	20,368	(4,406,793)	125,709	19,500	(4,241,216)
- as restated	7,214,976	680,430	(1,523,321)	428,282	(45,500)	6,754,867
Profit for the year						
Other comprehensive income for the year	-	-	379,998	-	-	379,998
Transfer of excess depreciation	-	(13,931)	13,931	-	(87,328)	(87,328)
Deferred tax on excess depreciation	-	4,179	(4,179)	-	-	-
Transfer to statutory reserve	-	-	(2,424,372)	2,424,372	-	-
Transactions with owners, recorded directly in equity						
Issue of shares	27	153,930	-	(153,930)	-	-
At end of year	7,368,906	670,678	(3,711,873)	2,852,654	(132,828)	7,047,537

Statement of cash flows
For the year ended 31 December 2017

	Notes	Group		Bank	
		2017 Sh'000	2016 Restated Sh'000	2017 Sh'000	2016 Restated Sh'000
Cash flows from operating activities					
Cash generated from operating activities	29	735,528	(11,415,858)	860,456	(11,252,952)
Income tax paid		(42,072)	(11,919)	(24,825)	1,311
Net cash generated from operating activities		693,456	(11,427,777)	835,631	(11,251,641)
Cash flows from investing activities					
Purchase of property and equipment	22	(232,825)	(425,919)	(232,825)	(425,825)
Purchase of intangible assets	23	(279,493)	(260,607)	(279,493)	(260,607)
Net cash used in investing activities		(512,318)	(686,526)	(512,318)	(686,432)
Increase/(decrease) in cash and cash equivalents		181,138	(12,114,303)	323,313	(11,938,073)
Cash and cash equivalents at 1 January		(2,260,910)	9,853,393	(2,403,085)	9,534,988
Cash and cash equivalents at 31 December	29	(2,079,772)	(2,260,910)	(2,079,772)	(2,403,085)

Notes

1 Reporting entity

National Bank of Kenya Limited ("the Bank") and its subsidiaries consolidated (together, the "Group") provide banking, banc assurance, financial and related services. The Bank is incorporated in Kenya under the Companies Act as a public limited liability company and is domiciled in Kenya. The Bank's shares are listed on the Nairobi Securities Exchange.

The address of the Bank's registered office is as follows:

National Bank Building
18 Harambee Avenue
P.O. Box 72866 City Square
00200 Nairobi.

2 Summary of significant accounting policies

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

Statement of compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS), the Kenyan Companies Act and the Banking Act.

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

2.1 Application of new and revised International Financial Reporting Standards (IFRSs) and interpretations (IFRIC)

Standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the Group

A number of new accounting standards and interpretations have been published but were not effective as at 31 December 2017, and have not been early adopted by the Group. The Group's assessment of the impact of these new standards and interpretations is set out below.

IFRS 9 Financial Instruments

IFRS 9, issued in November 2009, introduced new requirements for the classification and measurement of financial assets. IFRS 9 was amended in October 2010 to include requirements for the classification and measurement of financial liabilities and for derecognition.

Key requirements of IFRS 9:

- Derecognition: The requirements for the derecognition of financial assets and liabilities are carried forward from IAS 39.

Notes (continued)

2 Summary of significant accounting policies (continued)

2.1 Application of new and revised International Financial Reporting Standards (IFRSs) (continued)

Standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the Group (continued)

- Classification and measurement. Financial assets are classified by reference to the business model within which they are held and their contractual cash flow characteristics. IFRS 9 introduces a 'fair value through other comprehensive income' category for certain debt instruments. Financial liabilities are classified in a similar manner to under IAS 39, however there are differences in the requirements applying to the measurement of an entity's own credit risk.
- Impairment: The IFRS 9 introduces an 'expected credit loss' model for the measurement of the impairment of financial assets, so it is no longer necessary for a credit event to have occurred before a credit loss is recognised.
- Hedge accounting: A new hedge accounting model that is designed to be more closely aligned with how entities undertake risk management activities when hedging financial and non-financial risk exposures.

The new standard is effective for financial periods beginning on or after 1 January 2018 and is to be adopted retrospectively. The Group has not elected to restate its comparative financial statements in this regard. Accordingly, the difference relates to previous (IAS 39) and the new (IFRS 9) carrying values of financial instruments will be recognised in the Group's opening retained earnings as at 1 January 2018.

The directors of the Group anticipate that the application of IFRS 9 will have a significant impact on amounts reported in respect of the company's financial assets and financial liabilities. The Group is finalising its estimation of the IFRS 9 impact assessment which is expected to result in an increase in accumulated losses at 1 January 2018, mainly as a result of increased loan loss provisions under the expected credit loss method.

IFRS 16 'Leases'

The standard was issued in January 2016 and replaces the existing standard on leases i.e. IAS 17. It will result in almost all leases being recognised on the statement of financial position, as the distinction between operating and finance leases is removed. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognised. The only exceptions are short-term and low-value leases. The accounting for lessors will not significantly change.

The standard will affect primarily the accounting for Group's operating leases. As at the reporting date, the Group has non-cancellable operating lease commitments of Shs 1,209million (2016: Shs 1,691 million) (see Note 30 (c)). However, the Group has not yet determined to what extent these commitments will result in the recognition of an asset and a liability for future payments and how this affects the Group's profit and classification of cash flows. Some of the commitments may be covered by the exception for short-term and low-value leases and some commitments may relate to arrangements that will not qualify as leases under IFRS 16. The standard is effective for annual periods beginning on or after 1 January 2019. The Group is currently assessing the impact of the standard on its financial statements.

Notes (continued)

2 Summary of significant accounting policies (continued)

2.2 Application of new and revised International Financial Reporting Standards (IFRSs) (continued)

Standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the Group (continued)

IFRIC 23 'Uncertainty over Income Tax Treatments'

This interpretation clarifies how to apply the recognition and measurement requirements in IAS 12 when there is uncertainty over income tax treatments. In such a circumstance, an entity shall recognise and measure its current or deferred tax asset or liability applying the requirements in IAS 12 based on taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates determined applying this Interpretation. This interpretation addresses: whether an entity considers uncertain tax treatments separately; the assumptions an entity makes about the examination of tax treatments by taxation authorities; how an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates; and how an entity considers changes in facts and circumstances. The IFRIC will be applied retrospectively. The impact on the annual financial statements has not yet been fully determined. The new interpretation is effective on 1 January 2019 and earlier application is permitted. The Group is currently assessing the impact of this IFRIC.

IFRS 15 'Revenue from Contracts with Customers'

In May 2015, IFRS 15 was issued which establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. Effective 2018, IFRS 15 will supersede the current revenue recognition guidance including IAS 18 Revenue, IAS 11 Construction Contracts and the related interpretations when it becomes effective.

The core principle of IFRS 15 is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Specifically, the standard introduces a 5-step approach to revenue recognition:

- Step 1: Identify the contract(s) with a customer
- Step 2: Identify the performance obligations in the contract
- Step 3: Determine the transaction price
- Step 4: Allocate the transaction price to the performance obligations in the contract
- Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation

Under IFRS 15, an entity recognises revenue when (or as) a performance obligation is satisfied, i.e. when 'control' of the goods or services underlying the particular performance obligation is transferred to the customer. The directors of the Group do not anticipate that the application of IFRS 15 in 2018 may have a significant impact on amounts reported. The Group has performed an assessment of IFRS 15 and the impact is not expected to be significant.

Annual improvements 2015-2017 cycle

The IASB has issued various amendments and clarifications to existing IFRS, none of which is expected to have a significant impact on the Group's annual financial statements.

Notes (continued)

2 Summary of significant accounting policies (continued)

2.3 Basis of preparation

The annual financial statements have been prepared under the historical cost basis except for the following material items in the statement of financial position:-

- i) Available for sale financial assets and financial assets measured at fair value through profit or loss
- ii) Certain classes of property and equipment- measured at fair value or revalued amounts
- iii) Non-current assets held for sale- measured at fair value less costs to sell
- iv) Loan notes measured at fair value.

2.4 Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Bank and its subsidiaries National Bank Insurance Agency Limited and Natbank Trustee & Investments Services Limited for the year ended 31 December 2017. All inter-company transactions, balances and gains or losses on transactions between group companies are eliminated in full on consolidation.

(i) Investment in subsidiaries

Subsidiaries are all entities over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

The Group applies the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The Group recognises any non-controlling interest in the acquiree on an acquisition-by-acquisition basis, either at fair value or at the non-controlling interest's proportionate share of the recognised amounts of acquiree's identifiable net assets.

Acquisition-related costs are expensed as incurred

If the business combination is achieved in stages, the acquisition date carrying of the acquirer's previously held equity interest in the acquiree is re-measured to its fair value at the acquisition date; any gains or losses arising from such re-measurement are recognised in profit or loss.

Any contingent consideration to be transferred by the Group is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability is recognised in accordance with IAS 39 either in profit or loss or as a change to other comprehensive income. Contingent consideration that is classified as equity is not re-measured, and its subsequent settlement is accounted for within equity.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired is recorded as goodwill.

Notes (continued)

2 Summary of significant accounting policies (continued)

2.4 Basis of consolidation (continued)

Acquisition-related costs are expensed as incurred (continued)

If the total of consideration transferred, non-controlling interest recognised and previously held interest measured is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in the profit or loss.

Inter-company transactions, balances and unrealised gains and losses on transactions between Group companies are eliminated. When necessary, amounts reported by subsidiaries have been adjusted to conform to the Group's accounting policies.

(ii) Changes in ownership interests in subsidiaries without change of control

Transactions with non-controlling interests that do not result in loss of control are accounted for as equity transactions – that is, as transactions with the owners in their capacity as owners. The difference between fair value of any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiaries is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

(iii) Disposal of subsidiaries

When the Group ceases to have control any retained interest in the entity is remeasured to its fair value at the date when control is lost, with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to profit or loss.

2.5 Interest income and expense

Interest income and expense for all interest earning/bearing financial instruments, are recognised within interest income or interest expense in profit or loss using the effective interest method. The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period.

The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or liability.

The calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts. Once a financial asset or group of similar assets has been written down as a result of an impairment loss, interest income is recognised using the rate of interest that was used to discount the future cash flows for the purpose of measuring the impairment loss.

2.6 Fees and commissions

Fees and commissions summarily include account ledger fees, transaction charges, advances commitment and appraisal fees and service commissions. Services provided or received by the Group are recognised as the services are provided, say on completion of an underlying transaction. Other fee and commission expenses relate mainly to transaction and service fees, which are expensed as the services are received.

Notes (continued)

2 Summary of significant accounting policies (continued)

2.7 Foreign currency trading income

This arises from the margins which are achieved through market-making and customer business and from changes in market value caused by movements in exchange rates. It comprises gains and losses related to trading assets and liabilities, and includes all realised and unrealised foreign exchange differences.

2.8 Investments in subsidiary companies

Investments in subsidiary companies are stated at cost less impairment loss where applicable.

2.9 Other Income

The Group receives revenues streams that are not directly attributable to banking activity; this is generally recognised as other income and includes items like profit on disposal of assets, rental income from leased property, debt collection from written-off advances and securities trading.

2.10 Property and equipment

Land and buildings are recognised at fair value based on periodic valuation, but at least every five years, valuations by external independent valuers, less subsequent depreciation for buildings. A revaluation surplus is credited to other reserves in shareholders' equity. All other property and equipment is recognised at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of these assets.

Subsequent costs are included in the asset's carrying amount or are recognised as a separate asset, as appropriate, only when it is probable that future economic benefits will flow to the Group and the cost of the item can be measured reliably. Maintenance and repairs, which do not meet these criteria, are recognised in profit or loss as incurred.

Depreciation methods, useful lives and residual values are reviewed each financial year end and adjusted, if necessary.

Depreciation

Freehold land is not depreciated. Depreciation on other property and equipment is calculated to write off their cost or valuation in equal annual instalments over their estimated useful lives.

Depreciation, impairment losses and gains or losses on disposal of assets are included in profit or loss.

The estimated useful lives of tangible assets for the current financial year are as follows:

- | | |
|--|--|
| • Buildings on long leasehold and freehold lan | 2% |
| • Buildings on short leasehold land | over the unexpired period of the lease |
| • Computers | 20% |
| • Motor vehicles | 20% |
| • Equipment, furniture and fittings | 12.5% |

Short leasehold land refers to leases whose lease period does not exceed 50 years.

Assets residual values, useful lives and applicable depreciation methods are reviewed, and adjusted if appropriate, at each financial period.

Notes (continued)

2 Summary of significant accounting policies (continued)

2.10 Property and equipment (continued)

Impairment

Property and equipment are reviewed for impairment on an annual basis. Where the carrying amount of an asset is greater than its estimated recoverable amount, it is immediately written down to its recoverable amount. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units).

An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed through profit or loss only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

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

Non-current assets held for sale

Non-current assets, comprising assets that are expected to be recovered primarily through sale rather than through continuing use, are classified as held for sale and are measured at the lower of carrying amount and fair value less costs to sell.

Long and shortleasehold land

Payments to acquire leasehold interest in land are treated as operating lease prepayments and amortised over the period of the lease.

2.11 Intangible assets

Costs that are clearly associated with an identifiable and unique product which will be controlled by the Group and has a probable benefit exceeding the cost beyond one year, are recognised as an intangible asset. Expenditure which enhances and extends computer software programmes beyond their original specifications and lives is recognised as a capital improvement and added to the original costs of the software.

Computer software development costs recognised as assets are stated at cost less amortisation. Amortisation is calculated on a straight line basis over the estimated useful lives not exceeding a period of 5 years. Amortisation methods, useful lives and residual values are reviewed each financial year end and adjusted, if necessary.

Work in progress

Work in progress relates to the acquisition of banking software and related hardware; and the construction of the Banking halls for the branches under the branch expansion program. Costs include materials, direct labour and any other direct expenses incurred in respect of the project. Depreciation of these assets commences when the assets are ready for their intended use.

Notes (continued)

2 Summary of significant accounting policies (continued)

2.12 Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

(i) Current income tax

The current incometax payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the statement of comprehensive income because of items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

(ii) Deferred income tax

Deferred income tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in associates, except where the company is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax liabilities and assets are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the company expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

(iii) Current and deferred tax for the year

Current and deferred tax are recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively.

Notes (continued)

2 Summary of significant accounting policies (continued)

2.13 Foreign currency translation

(i) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the Company operates ("Functional Currency"). The consolidated financial statements are presented in Kenya shillings, which is the Company's functional and presentation currency.

(ii) Transactions and balances

Transactions during the year that are denominated in foreign currencies are converted into the functional currency at the rates of exchange prevailing at the dates of the transaction. 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 recognised in profit or loss.

The Group does not have any foreign operations.

2.14 Statutory reserve

IAS 39 requires the Group to recognise an impairment loss when there is objective evidence that loans and advances are impaired. However, Central Bank of Kenya prudential guidelines require the Group to set aside certain prescribed amounts for impairment losses on loans and advances. Where impairment losses required by Central Bank regulations exceed those computed under IFRS, the excess is recognised as a statutory loan loss reserve and is accounted for as an appropriation of retained earnings. The statutory loan loss reserve is non-distributable.

2.15 Property revaluation surplus

This arises on revaluation of land and buildings and is not distributable. When revalued land or buildings are sold, the portion of the properties revaluation reserve that relates to that asset is transferred directly to retain earnings. Items of other comprehensive income included in the properties revaluation reserve will not be reclassified subsequently to profit or loss.

2.16 Investments revaluation reserve

This represents the unrealised increase or decrease in the fair value of available for sale investments, excluding impairment losses. The reserve is not distributable to the shareholders.

2.17 Employee benefits

(i) Retirement benefit obligations

a. The Group's defined contribution pension scheme

The Group operates a defined contribution scheme for its employees. The assets of this scheme are held in a separate trustee administered fund. The scheme is funded by contributions from both the employees and employer. Benefits are paid to retiring staff in accordance with the scheme rules. The Group's contribution is charged to profit or loss.

Notes (continued)

2 Summary of significant accounting policies (continued)

2.17 Employee benefits (continued)

(i) Retirement benefit obligations (continued)

b. Statutory defined contribution pension scheme

The Group also contributes to the statutory National Social Security Fund (NSSF). This is a defined contributions scheme registered under the National Social Security Act. The Group's obligations under the scheme are limited to specific contributions legislated from time to time. The Group's obligations to staff retirement benefit schemes are charged to the profit or loss in the year to which they relate.

(ii) Other employee entitlements

Employee entitlements to annual leave are recognised when they accrue to employees. An accrual is made for the estimated liability for annual leave accrued at the end of the reporting period.

Certain employees of the Group are entitled to service gratuity on resignation or termination of employment based on the salary at the time of such resignation or termination of services. The service gratuity is provided for in the financial statements as it accrues to each employee.

2.18 Other investments

Other investments comprise quoted and unquoted equity instruments. Unquoted investments are classified as available for sale and are stated at cost less impairment loss where applicable. Quoted investments are classified as fair value through profit or loss and are stated at their fair value determined by the published price in the stock exchange markets they are traded in.

2.19 Earnings per share

Basic earnings per share are calculated by dividing the profit attributable to equity holders of the company by the weighted average number of ordinary shares in issue during the year. Diluted earnings per share is determined by adjusting the profit or loss attributable to ordinary share shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential shareholders if any.

2.20 Provisions and contingent liabilities

Provisions for legal claims are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and the amount has been reliably estimated. Provisions are not recognised for future operating losses. Provisions are measured at the present value of the expenditure expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation.

Contingent liabilities are possible obligations arising from past events, whose existence will be confirmed only by uncertain future events, or present obligations arising from past events that are not recognised because either an outflow of economic benefits is not probable or the amount of the obligation cannot be reliably measured. Contingent liabilities are not recognised but information about them is disclosed unless the possibility of any outflow of economic benefits in settlement is remote.

Notes (continued)

2 Summary of significant accounting policies (continued)

2.21 Financial instruments

(i) Recognition

A financial asset or liability is recognised when the Group becomes party to the contractual provisions of the instrument.

(ii) Classification and measurement

Financial liabilities

Debt and equity instruments are classified, as either financial liabilities or as equity in accordance with the substance of the contractual agreement.

After initial recognition, the Group measures all financial liabilities including customer deposits and borrowings other than liabilities held for trading at amortised cost. Liabilities held for trading (financial liabilities acquired principally for the purpose of generating a profit from short-term fluctuations in price or dealer's margin) are subsequently measured at their fair values.

Interest-bearing borrowings are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest rate method. Any difference between the proceeds (net of transaction costs) and the settlement or redemption of borrowings is recognised over the term of the borrowings.

Derecognition of financial liabilities

Financial liabilities are derecognised and the consideration paid and payable is recognised in profit or loss.

Financial assets

The Group classifies its financial assets into the following categories: Financial assets at fair value through profit or loss; loans and receivables; held-to-maturity investments; and available-for-sale assets. Management determines the appropriate classification of its investments at initial recognition. Financial assets are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or where the Group has transferred substantially all risks and rewards of ownership.

Financial assets at fair value through profit or loss

This category has two sub-categories: Financial assets held for trading and those designated at fair value through profit or loss at inception. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if so designated by management. Derivatives are also categorised as held for trading. Financial assets at fair value through profit or loss are subsequently carried at fair value. Gains and losses arising from changes in the fair value of financial assets at fair value through profit or loss are included in the profit or loss in the period in which they arise.

Notes (continued)

2 Summary of significant accounting policies (continued)

2.21 Financial instruments (continued)

(ii) Classification and measurement (continued)

Financial assets (continued)

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market other than:

- a) Those classified as held-for-trading and those that the Group on initial recognition designates as at fair value through profit or loss;
- b) Those that the Group upon initial recognition designates as available-for-sale; or
- c) Those for which the holder may not recover substantially all of its initial investment, other than because of credit deterioration.

Loans and receivables are initially recognised at fair value – which is the cash consideration to originate or purchase the loan including any transaction costs – and measured subsequently at 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 management has the positive intention and ability to hold to maturity. Held-to-maturity investments are initially recognised at fair value including direct and incremental transaction costs and measured subsequently at amortised cost, using the effective interest method. Were the Group to sell more than an insignificant amount of held-to-maturity assets, the entire category would be tainted and would have to be reclassified as available-for-sale.

Available-for-sale financial assets

Financial assets that are not (a) financial assets at fair value through profit or loss, (b) loans and receivables, or (c) financial assets held to maturity are classified under this category

Available-for-sale financial assets are subsequently carried at fair value. Gains and losses arising from changes in the fair value of available-for-sale financial assets are recognised in other comprehensive income and accumulated in the revaluation reserve, with the exception of impairment losses, interest calculated using the effective interest method, and foreign exchange gains and losses on monetary assets, which are recognised in profit or loss. Where the investment is disposed off or is determined to be impaired, the cumulative gain or loss previously accumulated in the investments revaluation reserve is reclassified to profit or loss.

Where fair value cannot be reliably measured, the unquoted investment is carried at cost. Dividends on available-for-sale equity instruments are recognised in the profit or loss when the Group's right to receive payment is established.

Fair values of quoted investments in active markets are based on quoted bid prices. Equity securities for which fair values cannot be measured reliably are measured at cost less impairment.

Notes (continued)

2 Summary of significant accounting policies (continued)

Financial assets (continued)

(iii) Subsequent measurement of financial assets

Loans and receivables and held-to-maturity investments are carried at amortised cost using the effective interest method. Available-for-sale financial assets and financial assets at fair value through profit or loss are carried at fair value. Gains and losses arising from changes in the fair value of 'financial assets at fair value through profit or loss' are included in profit or loss in the period in which they arise. Gains and losses arising from changes in the fair value of available-for-sale financial assets are recognised in other comprehensive income and cumulated in a separate reserve in equity until the financial asset is de-recognised or impaired, at which time the cumulative gain or loss previously recognised in equity is recognised in profit or loss. However, interest calculated using the effective interest method is recognised in profit or loss. Dividends on available-for-sale equity instruments are recognised in the profit or loss when the Company's right to receive payment is established.

(iv) Impairment and uncollectability of financial assets

At the end of each reporting period, all financial assets are subject to review for impairment. If it is probable that the Group will not be able to collect all amounts due (principal and interest) according to the contractual terms of loans, receivables, or held-to-maturity investments carried at amortised cost, an impairment or bad debt loss has occurred. The carrying amount of the asset is reduced to its estimated recoverable amount through use of an allowance account. The amount of the loss incurred is included in profit or loss for the period.

If a loss on a financial asset carried at fair value (recoverable amount is below original acquisition cost) has been recognised directly in other comprehensive income and there is objective evidence that the asset is impaired, the cumulative net loss that had been recognised directly in other comprehensive income is removed from equity and recognised in profit or loss for the period even though the financial asset has not been derecognised.

Objective evidence that financial assets are impaired can include observable data that comes to the attention of the Group about the following loss events:

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

For the purposes of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics that is, on the basis of the Group's grading process that considers asset type, industry, geographical location, collateral types, past due status and other relevant factors. Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated.

Notes (continued)

2 Summary of significant accounting policies (continued)

2.21 Financial instruments (continued)

Financial assets (continued)

(iv) Impairment and uncollectability of financial assets (continued)

a) Assets carried at amortised cost

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.

b) Assets carried at fair value

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 profit or loss. 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 directly in equity. Changes in impairment provisions attributable to time value are reflected as a component of interest income.

(v) Offsetting financial instruments

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

Income and expenses are presented on a net basis only when permitted by the accounting standards, or for gains and losses arising from a group of similar transactions.

(vi) Determination of fair value

The Group measures financial instruments such as derivatives and investment securities at fair value at each reporting date. Fair value of financial instruments is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

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

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

Notes (continued)

2 Summary of significant accounting policies (continued)

2.21 Financial instruments (continued)

Financial assets (continued)

(vi) Determination of fair value (continued)

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

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

The determination of fair values of financial assets and financial liabilities is based on quoted market prices or dealer price quotations for financial instruments traded in active markets at the reporting date without any deduction for transaction costs.

Gains or losses on valuation of available-for-sale financial assets are recognised in other comprehensive income. The fair value gains or losses on trading securities are recognised in profit or loss.

For all other financial instruments not traded in an active market, the fair value is determined by using appropriate valuation techniques. Valuation techniques include the discounted cash flow method, comparison to similar instruments for which market observable prices exist, options pricing models, credit models and other relevant valuation models.

For the purpose of fair value disclosures, the Group has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy, as explained above. The table below shows the various asset classes.

Notes (continued)

2 Summary of significant accounting policies (continued)

2.21 Financial instruments (continued)

Financial assets (continued)

(vi) Determination of fair value (continued)

Category (as defined by IAS 39)		Class (as determined by the Group)		Subclasses	
Financial assets	Financial assets at fair value through profit or loss	Financial assets held for trading	Debt securities		
			Derivative assets		
		Financial assets designated at fair value through profit or loss	Equity securities		
			Loans & Advances to customers – Loan notes at fair value		
	Loans and receivables	Loans and advances to banks			
		Due from group companies			
		Loans and advances to customers (except for loan notes at fair value through profit or loss)	Loans to individuals (retail)	Overdrafts	
				Credit cards	
			Loans to corporate entities	Term loans	
				Mortgages	
Items in course of collection					
Cash balances with Central Bank of Kenya					
Available for sale investments	Listed debt securities				
Financial liabilities	Financial liabilities at amortised cost	Deposits from banks			
		Deposits from customers	Retail customers		
			Large corporate customers		
			SMEs		
		Items in course of collection			
		Borrowings			
	Due to group companies				
Other liabilities					
Financial assets at fair value through profit or loss					
Off-balance sheet financial instruments	Loan commitments				
	Guarantees, acceptances and other financial liabilities				

(vii) Derecognition of financial assets

Financial assets are de-recognised when the contractual rights to receive the cash flows from these assets have ceased to exist or the assets have been transferred and substantially all the risks and rewards of ownership of the assets are also transferred (that is, if substantially all the risks and rewards have not been transferred, the Group tests control to ensure that continuing involvement on the basis of any retained powers of control does not prevent de-recognition). Financial liabilities are de-recognised when they have been redeemed or otherwise extinguished.

Notes (continued)

2 Summary of significant accounting policies (continued)

2.22 Repurchase agreement transactions

Securities purchased from the Central Bank of Kenya under agreements to resell ("reverse repo's"), are disclosed as balances with the Central Bank of Kenya as they are held to maturity after which they are repurchased and are not negotiable/discounted during the tenure. The difference between the sale and repurchase price is treated as interest and accrued over the life of the repurchase agreement using the effective yield method.

2.23 Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Group as lessor

Amounts due from lessees under finance leases are recorded as receivables at the amount of the Group's net investment in the leases. Finance lease income is allocated to accounting periods so as to reflect a constant periodic rate of return on the Group's net investment outstanding in respect of the leases. Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease.

The Group as lessee

Operating lease payments are recognised as an expense in profit or loss on a straight-line basis over the lease term. Contingent rent payable is recognised as an expense in the period in which it is incurred. Prepaid operating leases are accounted for as an asset using the straight-line method of amortisation over the period of the lease.

Lease incentives received are recognised as an integral part of the total lease expense, over the term 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.

2.24 Contingent liabilities

Letters of credit, acceptances, guarantees and performance bonds are generally written by the Group to support performance by a customer to third parties. The Group is only required to meet these obligations in the event of the customer's default. These obligations are accounted for as off-balance sheet transactions and disclosed as contingent liabilities.

2.25 Fiduciary activities

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

2.26 Cash and cash equivalents

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

Notes (continued)

2 Summary of significant accounting policies (continued)

2.27 Dividends

Dividends are charged to equity in the period in which they are declared. Proposed dividends are not accrued until they have been ratified at the Annual General Meeting.

2.28 Segmental reporting

A segment is a distinguishable component of the Group that is engaged in providing products or services within a particular economic environment which is subject to risks and rewards that are different from those of other segments. Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker.

The chief operating decision maker is the person or Group that allocates resources to and assesses the performance of the operating segments of an entity. The Group has determined the Executive Management Committee as its chief operating decision maker. All transactions between business segments are conducted on commercial terms basis with intra-segment revenue and costs being eliminated at Group level.

2.29 Comparatives

Where necessary, comparative figures have been restated to conform with changes in presentation and/or measurement in the current year. Refer to Note 35 for details of prior year restatements.

Notes (continued)

3 Critical accounting estimates and judgements in applying the Group's accounting policies

In the process of applying the Group's accounting policies, Directors and management have made estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected. These are dealt with below:

i. Going concern

The financial statements have been prepared on a going concern basis which assumes the entity will remain in operation and continue to meet its obligations as they fall due for the foreseeable future.

The Group has reported a profit after tax of Shs 411 million for the year ended 31 December 2017. At year end, the liquidity ratio was at 36.3% against the minimum statutory ratio of 20%. However, as shown under Note 4(v), the Bank is significantly in breach of the regulatory capital ratios due to historical credit losses on loans and advances. This could affect the Group's ability to continue in operation without restrictions.

The directors have received a letter from the National Treasury confirming the principal shareholders' commitment to inject additional capital to the Group through;

- I. A comprehensive and long term solution through a strategic partnership; and
- II. Injection of Tier II capital of Shs 4.2 billion through subordinated debt

The Board and management continue to implement other internal initiatives to restore capital involving disposal of non-core assets, investment in new products and platforms to boost profitability, cost reduction initiatives and accelerated recovery of the non performing book.

The directors believe that the capital restoration plan will be achieved and accordingly, have prepared the financial statements on a going concern basis. The Groups' business activities, together with the factors likely to affect its future development and position, are set out in the Business Review section of the Directors' report on pages 56 to 57.

ii. Impairment losses on loans and advances

The Group reviews its loan portfolios to assess impairment regularly. In determining whether an impairment loss should be recorded in the profit or loss, the Group makes judgements as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cashflows from a portfolio of loans, before a decrease can be identified with an individual loan in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a bank, or national or local economic conditions that correlate with defaults on assets in the Group.

Directors use estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

Were the net present value of estimated cash flows differ by +/-1%, the impairment loss is estimated to be Shs 98 million higher or lower (2016: Shs 112 million).

Notes (continued)

3 Critical accounting estimates and judgements in applying the Group's accounting policies (continued)

iii. Held -to-maturity investments

The Group follows the guidance of IAS 39 on classifying non-derivative financial assets with fixed or determinable payments and fixed maturity as held-to-maturity. This classification requires significant judgement. In making this judgement, the Group evaluates its intention and ability to hold such investments to maturity. If the Group fails to keep these investments to maturity other than for the specific circumstances – for example, selling an insignificant amount close to maturity – it will be required to reclassify the entire class as available-for-sale. The investments would therefore be measured at fair value not amortised cost.

If all held-to-maturity investments were to be so reclassified, the carrying value would decrease by Shs 1,675 million (2016: Shs 2,061million), with a corresponding entry in the fair value reserve in shareholders' equity.

iv. Valuation of loan notes held at fair value

As per IFRS 13, where the Group measures a financial instrument at fair value, the fair value should represent the price that would be received to sell an asset in an orderly transaction in the principal (or most advantageous) market between market participants at the measurement date. Fair value is a market-based measurement, which uses the assumptions that market participants would use when pricing an asset or liability under current market conditions.

The Group holds loan notes that are measured at fair value through profit or loss. For these, fair value is composed of two key cash flow components, being the interest receivable on the loan notes and valuation of the shares upon whose sale the principal debt amount will be realised. Any shortfall from the above cash flow streams is covered, albeit partially, by a government guarantee.

To determine the value of the shares, the Group utilises complex valuation models that incorporate both observable and unobservable inputs such as quoted prices and/or suitable proxies. These prices are then subjected to valuation adjustments which include, but are not limited to liquidity adjustments. The selection and application of these models and the related inputs is judgmental.

Changes in assumptions about these factors could affect the reported fair value of loan notes. At 31 December 2017, the fair value of the loan notes would have been an estimated at Sh 241 million higher and Shs 175 million lower, if the discount applied on the day's quoted share price was assumed to be 5% lower/higher respectively.

v. Income taxes

The Group is subject to Kenyan taxation laws and regulations. In the normal course of business, there may be transactions and calculations, whose ultimate tax impact determination has an element of uncertainty. In determining the interpretation and/or application of the various tax rules, disputes may arise with the relevant tax authorities, of which the outcome may not be favourable to the Group. In such cases, the Group relies on internal management expertise and where relevant, seeks expert advice to determine whether the unfavourable outcome is probable or possible.

For financial reporting purposes, significant estimates are required in determining the provision for income taxes, especially relating to matters under dispute. Where objective estimates of the potential tax liabilities that may crystallise from such tax disputes are determinable, the Group recognises provision in line with IAS 37 - Provisions, Contingent Liabilities and Contingent Assets. In such cases, if the final tax determination is different from the amounts that were initially recorded, the difference will impact the current income tax and deferred income tax provisions in the period in which such determination is made. Where payment is determined to be possible but not probable, the tax exposure is disclosed as a contingent liability.

Notes (continued)

4 Financial risk management

Introduction and overview

The Group's activities expose it to a variety of financial risks and those activities involve the analysis, evaluation, acceptance and management of some degree of risk or combination of risks. Taking risk is core to the Group's business, and operational risks are an inevitable consequence of being in business.

The Group's aim is therefore to achieve an appropriate balance between risk and return and minimise potential adverse effects on its financial performance.

The most important types of risk include:

- Credit risk
- Liquidity risk
- Market risk- includes currency, interest rate and price risk

Risk management framework

The Board of Directors has overall responsibility for the establishment and oversight of the Group's risk management framework.

The Board has established a Board Audit and Risk Committee and a risk department to assist in the discharge of this responsibility. The Board has also established the Credit, Finance, Information & Technology Committee, the Tender Committee and Operations and Marketing Committees which are responsible for developing and monitoring risk management in their respective areas. These committees comprise of non-executive members and report regularly to the Board of Directors.

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

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

The risk department is responsible for the development of detailed risk management policies and for the day to day implementation of those policies.

i) Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's loans and advances to customers and other banks and investment securities.

For risk management reporting purposes, the Group considers and consolidates all elements of credit risk exposure.

Notes (continued)

4 Financial risk management (continued)

i) Credit risk(continued)

The Board of Directors has delegated responsibility for the management of credit risk to its Credit Committee and Risk Committee. Board Credit Committee has delegated this responsibility to the Management Credit Committee which is responsible for oversight of the Group's credit risk, including:

- Formulating credit policies in consultation with business units, covering collateral requirements, credit assessment, risk grading and reporting, documentary and legal procedures, and compliance with regulatory and statutory requirements.
- Establishing the authorisation structure for the approval and renewal of credit facilities. Authorisation limits are allocated to business unit credit officers. Larger facilities require approval by the Management Credit Committee or the Board Credit Committee as appropriate.
- 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 gradings in order to categorise exposures according to the degree of risk of financial loss faced and to focus management on the attendant risks. The risk grading system is used in determining where impairment provisions may be required against specific credit exposures. The current risk grading framework consists of eight grades reflecting varying degrees of risk of default and the availability of collateral or other credit risk mitigation. The responsibility for setting risk grades lies with the final approving executive / committee as appropriate. Risk grades are subject to regular reviews by the Board Credit Committee.
- Reviewing compliance of business units with agreed exposure limits, including those for selected industries, country risk and product types. Regular reports are provided to the credit department on the credit quality of local portfolios and appropriate corrective action is taken.
- Providing advice, guidance and specialist skills to business units to promote best practice throughout the Group in the management of credit risk.

Notes (continued)

4 Financial risk management (continued)

i) Credit risk(continued)

Maximum exposure to credit risk before collateral held or other credit enhancements

The table below represents the maximum credit risk exposure to the Group at 31 December 2017 and 2016, without taking into account any collateral held or other credit enhancements attached.

	Group		Bank	
	2017	2016	2017	2016
	Sh'000	Sh'000	Sh'000	Sh'000
Balances with Central Bank of Kenya	5,493,224	5,237,045	5,493,224	5,237,045
Government securities held to maturity and available for sale	35,718,032	34,545,832	35,707,852	34,545,832
Deposits and balances due from Banking institutions	2,460,142	1,311,975	2,460,142	1,311,975
Loans and advances to customers net of provisions	52,361,043	55,019,784	52,361,043	55,019,784
Due from subsidiary company	-	-	69,959	778
Other assets	2,005,650	3,462,616	2,002,034	3,431,216
Total on balance sheet items	98,038,091	99,577,252	98,094,254	99,546,630
Letters of credit (Note 30)	2,015,942	1,116,959	2,015,942	1,116,959
Letters of guarantee (Note 30)	5,221,891	3,948,507	5,221,891	3,948,507
Undrawn credit facilities (Note 30)	1,530,093	2,104,352	1,530,093	2,104,352
Total off balance sheet items	8,767,926	7,169,818	8,767,926	7,169,818

Notes (continued)

4 Financial risk management (continued)

i) Credit risk(continued)

The Group does not perceive significant credit risk on the following financial assets:

- Investments in Government securities and balances held with the Central Bank of Kenya.
- Off balance sheet items.

Investments in Government securities are deemed adequately secured by the Government of Kenya with no inherent default risk whereas from history, the Group has not incurred any loss from off balance sheet items hence the low credit risk in the two categories of financial assets.

The credit risk on the deposits and balances due from banking institutions is considered to be low because the counterparties are banks with high credit ratings. The table below references the internal credit ratings to external ratings.

Relationship between the bank's internal credit ratings and external ratings

Internal credit rating	Standard & Poor's and Fitch	External grading	Credit quality
Grade 1	AAA to BBB-	Investment grade	Normal
Grade 2	BB+ to BB-	Sub-investment grade	Watch
Grades 3, 4 and 5	B+ and below	Highly speculative -to default	Substandard, doubtful & loss

In addition to the standard credit ratings above, the Group also utilises other qualitative information relating to counterparties to determine their internal credit grading.

The table below represents the Group's financial assets, their internal credit quality grading and impairment allowances held as at 31 December 2017 and 2016.

Notes (continued)

4 Financial risk management (continued)

	Grade 1 Shs '000	Impairment allowances Shs '000	Net expo- sure Shs '000	Grade 2 Shs '000	Impairment allowances Shs '000	Net expo- sure Shs '000	Non-per- forming loan Shs '000	Impairment allowances Shs '000	Net exposure Shs '000
2017									
Cash balances	2,006,948	-	2,006,948	-	-	-	-	-	-
Balances due from Central Bank	5,493,223	-	5,493,223	-	-	-	-	-	-
Balances due from banks	1,362,276	-	1,362,276	-	-	-	1,452,608	(354,743)	1,097,866
Government securities	35,718,032	-	35,718,032	-	-	-	-	-	-
Loans and advances to customers:									
Corporate loans	7,719,188	(27,674)	7,691,514	8,980,142	(116,549)	8,863,593	18,643,015	(7,116,291)	11,526,724
Retail loans	16,071,307	(89,851)	15,981,456	966,900	(20,968)	945,931	3,378,058	(2,009,207)	1,368,850
Islamic banking facilities	2,527,152	(9,053)	2,518,099	1,461,289	(18,939)	1,442,351	2,148,119	(429,213)	1,718,906
Total	70,898,126	(126,578)	70,771,548	11,408,331	(156,456)	11,251,875	25,621,800	(9,909,454)	15,712,346
2016									
Cash balances	3,322,294	-	3,322,294	-	-	-	-	-	-
Balances due from Central Bank	5,237,045	-	5,237,045	-	-	-	-	-	-
Balances due from banks	1,311,975	-	1,311,975	-	-	-	-	-	-
Government securities	34,545,832	-	34,545,832	-	-	-	-	-	-
Loans and advances to customers:									
Corporate loans	11,186,149	(40,779)	11,145,370	6,590,079	(85,140)	6,504,939	21,738,418	(7,513,117)	14,225,301
Retail loans	14,873,381	(86,747)	14,786,633	988,011	(23,350)	964,661	3,271,538	(1,957,992)	1,313,547
Islamic banking facilities	4,197,737	(11,707)	4,186,030	1,051,920	(14,314)	1,037,606	1,803,817	(154,159)	1,649,657
Total	74,674,413	(139,233)	74,535,179	8,630,010	(122,804)	8,507,206	26,813,773	(9,625,268)	17,188,505

Included in loans and advances above are loan notes valued at Shs2.4 billion (2016: Nil) which were held at fair value through profit or loss. All other loans and advances are measured at amortised cost for IAS 39 purposes.

Each business segment is required to implement Group credit policies and procedures, with credit approval authorities delegated from the Group Credit Committee. Each business unit has a Chief Credit Risk officer who reports on all credit related matters to local management and the Group Credit Committee. Each business unit is responsible for the quality and performance of its credit portfolio and for monitoring and controlling all credit risks in its portfolios, including those subject to central approval. Regular audits of business segments and Group credit processes are undertaken by the Internal Audit department.

4 Financial risk management (continued)

i) Credit risk (continued)

The table below shows the ageing of loans and advances per class.

	Neither past due nor impaired Shs '000	Performing (Early arrears)				Non – performing Specifically impaired loans		Total Shs '000
		Performing (Early arrears)		More than 180 days				
		1 to 29 days Shs '000	30 to 59 days Shs '000	60 to 89 days Shs '000	90 to 180 days Shs '000	More than 180 days Shs '000		
2017								
Corporate loans	17,725,122	751,162	3,107,851	217,901	81,874	10,888,149	32,772,059	
Retail loans	8,541,588	2,795,703	1,155,803	22,486	410,760	1,083,830	14,010,170	
Islamic banking facilities	2,079,655	728,240	1,152,554	112,190	111,752	1,394,423	5,578,814	
Total	28,346,365	4,275,105	5,416,208	352,577	604,386	13,366,402	52,361,043	
2016								
Corporate loans	15,280,486	1,627,966	1,847,640	217,901	81,874	14,051,099	33,106,966	
Retail loans	8,728,598	4,217,462	1,550,722	22,486	410,760	898,248	15,828,276	
Islamic banking facilities	2,301,942	1,627,844	693,404	112,190	111,752	1,237,411	6,084,543	
Total	26,311,026	7,473,272	4,091,766	352,577	604,386	16,186,758	55,019,785	

Notes (continued)

4 Financial risk management (continued)

i) Credit risk (continued)

Impaired loans

Impaired loans and advances are those which the Group determines it is probable that it will be unable to collect all principal and interest due according to the contractual terms of the loan / securities agreement(s). These loans are graded 3 to 5 in the Group's internal credit risk grading system as required by the regulator. According to the Central Bank of Kenya prudential guidelines, loans and advances overdue by over 90 days are considered non performing.

Past due but not impaired loans

Loans and advances where contractual interest or principal payments are past due but the Group believes that impairment is not appropriate on the basis of the level of security/collateral available and/or the stage of collection of amounts owed to the Group. Loans under this category are no more than 90 days overdue.

Loans and advances that are neither past due nor impaired

The Group classifies loans and advances under this category for those exposures that are up to date and in line with contractual agreements. Such loans would have demonstrated financial conditions, risk factors and capacity to repay that are acceptable. These exposures will normally be maintained largely within approved product programs and with no signs of impairment or distress.

Allowances for impairment

The Group establishes an allowance for impairment losses that represents its estimate of incurred losses in its loan portfolio. The main components of this allowance are a specific loss component that relates to individually significant exposures, and a collective loan loss allowance established for groups of homogeneous assets in respect of losses that have been incurred but have not been identified on loans subject to individual assessment for impairment.

Write-off policy

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

Notes (continued)

4 Financial risk management (continued)

i) Credit risk (continued)

Collateral held

The Group holds collateral against loans and advances to customers in the form of cash, mortgage interests over property, other registered securities over assets, and guarantees. Estimates of fair value are based on the value of collateral assessed at the time of borrowing, and generally are not updated except when a loan is individually assessed as impaired.

Collateral generally is not held over loans and advances to banks, except when securities are held as part of reverse repurchase and securities borrowing activity. Collateral usually is not held against investment securities, and no such collateral was held at 31 December 2017 or 2016.

The table below shows the collateral coverage on the Bank's maximum exposure to credit risk. The table includes collateral that management takes into consideration in the management of the bank's exposures to credit risk. All on- and off-balance sheet exposures that are exposed to credit risk, including non-performing loans, have been included.

Collateral includes:

- Physical items, such as property, plant and equipment
- Debentures over obligors' assets
- Financial guarantees and intangible assets
- Other

	Group and Bank			
	2017		2016 - Restated	
	Sh'000	Security coverage	Sh'000	Security coverage
Overdrafts	5,553,786	93%	6,585,212	92%
Mortgages	17,991,648	100%	14,650,106	100%
Secured term loans	27,692,337	100%	32,154,269	100%
Credit Cards	218,755	0%	158,776	0%
Unsecured loans	10,742,262	0%	11,358,727	0%
Total on-balance sheet items	62,198,788	82%	64,907,090	81%
Off- balance sheet items	7,237,833	100%	5,065,466	100%

Notes (continued)

4 Financial risk management (continued)

i) Credit risk (continued)

Classification of loans and advances (continued)

Concentrations of risk

The Group monitors concentrations of credit risk by sector. An analysis of concentrations of credit risk at the reporting date is shown below:

Advances to customers- gross	Group and Bank			
	2017 Sh'000	%	2016 Sh'000	%
Agriculture	1,511,227	3	1,983,961	3
Manufacturing	3,101,714	5	1,775,333	3
Wholesale and retail trade	15,587,311	26	15,523,985	24
Transport and communications	5,976,463	10	5,476,298	8
Mining and quarrying	6,333	0	21,193	0
Building and construction	3,183,758	5	7,415,780	11
Business services	17,968,557	30	19,212,226	30
Real estate	12,438,089	21	13,498,314	21
	59,773,452	100	64,907,090	100

Off balance sheet items (letters of credit and guarantees)	Group and Bank			
	2017 Sh'000	%	2016 Sh'000	%
Social community and personal services	1,858,145	26	217,313	4
Business services	804,093	11	533,331	11
Wholesale and retail	2,393,300	33	1,452,994	29
Transport and communication	1,961,648	27	1,226,083	24
Manufacturing	220,647	3	1,635,745	32
	7,237,833	100	5,065,466	100

Settlement risk

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

For certain types of transactions the Group mitigates this risk by conducting settlements through a settlement /clearing agent to ensure that a trade is settled only when both parties have fulfilled their contractual settlement obligations.

Settlement limits form part of the credit approval / limit monitoring process described earlier. Acceptance of settlement risk on free settlement trades requires transaction specific or counterparty specific approvals from the Group's risk function.

Notes (continued)

4 Financial risk management (continued)

ii) Liquidity risk

This represents the risk that the Group, despite being solvent, is unable to maintain or generate sufficient cash resources to meet its payment obligations as they fall due, or can only do so on materially disadvantageous terms. This inability to maintain or generate sufficient cash resources may arise where the Group's funding activities do not provide sufficient liquidity and/or counterparties who provide the Group with short-term funding withdraw or do not rollover that funding, or normally liquid assets become illiquid as a result of a generalised disruption in asset markets.

Management of liquidity risk

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.

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

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

Details of the reported Bank ratio of net liquid assets to deposits and balances due to banking institutions and customer deposits at the reporting date and during the reporting period were as follows:

	Group and Bank	
	2017	2016
At 31 December	36%	33%
Average for the period	32%	24%
Maximum for the period	38%	31%
Minimum for the period	27%	20%
Statutory minimum requirement	20%	20%

Notes (continued)

4 Financial risk management (continued)

ii) Liquidity risk (continued)

The tables below presents the cash flows payable by the Group under non-derivative financial liabilities by the remaining contractual maturities as at 31 December 2017 and 2016. The amounts disclosed in the table are the contractual undiscounted cash flows, whereas the Group manages the inherent liquidity risk based on expected undiscounted inflows.

Group	Carrying amount Sh'000	Up to 1 month Sh'000	1-3 months Sh'000	3-12 months Sh'000	1-5 years Sh'000	Over 5 years Sh'000	Total undiscounted cashflows Sh'000
31 December 2017							
Financial liabilities							
Customer deposits	94,275,768	84,629,875	4,954,605	5,840,405	-	-	95,424,885
Deposits and balances due to financial institutions	5,620,120	5,662,271	-	-	-	-	5,662,271
Other liabilities	2,489,626	2,489,626	-	-	-	-	2,489,626
Total financial liabilities	102,385,514	92,781,772	4,954,605	5,840,405	-	-	103,576,782
Financial assets							
Cash and balances with Central Bank of Kenya	7,500,172	7,500,172	-	-	-	-	7,500,172
Deposits and balances due from financial institutions	2,460,142	1,362,276	-	-	1,452,608	-	2,814,884
Government securities	35,718,032	347,335	252,803	1,451,036	28,560,465	20,291,227	50,902,866
Loans and advances to customers (net)	52,361,043	16,223,457	4,205,615	2,947,265	20,938,673	27,819,427	72,134,437
Other Investments	334,134	-	-	-	-	334,134	334,134
Other assets	2,005,650	2,005,650	-	-	-	-	2,005,650
Total financial assets	100,379,173	27,438,890	4,458,418	4,398,301	50,951,746	48,444,788	135,692,143
Net on-balance sheet liquidity gap	(2,006,341)	(65,342,882)	(496,187)	(1,442,104)	50,951,746	48,444,788	32,115,361
Unrecognised financial instruments							
Letters of credit and guarantees	7,237,833	8,155	7,167	7,221,730	780	-	7,237,832
Unutilised credit facilities	1,530,093	1,530,093	-	-	-	-	1,530,093
Net off-balance sheet liquidity gap	8,767,926	1,538,248	7,167	7,221,730	780	-	8,767,925
Net liquidity gap	(10,774,267)	(66,881,130)	(503,354)	(8,663,834)	50,950,966	48,444,788	23,347,436

4 Financial risk management (continued)

ii) Liquidity risk (continued)

Bank	Carrying amount Sh'000	Up to 1 month Sh'000	1-3 months Sh'000	3-12 months Sh'000	1-5 years Sh'000	Over 5 years Sh'000	Total undiscounted cash flows Total Sh'000
31 December 2017							
Financial liabilities							
Customer deposits	94,544,397	84,629,875	4,954,605	6,071,005	-	-	95,655,485
Deposits and balances due to financial institutions	5,620,120	5,662,271	-	-	-	-	5,662,271
Other liabilities	2,476,592	2,476,592	-	-	-	-	2,476,592
Total financial liabilities	102,641,109	92,768,738	4,954,605	6,071,005	-	-	103,794,348
Financial assets							
Cash and balances with Central Bank of Kenya	7,500,172	7,500,172	-	-	-	-	7,500,172
Deposits and balances due from financial institutions	2,460,142	1,362,276	-	-	1,452,608	-	2,814,884
Government securities	35,707,852	337,146	252,803	1,451,036	28,560,465	20,291,227	50,892,677
Loans and advances to customers (net)	52,361,043	16,223,457	4,205,615	2,947,265	20,938,673	27,819,427	72,134,437
Due from subsidiary company	69,959	69,959	-	-	-	-	69,959
Other investments	334,134	-	-	-	-	334,134	334,134
Other assets	2,002,034	2,002,034	-	-	-	-	2,002,034
Total financial assets	100,435,336	27,495,044	4,458,418	4,398,301	50,951,746	48,444,788	135,748,297
Net on-balance sheet liquidity gap	(2,205,773)	(65,273,694)	(496,187)	(1,672,704)	50,951,746	48,444,788	31,953,949
Unrecognised financial instruments							
Letters of credit and guarantees	7,237,833	8,155	7,167	7,221,730	780	-	7,237,832
Unutilised credit facilities	1,530,093	1,530,093	-	-	-	-	1,530,093
Net off-balance sheet liquidity gap	8,767,926	1,538,248	7,167	7,221,730	780	-	8,767,925
Net liquidity gap	(10,973,699)	(66,811,942)	(503,354)	(8,894,434)	50,950,966	48,444,788	23,186,024

Notes (continued)

4 Financial risk management (continued)

ii) Liquidity risk (continued)

Group	Carrying amount Sh'000	Up to 1 month Sh'000	1-3 months Sh'000	3-12 months Sh'000	1-5 years Sh'000	Over 5 years Sh'000	Total undiscounted cash flows Sh'000
31 December 2016							
Financial liabilities							
Customer deposits	93,870,288	89,550,514	7,144,947	1,193,456	-	-	97,888,917
Deposits and balances due to financial institutions	7,311,668	7,366,506	-	-	-	-	7,366,506
Other liabilities	3,704,668	3,704,668	-	-	-	-	3,704,668
Total financial liabilities	104,886,624	100,621,688	7,144,947	1,193,456	-	-	108,960,091
Financial assets							
Cash and balances with Central Bank of Kenya	8,559,339	8,559,339	-	-	-	-	8,559,339
Deposits and balances due from financial institutions	1,311,975	196,764	1,115,211	-	-	-	1,311,975
Government securities	34,545,832	-	-	7,339,898	9,787,675	32,435,264	49,562,837
Loans and advances to customers (net)	55,019,784	6,974,652	4,742,374	10,923,158	28,103,156	28,190,840	78,934,180
Other investments	237,007	-	-	-	-	237,007	237,007
Other assets	3,426,616	3,426,616	-	-	-	-	3,426,616
Total financial assets	103,100,553	19,157,371	5,857,585	18,263,056	37,890,831	60,863,111	142,031,954
Net on-balance sheet liquidity gap	(1,786,071)	(81,464,317)	(1,287,362)	17,069,600	37,890,831	60,863,111	33,071,863
Unrecognised financial instruments							
Letters of credit and guarantees	5,065,466	5,708	5,016	5,054,197	546	-	5,065,467
Unutilised credit facilities	2,104,352	2,104,352	-	-	-	-	2,104,352
Net off-balance sheet liquidity gap	7,169,818	2,110,060	5,016	5,054,197	546	-	7,169,819
Net liquidity gap	(8,955,889)	(83,574,377)	(1,292,378)	12,015,403	37,890,285	60,863,111	25,902,044

4 Financial risk management (continued)

ii) Liquidity risk (continued)

Bank	Carrying amount Sh'000	Up to 1 month Sh'000	1-3 months Sh'000	3-12 months Sh'000	1-5 years Sh'000	Over 5 years Sh'000	Total undiscounted cash flows Sh'000
31 December 2016							
Financial liabilities							
Customer deposits	93,892,264	89,572,490	7,144,947	1,193,456	-	-	97,910,893
Deposits and balances due to financial institutions	7,311,668	7,366,506	-	-	-	-	7,366,506
Other liabilities	3,681,061	3,681,061	-	-	-	-	3,681,061
Total financial liabilities	104,884,993	100,620,057	7,144,947	1,193,456	-	-	108,958,460
Financial assets							
Cash and balances with Central Bank of Kenya	8,417,163	8,417,163	-	-	-	-	8,417,163
Deposits and balances due from financial institutions	1,311,975	196,764	1,115,211	-	-	-	1,311,975
Government securities	34,545,832	-	-	7,339,898	9,787,675	32,435,264	49,562,837
Due from subsidiary company	778	778	-	-	-	-	778
Loans and advances to customers (net)	55,019,784	6,974,652	4,742,374	10,923,158	28,103,156	28,190,840	78,934,180
Other investments	237,007	-	-	-	-	237,007	237,007
Other assets	3,431,216	3,431,216	-	-	-	-	3,431,216
Total financial assets	102,963,755	19,020,573	5,857,585	18,263,056	37,890,831	60,863,111	141,895,156
Net on-balance sheet liquidity gap	(1,921,238)	(81,599,484)	(1,287,362)	17,069,600	37,890,831	60,863,111	32,936,696
Unrecognised financial instruments							
Letters of credit and guarantees	5,065,466	5,708	5,016	5,054,197	546	-	5,065,467
Unutilised credit facilities	2,104,352	2,104,352	-	-	-	-	2,104,352
Net off-balance sheet liquidity gap	7,169,818	2,110,060	5,016	5,054,197	546	-	7,169,819
Net liquidity gap	(9,091,056)	(83,709,544)	(1,292,378)	12,015,403	37,890,285	60,863,111	25,766,877

Notes (continued)

4 Financial risk management (continued)

ii) Liquidity risk (continued)

The previous table shows the undiscounted cash flows on the Group's financial liabilities and unrecognised loan commitments on the basis of their earliest possible contractual maturity.

The Group's expected cash flows on these instruments vary significantly from this analysis. For example, demand deposits from customers are expected to maintain a stable or increasing balance; and unrecognised loan commitments are not all expected to be drawn down immediately.

The gross nominal inflow/(outflow) disclosed in the previous table is the contractual, undiscounted cash flow on the financial liability or commitment.

iii) Market risk

Market risk is the risk that changes in market prices, such as interest rate, equity prices, foreign exchange rates and credit spreads (not relating to changes in the obligor's / issuer's credit standing) will affect the Group's income or the value of its holdings of financial instruments.

The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return on risk.

Management of market risk

Overall responsibility for management of market risk rests with a management committee of the Group, the Asset and Liability Committee (ALCO). The risk department is responsible for the development of detailed market risk management policies (subject to review and approval by ALCO) and for the day to day implementation of those policies.

a) Interest rate risk

The Group is exposed to the risk that the value of a financial instrument will fluctuate due to changes in market interest rates. The maturities of asset and liabilities and the ability to replace at an acceptable cost, interest-bearing liabilities as they mature, are important factors in assessing the Group's exposure to changes in interest rates and liquidity.

Interest rates on advances to customers and other risk assets are either pegged to the Group's base lending rate. The base rate is adjusted from time to time to reflect the cost of funds.

ALCO closely monitors the interest rate trends to minimise the potential adverse impact of interest rate changes.

The tables below summarise the exposure to interest rate risks as at 31 December 2017 and 2016. Included in the tables are the Group's assets and liabilities at carrying amounts, categorised by the earlier of contractual repricing or maturity dates. The Group does not bear an interest rate risk on off balance sheet items.

4 Financial risk management (continued)

iii) Market risks (continued)

a) Interest rate risk (continued)

Group	Less than 1 month Sh'000	1 month less than 3 months Sh'000	3 months less than 6 months Sh'000	6 months less than 1 year Sh'000	1 year less than 3 years Sh'000	3 years less than 5 years Sh'000	Over 5 years Sh'000	Non-interest bearing Sh'000	Total Sh'000
31 December 2017									
Financial Assets									
Cash and balances with Central Bank of Kenya	-	-	-	-	-	-	-	7,500,172	7,500,172
Deposits and balances due from banking institutions	-	-	-	-	-	-	-	2,460,142	2,460,142
Government securities held to maturity	-	357,497	190,936	1,378,465	3,681,236	16,251,648	13,858,250	-	35,718,032
Loans and advances to customers (net)	52,361,043	-	-	-	-	-	-	-	52,361,043
Other investments	-	-	-	-	-	-	-	334,134	334,134
Other assets	-	-	-	-	-	-	-	3,689,398	3,689,398
Total financial assets	52,361,043	357,497	190,936	1,378,465	3,681,236	16,251,648	13,858,250	13,983,846	102,062,921
Financial liabilities									
Customer deposits	20,674,248	30,702,161	-	-	-	-	-	42,899,359	94,275,768
Deposits and balances due to banking institutions	5,620,120	-	-	-	-	-	-	-	5,620,120
Other liabilities	-	-	-	-	-	-	-	2,743,344	2,743,344
Total financial liabilities	26,294,368	30,702,161	-	-	-	-	-	45,642,703	102,639,232
Interest rate sensitivity gap	26,066,675	(30,344,664)	190,936	1,378,465	3,681,236	16,251,648	13,858,250	(31,658,857)	(576,311)

Notes (continued)

4 Financial risk management (continued)

iii) Market risks (continued)

a) Interest rate risk (continued)

Bank	Less than 1 month Sh'000	1 month less than 3 months Sh'000	3 months less than 6 months Sh'000	6 months less than 1 year Sh'000	1 year less than 3 years Sh'000	3 years less than 5 years Sh'000	Over 5 years Sh'000	Non-interest bearing Sh'000	Total Sh'000
31 December 2017									
Financial Assets									
Cash and balances with Central Bank of Kenya	-	-	-	-	-	-	-	7,500,172	7,500,172
Deposits and balances due from banking institutions	-	-	-	-	-	-	-	2,460,142	2,460,142
Government securities held to maturity	-	354,587	190,936	1,378,465	3,681,236	16,251,648	13,850,940	-	35,707,812
Loans and advances to customers (net)	52,361,043	-	-	-	-	-	-	-	52,361,043
Other investments	-	-	-	-	-	-	-	334,134	334,134
Other assets	-	-	-	-	-	-	-	3,682,480	3,682,480
Total financial assets	52,361,043	354,587	190,936	1,378,465	3,681,236	16,251,648	13,850,940	13,976,928	102,045,783
Financial liabilities									
Customer deposits	19,403,919	30,556,941	-	-	-	-	-	44,583,537	94,544,397
Deposits and balances due to banking institutions	5,620,120	-	-	-	-	-	-	-	5,620,120
Other liabilities	-	-	-	-	-	-	-	2,729,988	2,729,988
Total financial liabilities	25,024,039	30,556,941	-	-	-	-	-	47,313,525	102,894,505
Interest rate sensitivity gap	27,337,004	(30,202,354)	190,936	1,378,465	3,681,236	16,251,648	13,850,940	(33,336,597)	(848,722)

4 Financial risk management (continued)

iii) Market risks (continued)

a) Interest rate risk (continued)

Group	Less than 1 month Sh'000	1 month less than 3 months Sh'000	3 months less than 6 months Sh'000	6 months less than 1 year Sh'000	1 year less than 3 years Sh'000	3 years less than 5 years Sh'000	Over 5 years Sh'000	Non-interest bearing Sh'000	Total Sh'000
31 December 2016									
Financial Assets									
Cash and balances with Central Bank of Kenya	-	-	-	-	-	-	-	8,559,339	8,559,339
Deposits and balances due from banking institutions	100,115	1,211,860	-	-	-	-	-	-	1,311,975
Government securities held to maturity	-	-	6,733,851	-	-	6,750,121	21,061,860	-	34,545,832
Loans and advances to customers (net)	55,019,784	-	-	-	-	-	-	-	55,019,784
Other investments	-	-	-	-	-	-	-	237,007	-
Other assets	-	-	-	-	-	-	-	3,713,880	3,713,880
Total financial assets	55,119,899	1,211,860	6,733,851	-	-	6,750,121	21,061,860	12,510,226	103,150,810
Financial liabilities									
Customer deposits	13,610,837	50,902,937	2,821,662	2,479,809	-	-	-	24,055,043	93,870,288
Deposits and balances due to banking institutions	7,311,668	-	-	-	-	-	-	-	7,311,668
Other liabilities	-	-	-	-	-	-	-	3,993,724	3,993,724
Total financial liabilities	20,922,505	50,902,937	2,821,662	2,479,809	-	-	-	28,048,767	105,175,680
Interest rate sensitivity gap	34,197,394	(49,691,077)	3,912,189	(2,479,809)	-	6,750,121	21,061,860	(15,538,541)	(2,024,870)

Notes (continued)

4 Financial risk management (continued)

iii) Market risks (continued)

a) Interest rate risk (continued)

Bank	Less than 1 month Sh'000	1 month less than 3 months Sh'000	3 months less than 6 months Sh'000	6 months less than 1 year Sh'000	1 year less than 3 years Sh'000	3 years less than 5 years Sh'000	Over 5 years Sh'000	Non-interest bearing Sh'000	Total Sh'000
31 December 2016									
Financial Assets									
Cash and balances with Central Bank of Kenya	-	-	-	-	-	-	-	8,417,163	8,417,163
Deposits and balances due from banking institutions	100,115	1,211,860	-	-	-	-	-	-	1,311,975
Government securities held to maturity	-	-	6,733,851	-	-	6,750,121	21,061,860	-	34,545,832
Loans and advances to customers (net)	55,019,784	-	-	-	-	-	-	-	55,019,784
Other Investments	-	-	-	-	-	-	-	237,007	237,007
Other assets	-	-	-	-	-	-	-	3,682,480	3,682,480
Total financial assets	55,119,899	1,211,860	6,733,851	-	-	6,750,121	21,061,860	12,336,650	103,214,241
Financial liabilities									
Customer deposits	13,632,813	50,902,937	2,821,662	2,479,809	-	-	-	24,055,043	93,892,264
Deposits and balances due to banking institutions	7,311,668	-	-	-	-	-	-	-	7,311,668
Other liabilities	-	-	-	-	-	-	-	3,970,359	3,970,359
Total financial liabilities	20,944,481	50,902,937	2,821,662	2,479,809	-	-	-	28,025,402	105,174,291
Interest rate sensitivity gap	34,175,418	(49,691,077)	3,912,189	(2,479,809)	-	6,750,121	21,061,860	(15,688,752)	(1,960,050)

Notes (continued)

4 Financial risk management (continued)

iii) Market risks (continued)

a) Interest rate risk (continued)

The matching and controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental to the management of the Group.

Interest rate risks – Increase/decrease of 5 % in Net Interest Margin

The interest rate risks sensitivity analysis is based on the following assumptions:

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

The table below sets out the impact on future net interest income of an incremental 5% parallel fall or rise in all yield curves at the beginning of each quarter during the 12 months from 1 January 2017.

	Amount at 31 December Sh'000	Scenario 1 5% increase in net interest margin Sh'000	Scenario 2 5% decrease in net interest margin Sh'000
2017			
Profit before taxation	740,373	1,075,770	404,976
Adjusted core capital	3,504,584	3,620,675	3,385,896
Adjusted total capital	4,772,225	4,888,315	4,653,537
Risk weighted assets (RWA)	87,997,708	87,997,708	87,997,708
Adjusted core capital to RWA	3.98%	4.11%	3.85%
Adjusted total capital to RWA	5.42%	5.56%	5.29%
2016			
Profit before taxation	58,847	448,441	(330,747)
Adjusted core capital	5,626,535	6,009,847	5,626,535
Adjusted total capital	6,224,924	6,608,236	6,224,924
Risk weighted assets (RWA)	87,076,098	87,076,098	87,076,098
Adjusted core capital to RWA	6.53%	6.90%	6.46%
Adjusted total capital to RWA	7.22%	7.59%	7.15%

Notes (continued)

4 Financial risk management (continued)

iii) Market risks (continued)

b) Foreign exchange risk

The Group operates wholly within Kenya and its assets and liabilities are carried in local currency.

The Group trades with correspondent banks and takes deposits and lends in foreign currencies. The Group is exposed to the risk that the value of financial instruments will fluctuate due to changes in foreign exchange rates.

The Group's currency position and exposure are managed within the exposure guideline of 10% (2016 - 10%) of the core capital as stipulated by the Central Bank of Kenya. This position is reviewed on a daily basis by management.

The exchange rates used for translating the major foreign currency balances at the year-end were as follows:

	Group and Bank	
	2017 Sh'000	2016 Sh'000
US Dollar	103.30	102.60
GB Pound	139.63	126.15
Euro	123.89	108.15

Notes (continued)

4 Financial risk management (continued)

iii) Market risks (continued)

b) Foreign exchange risk (continued)

The tables below summarise the Group's exposure to foreign currency exchange rate risk as at the end of 31 December 2017 and 2016

Group 31 December 2017	KSHS Sh'000	USD Sh'000	GBP Sh'000	EUR Sh'000	Other Sh'000	Total Sh'000
Financial assets						
Cash and balances with Central Bank of Kenya	6,667,775	562,216	200,087	61,495	8,599	7,500,172
Deposits and balances due from financial institutions	1,838,643	-	621,500	-	-	2,460,142
Government securities	35,718,032	-	-	-	-	35,718,032
Loans and advances to customers (net)	41,377,065	10,983,918	2	58	-	52,361,043
Other investments	56,126	278,008	-	-	-	334,134
Other assets	3,304,455	357,067	-	17,288	10,588	3,689,398
Total financial assets	88,962,096	12,181,209	821,589	78,841	19,187	102,062,921
Financial liabilities						
Customer deposits	83,040,471	10,780,042	357,897	93,062	4,297	94,275,768
Deposits and balances due to financial institutions	3,539,852	2,080,268	-	-	-	5,620,120
Other liabilities	2,505,766	217,929	1,379	17,389	881	2,743,344
Total financial liabilities	89,086,089	13,078,239	359,276	110,451	5,178	102,639,232
Net foreign exchange gap	(123,993)	(897,030)	462,313	(31,610)	14,009	(576,311)

Notes (continued)

4 Financial risk management (continued)

iii) Market risks (continued)

b) Foreign exchange risk (continued)

The tables below summarise the Bank's exposure to foreign currency exchange rate risk as at the end of 31 December 2017 and 2016

Bank 31 December 2017	KSHS Sh'000	USD Sh'000	GBP Sh'000	EUR Sh'000	Other Sh'000	Total Sh'000
Financial assets						
Cash and balances with Central Bank of Kenya	6,667,775	562,216	200,087	61,495	8,599	7,500,172
Deposits and balances due from financial institutions	1,838,643	-	621,500	-	-	2,460,143
Government securities	35,707,852	-	-	-	-	35,707,852
Loans and advances to customers (net)	41,377,065	10,983,918	2	58	-	52,361,043
Other investments	56,126	278,008	-	-	-	334,134
Other assets	3,300,839	357,067	-	17,288	10,588	3,685,782
Total financial assets	88,948,300	12,181,209	821,589	78,841	19,187	102,049,126
Financial liabilities						
Customer deposits	83,309,100	10,780,042	357,897	93,062	4,297	94,544,398
Deposits and balances due to financial institutions	3,539,852	2,080,268	-	-	-	5,620,120
Other liabilities	2,492,410	217,929	1,379	17,389	881	2,729,988
Total financial liabilities	89,341,362	13,078,239	359,276	110,451	5,178	102,894,506
Net foreign exchange gap	(393,062)	(897,029)	462,313	(31,610)	14,009	(845,380)

Notes (continued)**4 Financial risk management (continued)**

iii) Market risks (continued)

b) Foreign exchange risk (continued)

The tables below summarise the Group's exposure to foreign currency exchange rate risk as at the end of 31 December 2017 and 2016

Group	KSHS Sh'000	USD Sh'000	GBP Sh'000	EUR Sh'000	Other Sh'000	Total Sh'000
31 December 2016						
Financial assets						
Cash and balances with Central Bank of Kenya	6,092,481	1,765,440	81,513	570,919	48,986	8,559,339
Deposits and balances due from financial institutions	100,114	1,211,861	-	-	-	1,311,975
Government securities	34,545,832	-	-	-	-	34,545,832
Loans and advances to customers (net)	41,041,818	13,977,966	-	-	-	55,019,784
Other investments	46,181	190,826	-	-	-	237,007
Other assets	3,328,937	357,067	-	17,288	10,588	3,713,880
Total financial assets	85,155,363	17,503,160	81,513	588,207	59,574	103,387,817
Financial liabilities						
Customer deposits	82,951,231	10,901,443	17,615	-	-	93,870,289
Deposits and balances due to financial institutions	3,725,252	3,124,739	68,875	392,801	-	7,311,667
Other liabilities	3,756,145	217,929	1,379	17,389	882	3,993,724
Total financial liabilities	90,432,628	14,244,111	87,869	410,190	882	105,175,680
Net foreign exchange gap	(5,277,265)	3,259,049	(6,356)	178,017	58,692	(1,787,863)

Notes (continued)**4 Financial risk management (continued)**

iii) Market risks (continued)

b) Foreign exchange risk (continued)

The tables below summarise the Bank's exposure to foreign currency exchange rate risk as at the end of 31 December 2017 and 2016

Bank	KSHS Sh'000	USD Sh'000	GBP Sh'000	EUR Sh'000	Other Sh'000	Total Sh'000
31 December 2016						
Financial assets						
Cash and balances with Central Bank of Kenya	5,950,305	1,765,440	81,513	570,919	48,986	8,417,163
Deposits and balances due from financial institutions	100,114	1,211,861	-	-	-	1,311,975
Government securities	34,545,832	-	-	-	-	34,545,832
Loans and advances to customers (net)	41,041,818	13,977,966	-	-	-	55,019,784
Other investments	46,181	190,826	-	-	-	237,007
Other assets	3,327,537	357,067	-	17,288	10,588	3,682,480
Total financial assets	84,981,787	17,503,160	81,513	588,207	59,574	103,214,241
Financial liabilities						
Customer deposits	82,973,207	10,901,443	17,615	-	-	93,892,265
Deposits and balances due to financial institutions	3,725,252	3,124,739	68,875	392,801	-	7,311,667
Other liabilities	3,732,780	217,929	1,379	17,389	882	3,970,359
Total financial liabilities	90,431,239	14,244,111	87,869	410,190	882	105,174,291
Net foreign exchange gap	(5,449,452)	3,259,049	(6,356)	178,017	58,692	(1,960,050)

Notes (continued)

4 Financial risk management (continued)

iii) Market risks (continued)

b) Foreign exchange risk (continued)

Foreign exchange risk – Appreciation/depreciation of the Kenya shilling against other currencies by 10%

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

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

The table below sets out the impact on future earnings of an incremental 10% parallel fall or rise in all foreign currencies at the beginning of each quarter during the 12 months from 1 January 2018.

Assuming no management actions, a series of such rise and fall would impact the future earnings and capital as illustrated in the table below;

	Amount at 31 Dec	Scenario 1 10% appreciation	Scenario 2 10% depreciation
	Sh'000	Sh'000	Sh'000
2017			
Profit before taxation	740,373	681,240	799,506
Adjusted core capital	3,504,584	3,482,589	3,523,982
Adjusted total capital	4,772,225	4,750,230	4,791,623
Risk weighted assets (RWA)	87,997,708	87,997,708	87,997,708
Adjusted core capital to RWA	3.98%	3.96%	4.00%
Adjusted total capital to RWA	5.42%	5.40%	5.45%
2016			
Profit before taxation	58,847	(286)	117,980
Adjusted core capital	5,626,535	5,778,524	5,626,535
Adjusted total capital	6,224,924	6,376,9146	6,224,924
Risk weighted assets (RWA)	87,076,098	87,076,098	87,076,098
Adjusted core capital to RWA	6.53%	6.64%	6.46%
Adjusted total capital to RWA	7.22%	7.32%	7.15%

Notes (continued)

4 Financial risk management (continued)

iv) Fair value of financial assets and liabilities

Determination of fair value and fair values hierarchy

IFRS 7 and IFRS 13 specifies a hierarchy of valuation techniques based on whether the inputs to those valuation techniques are observable or unobservable. Observable inputs reflect market data obtained from independent sources; unobservable inputs reflect the Group's market assumptions. These two types of inputs have been utilised to arrive at the following fair value hierarchy:

- Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities. This level includes listed equity securities and debt instruments on exchanges.
- Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices).
- Level 3 – inputs for the asset or liability that are not based on observable market data (unobservable inputs). This level includes equity investments and debt instruments with significant unobservable components. This hierarchy requires the use of observable market data when available. The Group considers relevant and observable market prices in its valuations where possible.

The following table shows an analysis of financial and non- financial instruments measured at fair value by level of the fair value hierarchy:

Group	Level 1 Sh'000	Level 2 Sh'000	Level 3 Sh'000	Total Sh'000
At 31 December 2017				
Financial Assets				
Equity investments	307,130	-	-	307,130
Loan notes at fair value through profit or loss	-	2,425,336	-	2,425,336
Available for sale securities	14,904,779	-	-	14,904,779
	15,211,909	2,425,336	-	17,637,245
Non- financial Assets				
Leasehold land and buildings	-	-	1,558,295	1,558,295
Non-current assets held for sale	-	-	590,944	590,944
	-	-	2,149,239	2,149,239
At 31 December 2016				
Financial Assets				
Equity investments	210,003	-	-	210,003
Available for sale securities	6,837,549	-	-	6,837,549
	7,047,552	-	-	7,047,552
Non- financial Assets				
Leasehold land and buildings	-	-	1,530,157	1,530,157
Non-current assets held for sale	-	-	590,944	590,944
	-	-	2,121,101	2,121,101

Notes (continued)

4 Financial risk management (continued)

iv) Fair value of financial assets and liabilities (continued)

Bank	Level 1 Sh'000	Level 2 Sh'000	Level 3 Sh'000	Total Sh'000
At 31 December 2017				
Financial Assets				
Equity investments	307,130	-	-	307,130
Loan notes at fair value through profit or loss	-	2,425,336	-	2,425,336
Available for sale securities	14,894,599	-	-	14,894,599
	15,201,729	2,425,336	-	17,627,065
Non- financial Assets				
Leasehold land and buildings	-	-	1,558,295	1,558,295
Non-current assets held for sale	-	-	590,944	590,944
	-	-	2,149,239	2,149,239
At 31 December 2016				
Financial Assets				
Equity investments	210,003	-	-	210,003
Available for sale securities	6,837,549	-	-	6,837,549
	7,047,552	-	-	7,047,552
Non- financial Assets				
Leasehold land and buildings	-	-	1,530,157	1,530,157
Non-current assets held for sale	-	-	590,944	590,944
	-	-	2,121,101	2,121,101

Notes (continued)

4 Financial risk management (continued)

iv) Fair value of financial assets and liabilities (continued)

The following table summarises the carrying amounts and fair value of those assets and liabilities not held at fair value. The carrying amount of assets and liabilities held at amortised costs is considered to approximate the fair value of the assets and liabilities.

Group	Carrying Value Sh'000	Fair Value Sh'000	Level 1 Sh'000	Level 2 Sh'000	Level 3 Sh'000
2017					
Assets at amortised cost					
Cash and balances from Central Bank	7,500,172	7,500,172	-	7,500,172	-
Deposits due from financial institutions	2,460,142	2,460,142	-	2,460,142	-
Held to maturity securities	20,813,253	18,825,982	18,825,982	-	-
Loans and advances at amortised cost	49,935,707	53,239,863	-	-	53,239,863
Equity investments	27,004	27,004	-	-	27,004
Total	80,736,278	82,053,163	18,852,986	9,960,314	53,266,867
Liabilities at amortised cost					
Customer deposits	94,275,768	94,837,047	-	-	94,837,047
Deposits and balances due to financial institutions	5,620,120	5,662,271	-	5,662,271	-
Other liabilities	2,743,344	2,516,829	-	-	2,516,829
Total	102,639,232	103,016,147	-	5,662,271	97,353,876

2016	Carrying Value Sh'000	Fair Value Sh'000	Level 1 Sh'000	Level 2 Sh'000	Level 3 Sh'000
Assets at amortised cost					
Cash and balances from Central Bank	8,559,339	8,559,339	-	8,559,339	-
Deposits due from financial institutions	1,311,975	1,311,975	-	1,311,975	-
Held to maturity securities	27,708,283	25,279,712	25,279,712	-	-
Loans at amortised cost	55,019,784	56,711,594	-	-	56,711,594
Equity investments	27,004	27,004	-	-	27,004
Total	92,626,385	91,889,624	25,279,712	9,871,314	56,738,598
Liabilities at amortised cost					
Customer deposits	93,870,288	97,638,088	-	-	97,638,088
Deposits and balances due to financial institutions	7,311,668	7,366,506	-	7,366,506	-
Other liabilities	3,993,724	3,663,967	-	-	3,663,967
Total	105,175,680	108,668,561	-	7,366,506	101,302,055

Notes (continued)

4 Financial risk management (continued)

iv) Fair value of financial assets and liabilities

Bank 2017	Carrying Value Sh'000	Fair Value Sh'000	Level 1 Sh'000	Level 2 Sh'000	Level 3 Sh'000
Assets at amortised cost					
Cash and balances from Central Bank	7,500,172	7,500,172	-	7,500,172	-
Deposits due from financial institutions	2,460,142	2,460,142	-	2,460,142	-
Held to maturity securities	20,813,253	18,825,982	18,825,982	-	-
Loans at amortised cost	49,935,707	53,239,863	-	-	53,239,863
Equity investments	27,004	27,004	-	-	27,004
Due from a subsidiary company	69,959	69,959	-	-	69,959
Total	80,826,237	82,123,122	18,825,982	9,960,314	53,336,826
Liabilities at amortised cost					
Customer deposits	94,544,397	95,086,636	-	-	95,086,636
Deposits and balances due to financial institutions	5,620,120	5,662,271	-	5,662,271	-
Other liabilities	2,729,988	2,504,576	-	-	2,504,576
Total	102,894,505	103,253,483	-	5,662,271	97,591,212
2016					
2016	Carrying Value Sh'000	Fair Value Sh'000	Level 1 Sh'000	Level 2 Sh'000	Level 3 Sh'000
Assets at amortised cost					
Cash and balances from Central Bank	8,417,163	8,417,163	-	8,417,163	-
Deposits due from financial institutions	1,311,975	1,311,975	-	1,311,975	-
Held to maturity securities	27,708,283	25,279,712	25,279,712	-	-
Loans at amortised cost	55,019,784	56,711,594	-	-	56,711,594
Equity investments	27,004	27,004	-	-	27,004
Due from a subsidiary company	778	778	-	-	778
Total	92,484,987	91,748,226	25,306,712	9,729,138	56,739,376
Liabilities at amortised cost					
Customer deposits	93,892,264	96,727,180	-	-	96,727,180
Deposits and balances due to financial institutions	7,311,668	7,366,506	-	7,366,506	-
Other liabilities	3,970,359	3,642,531	-	-	3,642,531
Total	105,174,291	107,736,217	-	7,366,506	100,369,711

Notes (continued)

4 Financial risk management (continued)

v) Capital management

Regulatory capital

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

There have been no material changes in the Bank's management of capital during the period.

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

	Bank	
	2017 Sh'000	2016 Restated Sh'000
Tier 1 capital		
Ordinary share capital	7,368,906	7,214,976
Accumulated losses	(3,711,873)	(1,523,321)
	3,657,033	5,691,655
Tier 2 capital		
Revaluation surplus (25%)	167,669	170,107
Statutory reserve	2,852,654	428,282
	3,020,323	598,389
Total regulatory capital	6,677,356	6,290,044
Total risk weighted assets		
Risk weighted assets		
On- balance sheet	87,294,097	85,587,923
Off- balance sheet	703,611	1,488,175
	87,997,708	87,076,098
Capital ratios		
Total regulatory capital expressed as a percentage of total risk-weighted assets (CBK minimum - 14.5%)	5.4%	7.2%
Tier 1 capital expressed as a percentage of total risk-weighted assets (CBK minimum - 10.5%)	4.0%	6.5%
Tier 1 capital expressed as a percentage of total deposits (CBK minimum - 8.0%)	3.5%	5.8%

For the purpose of calculating tier 2 capital statutory reserve is taken as the lower of 1.25% of total risk weighted assets and the actual statutory reserve value.

Notes (continued)

4 Financial risk management (continued)

v) Capital management (continued)

Regulatory capital (continued)

The Group's objectives when managing capital are:

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

Capital adequacy and use of regulatory capital are monitored by management, employing techniques based on the guidelines developed by the Central Bank of Kenya for supervisory purposes. The required information is filed with the Central Bank of Kenya on a monthly basis.

Banking business

The Central Bank of Kenya requires each bank to:

- Hold the minimum level of regulatory capital of Shs 1 billion;
- Maintain a ratio of total regulatory capital to risk weighted assets plus risk weighted off balance assets at above the required minimum of 12%;
- Maintain a core capital of not less than 8% of total deposit liabilities; and
- Maintain total capital of not less than 12% of risk weighted assets plus risk weighted off balance sheet items.

In addition to the above minimum capital adequacy ratios of 8% and 12%, with effect from January 2015, institutions are required to hold a capital conservation buffer of 2.5% over and above these minimum ratios to enable institutions withstand future periods of stress. This brings the minimum core capital to risk weighted assets and total capital to risk weighted assets requirements to 10.5% and 14.5% respectively. The capital conservation buffer is made up of high quality capital which should comprise mainly of common equity, premium reserves and retained earnings.

As at 31 December 2016 and 2017, the Bank did not meet any of the minimum requirements

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

- Tier 1 capital, which includes ordinary share capital, share premium, retained earnings, after deductions for intangible assets (excluding computer software), investments in equity instruments of other institutions and other regulatory adjustments relating to items that are included in equity but are treated differently for capital adequacy purposes.
- Tier 2 capital, which includes 25% revaluation surplus which have received prior CBK approval, qualifying subordinated liabilities and collective impairment allowances.

Capital allocation

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

The process of allocating capital to specific operations and activities is undertaken independently of those responsible for the operation, by Bank Risk and Bank Credit Committees, and is subject to review by the Bank Credit, Finance, Information and Technology Committee or the Assets and Liabilities Committee ("ALCO") as appropriate.

Although maximisation of the return on risk-adjusted capital is the principal basis used in determining how capital is allocated within the Bank to particular operations or activities, it is not the sole basis used for decision making. Synergies with other operations and activities, the availability of management and other resources, and the fit of the activity with the Bank's longer term strategic objectives are also taken into account.

The Bank's policies in respect of capital management and allocation are reviewed regularly by the Board of Directors.

Notes (continued)

5 Interest income	Group		Bank	
	2017	2016	2017	2016
	Sh'000	Restated Sh'000	Sh'000	Restated Sh'000
Loans and advances to customers	5,700,755	8,793,748	5,700,755	8,793,748
Deposits and balances due from Banking institutions	97,462	50,623	97,462	50,623
Treasury bills - available for sale	40,978	62,128	40,978	62,128
Treasury bonds - held to maturity	1,332,488	1,528,351	1,332,488	1,528,351
Treasury bonds - available for sale	2,790,812	1,665,977	2,790,631	1,665,977
	9,962,495	12,100,827	9,962,314	12,100,827

6 Interest expense	Group		Bank	
	2017	2016	2017	2016
	Sh'000	Sh'000	Sh'000	Sh'000
(a) On deposits:				
Fixed and short term deposits	2,004,500	2,485,547	2,004,500	2,485,547
Savings accounts	117,903	118,746	117,903	118,746
Demand deposits	801,981	913,687	818,773	913,687
	2,924,384	3,517,980	2,941,176	3,517,980
(b) On borrowed funds:				
Placements from Banks and financial institutions	313,189	790,965	313,189	790,965
	313,189	790,965	313,189	790,965
	3,237,573	4,308,945	3,254,365	4,308,945

7 Fees and commission income	Group		Bank	
	2017	2016	2017	2016
	Sh'000	Restated Sh'000	Sh'000	Restated Sh'000
Letters of credit	80,442	91,915	80,442	91,915
Ledger fees	331,080	226,939	331,080	226,939
Salary Processing	192,166	199,931	192,166	199,931
ATM and cards commissions	236,913	272,597	236,913	272,597
Mobile and Internet commissions	59,850	72,495	59,850	72,495
Other Transactions fees and commissions	535,011	589,359	477,946	508,537
	1,435,462	1,453,236	1,378,397	1,372,414

Notes (continued)

8 Gains on foreign exchange dealings

Gains on foreign currency dealings arose from dealings in foreign currency transactions and also on the translation of foreign currency assets and liabilities.

Gains on foreign exchange dealings	Group and Bank	
	2017 Sh'000	2016 Sh'000
Gain on foreign currency trading	646,977	422,269
Revaluation of foreign notes held	(120,014)	(58,406)
	<u>526,963</u>	<u>363,863</u>

9 Other operating income	Group		Bank	
	2017 Sh'000	2016 Sh'000	2017 Sh'000	2016 Sh'000
Bad debts recovered	159,012	989,704	159,012	989,704
Securities trading held for trading	108,087	(9,663)	108,087	(9,663)
Rental income	49,913	28,819	49,913	28,819
Fair value gain on quoted investments (Note 19)	97,127	5,360	97,127	5,360
Miscellaneous income	52,115	25,718	52,427	25,718
	<u>466,254</u>	<u>1,039,938</u>	<u>466,566</u>	<u>1,039,938</u>

10 Operating expenses	Group		Bank	
	2017 Sh'000	2016 Restated Sh'000	2017 Sh'000	2016 Restated Sh'000
The profit before income tax is arrived at after charging:				
Employee benefits (Note 11)	3,916,494	3,642,344	3,908,839	3,621,462
Directors' emoluments- fees	30,851	24,150	30,851	24,150
Depreciation (Note 22)	565,759	412,851	565,520	412,605
Amortisation of intangible assets (Note 23)	376,525	399,135	376,525	398,856
Impairment of intangible assets (Note 23)	163,329	-	163,329	-
Auditors' remuneration	11,890	12,064	11,890	12,064

Notes (continued)

11 Employee benefits expense	Group		Bank	
	2017 Sh'000	2016 Sh'000	2017 Sh'000	2016 Sh'000
Salaries and wages	3,092,796	2,890,651	3,069,741	2,873,933
Pension costs - defined contribution scheme	408,362	393,525	405,139	391,076
National Social Security Fund Contributions	3,741	4,106	3,711	4,081
Other staff costs	411,595	354,062	430,248	352,372
	<u>3,916,494</u>	<u>3,642,344</u>	<u>3,908,839</u>	<u>3,621,462</u>

The average number of employees during the year was as follows:

Management	791	811	780	803
Clerical	494	554	494	551
Contract	214	259	214	259
	<u>1,499</u>	<u>1,624</u>	<u>1,488</u>	<u>1,613</u>

12 Income tax expense

(a) Income tax expense	Group		Bank	
	2017 Sh'000	2016 Sh'000	2017 Sh'000	2016 Sh'000
Current income tax	28,548	8,391	14,974	8,676
Deferred income tax (Note 20)	311,595	(1,657)	311,143	(1,654)
Under/(over) provision of current tax in prior years	34,155	2,204	34,259	(3,473)
	<u>374,298</u>	<u>8,938</u>	<u>360,376</u>	<u>3,549</u>

Notes (continued)

12 Income tax expense (continued)

The income tax based on the Group's profit before income tax differs from the theoretical amount that would arise using the statutory income tax rate applicable as follows:

(b) Reconciliation of taxation (credit)/charge to the expected taxation based on accounting profit/(loss)

	Group		Bank	
	2017 Sh'000	2016 Sh'000	2017 Sh'000	2016 Sh'000
Profit before income tax	785,082	79,891	740,373	58,847
Tax calculated at the statutory income tax rate of 30% (2016 - 30%)	235,524	23,967	222,112	17,654
Expenses not deductible for tax purposes	283,909	152,390	283,399	153,314
Tax effect of income not subject to tax	(145,135)	(167,419)	(145,135)	(167,419)
	<u>374,298</u>	<u>8,938</u>	<u>360,376</u>	<u>3,549</u>

13 Earnings per share

Earnings per share is calculated by dividing the profit attributable to ordinary shareholders by the number of ordinary shares in issue during the year.

	Group		Bank	
	2017 Sh'000	2016 Sh'000 Restated	2017 Sh'000	2016 Sh'000 Restated
Earnings				
Profit after taxation	410,784	70,953	379,997	55,298
Earnings attributable to ordinary shareholders	<u>410,784</u>	<u>70,953</u>	<u>379,997</u>	<u>55,298</u>
Weighted average number of ordinary shares ('000)				
Ordinary shares	307,995	307,995	307,995	307,995
Bonus shares (30,786,000 new shares issued weighted for 7 months)	17,958	-	17,958	-
At 31 December	<u>325,953</u>	<u>307,995</u>	<u>325,953</u>	<u>307,995</u>
Earnings per share: Basic and diluted (Sh)	1.26	0.23	1.17	0.18

The holders of the non-cumulative preference shares are entitled to a non-cumulative dividend at a negotiable rate not exceeding 6% per annum on the paid up preference shares. The dividend is payable if directors declare a dividend on ordinary shares. In addition, whenever the profits of the Group in respect of any year are more than sufficient to pay the preferential dividend, the holders of preference shares are entitled to participate in the surplus pari passu with the holders of ordinary shares.

There were no potentially dilutive instruments outstanding at the end of the reporting period (2016: Nil).

Notes (continued)

14 Cash and balances with central Bank of Kenya	Group		Bank	
	2017 Sh'000	2016 Sh'000	2017 Sh'000	2016 Sh'000
Cash in hand	2,006,948	3,322,294	2,006,948	3,180,119
Balances with Central Bank of Kenya				
- Cash ratio requirement	4,967,359	4,723,907	4,967,359	4,723,907
- Other cash balances	525,865	513,138	525,865	513,137
	<u>7,500,172</u>	<u>8,559,339</u>	<u>7,500,172</u>	<u>8,417,163</u>

At 31 December 2017, the cash ratio requirement was 5.25% (2016- 5.25%) of eligible deposits. The cash ratio requirement funds are not available for the day to day operations of the Bank and are non-interest bearing. The increase in the cash reserve ratio requirements is driven by an increase in customer deposits.

15 Deposits and balances due from financial institutions	Group and Bank	
	2017 Sh'000	2016 Sh'000
Foreign currency deposits	621,500	1,115,211
Local currency deposits	1,838,642	196,764
	<u>2,460,142</u>	<u>1,311,975</u>
Maturity analysis of deposits and balances due from Banking institutions:		
Maturity within 91 days from placement date	1,007,534	1,215,326
Maturity after 91 days from placement date	1,452,608	96,649
	<u>2,460,142</u>	<u>1,311,975</u>

The effective interest rate on deposits due from banking institutions at 31 December 2017 was 7.5% (2016 -10.5%).

Notes (continued)

16 Government securities	Group		Bank	
	2017	2016	2017	2016
	Sh'000	Sh'000	Sh'000	Sh'000
(a) Government securities are categorised as follows:				
Treasury bills available for sale - At amortised cost	561,735	485,873	561,735	485,873
Treasury bonds held to maturity - At amortised cost	14,143,962	16,038,678	14,143,962	16,038,678
Treasury bonds held to maturity (long term non - negotiable) - At amortised cost	6,107,556	11,183,732	6,107,556	11,183,732
Treasury bonds - Available for sale (at fair value)	14,904,779	6,837,549	14,894,599	6,837,549
	<u>35,718,032</u>	<u>34,545,832</u>	<u>35,707,852</u>	<u>34,545,832</u>
(b) Maturity analysis of Government securities:				
(i) Treasury bills available for sale - At amortised cost				
Maturing less than 1 year	561,735	485,873	561,735	485,873
(ii) Treasury bonds held to maturity - At amortised cost				
Maturing less than 1 year	1,780,834	-	1,780,834	-
Maturing between 1 and 3 years	3,184,126	-	3,184,126	-
Maturing between 3 and 5 years	2,703,219	1,393,944	2,703,219	1,393,944
Maturing between 5 and 10 years	5,701,860	8,098,016	5,701,860	8,098,016
Maturing after 10 years	773,923	6,546,718	773,923	6,546,718
	<u>14,143,962</u>	<u>16,038,678</u>	<u>14,143,962</u>	<u>16,038,678</u>
(iii) Treasury bonds held to maturity (long term non - negotiable) - At amortised cost				
Maturing less than 1 year	-	5,083,522	-	5,083,522
Maturing between 3 and 5 years	6,107,556	-	6,107,556	-
Maturing between 5 and 10 years	-	6,100,210	-	6,100,210
	<u>6,107,556</u>	<u>11,183,732</u>	<u>6,107,556</u>	<u>11,183,732</u>
(iv) Treasury bonds - Available for sale (at fair value)				
Maturing between 1 and 3 years	777,925	-	777,925	-
Maturing between 3 and 5 years	7,670,772	6,837,549	7,670,772	6,837,549
Maturing between 5 and 10 years	5,010,016	-	5,010,016	-
Maturity after 10 years	1,446,066	-	1,435,886	-
	<u>14,904,779</u>	<u>6,837,549</u>	<u>14,894,599</u>	<u>6,837,549</u>
Total Government securities	<u>35,718,032</u>	<u>34,545,832</u>	<u>35,707,852</u>	<u>34,545,832</u>

Notes (continued)
16 Government securities (continued)

	Group		Bank	
	2017	2016	2017	2016
	Sh'000	Sh'000	Sh'000	Sh'000
(c) Treasury bonds - Available for sale (at fair value)				
At 1 January	6,837,549	-	6,837,549	-
Purchased during the year	51,900,155	6,902,549	51,889,975	6,902,549
Disposed during the year	(43,708,170)	-	(43,708,170)	-
Fair value loss through other comprehensive income	(124,755)	(65,000)	(124,755)	(65,000)
At 31 December	<u>14,904,779</u>	<u>6,837,549</u>	<u>14,894,599</u>	<u>6,837,549</u>

(d) The weighted average effective interest rate for Government securities is as summarised below:

	Group		Bank	
	2017	2016	2017	2016
	%	%	%	%
Treasury bills - At amortised cost	10.53	8.93	10.53	8.93
Treasury bonds - At amortised cost	12.02	11.35	12.02	11.35
Treasury bonds - At available for sale	12.68	12.53	12.68	12.53

Notes (continued)

17 Loans and advances to customers	Group and Bank	
	2017 Sh'000	2016 Sh'000 Restated
(a) Net loans		
Classified as:		
(i) Loans and receivables (amortised cost)	49,935,707	55,019,784
(ii) Loan notes at fair value through profit or loss	2,425,336	-
Total loans and advances to customers	52,361,043	55,019,784
(i) Loans and advances to customers at amortised cost		
Overdrafts	5,553,786	6,585,212
Mortgages	17,991,648	14,650,106
Loans	36,009,263	43,512,996
Credit Cards	218,755	158,776
Total gross loans at amortised cost	59,773,452	64,907,090
Provision for impairment losses		
-collectively assessed	(283,034)	(262,037)
-specific on non-performing loans	(9,554,711)	(9,625,269)
Total provisions for impairment losses	(9,837,745)	(9,887,306)
Net loans and advances at amortised cost	49,935,707	55,019,784

Included in net advances are loans and advances amounting to Shs 23,878,079,598 (2016 - Shs 26,768,991,000), net of specific provisions, which were classified as non-performing (impaired) at the year end.

Included in loans and advances to customers are staff loans amounting to Shs 3,973,498,443 (2016 - Shs 4,226,097,000). The effective interest rate on loans and advances to staff was 11.67% at 31 December 2017 (2016 - 13.76%).

(ii) Loan notes at fair value through profit or loss

Loan notes at fair value through profit or loss relate to amounts due from a Special Purpose Entity (SPE) formed as part of a restructuring arrangement between lender banks and a customer in the year. Under the terms of the restructuring, the amounts owing to the banks were transferred to the SPE, which in exchange was allocated equity shares of the customer. Principally, the banks will recover the amounts due through the sale of customer's equity shares in 10 years' time. In the intervening period, the banks will receive a fixed interest income on the amounts due, at a rate that is largely below the market rates.

Based on the directors assessment, the carrying value of the loan notes approximate to their fair value at the year end.

Notes (continued)

17 Loans and advances to customers (continued)

(b) Analysis of gross advances by maturity

	Group and Bank	
	2017 Sh'000	2016 Sh'000 Restated
Maturing:		
Within one year	26,566,976	7,780,888
One year to three years	3,825,675	16,055,038
Three to five years	9,940,570	18,470,847
Over five years	19,440,231	22,600,317
	59,773,452	64,907,090

(c) Impairment for loans and advances to customers

	Impaired loans	Performing loans	Total	Total
	2017 Sh'000	2017 Sh'000	2017 Sh'000	2016 Sh'000 Restated
At 1 January	9,625,269	262,038	9,887,307	8,528,306
Additional provisions during the year	381,002	20,996	401,998	2,415,000
Bad debts written off during the year	(451,560)	-	(451,560)	(1,056,000)
At 31 December	9,554,711	283,034	9,837,745	9,887,306

(d) Impairment of loans and advances (Income statement charge)

	Impaired loans	Performing loans	Total	Total
	2017 Sh'000	2017 Sh'000	2017 Sh'000	2016 Sh'000 Restated
Impairment for loans and advances to customers	381,002	20,995	401,997	2,415,001
Impairment on balances due from financial institutions	354,743	-	354,743	-
	735,745	20,995	756,740	2,415,001

Notes (continued)

18 Other assets	Group		Bank	
	2017	Restated 2016	2017	Restated 2016
	Sh'000	Sh'000	Sh'000	Sh'000
Rent and service charge receivable	93,617	291,935	93,617	291,935
Mobile money deposits	341,006	-	341,006	-
Items in the course of collection	920,063	853,144	920,063	853,144
Prepayments and prepaid staff benefit	1,683,748	251,264	1,683,748	251,264
Other receivables	650,964	2,317,537	647,348	2,286,137
	<u>3,689,398</u>	<u>3,713,880</u>	<u>3,685,782</u>	<u>3,682,480</u>

19 Other investments	Group and Bank	
	2017	2016
	Sh'000	Sh'000

Unquoted

Available for sale investments

At cost:

IDB Capital Limited	1,501	1,501
African Export Import Bank	19,620	19,620
SWIFT	5,883	5,883
	<u>27,004</u>	<u>27,004</u>

Quoted

At fair value through profit or loss

VISA International	272,125	184,943
Safaricom Limited	35,005	25,060
	<u>307,130</u>	<u>210,003</u>
	<u>334,134</u>	<u>237,007</u>

Movement in investments:

At 1 January	237,007	231,647
Fair value gain (Note 9)	97,127	5,360
	<u>334,134</u>	<u>237,007</u>

Visa International shares were allotted to the Group at no cost by virtue of the Group's membership to the Visa International network of users and are quoted at the New York Stock Exchange. Safaricom shares are quoted on the Nairobi Securities Exchange. The fair value of quoted shares is determined by the prices quoted on the relevant exchanges.

Society for Worldwide Interbank Financial Telecommunication (SWIFT) shares are allocated to an institution based on the institution contribution to the SWIFT network. The share allocation takes place every three years, the last of which was done in early 2015. The transfer value of one SWIFT share was fixed at EUR 3,300 at the June 2011 General Meeting of shareholders.

The Group does not have either management or voting control over the investee companies and its percentage shareholding is insignificant.

Notes (continued)

20 Deferred income tax

Deferred income tax is calculated using the enacted income tax rate of 30% (2016 - 30%). The movements in the deferred income tax account were as follows:

	Group		Bank	
	2017	2016	2017	2016
	Sh'000	Sh'000	Sh'000	Sh'000
At start of year	(2,136,531)	(2,115,374)	(2,135,897)	(2,114,743)
Charge/(credit) to profit or loss (Note 12)	311,595	(1,657)	311,143	(1,654)
Charge to other comprehensive income	(37,427)	(19,500)	(37,427)	(19,500)
	<u>(1,862,363)</u>	<u>(2,136,531)</u>	<u>(1,862,181)</u>	<u>(2,135,897)</u>

Deferred income tax assets and liabilities, deferred income tax credit in profit or loss and deferred income tax charge in shareholders' equity are attributable to the following items:

Year ended 31 December 2017	At start of year	(Credited) / charged to profit or loss	Credited to other comprehensive income	At end of year
Group	Sh'000	Sh'000	Sh'000	Sh'000
Deferred income tax liability				
Property and equipment:				
historical cost basis	9,709	11,938	-	21,647
revaluation surplus	291,802	(2,850)	-	288,952
	<u>301,511</u>	<u>9,088</u>	<u>-</u>	<u>310,599</u>
Deferred income tax asset				
Other deductible differences	(1,978,664)	153,199	(37,427)	(1,862,892)
Tax losses carried forward	(459,378)	149,308	-	(310,070)
	<u>(2,438,042)</u>	<u>302,507</u>	<u>(37,427)</u>	<u>(2,172,962)</u>
Net deferred income tax asset	<u>(2,136,531)</u>	<u>311,595</u>	<u>(37,427)</u>	<u>(1,862,363)</u>

Notes (continued)

20 Deferred income tax (continued)

Year ended 31 December 2016	At start of year	(Credited) / charged to profit or loss	Credited to other comprehensive income	At end of year
Group	Sh'000	Sh'000	Sh'000	Sh'000

Deferred income tax liability

Property and equipment:				
historical cost basis	(11,567)	21,276	-	9,709
revaluation surplus	296,041	(4,239)	-	291,802
Deferred income tax liability	284,474	17,037	-	301,511

Deferred income tax asset

Other deductible differences	(2,026,527)	67,363	(19,500)	(1,978,664)
Tax losses carried forward	(373,321)	(86,057)	-	(459,378)

Deferred income tax asset	(2,399,848)	(18,694)	(19,500)	(2,438,042)
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Net deferred income tax asset	(2,115,374)	(1,657)	(19,500)	(2,136,531)
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Year ended 31 December 2017	At start of year	(Credited) / charged to profit or loss	Credited to other comprehensive income	At end of year
Bank	Shs '000	Shs '000	Shs '000	Shs '000

Deferred income tax liability

Property and equipment:				
historical cost basis	10,343	11,486	-	21,829
revaluation surplus	291,802	(2,850)	-	288,952
Deferred income tax liability	302,145	8,636	-	310,781

Deferred income tax asset

Other deductible differences	(1,978,664)	153,199	(37,427)	(1,862,892)
Tax losses carried forward	(459,378)	149,308	-	(310,070)

Deferred income tax asset	(2,438,042)	302,507	(37,427)	(2,172,962)
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Net deferred income tax asset	(2,135,897)	311,143	(37,427)	(1,862,181)
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Notes (continued)

20 Deferred income tax (continued)

Year ended 31 December 2016	At start of year	(Credited) / debited to profit or loss	Credited to other comprehensive income	At end of year
Bank	Sh'000	Sh'000	Sh'000	Sh'000

Deferred income tax liability

Property and equipment:				
historical cost basis	(10,936)	21,279	-	10,343
revaluation surplus	296,041	(4,239)	-	291,802
Deferred income tax liability	285,105	17,040	-	302,145

Deferred income tax asset

Other deductible differences	(2,026,527)	67,363	(19,500)	(1,978,664)
Tax losses carried forward	(373,321)	(86,057)	-	(459,378)

Deferred income tax asset	(2,399,848)	(18,694)	(19,500)	(2,438,042)
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Net deferred income tax asset	(2,114,743)	(1,654)	(19,500)	(2,135,897)
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21 Investment in subsidiaries

	Percentage Ownership	2017 Sh'000	2016 Sh'000
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Investment in subsidiary companies

At cost:

Natbank Trustee and Investment Services Limited	100%	19,963	19,963
Kenya National Capital Corporation Limited	100%	-	-
NBK Insurance Agency Limited	100%	-	-
		19,963	19,963

All the subsidiary companies have their financial year ending 31 December and are incorporated as limited liability companies. They are incorporated in Kenya under the Companies Act and domiciled in Kenya.

All the subsidiaries are 100% owned and fully controlled by the Bank.

The Group financial statements include the results of one of the subsidiaries, NBK Insurance Agency Limited which is consolidated and began trading in 2010. The principal activity of the company is the provision of insurance agency services.

The other two subsidiaries, Natbank Trustee and Investment Services Limited and Kenya National Capital Corporation Limited, are dormant and have not been consolidated since they are insignificant. Consolidation of these subsidiaries would have no material impact on the Group's net assets and profit for the year and would not add any real value to the shareholders.

22 Property plant and equipment –Group

	Leasehold land and buildings Sh'000	Motor vehicles, equipment, furniture and fittings Sh'000	Computers Sh'000	Capital work in progress Sh'000	Leasehold improvements Sh'000	Total Sh'000
Cost or valuation						
At 1 January 2016	1,381,010	1,724,277	1,046,923	1,538,483	1,097,729	6,788,422
Additions	4,224	43,993	35,245	326,122	16,335	425,919
Disposals	-	-	(140)	-	-	(140)
Transfers to intangible assets	203,870	139,206	-	(90,995)	454,075	(90,995)
Transfers from work in progress	1,589,104	1,907,476	1,082,028	976,459	1,568,139	7,123,206
At 31 December 2016						
Comprising:						
Cost	208,906	1,907,476	1,082,028	976,459	1,568,139	5,743,008
Valuation	1,380,198	-	-	-	-	1,380,198
At 31 December 2016						
At 1 January 2017	1,589,104	1,907,476	1,082,028	976,459	1,568,139	7,123,206
Additions	-	92,806	66,682	-	73,336	232,825
Reclassifications	91,262	-	-	-	(91,262)	-
Transfers to intangible assets	-	-	-	(67,801)	-	(67,801)
Transfers from work in progress	-	214,510	-	(899,118)	684,608	-
At 31 December 2017						
Comprising:						
Cost	300,168	2,214,792	1,148,710	9,540	2,234,822	5,908,032
Valuation	1,380,198	-	-	-	-	1,380,198
At 31 December 2017						
At 1 January 2017	1,680,366	2,214,792	1,148,710	9,540	2,234,822	7,288,230

Notes (continued)

22 Property plant and equipment –Group (continued)

	Leasehold land and buildings Sh'000	Motor vehicles, equipment, furniture and fittings Sh'000	Computers Sh'000	Capital work in progress Sh'000	Leasehold improvements Sh'000	Total Sh'000
Depreciation						
At 1 January 2016	38,314	1,000,025	797,603	-	762,808	2,598,750
Charge for the year	20,633	80,251	117,950	-	194,017	412,851
Disposal	-	-	(79)	-	-	(79)
At 31 December 2016	58,947	1,080,276	915,474	-	956,825	3,011,522
At 1 January 2017	58,947	1,080,276	915,474	-	956,825	3,011,522
Charge for the year	63,124	152,591	63,160	-	286,884	565,759
At 31 December 2017	122,071	1,232,867	978,634	-	1,243,709	3,577,281
Net book value						
At 31 December 2017	1,558,295	981,925	170,076	9,540	991,113	3,710,949
At 31 December 2016	1,530,157	827,200	166,554	976,459	611,314	4,111,684

22 Property plant and equipment – Bank

	Leasehold land and buildings Sh'000	Motor vehicles, equipment, furniture and fittings Sh'000	Computers Sh'000	Capital work in progress Sh'000	Leasehold improvements Sh'000	Total Sh'000
Cost or valuation						
At 1 January 2016	1,381,010	1,723,005	1,046,650	1,538,483	1,097,729	6,786,877
Additions	4,224	43,993	35,151	326,122	16,335	425,825
Disposals	-	-	(140)	-	-	(140)
Transfers to intangible assets	-	-	-	(90,995)	-	(90,995)
Transfers from work in progress	203,870	139,206	-	(797,151)	454,075	-
At 31 December 2016	1,589,104	1,906,204	1,081,661	976,459	1,568,139	7,121,567
Comprising:						
Cost	208,906	1,906,204	1,081,661	976,459	1,568,139	5,741,369
Valuation	1,380,198	-	-	-	-	1,380,198
At 31 December 2016	1,589,104	1,906,204	1,081,661	976,459	1,568,139	7,121,567
At 1 January 2017	1,589,104	1,906,204	1,081,661	976,459	1,568,139	7,121,567
Additions	-	92,806	66,682	-	73,336	232,825
Reclassifications	91,262	-	-	-	(91,262)	-
Transfer to intangible assets	-	-	-	(67,801)	-	(67,801)
Transfers from work in progress	-	214,510	-	(899,118)	684,608	-
At 31 December 2017	1,680,366	2,213,520	1,148,343	9,540	2,234,821	7,286,590
Comprising:						
Cost	300,168	2,213,520	1,148,343	9,540	2,234,821	7,286,592
Valuation	1,380,198	-	-	-	-	1,380,198
At 31 December 2017	1,680,366	2,213,520	1,148,343	9,540	2,234,821	8,666,790

Notes (continued)

22 Property plant and equipment – Bank (continued)

	Leasehold land and buildings Sh'000	Motor vehicles, equipment, furniture and fittings Sh'000	Computers Sh'000	Capital work in progress Sh'000	Leasehold improvements Sh'000	Total Sh'000
Depreciation						
At 1 January 2016	38,314	938,639	858,455	-	762,808	2,598,216
Charge for the year	20,633	141,014	56,941	-	194,017	412,605
Disposal	-	-	(79)	-	-	(79)
At 31 December 2016	58,947	1,079,653	915,317	-	956,825	3,010,742
At 1 January 2017	58,947	1,079,653	915,317	-	956,825	3,010,742
Charge for the year	63,124	152,424	63,089	-	286,883	565,520
At 31 December 2017	122,071	1,232,077	978,406	-	1,243,708	3,576,262
Net book value						
At 31 December 2017	1,558,295	981,443	169,937	9,540	991,113	3,710,328
At 31 December 2016	1,530,157	826,551	166,344	976,459	611,314	4,110,825

Notes (continued)

22 (a) Property and equipment (continued)

Included in computers, motor vehicles, equipment and furniture & fittings are assets with a cost of Shs 1,411,723,619 (2016 – Shs 1,321,877,465) which were fully depreciated. The normal annual depreciation charge on these assets would have been Shs 225,060,417 (2016 - Shs 214,114,343).

The Group's leasehold land and buildings were revalued at 31 December 2013 by independent valuers, Legend Valuers Limited, registered valuers and estate agents. Valuations were made on the basis of open market value for existing use. The book values of the revalued assets were adjusted to the revalued amounts. Any increase arising on the revaluation was recognised in other comprehensive income and accumulated in the revaluation surplus. At 31 December 2017, the net book value of the leasehold land and buildings based on original cost was Shs 600,185,000 (2016 - Shs 651,633,000).

Land and building with a total carrying value of Shs 1,587,143,000 (2016 - Shs 1,530,157,000) are categorised under level 3 fair value hierarchy as their value is based on inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly as prices or indirectly as derived from prices. There were no transfers between the various levels during the year.

22 (b) Non-current asset held for sale	Group	
	2017 Sh'000	2016 Sh'000 Restated
Cost		
At 1 January	590,944	439,475
Reclassification to assets held for sale from other receivables	-	151,469
At 31 December	590,944	590,944

The non-current asset held for sale relates to a property for which the Group has initiated the sale process. The property has been placed on the market with the sale expected within the 2018 financial year.

Notes (continued)

23 Intangible assets

	Group		Total	Bank		Total
	Computer software	Capital work in progress		Com-puter software	Capital work in progress	
Cost						
At 1 January 2016	2,224,791	610,554	2,835,345	2,223,766	610,554	2,834,320
Additions	32,935	228,457	261,392	32,150	228,457	260,607
Transfers from property and equipment	90,995	-	90,995	90,995	-	90,995
Transfers from work in progress	220,498	(220,498)	-	220,498	(220,498)	-
At 31 December 2016	2,569,219	618,513	3,187,732	2,567,409	618,513	3,185,922
At 1 January 2017	2,569,219	618,513	3,187,732	2,567,409	618,513	3,185,922
Additions	279,493	-	279,493	279,493	-	279,493
Transfers from property and equipment	67,801	-	67,801	67,801	-	67,801
Transfers from work in progress	618,513	(618,513)	-	618,513	(618,513)	-
At 31 December 2017	3,535,026	-	3,535,026	3,533,216	-	3,533,216
Amortisation						
At 1 January 2016	1,436,419	-	1,436,419	1,434,888	-	1,434,888
Charge for the year	399,135	-	399,135	398,856	-	398,856
At 31 December 2016	1,835,554	-	1,835,554	1,833,744	-	1,833,744
At 1 January 2017	1,835,554	-	1,835,554	1,833,744	-	1,833,744
Charge for the year	376,525	-	376,525	376,525	-	376,525
Impairment for the year	163,329	-	163,329	163,329	-	163,329
At 31 December 2017	2,375,408	-	2,375,408	2,373,598	-	2,373,598
Net book amount						
At 31 December 2017	1,159,618	-	1,159,618	1,159,618	-	1,159,618
At 31 December 2016	733,665	618,513	1,352,178	733,665	618,513	1,352,178

Included in intangible assets are assets with a cost of Sh 1,430,110,229 (2016 --Sh1,388,336,588) which were fully depreciated. The normal annual depreciation charge on these assets would have been Sh 286,022,046 (2016 –Sh 277,667,318).

Notes (continued)

24 Customer deposits	Group		Bank	
	2017	2016	2017	2016
	Sh'000	Sh'000 Restated	Sh'000	Sh'000 Restated
Termdeposit accounts	12,048,173	19,469,184	12,048,173	19,469,184
Savings accounts	2,164,454	2,448,613	2,164,454	2,448,613
Non-Interest bearing current accounts	41,774,250	24,055,043	41,774,250	24,055,043
Interest bearing current and demand accounts	38,288,891	47,897,448	38,557,520	47,919,424
	<u>94,275,768</u>	<u>93,870,288</u>	<u>94,544,397</u>	<u>93,892,264</u>

Maturity analysis of customer deposits

Government and parastatals:

Payable within 90 days	55,059,750	33,153,184	55,059,750	33,153,184
Payable after 90 days and within one year	2,712,432	21,088,387	2,712,432	21,110,363
	<u>57,772,182</u>	<u>54,241,571</u>	<u>57,772,182</u>	<u>54,263,547</u>

Private Sector and individuals:

Payable within 90 days	33,535,962	31,412,589	33,804,592	31,412,589
Payable after 90 days and within one year	2,967,624	8,216,128	2,967,623	8,216,128
	<u>36,503,586</u>	<u>39,628,717</u>	<u>36,772,215</u>	<u>39,628,717</u>
	<u>94,275,768</u>	<u>93,870,288</u>	<u>94,544,397</u>	<u>93,892,264</u>

25 Deposits and balances due to financial institutions

	Group and Bank	
	2017	2016
	Sh'000	Sh'000
		Restated
Deposits at end of year	<u>5,620,120</u>	<u>7,311,668</u>

The effective interest rate on deposits due to banking institutions at 31 December 2017 was 3.0% (2016 - 4.1%). The deposits are payable within 90 days after the end of the reporting period.

Notes (continued)

26 Other liabilities	Group		Bank	
	2017	2016	2017	2016
	Sh'000	Sh'000 Restated	Sh'000	Sh'000 Restated
Margins held	673,760	862,251	673,760	862,251
Bills payable	109,714	162,295	109,714	162,295
Due to subsidiaries	-	-	575	21,976
Unclaimed dividends	24,446	24,664	24,446	24,664
Provisions for expenses	253,718	289,056	253,396	289,056
Other accruals and payables	1,681,706	2,655,458	1,668,097	2,610,117
	<u>2,743,344</u>	<u>3,993,724</u>	<u>2,729,988</u>	<u>3,970,359</u>

27 Share capital

	Group and Bank	
	2017	2016
	Sh'000	Sh'000

Authorised:

1,400,000,000 Ordinary shares of Sh 5 each	7,000,000	7,000,000
1,200,000,000 Preference shares of Sh 5 each	6,000,000	6,000,000
	<u>13,000,000</u>	<u>13,000,000</u>

Issued and fully paid:

338,781,200 Ordinary shares of Sh 5 each	1,693,906	1,539,976
1,135,000,000 Preference shares of Sh 5 each	5,675,000	5,675,000
	<u>7,368,906</u>	<u>7,214,976</u>

At 31 December 2017, the issued and fully paid share capital comprised of 338,781,200 (2016: 307,995,200) ordinary shares with a par value of Shs 5. The additional 30,799,518 ordinary shares was on account of a bonus issue that was applied in paying up in full the unissued ordinary shares. The bonus shares which were approved by the shareholders at the Annual General meeting held on 19 May 2017 were allocated to shareholders in the proportion of one for every ten of existing issued and paid up 307,995,200 shares then held by shareholders respectively.

Notes (continued)

27 Share capital (continued)

The following special rights and privileges are attached to the preference shares:

- The holders of the non-cumulative preference shares shall be entitled to receive out of the profits of the Bank as a first charge a non-cumulative preferential dividend at a negotiable rate not exceeding 6% per annum on the capital for the time being paid up on the Preference Shares held by them respectively if the directors declare a dividend on the distributable profits.
- Whenever the profits of the Bank in respect of any year shall be more than sufficient to pay the preferential dividend aforesaid to the close of such year, the holders of the preference shares shall be entitled to participate in the surplus pari passu with the holders of the ordinary shares provided that such participation shall be non-cumulative.
- In the event of the Bank being wound up or on a reduction of capital involving a return of capital, the surplus assets thereof shall be applied in the first place in repaying the holders of the said preference shares, and of any other shares entitled to rank pari passu with them, the full amount paid up thereon, and, subject as aforesaid, such surplus assets shall belong to and be divided among the other members of the Bank.
- The holders of the preference shares shall not be entitled to receive notice of, or attend, or vote at any general meeting of the Bank.
- The preference shares aforesaid shall be issued to such persons and on such terms and conditions as the Board may think fit.

28 Nature and purpose of reserves

- Property revaluation surplus represents the surplus arising from the revaluation of properties and is not distributable.
- Statutory reserve represents the excess of loan loss provisions computed in accordance with Central Bank of Kenya prudential guidelines over the impairment of loans and advances arrived at in accordance with International Accounting Standard 39 - Financial Instruments: Recognition and Measurement, on financial instruments. The statutory reserve is not distributable.
- Other reserves represents the unrealised increase or decrease in the fair value of available for sale investments, excluding impairment losses. The reserve is not distributable to the shareholders.

Notes (continued)

29 Notes to the statement of cash flows

	Group		Bank	
	2017 Sh'000	2016 Sh'000 Restated	2017 Sh'000	2016 Sh'000 Restated
<i>(a) Reconciliation of profit before taxation to cash generated from operations</i>				
Profit before taxation	785,082	79,891	740,373	58,847
Adjustments for:				
Depreciation of property and equipment (Note 22)	565,759	412,851	565,520	412,605
Amortisation and impairment of intangible assets (Note 23)	539,854	399,135	539,854	398,856
Write-off of property and equipment	-	709	-	709
Gain on disposal of equipment	-	(70)	-	(70)
Fair value gain on quoted investments (Note 19)	(97,127)	(5,360)	(97,127)	(5,360)
Cash flows from operating activities before working capital changes	1,793,568	887,156	1,748,620	865,587
Changes in working capital:				
Cash ratio requirement	(243,452)	1,002,481	(243,452)	1,002,481
Government securities (Note 29(c))	(1,296,954)	(7,527,368)	(1,286,774)	(7,527,368)
Deposits and balances due from financial institutions	(1,355,959)	492,422	(1,355,959)	492,422
Loans and advances to customers	2,658,741	7,511,527	2,658,741	7,511,527
Other assets	24,482	(1,514,357)	(3,302)	(1,503,059)
Non-current assets held for sale	-	(269,150)	-	(269,150)
Amount due from subsidiary	-	-	(69,181)	169,213
Customer deposits	405,480	(14,569,113)	652,133	(14,569,113)
Other liabilities	(1,250,378)	2,570,544	(1,240,370)	2,574,508
Cash generated from operating activities	735,528	(11,415,858)	860,456	(11,252,952)
<i>(b) Analysis of the balances of cash and cash equivalents</i>				
Cash on hand (Note 14)	2,006,949	3,322,294	2,006,949	3,180,119
Balances with Central Bank of Kenya (Note 14)	525,865	513,138	525,865	513,138
Deposits and balances due from banking institutions (Note 15)	1,007,534	1,215,326	1,007,534	1,215,326
Deposits and balances due to banking institutions (Note 25)	(5,620,120)	(7,311,668)	(5,620,120)	(7,311,668)
	(2,079,772)	(2,260,910)	(2,079,772)	(2,403,085)

Notes (continued)

29 Notes to the statement of cash flows (continued)

(c) Analysis of the increase in government securities	Group		Bank	
	2017 Sh'000	2016 Sh'000	2017 Sh'000	2016 Sh'000
		Restated		Restated
Movement in government securities (Note 16)	(1,172,200)	(7,462,368)	(1,162,020)	(7,462,368)
Non-cash items - revaluation of available for sale bonds (Note 16(c))	(124,754)	(65,000)	(124,754)	(65,000)
	(1,296,954)	(7,527,368)	(1,286,774)	(7,527,368)

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

30 Contingencies and commitments including off balance sheet items

(a) Off-balance sheet items

In common with other banks, the Group conducts business involving acceptances, guarantees, performances and indemnities. The majority of these facilities are offset by corresponding obligations of third parties

	Group and Bank	
	2017 Sh'000	2016 Sh'000
Letters of credit	2,015,942	1,116,959
Letters of guarantee	5,221,891	3,948,507
Swaps, Spots and Forwards	178,779	205,275
	7,416,612	5,270,741

Swaps, spots and forward contracts disclosed above represent notional values of shortdated contracts outstanding at year end. The resultant derivative balances were not recognised on the statement of financial position as they are immaterial.

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

Letters of guarantee are issued by the Group to guarantee performance by the customers to third parties. The Group will only be required to meet these obligations in the event of customer default.

(b) Contingent liabilities

The Bank has a number of pending court cases but directors, having undertaken legal consultation, believe no material financial liabilities will arise from these cases.

The Group has received a tax assessment from the Kenya Revenue Authority regarding certain aspects of its business. A portion of the assessment has been challenged on various principles and the Group continues to engage the tax authority to resolve the matter. Management is confident that no material liabilities will crystallise from these, beyond the provisions already recorded.

Notes (continued)

30 Contingencies and commitments including off balance sheet items (continued)

(c) Operating lease arrangements

The Group as a lessor

Rental income earned during the year was Sh 49,912,847 (2016 – Sh 28,819,000). At the end of the reporting period, the Group had contracted with tenants for the following future lease receivables:

Leases are negotiated for an average term of 5 years and rentals are reviewed annually. The leases are cancellable with a penalty. Tenants are required to pay full rent for the quarter in which termination of lease notice is given.

	Group and Bank	
	2017 Sh'000	2016 Sh'000
Within one year	25,047	53,789
In the second to fifth year inclusive	83,610	94,964
After five years	5,357	2,301
	114,014	151,054

The Group as a lessee

At the end of the reporting period, the Group had outstanding commitments under operating leases which fall due as follows:

	Group and Bank	
	2017 Sh'000	2016 Sh'000
Within one year	287,901	438,620
In the second to fifth year inclusive	662,006	1,098,130
After five years	258,770	154,342
	1,208,677	1,691,092

Operating lease payments represent rentals payable by the Group for some of its branch premises. Leases are negotiated for an average term of 6 years.

(d) Unutilised credit facilities

Unutilised credit facilities refers to undrawn credit card balances and overdrafts. In 2017, this amounted to Sh 1,530,093,000 (2016 – Sh 2,104,352,000).

Notes (continued)

31 Related party transactions and balances

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

Placings are made in the Bank by directors and companies associated to directors. Advances to customers at 31 December 2017 include advances and loans to companies associated to directors.

All transactions with related parties are at arm's length in the normal course of business, and on terms and conditions similar to those applicable to other customers.

	Bank	
	2017 Sh'000	2016 Sh'000
Related party balances		
Due from a subsidiary		
Natbank Trustee and Investment Services Limited	7,966	
NBK Insurance Agency Limited	61,993	778
	<u>69,959</u>	<u>778</u>
Due to a subsidiary		
Natbank Trustee and Investment Services Limited	575	-

Details of related party balances are as follows:

	Group and Bank	
	2017 Sh'000	2016 Sh'000
(a) Advances to customers		
Directors (Note 31(c))	19,151	17,822
Employees	4,728,314	4,213,865
	<u>4,747,465</u>	<u>4,231,687</u>
(b) Customer deposits		
Directors (Note 31(c))	23,933	62,460
Natbank Trustee & Investment Services Limited	17,169	21,976
NBK Insurance Agency	251,460	157,663
National Social Security Fund	2,474,676	2,497,857
	<u>2,767,238</u>	<u>2,739,956</u>

Notes (continued)

31 Related party transactions and balances (continued)

The related party transactions with directors during the year and the outstanding amounts at the year-end are as follows:

	Group and Bank	
	2017 Sh'000	2016 Sh'000
(c) Directors		
Loans and advances:		
At 1 January	17,822	100,955
Advanced during the year	12,990	-
Interest charged	271	75,792
Repayments during the year	(11,932)	(158,925)
At 31 December	<u>19,151</u>	<u>17,822</u>
Deposits:		
At 1 January	62,460	49,170
Received during the year	431,651	102,620
Withdrawn during the year	(470,178)	(89,330)
At 31 December	<u>23,933</u>	<u>62,460</u>

The remuneration of directors and other members of key management during the year was as follows:

	Group and Bank	
	2017 Sh'000	2016 Sh'000
Salaries and other short-term employment benefits	249,987	217,327
Pension and gratuity	27,918	27,329
	<u>277,905</u>	<u>244,656</u>
Directors' fees		
Fees for services as a director	30,851	24,150
Other emoluments (included in key management compensation above)	48,060	74,680
	<u>78,911</u>	<u>98,830</u>

Notes (continued)

32 Fiduciary activities

The Group holds asset security documents on behalf of customers with a value of Sh1,170,452,526 (2016–Sh 5,936,294,100). Most of these securities are held by the custody services department. The assets held comprise deposits with financial institutions, government securities, and quoted and unquoted securities.

33 Segmental reporting

The major reporting segments are Corporate, Retail and Islamic banking.

Corporate Banking – Government, parastatals, large corporates, multinationals and private companies with an annual credit turnover of above Shs 2 billion.

Retail banking – Small microfinance enterprises and individual customer's current accounts, savings, deposits, credit and debit cards, consumer loans and mortgages.

Islamic banking – Corporate & retail banking customers enjoying Sharia'h compliant products.

Segmented management reporting is measured by contribution consisting of net interest income, fees and commission income, other income, operating expenses and loan impairment expense. Income and expenses not arising from the principal activities of the Group, such as rental income & proceeds from disposal of property, are reported as unallocated for IFRS 8 purposes.

Assets and liabilities are interest earning assets and liabilities, which are the majority of the consolidated statement of financial position, but exclude non-earning assets as property and equipment, cash, taxes, other assets and liabilities, which are reported as unallocated.

Notes (continued)

33 Segmental reporting (continued)

Statement of profit or loss and other comprehensive income	Corporate	Retail	Islamic	Unallocated	Total
	Sh'000	Sh'000	Sh'000	Sh'000	Sh'000
2017					
Interest income	6,390,963	2,786,054	785,297	-	9,962,314
Interest expense	(2,727,791)	(448,172)	(78,402)	-	(3,254,365)
Net interest income	3,663,172	2,337,882	706,895	-	6,707,949
Non funded income	1,020,836	1,238,843	47,028	65,219	2,371,926
Total operating income	4,684,008	3,576,725	753,923	65,219	9,079,875
Operating costs	(3,420,805)	(3,246,207)	(915,750)	-	(7,582,762)
Loan loss provisions	(191,942)	(587,616)	(32,653)	55,471	(756,740)
Total costs	(3,612,747)	(3,833,823)	(948,403)	55,471	(8,339,502)
Contribution	1,071,261	(257,098)	(194,480)	120,690	740,373
2016					
Interest income	7,897,667	3,317,299	885,861	-	12,100,827
Interest expense	(3,840,232)	(398,819)	(69,894)	-	(4,308,945)
Net interest income	4,057,435	2,918,480	815,967	-	7,791,882
Non funded income	791,902	1,631,424	36,034	316,855	2,776,215
Total operating income	4,849,337	4,549,904	852,001	316,855	10,568,097
Operating costs	(4,493,584)	(2,930,642)	(670,024)	-	(8,094,249)
Loan loss provisions	(1,832,601)	(245,329)	(191,019)	(146,052)	(2,415,001)
Total costs	(6,326,185)	(3,175,971)	(861,043)	(146,052)	(10,509,250)
Contribution	(1,476,847)	1,373,934	(9,042)	170,803	58,847

Notes (continued)

33 Segmental reporting (continued)

Statement of financial position	Corporate	Retail	Islamic	Unallocated	Total
	Sh'000	Sh'000	Sh'000	Sh'000	Sh'000
2017					
Assets					
Loans and advances to customers	32,772,059	14,010,170	5,578,814	-	52,361,043
Government securities	35,707,852	-	-	-	35,707,852
Unallocated assets	-	-	-	21,873,147	21,873,147
Total assets	68,479,911	14,010,170	5,578,814	21,873,147	109,942,042
Liabilities					
Customer deposits	61,765,207	25,385,949	7,393,241	-	94,544,397
Other liabilities	-	-	-	8,350,108	8,350,108
Total liabilities	65,318,424	25,385,949	7,393,241	8,350,108	102,894,505
2016					
Assets					
Loans and advances to customers	33,106,966	15,828,276	6,084,543	-	55,019,784
Government securities	34,545,832	-	-	-	34,545,832
Unallocated assets	-	-	-	22,363,541	22,363,541
Total assets	67,652,798	15,828,276	6,084,543	22,363,541	111,929,158
Liabilities					
Customer deposits	68,479,396	19,984,424	5,428,444	-	93,892,264
Other liabilities	-	-	-	11,282,027	11,282,027
Total liabilities	68,479,396	19,984,424	5,428,444	11,282,027	105,174,291

Other disclosures

2017

Fixed assets additions	512,318
Depreciation and amortisation	(1,105,374)

2016

Assets	
Fixed assets addition	686,432
Depreciation and amortisation	(811,461)

Notes (continued)

33 Segmental reporting (continued)

Customer concentration per segment

The table below highlights the number of customers whose contribution to the various segments is above 10 percent.

	Corporate Sh'000	Retail Sh'000	Islamic Sh'000
2017			
Loans and advances to customers	11,092,407	-	1,277,269
Concentration	34%	-	23%
Number of customers	3	-	1
Customer deposits	14,883,100	-	3,521,541
Concentration	23%	-	48%
Number of customers	1	-	1
2016			
Loans and advances to customers	10,590,776	-	1,640,080
Concentration	32%	-	27%
Number of customers	3	-	1
Customer deposits	8,395,727	-	2,992,373
Concentration	12%	-	55%
Number of customers	1	-	1

34 Assets pledged as security

Deposits due from foreign banks amounting to Sh97,308,600 (Sh 2016-Sh 96,366,522) were under lien as collateral for the letters of credit and guarantees issued on behalf of the Group's customers.

Notes (continued)

35 Prior year adjustments

The prior year financial statements have been restated to correct errors relating to compliance with international reporting standards and CBK prudential guidelines in the calculation of impairment losses on loans and advances, and other errors in the reported financial information. The effect of the restatements are as follows:

Group statement of financial position

	2016 Sh'000	Increase/ (Decrease) Sh'000	2016 Sh'000 Restated	2015 Sh'000	Increase/ (Decrease) Sh'000	2015 Sh'000 Restated
Cash and balances with Central Bank of Kenya	8,581,315	(21,976)	8,559,339	16,438,119	(21,976)	16,416,143
Loans and advances	59,339,225	(4,319,441)	55,019,784	67,803,990	(5,272,679)	62,531,311
Other assets	4,103,259	(389,379)	3,713,880	2,589,828	(390,305)	2,199,523
Deferred tax assets	474,353	1,662,178	2,136,531	483,299	1,632,075	2,115,374
Investment in subsidiaries	19,963	(19,963)	-	19,963	(19,963)	-
Non-current assets held for sale	708,625	(117,681)	590,944	439,475	(117,681)	321,794
Total assets	73,226,740	(3,206,262)	70,020,478	87,774,674	(4,190,529)	83,584,145
Customer deposits	96,966,522	(3,096,234)	93,870,288	110,622,469	(2,183,068)	108,439,401
Deposits and balances due to financial institutions	4,233,654	3,078,014	7,311,668	2,343,245	2,183,068	4,526,313
Other liabilities	2,941,477	1,052,247	3,993,724	1,421,053	(21,976)	1,399,077
Total liabilities	104,141,653	1,034,027	105,175,680	114,386,767	(21,976)	114,364,791
Accumulated losses	3,038,128	(4,405,866)	(1,367,738)	2,709,413	(3,729,672)	(1,020,259)
Statutory Reserve	302,573	125,709	428,282	619,407	(619,407)	-
Revaluation reserve	660,062	20,368	680,430	509,752	180,527	690,279
Other reserves	(65,000)	19,500	(45,500)	-	-	-
Total shareholders' funds	3,935,763	(4,240,289)	(304,526)	3,838,572	(4,168,552)	(329,980)
Total liabilities and equity	108,077,416	(3,206,262)	104,871,154	118,225,339	(4,190,528)	114,034,811

Notes (continued)

35 Prior year adjustments (continued)

Bank statement of financial position

	2016 Sh'000	Increase/ (Decrease) Sh'000	2016 Sh'000 Restated	2015 Sh'000	Increase/ (Decrease) Sh'000	2015 Sh'000 Restated
Loans and advances	59,339,225	(4,319,441)	55,019,784	67,803,990	(5,272,679)	62,531,311
Other assets	4,092,749	(410,269)	3,682,480	2,589,689	(410,268)	2,179,421
Deferred tax assets	473,722	1,662,175	2,135,897	482,668	1,632,075	2,114,743
Non-current assets held for sale	708,625	(117,681)	590,944	439,475	(117,681)	321,794
Total assets	64,614,321	(3,185,216)	61,429,105	71,315,822	(4,168,553)	67,147,269
Customer deposits	96,966,522	(3,074,258)	93,892,264	110,622,469	(2,161,092)	108,461,377
Deposits and balances due to financial institutions	4,233,654	3,078,014	7,311,668	2,343,245	2,183,068	4,526,313
Other liabilities	2,918,115	1,052,244	3,970,359	1,415,699	(21,976)	1,393,723
Total liabilities	104,118,291	1,056,000	105,174,291	114,381,413	-	114,381,413
Accumulated losses	2,883,472	(4,406,793)	(1,523,321)	2,569,487	(3,729,673)	(1,160,186)
Statutory reserve	302,573	125,709	428,282	619,407	(619,407)	-
Revaluation reserve	660,062	20,368	680,430	509,752	180,527	690,279
Other reserves	(65,000)	19,500	(45,500)	-	-	-
Total shareholders' funds	3,781,107	(4,241,216)	(460,109)	3,698,646	(4,168,553)	(469,907)
Total liabilities and equity	107,899,398	(3,185,216)	104,714,182	118,080,059	(4,168,553)	113,911,506

Notes (continued)

35 Prior year adjustments (continued)

The effect of the restatements on the previously reported statement of comprehensive income for the year ended 31 December 2016 is as follows;

Group statement of profit or loss and other comprehensive income	2016 Sh'000	Increase/ (Decrease) Sh'000	Restated 2016 Sh'000
Interest income	12,327,782	(226,955)	12,100,827
Net interest income	8,018,837	(226,955)	7,791,882
Impairment losses on loans and advances	(2,697,895)	282,894	(2,415,001)
Fee and commission income	1,611,938	(158,702)	1,453,236
Profit before taxation	182,655	(102,763)	79,891
Income tax expense	(20,464)	11,526	(8,938)
Profit/(loss) for the year	162,190	(91,237)	70,953

Bank statement of profit or loss and other comprehensive income	2016 Sh'000	Increase/ (Decrease) Sh'000	Restated 2016 Sh'000
Interest income	12,327,782	(226,955)	12,100,827
Net interest income	8,018,837	(226,955)	7,791,882
Impairment losses on loans and advances	(2,697,895)	282,894	(2,415,001)
Fee and commission income	1,531,116	(158,702)	1,372,414
Profit before taxation	161,610	(102,763)	58,847
Income tax expense	(14,149)	10,600	(3,549)
Profit/(loss) for the year	147,461	(92,163)	55,298

PROXY FORM

Shareholder's Member/CDSC No. _____

The Company Secretary
National Bank of Kenya
Harambee Avenue
P.O. Box 72866 - 00200
NAIROBI

I/We..... of (address) being a member/
members of National Bank of Kenya Limited, hereby appoint :-of
(address)..... an failing him, the Chairman of the meeting to be my/our proxy, to vote on my / our behalf at
the 49th Annual General Meeting of the Company held on Monday 28th May 2018 at 10:00am or at any adjournment thereof.

As witness my/our hand/ hands is/ are set this Day of (Month) 2018

Signed _____

NOTE: 1. A proxy need not be a member.

2. In the case of a corporate body the proxy must be under its Common Seal.

3. This proxy must be delivered to the Company's registered office not later than 5.00 p.m. on **Friday 25th May 2018**

Shareholder Admission Letter

Please complete this form and note that it must be produced at the Company's Annual General Meeting by your proxy for admission.

Name Signature

Shareholder's Member/CDSC Number

The 49th Annual General Meeting of National Bank of Kenya Limited to be held at Kenyatta International Conference Centre (KICC), Amphitheatre
on Monday 28th May 2018 at 10:00am.

FOMU YA UWAKILISHI

Nambari ya mwanachama/ akaunti ya CDSC _____

Katibu wa Kampuni
National Bank of Kenya Limited
Harambee Avenue
SLP 72866-00200
NAIROBI

Mimi/sisi
Kutoka (anwani)
Kama Mwanachama/ wanachama wa National Bank of Kenya Limited, namteua/twamteua:-

Kutoka (anwani).....
au akikosa, mwenyekiti wa mkutano kuwa wakala wangu/wetu, ili kupiga kura kwa niaba yangu/yetu wakati wa mkutano wa 49 wa pamoja wa mwaka wa Kampuni utakaofanyika **Jumatatu Mei 28, 2018 kuanzia saa nne asubuhi** au kuahirishwa kwake.

Kama shahidi ninatia /tunatia sahihi hii/hizi siku ya Mwezi wa 2018

Sahihi _____

MUHIMU

1. Si lazima kwa wakala kuwa mwanachama
2. Katika hali ambapo mwanachama ni shirika, fomu ya uwakilishi iwe imepigwa mhuri Wake
3. Ni lazima fomu hii ya uwakilishi kuwasilishwa katika ofisi za benki zilizosajiliwa kabla ya Ijumaa Mei 25, 2018

Barua ya Kumruhusu mwanachama kuhudhuria mkutano

Tafadhali jaza fomu hii na ufahamu kwamba ni lazima itolewe nawe au wakala wako ili kukuruhusu kuhudhuria Mkutano wa pamoja wa mwaka wa kampuni.

Jina Sahihi

Nambari ya mwanachama/ nambari ya CDSC

Mkutano wa 49 wa pamoja wa mwaka wa wanahisa wa National Bank of Kenya Limited (kampuni) utafanyika katika ukumbi wa Amphitheatre jumba la Kimataifa la Jomo Kenyatta lililoko barabara ya Harambee Avenue Nairobi Jumatatu Mei 28, 2018 kuanzia saa nne asubuhi.

HEAD OFFICE:

National Bank Building
Harambee Avenue
P.O. Box 72866
00200-City Square, Nairobi
Tel: 020-2828000
Fax: 020-311444/222304
E-Mail: info@nationalbank.co.ke
Website: www.nationalbank.co.ke

Card Centre

P.O. Box 72866 00200-City Square, Nairobi
Tel: 020-2828000/0711038000
Fax: 020-213987
E-Mail:cardcentre@nationalbank.co.ke

NAIROBI BRANCHES:

1. Harambee Avenue Branch

P.O. Box 41862- 00100-GPO Nairobi
Tel: 020-2828000
Fax: 020-2248487
Mobile:0711038000
E-Mail: harambee@nationalbank.co.ke

2. Times Tower Branch

P.O. Box 56330 00200,Nairobi
Tel: 020-2213087
Fax: 020-2213084
MOBILE:0711038000
E-Mail:timestower@nationalbank.co.ke

3. Inland Container Depot Agency

P.O. Box 41862 00100-GPO Nairobi,
Tel: 020-2828000
Mobile: 0711038000
E-mail:icdagency@nationalbank.co.ke

4. Hill Plaza Branch

P.O. Box 45219 00100-GPO Nairobi
Tel: 020-2828000
Mobile: 0711038000
E-Mail: hill@nationalbank.co.ke

5. NSSFAgency

P.O. Box 45219 00100 Nairobi
Tel: 020-2828000
Mobile: 0711038000
Email:callcentre@nationalbank.co.ke

6. Hospital Branch

P.O. Box 30763 00100-GPO Nairobi
Tel: 020-2828000
Mobile: 0726610097/0711038000
E-Mail: hospital@nationalbank.co.ke

7. Kenyatta Avenue Branch

P.O. Box 30645- 00100-GPO Nairobi
Tel: 020-340880/8/340887
Mobile: 0722-205253/4 -0733618663/4
E-Mail: kenyatta@nationalbank.co.ke

8. Kenyatta Amanah

P.O. Box 30645- 00100-GPO Nairobi
Tel: 020-340880/8/340887
Mobile: 0722-205253/4 -0733618663/4

9. Eastleigh Amanah Branch

P.O. Box 16131-00610 Nairobi
Tel: 020-2828000
Mobile: 0711038000
E-Mail: eastleigh@nationalbank.co.ke

10. Awendo Branch

P.O. Box 200 Sare-Awendo
Tel: 020-2828000
Mobile: 0711038000
E-Mail:awendo@nationalbank.co.ke

11. Bomet

P.O. Box 539-20400 Bomet
Tel: 020-2188235/2828000
Mobile: 0711038000
Email: callcentre@nationalbank.co.ke

12. Bungoma Branch

P.O. Box 25 Bungoma
Tel: 020-2828000
Mobile: 0711038000
E-Mail: bungoma@nationalbank.co.ke

13. Busia Branch

P.O. Box 264 Busia
Tel: 020-2828000
Mobile: 0711038000
E-Mail:busia@nationalbank.co.ke

14. Eldoret Branch

P.O. Box 3111 -30100 Eldoret
Tel: 053-2062545/6/7
Mobile:0734575590/0713790791
E-Mail: eldoret@nationalbank.co.ke

15. Eldoret International Airport Agency

P.O. Box 3111-30100, Eldoret
Tel: 020-2828000
Mobile: 0711038000
Email:eldoretairport@nationalbank.co.ke

16. Embu Branch

P.O. Box 2290-60100, Embu
Tel: 020-2828000
Mobile: 0711038000
Email :embu@nationalbank.co.ke

17. Kakamega Branch

P.O. Box 1773-50100 Kakamega
Tel: 020-2828000
Mobile: 0711038000
Email:kakamega@nationalbank.co.ke

18. Kapsabet Branch

P.O. Box 34 Kapsabet
Tel: 020-2828000
Mobile: 0711038000
E-Mail: kapsabet@nationalbank.co.ke

19. Karatina Branch

P.O. Box 1490 -10101 Karatina
Tel: 020-2828000
Mobile: 0711038000
E-Mail: karatina@nationalbank.co.ke

20. Kiambu branch

P.O. Box 2090 00900 Kiambu
Tel: 020-2828000
Mobile: 0711038000
E-Mail:kiambu@nationalbank.co.ke

21. Kisii branch

P.O. BOX 2435 Kisii
Tel: 020-2828000
Mobile: 0711038000
Email: Kisii@nationalbank.co.ke

22. Kitale branch

P.O. BOX 1192 Kitale
Tel: 020-2828000
Mobile: 0711038000
Email: Kitale@nationalbank.co.ke

23. Kitui Branch

P.O. Box 166 -90200 Kitui
Tel: 020-2828000
Mobile: 0711038000
E-Mail: kitui@nationalbank.co.ke

24. Kisumu branch

P.O. Box 1152 - 40100 Kisumu
Tel: 020-2828000
Mobile: 0711038000
Email: kisumu@nationalbank.co.ke

25. Limuru Branch

P.O. Box 240-00217 Limuru
Tel: 020-2828000
Mobile: 0711038000
E-Mail: limuru@nationalbank.co.ke

26. Meru Branch

P.O. Box 1174-60200 Meru
Tel: 020-2828000
Mobile: 0711038000
E-Mail: meru@nationalbank.co.ke

27.Molo Branch

P.O. Box 68 -2016 Molo
Tel: 21301181/2317172/3/4
Mobile: 0711038000
E-Mail: molo@nationalbank.co.ke

28.Nakuru Branch

P.O. Box 1013-20100 Nakuru
Tel: 020-2828000
Mobile: 0711038000
E-Mail:nakuru@nationalbank.co.ke

29. Narok Branch

P.O. Box 348 Narok
Tel: 020-2828000
Mobile: 0711038000
E-Mail: narok@nationalbank.co.ke

30. Nkrumah Road Branch

Mombasa
P.O. Box 90363 -80100 Mombasa
Tel: 020-2828000
Mobile: 0711038000
E-Mail: nkrumah@nationalbank.co.ke

31. Nyeri Branch

P.O. Box 1629 -10100 Nyeri
Tel: 020-2828000
Mobile: 0711038000
E-Mail: nyeri@nationalbank.co.ke

32. Ongata Rongai Branch

P.O. Box 590-00511, Ongata Rongai
Tel: 020-2828000
Mobile: 0711038000
E-Mailongatarongai@nationalbank.co.ke

33. Portway House Branch

P.O. Box 87770 -80100 Mombasa
Tel: 020-2828000
Mobile: 0711038000
E-Mail: portway@nationalbank.co.ke

34. Port Agency (Kilindini)

P.O. Box 87770 Mombasa
Tel: 020-2828000
Mobile: 0711038000
E-Mail:portagency@nationalbank.co.ke

35. Ruiru Branch

P.O. Box 93 -00232Ruiru
Tel: 020-2828000
Mobile: 0711038000
E-Mail:ruiru@nationalbank.co.ke

36. Malindi Branch

P.O. Box 2016-80200, Malindi
Tel: 020-2828000
Mobile: 0711038000
Email: Malindi@nationalbank.co.ke

37. Ukunda Branch

P.O. Box 457-80400, Ukunda
Tel: 020-2828000
Mobile: 0711038000
Email: Ukunda@nationalbank.co.ke

38. Upper Hill (TSC Building)

P.O. Box 59396-00200, City Square
Tel: 020-2828000
Mobile: 0711038000
Email: upperhill@nationalbank.co.ke

39. Nandi Hills Branch

P.O. Box 264-30301 Nandi Hills
Tel: 020-2828000
Mobile: 0711038000
Email: nandihills@nationalbank.co.ke

40. Migori Branch

P.O. Box 1071-40400, Suna
Tel: 020-2828000
Mobile: 0711038000
Email: migori@nationalbank.co.ke

41. Westlands Branch

P.O. Box 1613-00606 Nairobi
Tel: 020-2828000
Mobile: 0711038000
Email: westlands@nationalbank.co.ke

42. African Cargo Handling Limited (ACHL)-Agency JKIA

P.O. Box 30763-00100, Nairobi
Tel: 020-2828000
Mobile: 0711038000
Email:callcentre@nationalbank.co.ke

43. Wilson Airport

P.O. Box 30763-00100 Nairobi
Tel: 020-2828000
Mobile: 0711038000
Email: wilson@nationalbank.co.ke

44. J.K.I.A

P.O. Box 30763-00100 Nairobi
Tel: 020-2828000
Mobile: 0711038000
Email: jkia@nationalbank.co.ke

45. Moi's Bridge

P.O. Box 1192 -30200 Kitale
Tel: 020-2828000
Mobile: 0711038000
Email:moi'sbridge@nationalbank.co.ke

46. Mutomo Branch

P.O. Box 177-90201 Mutomo
Tel: 020-2828000
Mobile: 0711038000
Email: mutomo@nationalbank.co.ke

47. Kianjai Branch

P.O. Box 1774-60200 Meru
Tel: 020-2828000
Mobile: 0711038000
E-Mail: kianjai@nationalbank.co.ke

48. Kenyatta University

P.O. Box 93 -002300 Ruiru
Tel: 020-2828000
Mobile: 0711038000
E-Mail: kenyattauniversity@nationalbank.co.ke

49. St. Pauls University

P.O. Box 240-00217 Limuru
Tel: 020-2828000
Mobile: 0711038000
E-Mail:stpaulsuniversity@nationalbank.co.ke

50. Moi University

P.O. Box 3111 -30100 Eldoret
Tel: 020-2828000
Mobile: 0711038000
E-Mail:moiuniversity@nationalbank.co.ke

51. Moi International Airport, Mombasa

P.O. Box 87770 -80100 Portway
Tel: 020-2828000
Mobile: 0711038000
E-Mail:moiinternationalairport@nationalbank.co.ke

52. Maua

P.O. Box 559-60600 Maua
Tel: 020-2828000
Mobile: 0711038000
E-Mail:maua@nationalbank.co.ke

53. Machakos Branch

P.O. Box 274-00601 Machakos
Tel: 020-2828000
Mobile: 0711038000
Email: machakos@nationalbank.co.ke

54. Kitengela Branch

P.O. Box 55-00242 Kitengela
Tel: 020-2828000
Mobile: 0711038000
Email: kitengela@nationalbank.co.ke

55. Mtwapa Branch

P.O. Box 1059-80109 Mtwapa
Tel: 020-2828000
Mobile: 0711038000
Email: mtwapa@nationalbank.co.ke

56. Changamwe Branch

P.O. Box 92958-80102 Changamwe
Tel: 020-2828000
Mobile: 0711038000
Email:changamwe@nationalbank.co.ke

57. Garissa Branch

P. O. Box 1648-70100 Garissa
Tel: 020-2828000
Mobile: 0711038000
Email: garissa@nationalbank.co.ke

58. Technical University of Mombasa

P.O. Box 578 - 80100
Tel: 020-2188235/2828000
Mobile: 0711038000
Email: callcentre@nationalbank.co.ke

59. Seku

P.O. Box 1658-90200 Kitui
Tel: 020-2188235/2828000
Mobile: 0711038000
Email: callcentre@nationalbank.co.ke

60. Thika Branch

P. O. Box 2757-01000 Thika
Tel: 020-2828000
Mobile: 0711038000
Email: thika@nationalbank.co.ke

61. Sameer Business Park

P.O. Box78272 -00507, Nairobi
Tel: 020-2828000
Mobile: 0711038000
Email: sameer@nationalbank.co.ke

62. Greenspan Branch

P.O. Box 743 -00518, Nairobi
Tel: 020-2828000
Mobile:0711038000
Email:greenspanbranch@nationalbank.co.ke

63. Bondeni

P.O. Box 90363 – 80100, Mombasa
Tel: 020-2188235/2828000
Mobile: 0711038000
Email:callcentre@nationalbank.co.ke

64. LungaLunga

P.O. Box 78272 – 00507, Nairobi
Tel: 020-2188235/2828000
Mobile: 0711038000
Email: callcentre@nationalbank.co.ke

65. Mountain Mall

P.O. Box 76900-00620, Nairobi
Tel: 020-2188235/2828000
Mobile: 0711038000
Email: callcentre@nationalbank.co.ke

66. Kilifi

P.O. Box 1392-80108 Kilifi
Tel: 020-2188235/2828000
Mobile: 0711038000
Email: callcentre@nationalbank.co.ke

67. Ngong Road

P.O. Box 21922-00505 Nairobi
Tel: 020-2188235/2828000
Mobile: 0711038000
Email:callcentre@nationalbank.co.ke

68. Moi Avenue

P.O. Box 38647-00100, Nairobi
Tel: 020-2188235/2828000
Mobile: 0711038000
Email: callcentre@nationalbank.co.ke

69. South C (KEBS)

P.O. Box 38645-00100, Nairobi
Tel: 020-2188235/2828000
Mobile: 0711038000
Email: callcentre@nationalbank.co.ke

70. Wajir Branch

P.O. B ox 597 – 70200, Wajir
Tel: 020-2828000
Mobile: 0711038000
Email: wajirbranch@nationalbank.co.ke

71. Nyali Centre

P.O. Box 34440-80118, Mombasa
Tel: 020-2828000
Mobile: 0711038000
Email: callcentre@nationalbank.co.ke

72. Kericho

P.O. Box 1266-20200 Kericho
Tel: 020-2188235/2828000
Mobile: 0711038000
Email: callcentre@nationalbank.co.ke

73. Mandera

P.O. Box 379-70300 Mandera
Tel: 020-2188235/2828000
Mobile: 0711038000
Email: callcentre@nationalbank.co.ke

74. Isiolo

P.O. Box 709-60300 Isiolo
Tel: 020-2828900
Mobile: 0703088900
Email: IsioloBranch@nationalbank.co.ke

75. Kisumu Premium

P.O. Box 7254 40100 Kisumu
Tel: 020-2828900
Mobile: 0703088900
Email: PremiumBankingKisumuBranch@nationabank.co.ke

76. South C – Red Cross Branch

P.O. Box 38645 00100 Nairobi
Tel: 020-2828900
Mobile: 0703088900
Email:SouthCRedCrossBranch@nationalbank.co.ke

77. Yaya Centre

P.O. Box 76193-00508 Nairobi
Tel: 020-2828900
Mobile: 0703088900
Email: YayaCentre@nationalbank.co.ke

78. Gigiri

P.O. Box 72866-00200 Nairobi
Tel: 020-2828900
Mobile: 0703088900
Email: GigiriBranch@nationalbank.co.ke

79. JKIA Terminal 2

P.O. Box 30763-00100 Nairobi
Tel: 020-2828900
Mobile: 0703088900
Email: jkia@nationalbank.co.ke

80. Busia KRA Agency

P.O. Box 264-50400 Busia
Tel: 020-2828900
Mobile: 0703088900
Email: BusiaKRAAgency@nationalbank.co.ke



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