

REPUBLIC OF KENYA

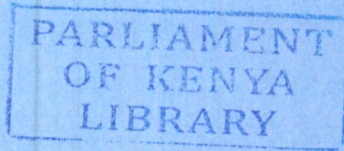


*Paper laid by
Leader of Majority
on 06/06/2018
@Lumina*

OFFICE OF THE AUDITOR-GENERAL



REPORT



OF



THE AUDITOR-GENERAL

ON

**THE FINANCIAL STATEMENTS OF
CONSOLIDATED BANK OF KENYA
LIMITED**

**FOR THE YEAR
ENDED 31 DECEMBER 2017**



REPUBLIC OF KENYA



OFFICE OF THE AUDITOR-GENERAL

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CONSOLIDATED BANK OF KENYA
LIMITED**

**FOR THE YEAR
ENDED 31 DECEMBER 2017**



CONSOLIDATED BANK OF KENYA LIMITED

**ANNUAL REPORT AND
FINANCIAL STATEMENTS**

31 DECEMBER 2017

CONSOLIDATED BANK OF KENYA LIMITED

ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017

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CONSOLIDATED BANK OF KENYA LIMITED

CORPORATE INFORMATION

DIRECTORS:

T. Kiyai - Chief Executive Officer
Cabinet Secretary, National Treasury
Managing Trustee - NSSF
Dr. R. Omollo
J. Koskey

AUDIT COMMITTEE:

J. Koskey-Chairman
Cabinet Secretary, National Treasury
Managing Trustee - NSSF
R. Omollo

RISK COMMITTEE:

R. Omollo-Chairman
T. Kiyai
J. Koskey
Managing Trustee - NSSF

STAFF COMMITTEE:

J. Koskey-Chairman
T. Kiyai
Cabinet Secretary, National Treasury
Managing Trustee - NSSF

FINANCE AND CREDIT COMMITTEE:

R. Omollo-Chairman
T. Kiyai
Managing Trustee - NSSF
Cabinet Secretary - Treasury

COMPANY SECRETARY:

Wakonyo Igeria
Certified Public Secretary (Kenya)
P. O. Box 51133 – 00200, Nairobi

REGISTERED OFFICE:

Consolidated Bank House
23 Koinange Street
P. O. Box 51133 - 00200, Nairobi

AUDITORS:

Principal auditors:
The Auditor General
Anniversary Towers
P. O. Box 30084 – 00100, Nairobi

CORRESPONDENT BANKS:

ABSA Bank Limited
Vostro Department
P.O. Box 585 Johannesburg 2000

Delegated auditors:

Deloitte & Touche
Certified Public Accountants (Kenya)
Deloitte Place, Waiyaki Way, Muthangari
P. O. Box 40092 – 00100, Nairobi

BMCE Bank Interenational
Serrano 59 - 280006
Madrid
Italy

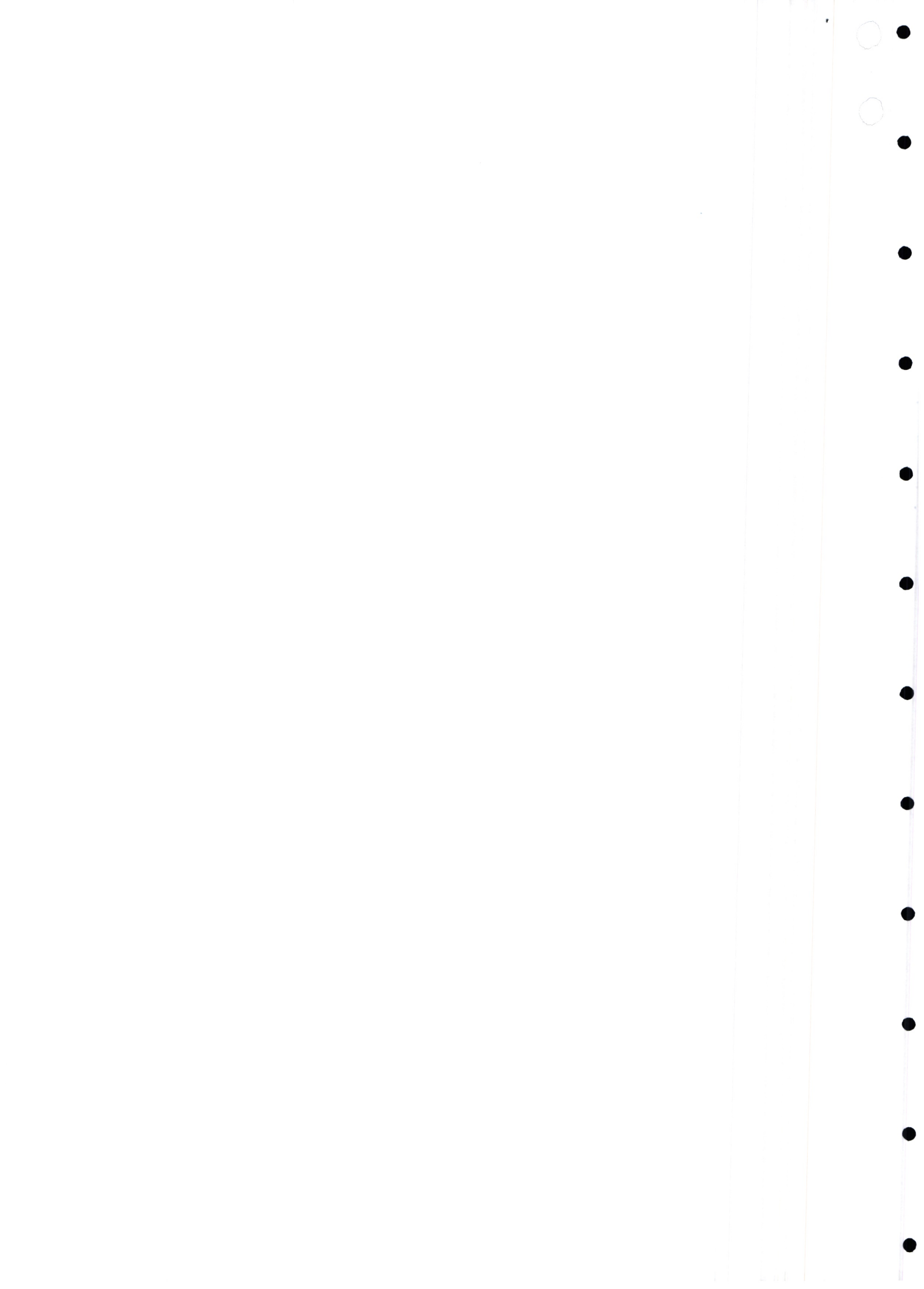
ODDO BHF Aktiengesellschaft
Bockenheiner Landstr.10-60323Frankfurt am Main
Germany

LEGAL ADVISERS:

Hamilton Harrison & Mathews
Delta Suites, Waiyaki Way
P.O. Box 30333 - 00100 Nairobi, Kenya

LEGAL ADVISERS :

Ndungu, Njoroge & Kwach Advocates
12th Floor, International House
Mama Ngina Street
P. O. Box 41546 - 00100, Nairobi, Kenya



CONSOLIDATED BANK OF KENYA LIMITED

STATEMENT OF CORPORATE GOVERNANCE

Corporate governance defines the process and structure used to direct and manage the business affairs of Consolidated Bank of Kenya Limited (“the Bank”) with the aim of enhancing corporate accounting and shareholders’ long term value while taking into account the interests of other stakeholders.

The Board of Directors is responsible for the governance of the Bank and is committed to ensuring that its business operations are conducted with integrity and in compliance with the law, internationally accepted principles and best practices of corporate governance and business ethics. To this end the Bank has put in place processes, systems, practices and procedures which are frequently reviewed and updated embracing the changing corporate environment and world trends.

Business ethics

The Bank conducts its business in compliance with high ethical standards of business practice. In this respect, transactions with its clients, intermediaries, insiders, employees and other stakeholders are conducted at arm’s length, with integrity and transparency. The business is conducted with high levels of transparency and accountability.

Board of Directors

The names of the Directors as at the date of this report are set out on page 2.

The Board fulfils its fiduciary responsibility to the shareholders by maintaining control over the strategic, financial, operational and compliance issues of the Bank. 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, it has delegated authority to the Chief Executive Officer to conduct the day-to-day business of the Bank.

The Board consists of five non-executive directors (including the Chairman) and the Chief Executive Officer. The Board members possess extensive experience in a variety of disciplines in banking, business and financial management, all of which are applied in the overall management of the Bank. The Board meets at least once every two months, and has a formal schedule of matters reserved for it. The Directors are given appropriate and timely information so that they can perform their fiduciary responsibilities effectively.

a) Directors’ Emoluments and Loans

The remuneration of all Directors is subject to the guidelines issued by the Office of the President on terms and conditions of service for State Corporations. The Directors are not eligible for membership of the pension scheme and do not participate in any of the Bank’s bonus schemes. Information on the compensation received and the dealings of the Directors with the Bank are included in notes 11 and 38 to the financial statements.

b) Related Party Transactions

There have been no materially significant related party transactions, pecuniary transactions or relationships between the Bank and its Directors or Management except those disclosed in Note 38 to the financial statements.

The Board has set up working committees to assist in discharging its duties and responsibilities as follows:

Audit Committee

The Board is mandated to raise the standards of corporate governance by reviewing the quality and effectiveness of the internal control systems, the internal and external audit functions and the quality of financial reporting. In addition to advising the Board on best practice, the committee also monitors management’s compliance with relevant legislation, regulations and guidelines as well as the Bank’s laid down policies and procedures. The committee has direct access to the Internal Audit function, the Company Secretary and the external auditors. During the year the committee received and reviewed the findings of the internal and external audit reports and management’s action to address them.

CONSOLIDATED BANK OF KENYA LIMITED

STATEMENT OF CORPORATE GOVERNANCE (Continued)

Risk Committee

The committee is responsible for overseeing the implementation of the Bank's risk management framework to ensure that all existing and potential significant risks are identified and effectively managed. The committee considers both internal and external sources of information regarding risks to keep abreast with new developments and their potential impact to the business. The committee receives periodic reports from the risk and compliance function relating to the Bank's strategic risk, credit risk, market risk (interest rate risk, price risk, and foreign exchange risk), operational risk, regulatory risk, reputational risk, and liquidity risk.

Finance and Credit Committee

The committee is mandated to review and make recommendations on the Bank's credit, financial and accounting policies, and review and make recommendations on the Bank's Annual Budget, oversight of the overall lending policy of the Bank and deliberate and consider loan applications beyond the credit discretion limits set for management. The committee also reviews and considers all issues that may materially impact the present and future quality of the Bank's credit risk management function as well as the quality of the loan portfolio and ensure adequate bad debt provisions are maintained in line with the Central Bank of Kenya prudential guidelines. The committee also reviews, approves and monitors the management's compliance with applicable statutory provisions, Bank policies and guidelines relating to the monitoring of price, liquidity, exchange rate and interest rate risks.

Staff Committee

The committee is mandated to formulate staff policies and procedures and ensure an adequately staffed and professionally managed human resource. The committee assists the Board in discharging its corporate governance role by reviewing staffing needs of the Bank, appoints senior management staff, reviews training needs and undertake disciplinary measures as per the staff policies.

CONSOLIDATED BANK OF KENYA LIMITED

STATEMENT OF CORPORATE GOVERNANCE (Continued)

Board meeting attendance

During the year under review, the Board held main board meetings and working committee meetings. The Board members attendance for 2017 is as follows:

Name	Board Meeting			Audit Committee			Risk & Compliance Committee			Credit & Finance Committee			Staff Committee		
	Meetings required to attend	Meetings attended	%	Meetings required to attend	Meetings attended	%	Meetings required to attend	Meetings attended	%	Meetings required to attend	Meetings attended	%	Meetings required to attend	Meetings attended	%
T. Kiyai - (Chief Executive Officer)	*8	8	100%	-	-	-	4	4	100%	6	6	100%	2	2	100%
George Omino – Representing Cabinet Secretary National Treasury	9	8	89%	5	5	100%	-	-	-	6	4	67%	2	2	100%
Moses Cheseto- Alternate to Managing Trustee - NSSF	9	8	89%	4	4	100%	4	4	100%	6	6	100%	1	1	100%
Dr. Raymond Omollo	9	9	100%	4	5	100%	4	4	100%	6	6	100%	-	-	-
Joseph Koskey	9	8	89%	5	5	100%	4	4	100%	-	-	-	2	2	100%
Dr. B. Ateng - (Chairman)	1	1	100%	-	-	-	-	-	-	-	-	-	-	-	-
Amb. C. Amira	1	1	100%	-	-	-	-	-	-	-	-	-	-	-	-
M. Cherogony	1	1	100%	-	-	-	-	-	-	-	-	-	-	-	-
P. Muhindi	1	1	100%	-	-	-	-	-	-	-	-	-	-	-	-
E. Vitisia	1	1	100%	-	-	-	-	-	-	-	-	-	1	1	100%

* The Chief executive officer was required to attend 8 of the 9 board meetings held because one of the meetings held was for non-executive board members only

CONSOLIDATED BANK OF KENYA LIMITED

STATEMENT OF CORPORATE GOVERNANCE (Continued)

Board performance evaluation

The chairman conducts evaluations of the performance of the Board, individual Directors and Board Committee's annually. In addition the Board and its Committees undertake an annual evaluation of their performance and report their findings and any resulting recommendations to the Board. The Board also undertakes an evaluation of the performance of the Chairman. The Board discusses the results of its evaluations and uses the process to constructively improve the effectiveness of the Board.

Shareholders

The list of the shareholders and their individual holdings at the year ended 31 December 2017 was as follows:

	No. of Ordinary Shares	%	No. of Preference Shares	%
Cabinet Secretary/The National Treasury	35,000,000	77.9%	-	-
National Social Security Fund	2,225,000	5.0%	8,050,000	22.3%
Kenya National Assurance (2001)	1,094,487	2.4%	3,958,300	11.0%
Kenya National Assurance Company Limited	835,513	1.9%	3,021,700	8.4%
Kenya Pipeline Company Limited	720,000	1.6%	2,631,500	7.3%
Kenya National Examination Council	695,000	1.5%	2,520,000	7.0%
Public Trustees	660,000	1.5%	2,420,000	6.7%
Telkom Kenya Limited	620,000	1.4%	2,250,000	6.2%
National Hospital Insurance Fund	590,000	1.3%	2,120,000	5.9%
LAPTRUST Retirement Services Limited	486,000	1.1%	1,756,000	4.9%
Total of 10 above	42,926,000	95.6%	28,727,500	79.7%
Other Shareholders	1,994,000	4.4%	7,329,000	20.3%
TOTAL SHAREHOLDING	44,920,000	100%	36,056,500	100%

Compliance

The Bank is governed by the Banking Act, among other legal requirements, and adopts certain universally accepted principles in the areas of human rights, labour standards in its commitment to best practice. Additionally, the Bank prepares its financial statements in accordance with International Financial Reporting Standards (IFRS).



Director
Joseph Koskey

27 March 2018

CONSOLIDATED BANK OF KENYA LIMITED

REPORT OF THE DIRECTORS

The Directors have pleasure in presenting their report together with the audited financial statements of Consolidated Bank of Kenya limited (“the Bank”) for the year ended 31 December 2017, which show the state of affairs of the Bank.

PRINCIPAL ACTIVITIES

The principal activities of the Bank, which is governed by the Banking Act, are the provision of banking, financial and related services.

RESULTS	Sh'000
Loss before taxation	(438,570)
Taxation credit	102,889
	<hr/>
Loss for the year transferred to accumulated deficit	(335,681)
	<hr/> <hr/>

DIVIDEND

The Directors do not recommend the payment of a dividend for the year (2016: nil).

DIRECTORS

The current members of the Board of Directors are shown on page 2. The following changes took place in the directorship during the year.

- Dr. Benson Ateng term as chairman ended on 9 January 2017.
- Miriam Cherogony term as director ended on 3 February 2017.
- Evans Vitisia term as director ended on 3 February 2017.
- Charles Amira term as director ended on 3 February 2017.
- Papius Muhindi term as director ended on 3 February 2017.

DIRECTORS' STATEMENT AS TO INFORMATION GIVEN TO AUDITORS

Each of the persons who is a director at the date of approval of this report confirms that:

- so far as the Director is aware, there is no relevant audit information of which the Company's auditors are unaware; and
- the Director has taken all the steps that he/she ought to have taken as a Director in order to make himself/herself aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

BUSINESS REVIEW

The operating environment for the year 2017 was extremely difficult for businesses across various sectors of the economy and the bank was no exemption. The drought, prolonged electioneering and disputed presidential election results negatively affected macroeconomic performance. Economic activity significantly slowed down in the third and fourth quarter and the GDP growth rate is estimated to have dropped to below 5% from 5.8% the previous year. The banking industry performance was further dampened by the full impact of the interest rates capping law which came into effect on 14th September 2016.

CONSOLIDATED BANK OF KENYA LIMITED

REPORT OF THE DIRECTORS

The bank's performance was also impacted by lack of adequate capital to meet regulatory requirements and support business. Total assets declined by 3.3% to Kshs 13.5 billion in 2017 from Kshs 13.9 billion in 2016. Net advances declined by 8% to Kshs 8.4 billion from Kshs 9.2 billion on the backdrop of the difficult economic environment and the capital challenges facing the bank. The deposits also declined by 9% to Kshs 8.6 billion from Kshs 9.5 billion the previous year on account of the difficult operating environment in the third and fourth quarter.

The economy is expected to rebound to 5.8% in 2018 on account of stable political environment hence a more conducive investment climate and improvement in overall confidence in the country.

The board has been actively engaging the National Treasury the majority shareholder with 77.9% shareholding with a view to resolving the capital challenges facing the bank. The National Treasury has committed to inject bridging capital of at least Kshs 500 million and also facilitate the implementation of the transaction leading to privatisation through a strategic investor who will inject an additional Kshs 1 billion by 30 September 2018. The board is therefore remains optimistic to turn around the bank financial performance in the year 2018.

The bank is therefore keen on addressing the capital challenges to comply with regulatory requirements and support balance sheet and revenue growth. The bank expects to leverage on the digital bank to grow customer numbers and increase non funded income through enhanced products offering and increased transaction volumes.

AUDITORS

The Auditor General is responsible for the statutory audit of the Bank's books of account in accordance with section 14 and section 39(i) of the Public Audit Act, 2004 which empowers the Auditor General to nominate other auditors to carry out the audit on his behalf and subject to the approval by the Central Bank of Kenya in accordance with the requirements of Section 24(1) of the Banking Act.

Deloitte & Touche, who were nominated by the Auditor General, carried out the audit of the financial statements for the year ended 31 December 2017.

BY ORDER OF THE BOARD



Secretary
Wakonyo Igeria

Nairobi

27 March 2018

CONSOLIDATED BANK OF KENYA LIMITED

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 company as at the end of the financial year and of its profit or loss for that year. It also requires the Directors to ensure that the company maintains proper accounting records that are sufficient to show and explain the transactions of the company and disclose, with reasonable accuracy, the financial position of the company. The Directors are also responsible for safeguarding the assets of the company, and for taking reasonable steps for the prevention and detection of fraud and error.

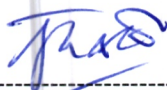
The Directors accept responsibility for the preparation and presentation of these financial statements in accordance with the International Financial Reporting Standard and in the manner required by the Kenyan Companies Act. They also accept responsibility for:

- i) designing, implementing and maintaining such internal control as they determine necessary to enable the presentation of financial statements that are free from material misstatement, whether due to fraud or error;
- ii) selecting suitable accounting policies and applying them consistently; and
- iii) making accounting estimates and judgements that are reasonable in the circumstances.

The Directors have considered the Bank's non-compliance with the minimum capital requirements of the Central Bank of Kenya Prudential Guidelines as discussed in note 3 to the financial statements, which indicates that, at 31 December 2017, the Bank's total regulatory capital to risk weighted assets ratio was 5.1 %, which is below the CBK minimum prudential ratio of 14.5%. The Directors in consultation with National Treasury are taking the necessary measures to recapitalise the Bank and ensure compliance with the regulatory and prudential requirements. The National Treasury the majority shareholder with 77.9% stake is in the process of seeking necessary approvals from the Cabinet and the National Assembly for the implementation of the agreed recapitalisation strategy. Based on the foregoing the Directors believe that the Bank will remain a going concern in the foreseeable future.

Nothing else has come to the attention of the Directors to indicate that the Bank will not remain a going concern for at least the next 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 responsibilities.



Joseph Koskey
Chairman



Dr. Raymond Omollo
Director

27 March 2018

CONSOLIDATED BANK OF KENYA LIMITED

DIRECTORS' REMUNERATION

The Board establishes and approves formal and transparent remuneration policies to attract and retain both executive and non-executive directors. The remuneration of all Directors is subject to the guidelines issued by the State Corporations Advisory Committee (SCAC) on terms and conditions of service for State Corporations.

In accordance with the guidelines provided by the State Corporations Advisory Committee SCAC, Salaries and Remuneration Commission as well as the National Treasury and other shareholders' approval during the Annual General Meetings, the Directors are paid a sitting allowance of Kshs 20,000 for every meeting attended. The Directors and the Chairman are also paid a monthly retainer of Kshs 50,000 and Kshs 150,000 respectively. The Directors are not eligible for membership of the pension scheme and do not participate in any of the Bank's bonus schemes.

Contract of Service

In accordance with the Companies Act and the Capital Market Regulations on non executive directors a third of the Board is elected at every Annual General Meeting by shareholders for a term of three years on rotational basis.

The Chief Executive Officer has a three year renewable contract of service with Consolidated Bank of Kenya Limited starting 9th March 2015.

Changes to Directors Remuneration

During the period there were no changes in Directors Remuneration which is set as per the guidelines provided by the State Corporation Advisory Committee and the Salaries and Remuneration Commission.

Statement on approval of Directors Remuneration during the Annual General Meeting

During the annual General Meeting held on 27 July 2017 the Shareholders approved the payment of Directors fees for the year ended 31 December 2017 in accordance with the guidelines provided by the State Corporations Advisory Committee and the Salaries and Remuneration Commission.

The following tables shows a single figure remuneration for the CEO and Non-Executive Directors in respect of qualifying services for the year ended 31 December 2017 together with the comparative figures for 2016. The aggregate Directors emoluments are shown in note 11.

For the year ended 31 December 2017	Category	Gross payments	Honorarium	Allowances	Total
		shs' 000	shs' 000	shs' 000	shs' 000
Dr. Benson Ateng - (Term ended on 9 January 2017)	Chairman Non-Executive	-	44	24	68
Thomas Kiyai	Chief Executive Officer	21,580	-	-	21,580
George Omino – Representing Cabinet Secretary National Treasury	Non-Executive	-	600	420	1,020
Moses Cheseto- Alternate to Managing Trustee - NSSF	Non-Executive	-	300	524	824
Dr. Raymond Omollo	Non-Executive	-	600	509	1,109
Joseph Koskey	Non-Executive	-	600	458	1,058
Amb. Charles Amira (Term ended on 4 February 2017)	Non-Executive	-	55	69	124
Miriam Cherogony (Term ended on 4 February 2017)	Non-Executive	-	55	23	78
Papius Muhindi (Term ended on 4 February 2017)	Non-Executive	-	55	22	77
Evans Vitisia (Term ended on 4 February 2017)	Non-Executive	-	55	68	123
Dr. Anthony Omerikwa-Ag. Managing Trustee -NSSF	Non-Executive	-	300	-	300
Pius Metto- Alternate to Managing Trustee - NSSF	Non-Executive	-	-	44	44
Total		21,580	2,664	2,160	26,404

CONSOLIDATED BANK OF KENYA LIMITED

DIRECTORS' REMUNERATION (Continued)

For the year ended 31 December 2016	Category	Gross payments	Honorarium	Allowances	Total
		shs' 000	shs' 000	shs' 000	shs' 000
Dr. Benson Ateng	Chairman Non Executive	-	1,800	500	2,300
Thomas Kiyai	Chief Executive Officer	22,090	-	-	22,090
George Omino – Representing Cabinet Secretary National Treasury	Non-Executive	-	600	504	1,104
Pius Metto- Alternate to Managing Trustee - NSSF	Non-Executive	-	-	478	478
Dr. Raymond Omollo (appointed on 23 December 2015)	Non-Executive	-	614.79	716	1,330
Joseph Koskey (appointed on 26 February 2016)	Non-Executive	-	513	394	907
Amb. Charles Amira	Non-Executive	-	600	759	1,359
Miriam Cherogony	Non-Executive	-	600	533	1,133
Papius Muhindi	Non-Executive	-	600	624	1,224
Evans Vitisia	Non-Executive	-	600	732	1,332
Dr. Anthony Omerikwa-Ag. Managing Trustee -NSSF	Non-Executive	-	600	22	622
Simon Indimuli- SCAC	Non-Executive	-	-	40	40
Total		22,090	6,528	5,301	33,919

INDEPENDENT AUDITORS' REPORT TO THE AUDITOR GENERAL ON THE FINANCIAL STATEMENTS OF CONSOLIDATED BANK OF KENYA LIMITED

Report on the audit of the financial statements

Opinion

We have audited the accompanying financial statements of Consolidated Bank of Kenya Limited ("the Bank") set out on pages 17 to 75, which comprise the statement of financial position as at 31 December 2017, and the statement of profit or loss and other comprehensive income, the statement of changes in equity and the statement of cash flows for the year then ended, and the notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Bank as at 31 December 2017 and of its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards, the requirements of the Kenyan Companies Act and the Banking Act.

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. We have fulfilled our other 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.

Emphasis of matter

Without qualifying our opinion, we draw your attention to note 3 of the financial statements, which indicates that as at 31 December 2017, the Bank had a total regulatory capital/risk weighted assets ratio of 5.1% (2016:8.0%) against a regulatory minimum ratio of 14.5%. The Bank therefore had not met the minimum regulatory capital requirements. As stated in note 3, this condition, indicates that a material uncertainty exists that may cast significant doubt on the Bank's ability to continue as a going concern. Note 3 also contains disclosures regarding the measures that the Board and The National Treasury (the majority shareholder with 77.9% stake) have taken or are pursuing to improve the Bank's regulatory capital and support its continued operation 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 judgement, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters

INDEPENDENT AUDITORS' REPORT TO THE AUDITOR GENERAL ON THE FINANCIAL STATEMENTS OF CONSOLIDATED BANK OF KENYA LIMITED

Key audit matter	How our audit addressed the key audit matter
<p><i>Impact of regulatory capital requirements on going concern</i></p> <p>As disclosed in note 5 of the financial statements, the Bank is subject to certain minimum capital requirements per the Central Bank of Kenya Prudential Guidelines, which are a key determinant of the Bank's ability to continue as a going concern.</p> <p>As at 31 December 2017, the Bank had a total regulatory capital/risk weighted assets ratio of 5.09% (2016:8.0 %) against a regulatory minimum ratio of 14.5%. The Bank therefore had not met the minimum regulatory capital requirements.</p> <p>Accordingly, the assessment of the Bank's going concern require significant judgement by the Directors and therefore is considered a key audit matter. We identified that the most significant judgement in assessing the Bank's ability to continue as a going concern was the assessment of the Bank's ability to obtain additional capital to ensure compliance with regulatory capital, and evaluating the assumptions used in the cash flow forecasts.</p> <p>Refer to the statement of Directors' responsibilities for Director's considerations on going concern and note 3 of the financial statements for the Impact of the regulatory requirements on the going concern disclosure.</p>	<p>We evaluated the appropriateness of the Directors' assessment of the Bank's going concern and the adequacy of the disclosures made.</p> <p>Our audit procedures included challenging the Directors on the suitability of the planned measures to be put in place to ensure compliance with the capital requirements and the reasonableness of the assumptions made through performing the following audit procedures:</p> <ul style="list-style-type: none"> • Understanding the root cause of the non-compliance with regulatory capital requirements and understanding the impact thereof on the Bank's ability to continue operating; • Evaluating correspondence with the key shareholders on the future plans of the Bank; • Considering the impact of recent regulatory developments, as applicable; and • Evaluating the cash flow forecasts and assessing the reliability of the Directors' forecast through a review of actual performance against previous forecasts. <p>Based on our procedures, we found the Directors' key judgement and assumptions to be reasonable. We validated the appropriateness of the related disclosures in note 3 of the financial statements.</p>
<p><i>Provision for impaired loans and advances</i></p> <p>Significant judgement is required by the Directors in assessing the impairment against loans and advances.</p> <p>Impairment against loans and advances amounting to Shs 458.2 million against an advances balance of Shs 8.9 billion, described in notes 18 and 19, represents the shortfall between the present value of future expected cash flows, discounted at the original effective interest rate, and the carrying value of the advance in respect of loans that exhibit indicators of impairment.</p> <p>The significant judgements applied in determining the impairment include:</p> <ul style="list-style-type: none"> • the expected realisable value of the collateral securing the advance; and • the probability that an advance will result in loss. <p>Accordingly, the provisions for impaired loans and advances is considered a key audit matter.</p>	<p>We have assessed the design, implementation and operating effectiveness of controls in respect of the recognition of impairment losses on loans and advances, specifically over impairment data and calculations. Where impairment was individually calculated, we tested controls over the timely identification of potentially impaired loans.</p> <p>We assessed the adequacy of the provisions by focusing our audit on the following procedures:</p> <ul style="list-style-type: none"> • 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. • Where impairment had been identified, we examined the forecasts of future cash flows prepared by the Directors to support the calculation of the impairment, challenging the assumptions and comparing estimates to external evidence where applicable. • We tested the validity and valuation of collateral held on a sample basis.

INDEPENDENT AUDITORS' REPORT TO THE AUDITOR GENERAL ON THE
FINANCIAL STATEMENTS OF CONSOLIDATED BANK OF KENYA LIMITED

Key Audit Matter	How Our Audit Addressed the Key Audit Matter
<p><i>Provision for impaired loans and advances</i></p> <p>Refer to note 2 of the financial statements for critical accounting judgements and key sources of estimation uncertainty and notes 18 and 19 of the financial statements for loans and receivables and provision for impairment disclosures.</p>	<ul style="list-style-type: none"> We tested the historical accuracy of the provisions and the assumptions and judgements made by management in arriving at the provisions recorded. <p>In the case of some impairment provisions, we formed a different view from that of the Directors, but in our view the differences were within a reasonable range of outcomes in the context of the overall loans and advances as disclosed in the financial statements.</p> <p>We validated the appropriateness of the related disclosures in the notes of the financial statements.</p>

Other information

The Directors are responsible for the other information. The other information comprises the statement of corporate governance, Report of the Directors and the Directors' Remuneration Report which we obtained prior to the date of this auditor's report. The other information does not include the financial statements and our auditors' report thereon.

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

In connection with our audit of the financial statements, our responsibility is to read the other information 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 that we 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 of financial statements that give a true and fair view in accordance with International Financial Reporting Standards, the requirements of the Kenyan Companies Act and the Banking Act, and for such internal controls as Directors determine are necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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 ISA's 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.



INDEPENDENT AUDITORS' REPORT TO THE AUDITOR GENERAL ON THE FINANCIAL STATEMENTS OF CONSOLIDATED BANK OF KENYA LIMITED

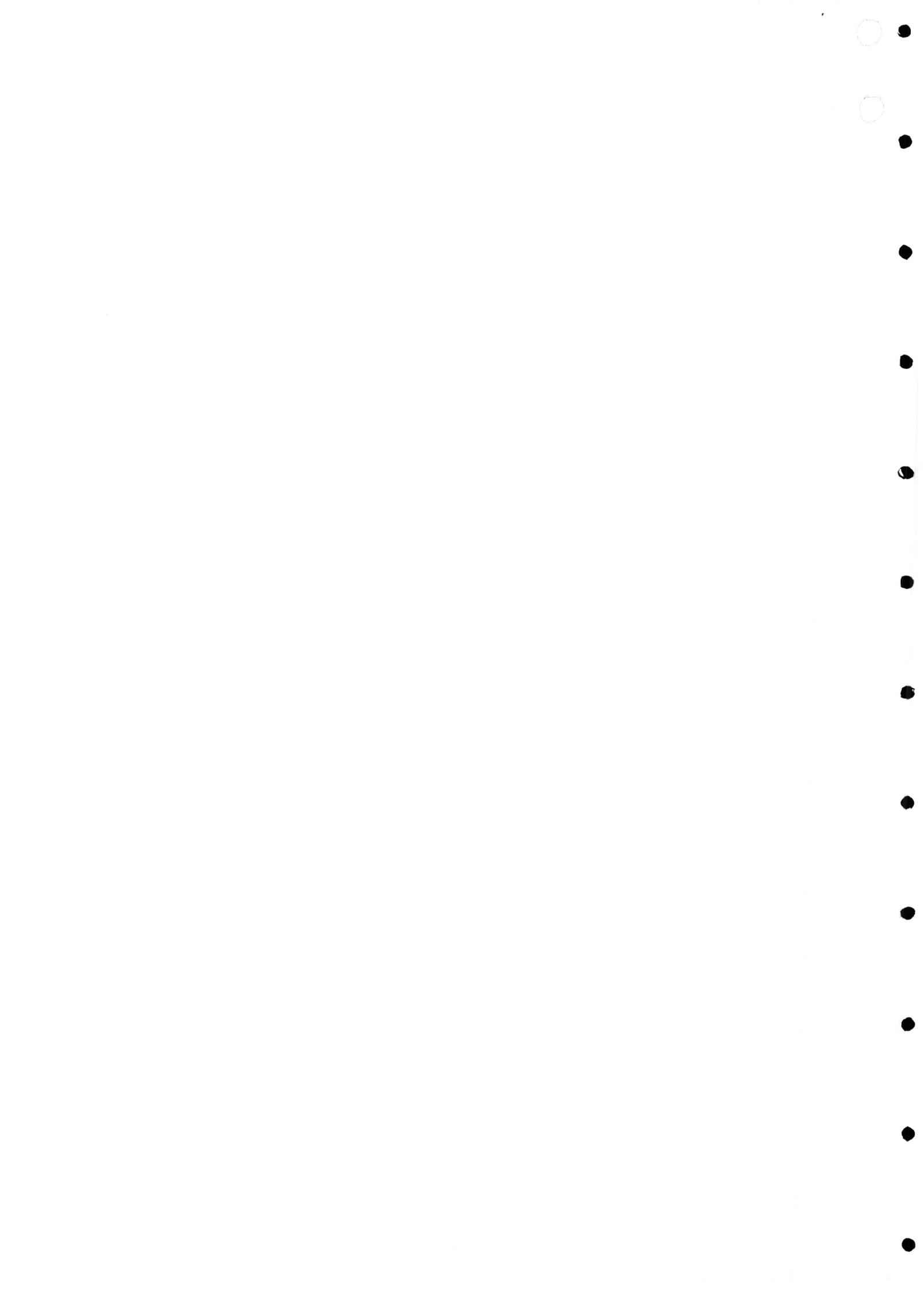
As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

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

We communicate with the Board Audit Committee 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 Board Audit Committee 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 Board Audit Committee, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our 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



INDEPENDENT AUDITORS' REPORT TO THE AUDITOR GENERAL ON THE
FINANCIAL STATEMENTS OF CONSOLIDATED BANK OF KENYA LIMITED

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

Report of the Directors

In our opinion, the information given in the Report of the Directors on pages 7 to 8 is consistent with the financial statements.

Directors' Remuneration Report

In our opinion, the Director's Remuneration report on pages 10 to 11 has been prepared in accordance with the Kenyan Companies Act, 2015.

The engagement partner responsible for the audit resulting in this independent auditors' report is CPA Anne Muraya - P/No. 1697.

Selsitte & Touche

Certified Public Accountants (Kenya)
Nairobi, Kenya

28 March 2018

REPUBLIC OF KENYA

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P.O. Box 30084-00100
NAIROBI

OFFICE OF THE AUDITOR-GENERAL

REPORT OF THE AUDITOR-GENERAL ON CONSOLIDATED BANK OF KENYA LIMITED FOR THE YEAR ENDED 31 DECEMBER 2017

REPORT ON THE FINANCIAL STATEMENTS

Opinion

The accompanying financial statements of Consolidated Bank of Kenya Limited, set out on pages 17 to 75, which comprise the statement of financial position as at 31 December 2017, and the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information, have been audited on my behalf by Deloitte & Touché, auditors appointed under Section 23 of the Public Audit Act, 2015, and in accordance with the provisions of Article 229 of the Constitution of Kenya and the Public Audit Act, 2015. The auditors have duly reported to me the results of their audit and on the basis of their report, I am satisfied that all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit were obtained.

In my opinion, the financial statements present fairly, in all material respects, the financial position of Consolidated Bank of Kenya Limited as at 31 December, 2017, and of its financial performance and its cash flows for the year then ended, in accordance with International Financial Reporting Standards and comply with the Companies Act, 2015 and the Banking Act, Cap 488.

In addition, as required by Article 229(6) of the Constitution, based on the procedures performed, I confirm that, nothing has come to my attention to cause me to believe that public money has not been applied lawfully and in an effective way.

Basis for Opinion

The audit was conducted in accordance with the International Standards of Supreme Audit Institutions (ISSAIs). I am independent of Consolidated Bank of Kenya Limited in accordance with ISSAI 30 on code of Ethics. I have fulfilled other ethical responsibilities in accordance with the ISSAI and in accordance with other ethical requirements applicable to performing audits of financial statements in Kenya. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Material Uncertainty Related to Going Concern

I draw attention to note 3 of the financial statements which indicates that as at 31 December 2017, the Bank had a total regulatory capital/risk weighted assets ratio of 5.1% (2016: 8.0%) against a regulatory minimum ratio of 14.5%. The Bank therefore

Consolidated Bank of Kenya Limited - Annual Report and Financial Statements for the year ended 31 December 2017

had not met the minimum regulatory capital requirements. As stated in note 3 this condition indicates that a material uncertainty exists that may cast significant doubt on the bank's ability to continue as a going concern. The bank's operation as a going concern is therefore dependent on the injection of fresh capital from the shareholders.

Key Audit Matters

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

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

Key Audit Matter	How the audit addressed the key audit matter
<p>Provision for impaired loans and advances</p> <p>Significant judgement is required by the Directors in assessing the impairment against loans and advances. Impairment against loans and advances amounting to Shs.458.2 million against an advances balance of Shs.8.9 billion, described in notes 18 and 19, represents the shortfall between the present value of future expected cash flows, discounted at the original effective interest rate, and the carrying value of the advance in respect of loans that exhibit indicators of impairment.</p> <p>The significant judgements applied in determining the impairment include:</p> <ul style="list-style-type: none"> • the expected realizable value of the collateral securing the advance; and • the probability that an advance will result in loss. <p>Accordingly, the provisions for impaired loans and advances is considered a key audit matter.</p> <p>Refer to note 2 of the financial statements for critical accounting judgements and key sources of estimation uncertainty and notes 18 and 19 of the financial statements for loans and receivables and provision for impairment disclosures.</p>	<p>I have assessed the operating effectiveness of controls in respect of the recognition of impairment losses on loans and advances, specifically over impairment data and calculations. Where impairment was individually calculated, I tested controls over the timely identification of potentially impaired loans.</p> <p>I assessed the adequacy of the provisions by focusing my audit on the following procedures:</p> <ul style="list-style-type: none"> • I tested a sample of loans and advances to ascertain whether the loss event (that is the point at which impairment is recognized) had been identified in a timely manner. • Where impairment had been identified, I examined the forecasts of future cash flows prepared by the Directors to support the calculation of the impairment, challenging the assumptions and comparing estimates to external evidence where applicable. • I tested the validity and valuation of collateral held on a sample basis. <p>I tested the historical accuracy of the provisions and the assumptions and judgements made by</p>

	<p>management in arriving at the provisions recorded.</p> <p>In the case of some impairment provisions, I formed a different view from that of the Directors, but in my view the differences were within a reasonable range of outcomes in the context of the overall loans and advances as disclosed in the financial statements.</p> <p>I validated the appropriateness of the related disclosures in the notes of the financial statements.</p>
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Responsibilities of Management and those Charged With Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Management is also responsible for the submission of the financial statements to the Auditor-General in accordance with the provision of Section 47 of the Public Audit Act, 2015.

Those charged with governance are responsible for overseeing the Bank's financial reporting process.

Auditor-General's Responsibilities for the Audit of the Financial Statements

The audit 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 my opinion in accordance with the provisions of Section 48 of the Public Audit Act, 2015 and submit the audit report in compliance with Article 229(7) of the Constitution of Kenya. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISSAIs 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 conducted in accordance with ISSAIs, I exercise professional judgement and maintain professional skepticism throughout the audit. I 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 my 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 and for the purpose of an assurance on the effectiveness of the Bank's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.
- Conclude on the appropriateness of the Bank's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in the auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my audit report. However, future events or conditions may cause the Bank to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information and business activities of the Bank to express an opinion on the financial statements.
- Perform such other procedures as I consider necessary in the circumstances.

I communicate with the management regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that are identified during the audit.

I also provide management with a statement that I 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 my independence, and where applicable, related safeguards.

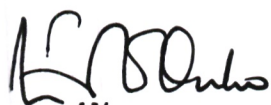
From the matters communicated with management, I determine those matters that were of most significance in the audit of the financial statements and internal control of the

current period and are therefore the key audit matters. These matters are described in my auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, I determine that a matter should not be communicated in my report because the adverse consequences of doing so would reasonably be expected to outweigh the public interests of such communication.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

As required by the Companies Act 2015, I report to you, based on my audit, that:-

- 1) I have obtained all the information and explanations which to the best of my knowledge and belief, were necessary for the purposes of the audit;
- 2) In my opinion, adequate accounting records have been kept by the Bank, so far as appears from the examination of those books of account; and
- 3) The Bank's financial statements are in agreement with the accounting records.



FCPA Edward R. O. Ouko, CBS
AUDITOR-GENERAL

Nairobi

15 May 2018

CONSOLIDATED BANK OF KENYA LIMITED


STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2017


	Notes	2017 Sh'000	2016 Sh'000
INTEREST INCOME	6	1,344,653	1,671,787
INTEREST EXPENSE	7	(846,213)	(985,700)
NET INTEREST INCOME		498,440	686,087
Fee and commission income	8	323,650	269,932
Foreign exchange trading income	9	28,433	30,548
Other operating income	10	425,737	451,245
OPERATING INCOME		1,276,260	1,437,812
Operating expenses	11	(1,319,803)	(1,405,572)
Impairment charge on loans and advances	19	(395,027)	(309,017)
LOSS BEFORE TAXATION		(438,570)	(276,777)
TAXATION CREDIT	13(a)	102,889	65,417
LOSS FOR THE YEAR		(335,681)	(211,360)
OTHER COMPREHENSIVE INCOME/(LOSS)			
<i>Items that may be reclassified subsequently to profit or loss:</i>			
Net fair value gain/(loss) on available-for-sale financial assets	21	1,042	(782)
Total other comprehensive gain/(loss)		1,042	(782)
TOTAL COMPREHENSIVE LOSS FOR THE YEAR		(334,639)	(212,142)
LOSS PER SHARE		Sh	Sh
Basic and diluted	14	(7.38)	(4.71)


CONSOLIDATED BANK OF KENYA LIMITED
STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2017


		31 December 2017 Sh'000	31 December 2016 Sh'000
ASSETS	Notes		
Cash and balances with Central Bank of Kenya	15	857,738	652,941
Balances due from banking institutions	16(a)	107,453	53,713
Government securities	17	2,605,899	2,663,491
Loans and receivables	18	8,421,072	9,161,484
Other assets	20	284,438	243,099
Quoted equity shares	21	7,139	6,097
Taxation recoverable	13(c)	6,022	-
Deferred tax asset	27	173,299	56,634
Property and equipment	22	746,346	795,453
Intangible assets	23	239,528	278,004
Prepaid operating lease rentals	24	6,810	6,979
TOTAL ASSETS		13,455,744	13,917,895
LIABILITIES AND SHAREHOLDERS' FUNDS			
LIABILITIES			
Deposits and balances due to banking institutions	16(b)	208,561	91,258
Balances due to Central Bank of Kenya	16(c)	1,484,201	820,000
Customer deposits	25	8,646,305	9,491,803
Other liabilities	26	241,241	223,784
Taxation payable	13(c)	-	2,029
Borrowings	28	1,807,002	1,885,948
TOTAL LIABILITIES		12,387,310	12,514,822
SHAREHOLDERS' FUNDS			
Share capital	29(b)	1,619,530	1,619,530
Revaluation surplus	30	379,130	387,751
Accumulated deficit	31	(1,265,665)	(873,623)
Statutory reserve	32	329,168	264,186
Fair value reserve	33	6,271	5,229
TOTAL SHAREHOLDERS' FUNDS		1,068,434	1,403,073
TOTAL LIABILITIES AND SHAREHOLDERS' FUNDS		13,455,744	13,917,895

The financial statements on pages 17 to 75 were approved and authorised for issue by the Board of Directors on 27 March 2018 and were signed on its behalf by:


Director - Joseph Koskey


Director - Dr. Raymond Omollo


Chief Executive Officer - Thomas Kiyai


Company Secretary - Wakonyo Igeria

CONSOLIDATED BANK OF KENYA LIMITED

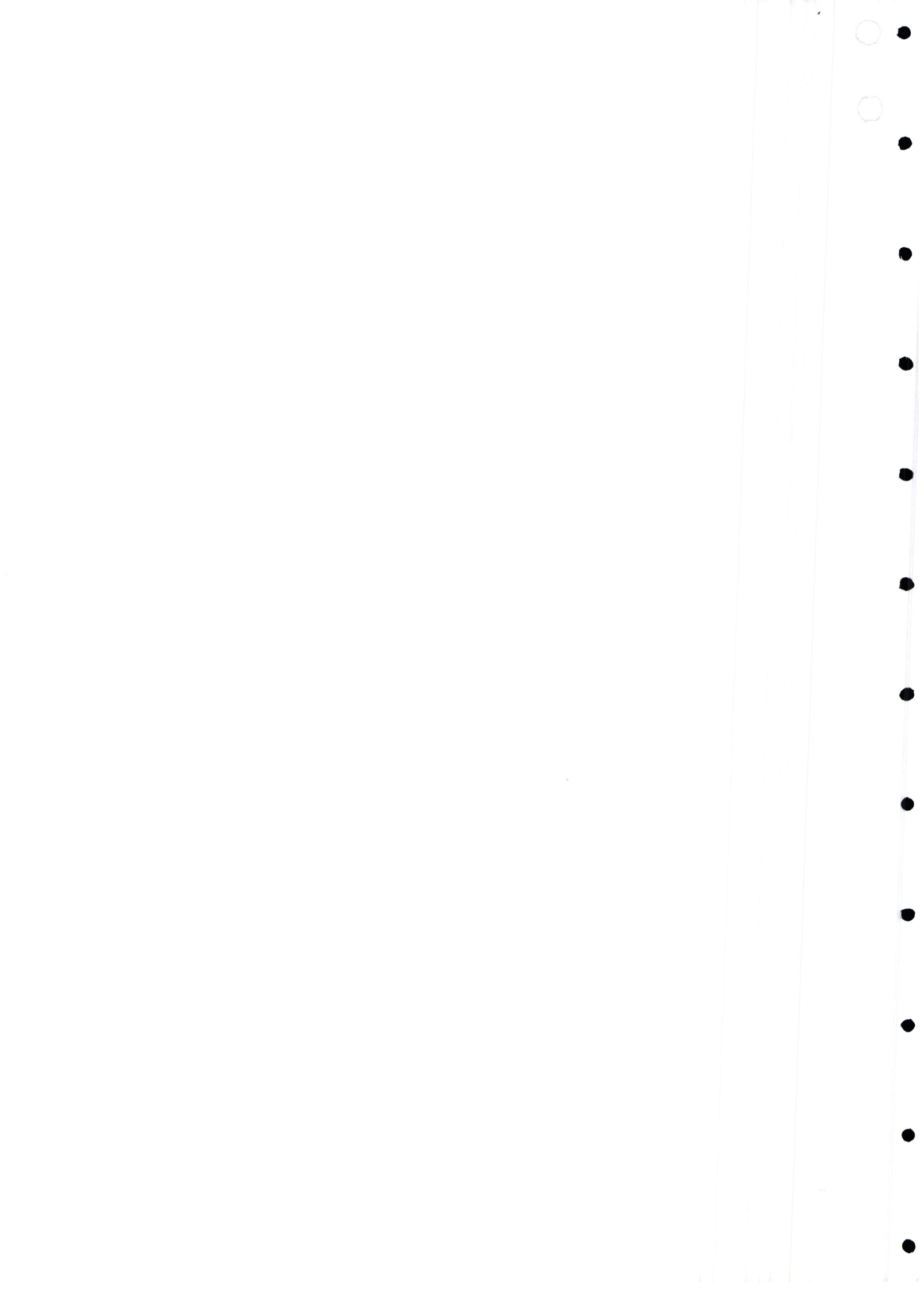
STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2017

	Note	Share capital Sh'000	Revaluation surplus Sh'000	Accumulated deficit Sh'000	Statutory reserve Sh'000	Fair value reserve Sh'000	Total Sh'000
At 1 January 2016		1,619,530	396,372	(533,841)	127,143	6,011	1,615,215
Loss for the year		-	-	(211,360)	-	-	(211,360)
Other comprehensive loss		-	-	-	-	(782)	(782)
Transfer of excess depreciation	30	-	(12,316)	12,316	-	-	-
Deferred tax on excess depreciation	30	-	3,695	(3,695)	-	-	-
Transfer to statutory reserve	32	-	-	(137,043)	137,043	-	-
At 31 December 2016		<u>1,619,530</u>	<u>387,751</u>	<u>(873,623)</u>	<u>264,186</u>	<u>5,229</u>	<u>1,403,073</u>
At 1 January 2017		1,619,530	387,751	(873,623)	264,186	5,229	1,403,073
Loss for the year		-	-	(335,681)	-	-	(332,338)
Other comprehensive income		-	-	-	-	1,042	1,042
Transfer of excess depreciation	30	-	(12,316)	12,316	-	-	-
Deferred tax on excess depreciation	30	-	3,695	(3,695)	-	-	-
Transfer to statutory reserve	32	-	-	(64,982)	64,982	-	-
At 31 December 2017		<u>1,619,530</u>	<u>379,130</u>	<u>(1,265,665)</u>	<u>329,168</u>	<u>6,271</u>	<u>1,068,434</u>

CONSOLIDATED BANK OF KENYA LIMITED

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2017

	Note	2017 Sh'000	2016 Sh'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash used in operations	34(a)	(291,316)	(287,182)
Tax paid	13(c)	(21,827)	(15,700)
		<hr/>	<hr/>
Net cash used in operating activities		(313,143)	(302,882)
		<hr/>	<hr/>
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of property and equipment	22	(25,092)	(47,706)
Proceeds on sale of property and equipment		86	2,003
Purchase of intangible assets	23	(45,517)	(109,925)
		<hr/>	<hr/>
Net cash used in investing activities		(70,523)	(155,628)
		<hr/>	<hr/>
CASH FLOWS FROM FINANCING ACTIVITIES			
Repayment of borrowings	28	(307,369)	(321,281)
		<hr/>	<hr/>
NET DECREASE IN CASH AND CASH EQUIVALENTS DURING THE YEAR		(691,035)	(779,791)
CASH AND CASH EQUIVALENTS AT 1 JANUARY		(533,679)	246,112
		<hr/>	<hr/>
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	34(b)	<u>(1,224,714)</u>	<u>(533,679)</u>



CONSOLIDATED BANK OF KENYA LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017

1 REPORTING ENTITY

Consolidated Bank of Kenya Limited (The "Bank") provides commercial banking services.

The address of its registered office is as follows:
Consolidated Bank House, Koinange Street
P O Box 51133
Nairobi- 00200.

2 (a) ACCOUNTING POLICIES

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.

Adoption of new and revised International Financial Reporting Standards (IFRS) and interpretations (IFRIC)

(i) *Relevant new standards and amendments to published standards effective for the year ended 31 December 2017*

Several new and revised standards and interpretations became effective during the year. The Directors have evaluated the impact of these new standards and interpretations and none of them had a significant impact on the Bank's financial statements.

(ii) *Relevant new and amended standards in issue but not yet effective in the year ended 31 December 2017.*

<i>New and Amendments to standards</i>	<i>Effective for annual periods beginning on or after</i>
IFRS 9 Financial Instruments	1 January 2018, with earlier application permitted
IFRS 15 Revenue from contracts with customers	1 January 2018, with earlier application permitted only if IFRS 16 is also adopted
IFRS 16 Leases	1 January 2019, with earlier application permitted
Amendments to IFRS 2 Classification and Measurement of Share-based Payment Transactions.	1 January 2018
IFRIC 22 Foreign Currency Transactions and Advance Consideration	1 January 2019
IFRIC 23 Uncertainty over Income Tax Treatments Annual Improvements to IFRS Standards 2015-2017 Cycle	1 January 2019

CONSOLIDATED BANK OF KENYA LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

2 (a) ACCOUNTING POLICIES (Continued)

Adoption of new and revised International Financial Reporting Standards (IFRS) and interpretations (IFRIC) (Continued)

(iii) *Impact of relevant new and amended standards in issue but not yet effective in the year ended 31 December 2017.*

IFRS 9 Financial Instruments

In July 2015, the IASB finalised the reform of financial instruments accounting and issued IFRS 9 (as revised in 2015), which contains the requirements for:

- a) the classification and measurement of financial assets and financial liabilities;
- b) impairment methodology; and
- c) general hedge accounting.

Key requirements of IFRS 9:

- **Classification and measurement.** Financial assets are classified by reference to the business model within which they are held and their contractual cash flow characteristics. The 2015 version of 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 2015 version of 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 loss event to have occurred before a credit loss is recognised
- **Hedge accounting.** Introduces 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.
- **De-recognition.** The requirements for de-recognition of the financial assets and liabilities are carried forward from IAS 39.
- IFRS 9 replaces the incurred loss model under IAS 39 with a forward looking expected loss model and requires a loss allowance to be recognised at an amount equal to either 12 months expected loss (ECL) or lifetime ECL. Life time ECLs are the ECLs that result from all possible default events over the expected life of a financial instruments whereas 12 months ECLs are the portion of ECLs that result from default events that are possible within the 12 months after reporting date. The bank will recognize 12 months ECLs for all financial assets for which credit risk has not significantly increased and lifetime ECLs for financial assets whose credit risk has significantly increased since initial recognition. The key input in measurement of ECLs are Probability of default, loss given default (LGD) and exposure at default (EAD). PD estimates at a certain date will be calculated based statistical models based on internally compiled data comprising both quantitative and qualitative factors. LGD is the magnitude of likely loss if there is a default and will be estimated based on historical recovery rates against defaulted counterparties. The LGD will consider the structure, collateral, counterparty industry and recovery costs of any collateral as well as loan to value ratio. The EAD represents the expected exposure at the time of default. The bank will derive EAD from the current exposure to the counterparty and potential changes to the current amount allowed under the contract including amortisation and prepayments. For lending commitments and financial guarantees, the EAD will be based on amount drawn as well the potential future amount that may be drawn or repaid under the contract based on historical conversation ratios and forward looking forecasts.

The bank has estimated that on adoption of IFRS 9 on 1 January 2018, the impact of the increase in loss allowance will be approximately Kshs 45 million.

The directors plan to implement the new standard on 1 January 2018.

CONSOLIDATED BANK OF KENYA LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

2(a) ACCOUNTING POLICIES (Continued)

(iii) *Impact of relevant new and amended standards in issue but not yet effective in the year ended 31 December 2017 (Continued).*

IFRS 15 Revenue from Contracts with Customers

IFRS 15 establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. 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. Far more prescriptive guidance has been added in IFRS 15 to deal with specific scenarios. Furthermore, extensive disclosures are required by IFRS 15.

In April 2017, the IASB issued Clarifications to IFRS 15 in relation to the identification of performance obligations, principal versus agent considerations, as well as licensing application guidance.

The Directors have assessed the impact of the application of IFRS 15 on the Bank's financial statements and concluded that the impact is not significant. The Directors do not intend to early apply the standard and intend to use the full retrospective method upon adoption.

The directors plan to implement the new standard on 1 January 2018.

IFRS 16 Leases

IFRS 16 specifies how an entity will recognise, measure, present and disclose leases. The standard provides a single lease accounting model, requiring lessees to recognise assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. Lessors continue to classify leases as operating or finance lease, with IFRS 16, approach to lessor accounting unchanged from its predecessor, IAS 17.

IFRS 16 applies to annual reporting periods beginning on or after 1 January 2019. The Directors anticipate that the adoption of IFRS 16 will not have a significant impact on the Bank's financial statements.

CONSOLIDATED BANK OF KENYA LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

2 (a) ACCOUNTING POLICIES (Continued)

(iii) *Impact of relevant new and amended standards in issue but not yet effective in the year ended 31 December 2017 (Continued)*

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

The amendments clarify the following:

- (i) In estimating the fair value of a cash settled share based payment, the accounting for the effects of vesting and non vesting conditions should follow the same approach as for equity settled share-based payments.
- (ii) Where tax law or regulation require an entity to withhold a specified number of equity instruments equal to the monetary value of the employee's tax obligation to meet the employee's tax liability which is then remitted to the tax authority, i.e. the share-based payment would have been classified as equity-settled had it not included the net settlement feature.
- (iii) A modification of share based payment that changes the transaction from cash-settled to equity-settled should be accounted for as follows:
 - The original liability is derecognised;
 - The equity-settled share-based payment is recognised at the modification date fair value of the equity instrument granted to the extent that services have been rendered up to modification date; and
 - Any difference between the carrying amount of the liability at the modification date and the amount recognised in equity should be recognised in profit or loss immediately.

The Directors of the Bank do not anticipate that the application of the amendments in future will have a significant impact on the Bank's financial statements as the Bank does not have any cash-settled share-based payment arrangements or any withholding tax arrangements with tax authorities in relation to share-based payments.

The directors plan to implement the new standard on 1 January 2018.

IFRIC 22 Foreign Currency Transactions and Advance Consideration

IFRIC 22 addresses how to determine the 'date of transaction' for the purpose of determining the exchange rate to use on initial recognition of an asset, expense or income, when consideration for that item has been paid or received in advance in a foreign currency which resulted in the recognition of a non-monetary asset or non-monetary liability. (e.g. a non-refundable deposit or deferred revenue).

The interpretation specifies that the date of transactions is the date on which the entity initially recognises the non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration.

The Directors of the Bank do not anticipate that the application of the amendments in the future will have an impact on the Bank's financial statements as the Bank already accounts for transactions involving the payment or receipt of advance consideration in a foreign currency in a way that is consistent with the amendments.

The directors plan to implement the new standard on 1 January 2019.

IFRIC 23 Uncertainty over Income Tax Treatments

The interpretation addresses the determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates, when there is uncertainty over income tax treatments under IAS 12. It specifically considers:

CONSOLIDATED BANK OF KENYA LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

2 (a) ACCOUNTING POLICIES (Continued)

(iii) *Impact of relevant new and amended standards in issue but not yet effective in the year ended 31 December 2017 (Continued)*

IFRIC 23 Uncertainty over Income Tax Treatments (Continued)

- Whether tax treatments should be considered collectively
- Assumptions for taxation authorities' examinations
- The determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates
- The effect of changes in facts and circumstances

The Bank is assessing the potential impact on the Bank's financial statements resulting from the application of these changes.

The directors plan to implement the new standard on 1 January 2019.

(iv) *Early adoption of standards*

The Bank did not early-adopt any new or amended standards in 2017.

The principal accounting policies applied in the preparation of the financial statements are set out below. These policies have been applied consistently.

Basis of preparation

The financial statements have been prepared on the historical cost basis of accounting except for certain properties that are measured at revalued amounts and certain financial instruments, measured at fair value:

Consolidation

The financial statements of the dormant subsidiaries listed in note 35 have not been consolidated as the amounts involved are not material and would, therefore, be of no real value. The parent Company has determined that the investments are not material and have no impact on the reported profit or loss and its statement of financial position.

Investments in subsidiary companies

Investments in subsidiary companies are stated at cost less impairment loss where applicable. The dormant subsidiaries listed in note 35 have not been consolidated because the parent Company has determined that the investments are not material and have no impact to the reported profit or loss and its statement of financial position.

Interest income and expense

Interest income and expense for all interest bearing financial instruments are recognised in the profit or loss on accrual basis 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 the estimated future cash payments and receipts through the expected life of the financial asset or liability (or when appropriate, a shorter period) to the net carrying amount of the financial asset or liability.

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

Once a financial asset or group of similar financial 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.

CONSOLIDATED BANK OF KENYA LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

2 (a) ACCOUNTING POLICIES (Continued)

Fees and commissions income and other fees and commissions expense

In the normal course of business, the Bank earns fees and commission income from a diverse range of services to its customers. Fees and commission income and expenses that are integral to the effective interest rate on a financial asset or liability are included in the measurement of the effective interest rate.

Other fees and commission income, including account servicing fees, investment management fees, placement fees and syndication fees, are recognised as the related services are performed. When a loan commitment is not expected to result in the draw-down of a loan, loan commitment fees are recognised on a straight-line basis over the commitment period.

Other fees and commission expense relates mainly to transaction and service fees, which are expensed as the services are received.

Property and equipment

Property and equipment are stated at cost or as professionally re-valued from time to time less accumulated depreciation and any accumulated impairment losses. Cost includes expenditures that are directly attributable to the acquisition of the asset. The Bank's policy is to professionally revalue freehold land and buildings at least once every three to five years.

The addition and disposal or decommissioning of property and equipment is done on the date of the acquisition and the date of the disposal respectively.

Any increase arising on the revaluation is recognised in other comprehensive income and accumulated in the revaluation surplus. Decreases that offset previous increases of the same asset are recognised in other comprehensive income and charged against the revaluation surplus; all other decreases are charged to profit or loss.

Depreciation

Depreciation is calculated on a straight-line basis at annual rates estimated to write off the cost of each asset or the revalued amounts, to its residual values over its estimated useful life as follows:

Fixtures, fittings, equipment & ATMs	5 years
Leasehold improvements	8 years or lease period if shorter
Computers	3 years
Motor vehicles	4 years
Buildings	40 years or land lease period if shorter

Freehold land is not depreciated as it is deemed to have an indefinite life.

The assets' useful lives and residual values are reviewed, and adjusted if appropriate, at each reporting date.

The depreciation charge to profit and loss is based on the carrying amounts of the property and equipment. The excess of this charge over that based on the historical cost of the property and equipment is released each year from the revaluation surplus to retained earnings.

Intangible assets - computer software costs

Costs incurred on computer software are initially accounted for at cost and subsequently at cost less any accumulated amortisation and accumulated impairment losses. Amortisation is calculated on a straight line basis over the estimated useful lives not exceeding a period of 5 years.

The addition and disposal or decommissioning of intangible assets is done on the date of the acquisition and the date of the disposal respectively.

CONSOLIDATED BANK OF KENYA LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

2 (a) ACCOUNTING POLICIES (Continued)

Leases

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

When a lease includes land and buildings elements, the Bank assesses the classification of each element as either a finance lease or an operating lease. In determining classification of the land element, an important consideration is that land normally has an indefinite economic life. Therefore the finance lease or operating lease classification of the land is considered a critical area of judgement. See note 2(b) to these financial statements.

The Bank as lessor

Assets held under finance leases are recognised as assets of the Bank at their fair value at the date of acquisition. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation. Finance costs, which represent the difference between the total leasing commitments and the fair value of the assets acquired, are charged to the statement of comprehensive income over the term of the relevant lease so as to produce a constant periodic rate of charge on the remaining balance of the obligations for each accounting period.

The Bank as lessee

Rentals payable under operating leases are charged to income on a straight-line basis over the term of the relevant lease.

Impairment of non-financial assets

At the reporting date, the Bank reviews the carrying amount of its tangible and intangible assets to determine whether there is any indication that these assets have suffered an impairment loss.

If objective evidence on impairment losses exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the profit or loss. In cases where the asset is carried at revalued amount, the impairment loss is treated as a revaluation decrease.

In determining the recoverable amount, the Bank considers the higher of the fair value of the asset less costs to sell, and value in use. In estimating value in use, the Bank is cognisant of the estimated future cash flows discounted to the present value using a pre-tax discount rate that is reflective of the current market assessment of time value of money and the risks specific to the asset itself.

Intangible assets with indefinite useful life are tested for impairment annually, and when there is indication that the asset may be impaired.

Where impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised, unless such asset is carried at revalued amount, in which case the reversal of the impairment loss is treated as revaluation income.

CONSOLIDATED BANK OF KENYA LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

2 (a) ACCOUNTING POLICIES (Continued)

Foreign currencies

i) Functional and presentation currency

The financial statements of the Bank are measured using the currency of the primary economic environment in which the Bank operates ('the functional currency'). The financial statements are presented in Kenya Shillings, which is the Bank's functional and presentation currency. Except as indicated, financial information presented in Kenya Shillings has been rounded to the nearest thousand (Sh'000).

ii) Transactions and balances

Foreign currency transactions that are transactions denominated, or that requires settlement, in a foreign currency are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. At the reporting date, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date.

Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

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 through profit or loss.

Taxation

The tax expense for the year comprises current and deferred income tax. Tax is recognised in profit or loss except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

The current income tax charge is calculated on the basis of the tax enacted or substantively enacted at the reporting date. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying values in the financial statements. Deferred income tax is determined using tax rates and laws that have been enacted or substantively enacted at the reporting date and are expected to apply when the related deferred income tax liability is settled.

Deferred income tax assets are recognised only to the extent that it is probable that future taxable profits will be available against which the temporary differences can be utilised.

Financial instruments

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

Financial assets

a) Classification and measurement

The Bank classifies its financial assets into the following IAS 39 categories: Financial assets at fair value through profit or loss; loans and receivables; held- to- maturity investments; and available-for-sale financial assets. Management determines the appropriate classification of its financial instruments at initial recognition, depending on the purpose and intention for which the financial instrument was acquired and their characteristics.

CONSOLIDATED BANK OF KENYA LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

2 (a) ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

a) Classification and measurement (Continued)

i) 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.

ii) Due from Banks and loans and receivables

Due from Banks and loans and receivables include non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables are recognised when cash is advanced to borrowers.

After initial recognition, amounts 'Due from Banks' and 'Loans and advances to customers' are subsequently measured at amortised cost using the effective interest rates, less allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees and costs that are an integral part of the effective interest rate. The amortisation is included in 'Interest and similar income' in the profit and loss. The losses arising from impairment are recognised in profit or loss.

iii) Held-to-maturity financial assets

Held-to-maturity financial assets are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Bank has the positive intention and ability to hold to maturity.

Held to maturity financial assets are initially recognised at fair value including direct and incremental transaction costs and measured subsequently at amortised cost using the effective interest method less any impairment, with revenue recognised on an effective yield basis. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the effective interest rate and recognised in the profit or loss.

Where a sale occurs other than an insignificant amount of held-to-maturity assets, the entire category would be tainted and classified as available for sale. Furthermore, the Bank would be prohibited from classifying any financial asset as held to maturity during the following two years.

vi) Available-for-sale financial assets

Available for sale investments are those that are intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates or equity prices or that are not classified as loans and receivables, held-to-maturity investments or financial assets at fair value through profit or loss.

Available-for-sale investments are initially recognised at fair value, which is the cash consideration including any transaction costs, and measured subsequently at fair value. Gains and losses arising from changes in fair value are recognised in other comprehensive income and accumulated in the investments 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 of or is determined to be impaired, the cumulative gain or loss previously accumulated in the investments revaluation reserve is reclassified to profit or loss.

Dividends on available for sale equity instruments are recognised in profit and loss when the Bank's right to receive the dividends is established.

CONSOLIDATED BANK OF KENYA LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

2 (a) ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial assets (Continued)

b) Derecognition of financial assets

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised when:

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

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

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

c) Impairment and uncollectability of financial assets

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at each reporting date. The Bank assesses at each reporting date whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after initial recognition of the asset (a 'loss' event) and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

If it is probable that the Bank will not be able to collect all amounts due (principal and interest) according to the contractual terms of loans and receivables, or held-to-maturity investments carried at amortised cost, an impairment or bad debt loss has occurred. The amount of the loss is the difference between the asset's carrying amount and the present value of expected future cash flows discounted at the financial instrument's original effective interest rate (recoverable amount). The carrying amount of the asset is reduced to its estimated recoverable amount through use of the provision for bad and doubtful debts account. The amount of the loss incurred is included in profit or loss for the period.

The Bank assesses whether objective evidence of impairment exist individually for assets that are individually significant and individually or collectively for assets that are not individually significant. If the Bank determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

CONSOLIDATED BANK OF KENYA LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

2 (a) ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial assets (Continued)

c) Impairment and uncollectability of financial assets (Continued)

i) Assets carried at amortised cost

If there is objective evidence that an impairment loss on financial assets carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial instruments effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in profit or loss.

ii) Loans and receivables

Loans and receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of loans and advances is established when there is objective evidence that the Bank will not be able to collect all amounts due according to the original terms of the loans. The amount of provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognised in the profit or loss as 'impairment loss on loans and receivables'. When a loan or advance is uncollectible, it is written off against the related allowance account. Subsequent recoveries of amounts previously written off are credited through profit or loss.

Objective evidence that loans and receivables are impaired can include significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments (more than 30 days overdue), 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 are considered indicators that the loans or receivable is impaired.

In assessing impairment losses, the Bank considers the following factors, in each category:

a) Individually assessed loans

- The aggregate exposure to the Bank.
- The viability of the customer's business model and its capacity to trade successfully out of financial difficulties and generate sufficient cash flows to meet its debt obligations.
- The realisable value of the security (or other migrants) and likelihood of successful repossession net of any costs involved in recovery of amounts.
- The amount and timing of expected receipts and, in cases of liquidation or bankruptcy, dividend available.
- The extent and complexity of other creditor's commitment ranking paripassu with the Bank and the likelihood of other creditors continuing to support the customer.

b) Collectively assessed

- For loans not subject to individual assessment, to cover losses which have been incurred but have not yet been identified.
- For homogeneous groups of loans that are not considered individually significant, where there is objective evidence of impairment.

CONSOLIDATED BANK OF KENYA LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

2 (a) ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial assets (Continued)

ii) Loans and receivables (continued)

b) Collectively assessed (Continued)

Homogeneous groups of loans

For homogeneous groups of loans that are not considered individually significant, or in other cases, when the portfolio size is small or when information is insufficient or not reliable enough, the Bank adopts a formulaic approach which allocates progressively higher percentage loss rates in line with the period of time for which a customer's loan is overdue. Loss rates are calculated from the discounted expected future cash flows from a portfolio. These rates and the expected timing of future recoveries are regularly benchmarked against actual outcomes to ensure they remain appropriate.

Loan write – offs

An uncollectible loan is written off against the relevant provision for impairment, either partially or in full, when there is no realistic prospect of recovery and the proceeds from realising the security have been substantially or fully recovered.

Restructured loans

Restructured loans, whose terms have been renegotiated are no longer considered to be past due but are treated as new loans after the minimum required number of payments under the new arrangement have been received.

iii) Available-for-sale financial assets

In the case of investment classified as available for sale, significant or prolonged decline in the fair value of the security below its cost is considered in determining whether the asset is impaired. 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.

Financial liabilities and equity instruments issued by the Bank

a) Classification and measurement

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

i) Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Bank are recorded at the proceeds received, net of direct issue costs.

CONSOLIDATED BANK OF KENYA LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

2 (a) ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial liabilities and equity instruments issued by the Bank (Continued)

a) Classification and measurement (Continued)

ii) Other financial liabilities

Other financial liabilities, including borrowings, are initially measured at fair value, net of transaction costs.

Other financial liabilities are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis. The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or (where appropriate) a shorter period, to the net carrying amount on initial recognition.

b) Derecognition of financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability. The difference between the carrying value of the original financial liability and the consideration paid is recognised in profit or loss. The Bank derecognises financial liabilities when, and only when, the Bank's obligations are discharged, cancelled or they expire.

Offsetting

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

Provisions

A provision is recognised if, as a result of a past event, the Bank has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

Statutory reserve

IAS 39 requires the Bank to recognise an impairment loss when there is objective evidence that loans and receivables are impaired. However, Central Bank of Kenya prudential guidelines require the Bank to set aside amounts for impairment losses on loans and advances in addition to those losses that have been recognised under IAS 39. Any such amounts set aside represent appropriations of retained earnings and not expenses in determining profit or loss. These amounts are dealt with in the statutory reserve.

Cash and cash equivalents

Cash and cash equivalents include cash in hand, unrestricted balances held with the Central Bank of Kenya and highly liquid financial assets with original maturities of less than three months, which are subject to insignificant risk of changes in their fair value, and are used by the Bank in the management of its short-term commitments. Cash and cash equivalents are carried at amortised cost in the statement of financial position.

CONSOLIDATED BANK OF KENYA LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

2 (a) ACCOUNTING POLICIES (Continued)

Contingent liabilities

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

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 Bank acts in a fiduciary capacity such as nominee, trustee or agent.

Sale and repurchase agreements

Securities sold to Central Bank of Kenya subject to repurchase agreements ('repos') are retained in the financial statements under government securities and the counterparty liability is included in advances from Central Bank of Kenya. The difference between the sale and repurchase price is treated as interest and accrued over the life of the agreements using the effective interest method.

Employee benefit costs

The Bank operates a defined contribution retirement benefit scheme for all its employees. The scheme is administered by an independent investment management company and is funded by contributions from both the Bank and employees.

The Bank also contributes to the statutory National Social Security Fund. This is a defined contribution scheme registered under the National Social Security Fund Act. The obligations under the scheme are limited to specific contributions legislated from time to time.

The Bank's contributions in respect of retirement benefit costs are charged to the profit and loss in the year to which they relate.

Employee entitlement to leave not taken is charged to profit or loss as it accrues.

Comparatives

Where necessary, comparative figures have been adjusted to conform with changes in presentation in the current year.

2(b) CRITICAL JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Bank's accounting policies, which are described in note 2, management is required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant including expectations of future events that are believed to be reasonable under the circumstances. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

CONSOLIDATED BANK OF KENYA LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

2(b) CRITICAL JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (Continued)

(i) Critical judgements in applying the Bank's accounting policies

The following are the critical judgements, apart from those involving estimations (see (ii) overleaf), that management have made in the process of applying the Bank's accounting policies and that have the most significant effect on the amounts recognised in the financial statements.

Impairment losses on loans and advances

The Bank reviews its loan portfolios to assess impairment regularly. In determining whether an impairment loss should be recorded in the profit and loss, the Bank makes judgements as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows 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 group, or national or local economic conditions that correlate with defaults on assets in the group. Management uses 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.

Classification of leases of land as finance or operating leases

At the inception of each lease of land, the Bank considers the substance rather than the form of the lease contract. Examples of situations that individually or in combination would normally lead to a lease being classified as a finance lease are:

- The lease transfers ownership of the asset to the lessee by the end of the lease term;
- The lessee has the option to purchase the asset at a price that is expected to be sufficiently lower than the fair value at the date the option becomes exercisable for it to be reasonably certain, at the inception of the lease, that the option will be exercised;
- The lease term is for the major part of the economic life of the asset even if title is not transferred;
- At the inception of the lease the present value of the minimum lease payments amounts to at least substantially all of the fair value of the leased asset; and
- The leased assets are of such a specialised nature that only the lessee can use them without major modifications.

The Bank also considers indicators of situations that individually or in combination could also lead to a lease being classified as a finance lease. Examples of such indicators include:

- If the lessee can cancel the lease, the lessor's losses associated with the cancellation are borne by the lessee;
- gains or losses from the fluctuation in the fair value of the residual accrue to the lessee (for example, in the form of a rent rebate equalling most of the sales proceeds at the end of the lease); and
- the lessee has the ability to continue the lease for a secondary period at a rent that is substantially lower than market rent.

The Bank did not acquire any new leases in the year ended 31 December 2017.

Impairment of available-for-sale investments

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

CONSOLIDATED BANK OF KENYA LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

2(b) CRITICAL JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (Continued)

(i) Critical judgements in applying the Banks accounting policies (Continued)

Impairment of available-for-sale investments (Continued)

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

Held-to-maturity investments

The Bank 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 Bank evaluates its intention and ability to hold such investments to maturity. If the Bank 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.

Consolidation

The subsidiaries have not been consolidated because the parent Company has determined that the investments are not material and have no impact to the reported profit or loss and its statement of financial position.

(ii) Key sources of estimation uncertainty

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Property, equipment and intangible assets

Critical estimates are made by management in determining depreciation rates and residual values for property, equipment and intangible assets.

Fair value of trade receivables and payables

The carrying value less impairment provision of trade receivables and payables are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Bank for similar financial instruments.

Taxation

The Bank is subjected to numerous taxes and levies by various government and quasi- government regulatory bodies. As a rule of thumb, the Bank recognises liabilities for the anticipated tax /levies payable with utmost care and diligence. However, significant judgement is usually required in the interpretation and applicability of those taxes /levies. Should it come to the attention of management, in one way or the other, that the initially recorded liability was erroneous, such differences will impact on the income and liabilities in the period in which such differences are determined.

CONSOLIDATED BANK OF KENYA LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

3 GOING CONCERN

As at 31 December 2017, the Bank had a total regulatory capital/risk weighted assets ratio of 5.09% (2016: 8.0%) against a regulatory minimum ratio of 14.5%. The Bank therefore had not met the minimum regulatory capital requirements. The Directors in consultation with National Treasury are taking the necessary measures to recapitalise the Bank and ensure compliance with the regulatory and prudential requirements. The National Treasury the majority shareholder with 77.9% stake is in the process of seeking necessary approvals from the National Assembly to inject bridging capital of Sh 500 million to shore up the bank's capital as it awaits the implementation of the agreed recapitalisation strategy. The process of engaging a Transaction Advisor to structure the deal leading to privatisation and injection of additional capital of Sh 1 billion through a rights issue and/or strategic investor by September 2018 is at an advanced stage and the Transaction advisor is expected to be on board by 31 March 2018.

Based on the foregoing the Directors believe that the Bank will remain a going concern in the foreseeable future.

4 RISK MANAGEMENT OBJECTIVES AND POLICIES

(a) FINANCIAL RISK

The Bank defines risk as the possibility of losses or profits foregone, which may be caused by internal or external factors. The Bank aims to achieve an appropriate balance between risk and return and minimise the potential adverse effects of the Bank's financial performance.

Risk management framework

The Board of Directors has overall responsibility for the establishment and oversight of the Bank's risk management framework. The board has established a risk management committee comprising of three non-Executives Directors to assist in the discharge of this responsibility. The board has also established the Bank Asset and Liability (ALCO), Credit and Operational Risk committees, which are responsible for developing and monitoring risk management policies in their specified areas. These committees comprise of executive members and report regularly to the board of Directors on their activities.

The Board provides written principles for overall risk management as well as written policies covering specific risk areas. The Bank's risk management policies are established to identify and analyse the risks faced by the Bank, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions, products and best market practices. The Bank, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment, in which all employees understand their roles and obligations.

The Board Audit Committee is responsible for monitoring compliance with the Bank's risk management policies and procedures, and for reviewing the adequacy of the risk management framework in relation to the risks faced by the Bank. This committee is assisted in these functions by the Internal Audit Function. The Internal Audit Function undertakes reviews of risk management controls and procedures, the results of which are reported to the committee.

The most important type of risks to which the Bank is exposed to are financial risks which include:

- a) Credit risk
- b) Liquidity risk
- c) Market risks

(a) Credit risk

Credit risk is the risk of financial loss to the Bank if a customer or counterparty to a financial instrument fails to meet its contractual obligations. Credit risk arises principally from the Bank's loans and advances to customers and other Banks and investment securities but can also arise from credit enhancement provided such as financial guarantees, letters of credit and acceptances. The Bank is also exposed to other credit risks arising from its trading activities including derivatives.

CONSOLIDATED BANK OF KENYA LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

4 RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

A. FINANCIAL RISK (Continued)

(a) Credit risk (continued)

Credit risk is the single largest risk for the Bank's business and management carefully manages its exposure to credit risk. For risk management reporting purposes, the Bank considers and consolidates all elements of credit risk exposure.

For risk management purposes, credit risk arising on trading securities is managed independently, but reported as a component of market risk exposure.

Management of credit risk

The Board of Directors has delegated responsibility for the oversight of credit risk to its Finance and Credit Committee comprising of four non-executive directors. The implementation of the credit risk policies and monitoring of the credit portfolio to ensure that risks are managed within acceptable standards is the responsibility of the credit committee comprising of executive management. The committee assisted by the credit department is responsible for the management of the Bank's credit risk including:

- Formulating credit policies in consultation with business units, covering collateral requirements, credit assessment, risk grading and reporting, documentary and legal procedures, and compliance with regulatory and statutory requirements.
- Establishing the authorisation structure for the approval and renewal of credit facilities. Authorisation limits are delegated to the head of credit and the credit committee while larger facilities require approval by the Board of Directors.
- Limiting concentrations of exposure to counterparties, geographies and industries for loans and advances.
- Developing and maintaining the Bank's risk grading in order to categorise exposures according to the degree of risk of financial loss faced and to focus management on the attendant risks. 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. Risk grades are subject to regular reviews by credit department.
- Reviewing compliance of business units with agreed exposure limits, including those for selected industries, country risk and product types. Regular reports are provided to Bank credit committee on the credit quality of local portfolios and appropriate corrective action is taken.
- Providing advice, guidance and specialist skills to branches to promote best practice throughout the Bank in the management of credit risk.

Credit risk measurement

In measuring credit risk of loans and advances to customers, the Bank takes into account the following factors:

- The probability of default: this is the possibility of the customer failure to pay over the stipulated period in the contract.
- Current exposure on the borrower and the likely future development from which the Bank derives the exposure at default
- Estimated recovery ratio should default occur; this is the amount that can be recovered through sale of collateral

The Bank assesses the probability of default of individual borrowers using internal rating methods tailored to the various categories of the borrower. In assessing the credit quality of the customer the Bank takes into account the customers financial position, past experience and other industry specific factors. The credit risk measurements are embedded in the Bank's daily operational management and closely aligned to the Central Bank of Kenya loan classifications. The impairment allowances on loans and advances computed through the Bank's internal measures and the Central Bank of Kenya prudential guidelines are contrasted with the measurement of impairment under the IAS 39.

CONSOLIDATED BANK OF KENYA LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

4 RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

A. FINANCIAL RISK (Continued)

(a) Credit risk (Continued)

Risk limit control and mitigation policies

The Bank structures the level of credit risk it undertakes by placing limits on amounts of risk accepted in relation to one borrower or a group of borrowers. Such risks are monitored on a revolving basis and are subject to annual or more frequent review.

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

The Bank takes security for funds advances and implements guidelines on the acceptability of specific classes of collateral. To minimise credit loss the Bank will seek additional collateral from the counterparty as soon as impairment indicators are identified for the relevant individual loans and advances. Collateral held for other financial assets other than loans and advances depends on the nature of the instrument.

The primary purpose of acceptances, letters of credit and guarantees is to ensure funds are available to a customer as required. Guarantees and standby letters of credit carry the same risk as loans. Documentary and commercial letters of credit which are written undertakings by the Bank on behalf of a customer authorising a third party to draw drafts on the Bank up to a stipulated amount under specific terms and conditions are collateralised by the underlying goods to which they relate and therefore carry less risk than a direct loan.

Commitments to extend credit represent unused portions of authorisation to extend credit in the form of loans, guarantees or letters of credit. With respect to credit risk on commitments to extend credit, the Bank is potentially exposed to loss in an amount equal to the total unused commitments. However, the likely amount of loss is less than the total unused commitments as most commitments to extend credit are contingent upon customers maintaining specific credit standards.

The Bank's exposure is spread over a diversity of personal and commercial customers.

CONSOLIDATED BANK OF KENYA LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

4 RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

A. FINANCIAL RISK (Continued)

(a) Credit risk (Continued)

Maximum exposure to credit risk before collateral held

	2017		2016	
	Sh'000	%	Sh'000	%
Credit Exposures				
On – balance sheet items				
Cash and balances with the CBK	857,738	6	652,941	4
Government securities	2,605,899	19	2,663,491	19
Balances due from banking institutions	107,453	1	53,713	-
Loans and advances to customers	8,421,072	61	9,146,232	64
	<u>11,992,162</u>	<u>87</u>	<u>12,516,377</u>	<u>87</u>
Off-balance sheet items				
Acceptances and letters of credit	57,601	-	90,760	1
Guarantees	1,079,860	8	818,721	6
Undrawn formal stand-by facilities, credit lines and other commitments to lend	721,000	5	931,756	6
	<u>1,858,461</u>	<u>13</u>	<u>1,841,237</u>	<u>13</u>
At 31 December	<u><u>13,850,623</u></u>	<u><u>100</u></u>	<u><u>14,357,614</u></u>	<u><u>100</u></u>

The above represents the worst case scenario of credit exposure for 31 December 2017 and 2016, without taking into account any collateral held or other credit enhancements attached. For on-balance sheet assets, the exposures, set out above are based on net carrying amount as reported on the statement of financial position.

Loans and advances to customers comprise of 61% (2016 - 64%) of the total maximum exposure. The fair value of collateral held in respect of assets subject to credit risk as at 31 Decembers 2017 was Sh.27,948,191,208 (2016- Sh 22,068,634,000).

While collateral is an important mitigant to credit risk, the Bank's policy is to establish that loans are within the capacity of the customer to repay, as the primary way out. The Bank holds collateral against loans and advances to customers in the form of mortgage interests over property, other registered securities over assets, and guarantees. Estimates of fair value are based on the value of collateral assessed at the time of borrowing, and generally are not updated except when a loan is individually assessed as impaired. Collateral generally is not held over loans and advances to Banks, except when securities are held as part of reverse repurchase and securities borrowing activity.

The Bank is confident that its policies and procedures provide sufficient safeguards against exposure on credit risk as shown on the table overleaf.

CONSOLIDATED BANK OF KENYA LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

4 RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

A. FINANCIAL RISK (Continued)

(a) Credit risk (Continued)

Classification of loans and receivables

Loans and advances to customers	2017 Sh'000	2016 Sh'000
Carrying amount		
Individually impaired		
Grade 6: Impaired (substandard) - 91-180 days past due	349,039	305,463
Grade 7: Impaired (doubtful) - 181-360 days past due	1,853,701	1,627,707
Grade 8: Impaired (loss) - over 360 days past due	278,753	104,335
	<hr/>	<hr/>
Gross amount	2,481,493	2,037,505
Allowance for impairment	(433,900)	(400,977)
Interest in suspense	(761,323)	(559,398)
	<hr/>	<hr/>
Carrying amount	1,1286,270	1,077,130
	<hr/>	<hr/>
Collectively impaired (past due but not impaired)		
Grade 4-5: Watch list - 30-90 days past due	808,388	1,253,493
Allowance for impairment	(24,252)	(37,605)
	<hr/>	<hr/>
Carrying amount	784,136	1,215,888
	<hr/>	<hr/>
Neither past due nor impaired		
Grade 1-3: Normal - up to date repayments	6,350,666	6,868,466
	<hr/>	<hr/>
Total carrying amount	8,421,072	9,161,484
	<hr/> <hr/>	<hr/> <hr/>

Apart from the loans and receivables to customers all other credit exposures are neither past due nor impaired.

Loans and receivables neither past due nor impaired

The Bank classifies loans and advances under this category for those exposures that are up to date and in line with contractual agreements. These exposures will normally be maintained within approved product programs and with no signs of impairment or distress. These exposures are categorised internally as grade 1-3, that is, normal accounts in line with CBK prudential guidelines and a provision of 1 % is made and appropriated from revenue reserves to statutory reserves.

Loans and receivables past due but not impaired loans

Loans where the contractual interest or principal payments are past due but the Bank believes that impairment is not appropriate on the basis of the level of security/collateral available and/or the stage of collection of amounts owed to the Bank are classified as past due but not impaired. These exposures are graded internally as category 4-5 that is watch accounts in the Bank's internal credit risk grading system, in line with CBK guidelines.

CONSOLIDATED BANK OF KENYA LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

4 RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

A. FINANCIAL RISK (Continued)

(a) Credit risk (Continued)

Loans with renegotiated terms

Loans with renegotiated terms are loans that have been restructured due to deterioration in the borrower's financial position and where the Bank has made concessions that it would not otherwise consider. Loans whose terms have been renegotiated are no longer treated as past due but are reclassified as performing loans. In subsequent years, the renegotiated terms apply in determining whether the asset is considered past due.

Allowances for impairment

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

The internal credit risk grading system which is in line with CBK prudential guidelines focus on expected credit losses – that is taking into account the risk of future events giving rise to losses. In contrast, impairment allowances are recognised for financial reporting purposes only for losses that have been incurred at the date of the statement of financial position based on objective evidence of impairment. Due to the different methodologies applied, the amount of incurred credit losses provided for in the statement of comprehensive income is usually lower than the amount determined from the expected loss model that is used for internal operational management and banking regulation purposes.

Write-off policy

When a loan is uncollectible it is written off against the related provisions for loan impairment. Such loans are written off after all the necessary recovery procedures have been completed and the amount of loan has been determined. Subsequent recoveries of amounts previously written off are recognised as gains in the profit or loss.

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

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

	Loans and advances to customers	
	2017 Sh'000	2016 Sh'000
Against individually impaired property	3,919,728	1,437,977
Against collectively impaired property	1,784,219	2,380,731
	<hr/>	<hr/>
Total	5,703,947	3,818,708
	<hr/>	<hr/>

CONSOLIDATED BANK OF KENYA LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

4 RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

A. FINANCIAL RISK (Continued)

(a) Credit risk (Continued)

Settlement risk

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

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

Concentration of risk

Details of significant concentrations of the Bank's assets, liabilities and off balance sheet items by industry groups are as detailed below:

	2017		2016	
	Sh'000	%	Sh'000	%
(i) Advances to customers- gross				
Manufacturing	157,963	2	189,975	2
Wholesale and retail	4,254,340	44	4,056,249	40
Transport and communication	1,096,377	11	1,466,237	14
Agricultural	98,488	1	65,188	1
Business services	142,095	1	93,536	1
Real estate	2,536,619	26	3,235,397	32
Other	1,354,685	14	1,052,882	10
	<u>9,640,567</u>	<u>100</u>	<u>10,159,464</u>	<u>100</u>
(ii) Customer deposits				
Central and local Government	304,735	3	168,659	2
Non-financial public enterprises	81,238	1	207,199	2
Co-operative societies	302,800	4	662,380	7
Insurance companies	9,845	-	618,687	6
Private enterprises and individuals	7,863,276	92	7,853,584	82
Non-profit institutions	2,929	-	24,937	1
	<u>8,564,823</u>	<u>100</u>	<u>9,535,446</u>	<u>100</u>
(iii) Off balance sheet items (Letters of credit and guarantees)				
Manufacturing	15,267	1	10,350	1
Wholesale and retail	772,619	62	694,860	71
Transport and communication	4,060	-	72,143	7
Business services	435,020	35	208,903	21
Other	15,295	1	130	-
	<u>1,242,261</u>	<u>100</u>	<u>986,386</u>	<u>100</u>

CONSOLIDATED BANK OF KENYA LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

4 RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

A. FINANCIAL RISK (Continued)

(b) Liquidity risk

Liquidity risk is the risk that the Bank will encounter difficulty in meeting obligations from its financial liabilities when they fall due as a result of customer deposits being withdrawn, cash requirements from contractual commitments or other cash outflows.

Management of liquidity risk

The Bank's liquidity risk management is carried out within the Bank and monitored by the Asset Liability committee (ALCO).

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

Liquidity risk is addressed through the following measures:

- The treasury department monitors liquidity ratios on a daily basis against internal and regulatory requirements
- Day to day funding is managed by monitoring future cash flows to ensure that requirements can be met. These include replenishment of funds as they mature or are borrowed by customers.
- The Bank invests in short term liquid instruments which can easily be sold in the market when the need arises.
- The Bank enters into lending contracts subject to availability of funds.
- The Bank has an aggressive strategy aimed at increasing the customer deposit base.
- The Bank borrows from the market through interbank transactions with other Banks and The Central Bank of Kenya for short term liquidity requirements.
- Investments in property and equipment are properly budgeted for and done when the Bank has sufficient cash flows.

The daily liquidity position is monitored and regular liquidity stress testing is conducted under a variety of scenarios covering both normal and more severe market conditions. All liquidity policies and procedures are subject to review and approval by the board. Daily reports covering the liquidity position of the Bank are regularly submitted to Asset and Liability Committee.

Exposure to liquidity risk

The key measure used by the Bank for managing liquidity risk is the ratio of net liquid assets to deposits from customers. For this purpose net liquid assets are considered as including cash and cash equivalents and investment grade debt securities for which there is an active and liquid market less any deposits from Banks, debt securities issued, other borrowings and commitments maturing within the next month. The Central Bank of Kenya minimum liquidity ratio is 20%. Details of the reported Bank ratio of net liquid assets to deposits and customers at the reporting date and during the reporting period were as follows:

	2017	2016
At 31 December	22%	26%
Average for the period	27%	25%
Maximum for the period	30%	34%
Minimum for the period	22%	20%

CONSOLIDATED BANK OF KENYA LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

4 RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

A. FINANCIAL RISK (Continued)

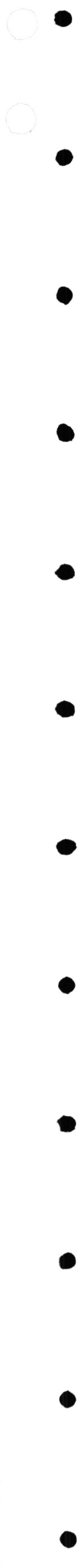
(b) Liquidity risk (continued)

Liquidity risk based on discounted cash flows

The table below analyses the cash flows payable by the Bank under non-derivative financial liabilities by remaining contractual maturities and non-derivative financial assets by expected maturity dates as at the date of the statement of financial position.

AT 31 DECEMBER 2017	Up to 1 month Sh'000	1 - 3 months Sh'000	4 - 12 months Sh'000	1 - 5 Years Sh'000	Total Sh'000
FINANCIAL ASSETS					
Cash and balances with the CBK	682,272	161,281	14,185	-	857,738
Balances due from banking institutions	107,453	-	-	-	107,453
Government securities	-	144,996	-	2,682,384	2,827,380
Loans and advances to customers	2,387,042	179,299	449,263	6,386,583	9,405,899
Total financial assets	3,176,767	485,576	463,447	9,068,967	13,194,758
FINANCIAL LIABILITIES					
Balance due to Central Bank of Kenya	1,484,201	-	-	-	1,484,201
Deposits and balances due to banking institutions	208,561	-	-	-	208,561
Customer deposits	5,800,363	3,054,646	268,655	-	9,123,664
Borrowed funds	86,216	-	24,441	1,918,566	2,029,223
Total financial liabilities	7,579,341	3,054,646	293,096	1,918,566	12,845,649
Net liquidity gap	(4,402,574)	(2,569,070)	170,351	7,150,401	349,109
AT 31 DECEMBER 2016					
Total financial assets	2,917,322	532,215	405,852	9,963,152	13,818,541
Total financial liabilities	5,232,363	5,339,885	457,744	1,992,128	13,022,120
Net liquidity gap	(2,315,041)	(4,807,670)	(51,892)	7,971,024	796,421

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



CONSOLIDATED BANK OF KENYA LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

4 RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

A. FINANCIAL RISK (Continued)

(c) Market risks

Market risk is the risk that fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk arise from open positions in interest rates, currency and equity products, all of which are exposed to general and specific market movements and changes in the level of volatility of market rates or prices such as interest rates, equity prices, foreign exchange rates and credit spreads. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return on risk.

The Bank separates exposures to market risk into either trading or non-trading portfolios. Trading portfolios include those positions arising from market-making transactions where the Bank acts as principal with clients or with the market. Non-trading portfolios mainly arise from the interest rate management of the entity's retail and commercial Banking assets and liabilities.

Management of market risks

Overall responsibility of managing market risk rests with the Asset and Liability Committee (ALCO). The Treasury department is responsible for the development of detailed risk management policies (subject to review and approval by ALCO) and for the day-to-day review of their implementation. The Board of Directors sets limits on the level of mismatch of interest rate repricing that may be undertaken which is monitored daily.

Exposure to interest rate risk

The principal risk to which non-trading portfolios are exposed is the risk of loss from fluctuations in the future cash flows or fair values of financial instruments because of a change in market interest rates. The ALCO is the monitoring body for compliance with these limits and is assisted by Treasury Department in its day-to-day monitoring activities.

The table below summarises the Bank's exposures to interest rate risks. Included in the table are the Bank's assets and liabilities at carrying amounts, categorised by the earlier of the contractual repricing or maturity dates. The Bank does not bear an interest rate risk on off balance sheet items.

AS AT 31 December 2017	Up to 1 month Sh'000	1 – 3 months Sh'000	4 - 12 months Sh'000	1 - 5 Years Sh'000	Non- interest bearing Sh'000	Total Sh'000
FINANCIAL ASSETS						
Cash and balances with the CBK	-	-	-	-	857,738	857,738
Balances due from other banking institutions	107,453	-	-	-	-	107,453
Government securities	-	144,996	-	2,460,903	-	2,605,899
Loans and advances to customers	8,421,072	-	-	-	-	8,421,072
Total financial assets	8,528,525	144,996	-	2,460,903	857,738	11,992,162

CONSOLIDATED BANK OF KENYA LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

4 RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

A. FINANCIAL RISK (Continued)

(c) Market risks (continued)

	Up to 1 month Sh'000	1 - 3 months Sh'000	4 - 12 months Sh'000	1 - 5 Years Sh'000	Non- interest bearing Sh'000	Total Sh'000
FINANCIAL LIABILITIES						
Balance due to Central Bank of Kenya	1,484,201	-	-	-	-	1,484,201
Deposits and balances due to banking institutions	208,561	-	-	-	-	208,561
Customer deposits	2,745,218	2,805,001	246,699	-	2,849,388	8,646,306
Borrowed funds	86,216	24,441	-	1,696,345	-	1,807,002
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Total financial liabilities	4,524,196	2,829,442	246,699	1,696,345	2,849,388	12,146,070
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Interest rate sensitivity gap	3,896,876	(2,684,446)	(246,699)	764,558	(1,991,650)	(261,361)
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>

Currency risk

The bank takes on exposure to the effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cashflows. The board sets limits on the level of exposure by currency and in total for both overnight and intra-day positions which are monitored daily.

CONSOLIDATED BANK OF KENYA LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

4 RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

A. FINANCIAL RISK (Continued)

(c) Market risks (continued)

The table below summarises the Bank's exposure to foreign currency exchange rate risk at 31 December. Included in the table are the Bank's financial instruments categorised by currency.

	KSH Sh'000	USD Sh'000	GBP Sh'000	EURO Sh'000	OTHERS Sh'000	TOTAL Sh'000
AS AT 31 DECEMBER 2017						
FINANCIAL ASSETS						
Cash and balances with Central Bank of Kenya	803,618	36,116	3,254	12,374	2,376	857,738
Balances due from Banking institutions	57,589	44,710	924	2,764	1,466	107,453
Government securities	2,605,899	-	-	-	-	2,605,899
Loans and advances to customers	8,255,634	165,438	-	-	-	8,421,072
Total financial assets	11,722,740	246,264	4,178	15,138	3,842	11,992,162
FINANCIAL LIABILITIES						
Balance due to Central Bank of Kenya	1,484,201	-	-	-	-	1,484,201
Deposits and balances due to banking institutions	207,705	856	-	-	-	208,561
Customer deposits	8,485,713	141,711	6,404	12,478	-	8,646,306
Borrowed funds	1,646,516	-	-	160,486	-	1,807,002
Total financial liabilities	11,824,135	142,567	6,404	172,964	-	12,146,070
NET ON BALANCE SHEET POSITION	(101,395)	103,697	(2,226)	(157,806)	3,842	(153,908)
NET OFF BALANCE SHEET POSITION	1,055,182	78,308	-	3,250	720	1,137,461
AT 31 DECEMBER 2016						
Total financial assets	12,241,522	264,779	6,338	16,888	2,102	12,531,629
Total financial liabilities	11,928,949	138,112	7,327	214,621	-	12,289,009
NET ON BALANCE SHEET POSITION	315,573	126,667	(989)	(197,733)	2,102	245,620
NET OFF BALANCE SHEET POSITION	884,866	91,872	-	4,593	5,055	986,386

CONSOLIDATED BANK OF KENYA LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

4 RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

A. FINANCIAL RISK (Continued)

(c) Market risks (continued)

Market risks - sensitivity analysis

A principal part of the Bank's management of market risk is to monitor the sensitivity of projected net interest income under varying interest rate scenarios (simulation modelling) and the sensitivity of future earnings and capital to varying foreign exchange rates. Stress tests provide an indication of the potential size of losses that could arise in extreme conditions. Consolidated Bank aims, through its management of market risk, to mitigate the impact of prospective interest rate movements and foreign exchange fluctuations which could reduce future earnings and capital.

For simulation modelling, the Bank uses a combination of scenarios relevant to local businesses and local markets. These scenarios are used to illustrate the effect on the Bank's earnings and capital.

Interest rate risks – increase/decrease of 10% 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 recognized 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 10% parallel fall or rise in all yield curves as at 31 December 2017.

	Amount 31 December 2017 Sh'000	Scenario 1 10% appreciation Sh'000	Scenario 2 10% depreciation Sh'000
Loss before taxation	(438,570)	(388,726)	(488,414)
Adjusted Core Capital	353,865	403,709	304,021
Adjusted Total Capital	594,760	644,604	544,895
Risk Weighted Assets (RWA)	11,685,595	11,685,595	11,685,595
Adjusted Core Capital to RWA	3.0%	3.4%	2.6%
Adjusted total Capital to RWA	5.1%	5.5%	4.7%

Assuming no management actions, a series of such appreciation would increase net interest income for 2017 by Sh - 49,400,000 (2016 - Sh 68,609,000), while a series of such falls would decrease net interest income for 2017 by Sh-49,400,000 (2016 -Sh 68,609,000).

Also a series of such rises would increase the adjusted core capital to RWA and Adjusted total capital to RWA by 0.4% (2016: 0.7%) and 0.4% (2016: 0.7%) respectively, while a series of such falls would decrease the adjusted core capital to RWA and Adjusted total capital to RWA by 0.4% (2016: 0.6 %) and 0.4% (2016: 0.7%) respectively.

The impact of the increase or decrease is not significant.



NOTES TO THE FINANCIAL STATEMENTS (Continued)

4 RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

A. FINANCIAL RISK (Continued)

(c) Market risks (continued)

Price risk

The Bank does not hold significant financial instruments subject to price risk.

Foreign exchange risks – appreciation/depreciation of Kshs 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 Bank'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 as at 31 December 2017.

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 31 December 2017 Sh'000	Scenario 1 10% appreciation Sh'000	Scenario 2 10% Depreciation Sh'000
Loss before taxation	(438,570)	(435,727)	(441,413)
Adjusted Core Capital	353,865	356,708	351,022
Adjusted Total Capital	594,760	597,603	591,917
Risk Weighted Assets (RWA)	11,685,595	11,685,595	11,685,595
Adjusted Core Capital to RWA	3.0%	3.0%	3.0%
Adjusted total Capital to RWA	5.1%	5.1%	5.1%

Assuming no management actions, a series of such appreciation would increase earnings for 2017 by Sh. 2,843,000 (2016 - Sh 3,055,000), while a series of such falls would decrease earning for 2017 by Sh. 2,843,000 (2016 – Sh 3,055,000).

Also a series of such rises would increase the adjusted core capital to RWA and Adjusted total capital to RWA by 0.0 % (2016 - 0.0%) and 0.0% (2016 - 0.1 %) respectively, while a series of such falls would decrease the adjusted core capital to RWA and Adjusted total capital to RWA by 0.0% (2016 - 0.1%) and 0.0% (2016 - 0%) respectively.

The impact of the increase or decrease is not significant.

CONSOLIDATED BANK OF KENYA LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

4 RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

B. OTHER RISKS

Non-financial risk management disclosures:

a) Strategic risk

Strategic risk is the current and prospective impact on earnings or capital arising from adverse business decisions, improper implementation of decisions, or lack of responsiveness to industry changes. This risk is a function of the compatibility of organization's strategic goals, the business strategies developed to achieve those goals, the resources deployed against these goals, and the quality of implementation.

The Bank faces several strategic risks from its environment which include:

- Macro-economic changes.
- Competition from the financial industry and organisations providing similar services.
- Technological changes.
- Key legislative and regulatory changes.
- Major political events.
- Human capital or social/demographic trends and changes.

The Board of Directors is ultimately responsible for the overall generation and implementation of the Bank's strategy for purposes of enhancing shareholders' value. It has however delegated the implementation aspects to the Chief Executive Officer and the Senior Management team. The Board of Directors, with support of the Chief Executive Officer Senior Management, develops and implements a new strategic cycle every 5 years to cater for the next growth phase of the Bank.

The Chief Executive Officer supported by the (Executive Committee) EXCOM is responsible for the execution of the approved strategic objectives on a day to day basis and actively monitors business performance against these objectives through periodic reviews. The business carries out business performance reviews periodically but at a minimum on a monthly basis against pre-determined milestones and key performance indicators. The reviews are reported to the Board of Directors for information and advice, or action where significant deviations occur. These reports include identifying the key risks faced by the Bank and how they are being managed.

Each business head is responsible for ensuring that strategic initiatives are aligned to the overall strategy of the Bank and supported by the relevant and appropriate operating policies and programs that direct behaviour. They are also responsible for monitoring, managing and reporting on the effectiveness and risks of their business' strategic objectives, and the progress they have made towards achieving these. They oversee the direction and trends of significant current and emerging risks related to their business units and that mitigating actions are taken where appropriate.

The Chief Executive Officer co-ordinates an annual strategic planning process intended to align individual business strategies to overall enterprise level strategies as approved by the Board of Directors. They include a comprehensive review and evaluation of the business strategies, competitive positioning, financial performance, initiatives of strategic executions, and key business risks.

The Bank's financial and non-financial performance, including its key risks, is reported to the Board of Directors on a bi monthly basis for review and action, where necessary.

CONSOLIDATED BANK OF KENYA LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

4 RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

B. OTHER RISKS (Continued)

Non-financial risk management disclosures:

b) Operational risk

Operational Risk is “the risk that the Bank will incur direct or indirect loss due to an event or action causing the failure of technology, processes, infrastructure, personnel, and other risks having an operational impact”. The impact of these risks can result in significant financial loss, reputational harm or regulatory censure and penalties.

The major operational risks faced by the Bank include:

- People and related issues such as staff retention, frauds, amongst others.
- Systems and processes changes related to the drive to meet our clients’ needs.

The Board of Directors takes the lead in establishing the “tone at the top” which promotes a strong risk management culture. The Bank has also put in place a corporate culture that is guided by strong risk management and that supports and provides appropriate standards and incentives for professional and responsible behaviour.

All members of staff are responsible for the management and mitigation of Operational risks. This is reflected in the continuous control environment, risk awareness and management style. Specific roles or responsibilities are assigned for leading and managing the internal control environment through the following people:

- Board and CEO;
- Audit Committee;
- Internal Audit Department;
- Board Risk Management Committee;
- Risk Management Committee;
- Risk & Compliance Department;
- Business Operational Risk functions in corporate, Retail and SME ;
- Information Technology (IT) Steering Committee; and
- Business Heads and Operations Head.

Internal Audit is responsible for assessing compliance with operational risk policy and for reporting significant issues to the Board Audit Committee and the Board of Directors.

The Bank seeks to minimise actual or potential losses arising from Operational Risk failures. These include inadequately defined procedures or policies, systems failure, internal control flaws or breaches, insufficiently skilled staff, unmanageable events or customer actions. To achieve this, the Bank ensures:

- Robust operational risk policy and procedures that reflects industry practice are put in place and operationalized. These include toolkits to help identify, assess, control, manage and report on key Operational Risks. Toolkits in the Operational Risk Procedures manual include inter alia:
 - i) Framework for the Bank, businesses, and support functions to identify their major operational risks and mitigation plans;
 - ii) Key control standards;

CONSOLIDATED BANK OF KENYA LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

4 RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

B. OTHER RISKS (Continued)

Non-Financial Risk Management disclosures:

b) Operational risk (Continued)

iii) Indicators to identify Operational Risk; and

iv) Incident and issues tracking mechanisms to identify causal factors and operational losses:

- All staff in business and support functions, are aware of their responsibilities for Operational Risk Management.
- Potential Operational Risk impact of Bank activities and products are considered at their outset with a view to minimising these as far as possible.
- There are structured processes to report control failures to designated individuals and escalate material issues to Risk Management Committee, Executive Committee (EXCOM) and Board Risk Management Committee as appropriate.
- Employees are given Operational Risk training appropriate to their roles.
- Employee and Bank assets are adequately protected.
- Workable Business Continuity Plans are established (including Disaster Recovery and Crisis Management procedures) to minimise the impact of unplanned events on business operations and customer service.
- The financial impact of operational losses is mitigated through the utilisation of insurance or other risk transfer mechanisms where appropriate.

c) Compliance (policy/legal/regulatory) risk:

Compliance risk is the current or prospective risk to earnings and capital arising from violations or non-compliance with laws, rules, regulations, agreements, prescribed practices, or ethical standards, as well as from the possibility of incorrect interpretation of effective laws or regulations.

The Bank is committed to ensuring that its business activities are conducted in accordance with applicable laws and regulations, internal rules, policies and procedures, and ethical standards ("compliance laws, rules and standards"). The Bank has established appropriate policies, procedures and controls that will ensure effective compliance with laws, regulations and codes relevant to its businesses, customers and staff.

Business unit heads have the responsibility and accountability of managing regulatory and legal risks relating to their units on a day to day basis with assistance / advice and oversight from Legal and Compliance Department. The Risk and Compliance Department identifies and monitors the key risks and is responsible for ensuring that the day to day business controls comply with applicable legislation and are in line with best practice. Internal and external legal counsel work closely with business units to identify areas of existing and potential regulatory/legal risks and actively manage them to reduce the Bank's exposures.

Senior Management and the Board Risk Management Committee receive the Risk Management Department's opinions / reports on the strength of the Banks Compliance Risk Framework to enable them to determine whether it is under control and where not, tracks significant corrective actions to finality. Additionally, significant exposures under "for or against" litigation are reviewed periodically.

CONSOLIDATED BANK OF KENYA LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

4 RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

B. OTHER RISKS (Continued)

d) Reputational risk

Reputational risk is the potential that negative stakeholder impressions or perceptions, whether true or not, regarding the Bank's business practices, actions or inactions, will or may cause a decline in customer base, liquidity, and overall brand value. It is a resultant effect of all other risks highlighted in this report and therefore cannot be managed in isolation. Therefore, when all the other risks are managed well, this risk is substantially minimised.

The Bank's reputation is an invaluable and fragile asset that is broad and far reaching and includes image, goodwill and brand equity. Reputational risk management supports value creation and seeks to deal effectively with potential future events that create uncertainty.

Ultimate responsibility for this risk rests with the Board of Directors and Senior Management who examine the Bank's reputational risk as part of their regular mandate. They are assisted in this aspect by the Corporate Communications Department. Their purpose is to ensure that all products, services, and activities meet the Bank's reputational risk objectives in line with the Board of Director's approved appetite. The Bank's reputational risk strategy however cascades into the other Bank's policies procedures each level of management is responsible for the appropriateness of policies, processes and controls within its purview.

Senior Management and the Board of Directors receive periodic reports on the assessment of the Bank's reputational risk exposures that arise from its business activities so as to form a view on associated risks and implement corrective actions.

C. FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into levels 1 to 3 based on the degree to which the fair value is observable.

- Level 1: fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: fair value measurements are those derived from inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3: fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

Financial assets held for trading:

		Level 1	Level 2	Level 3	Total
	Note	Shs'000	Shs'000	Shs'000	Shs'000
31 December 2017					
Quoted investments		7,139	-	-	7,139
31 December 2016					
Quoted investments		6,097	-	-	6,097



CONSOLIDATED BANK OF KENYA LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

4 RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

C. FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES (Continued)

The above were valued at quoted bid prices in an active market (Nairobi Securities Exchange).

Except as detailed above, the Directors consider that the carrying amounts of financial assets and financial liabilities recognised in the statement of financial position approximate their fair values.

This note provides information about how the Bank determines fair values of various financial assets and financial liabilities.

Fair value of the Bank's financial assets and liabilities that are measured at fair value on a recurrent basis.

Some of the Bank's financial assets and financial liabilities are measured at fair value at the end of each reporting period. The following table gives information about how the fair values of these financial assets and financial liabilities are determined (in particular, the valuation technique(s) and inputs used):

<i>Financial assets</i>	<i>Fair value as at</i>		<i>Fair value hierarchy</i>	<i>Valuation technique(s) and key inputs</i>	<i>Significant unobservable inputs</i>	<i>Relationship of unobservable inputs to fair value</i>
	31/12/17 Shs '000	31/12/16 Shs'000				
Quoted investments	7,139	6,097	Level 1	Quoted bid prices in an active market	N/A	N/A

There were no transfers between levels 1, 2 and 3 in the period (2016: none).

5 CAPITAL MANAGEMENT

Regulatory capital

The Banks objectives when managing capital are:

- To safeguard the Banks' 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.

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.

The Central Bank of Kenya requires each Bank to:

- Hold the minimum level of regulatory capital of Sh 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 10.5%;
- Maintain a core capital of not less than 10.5% of total deposit liabilities; and
- Maintain total capital of not less than 14.5% of risk weighted assets plus risk weighted off balance sheet items.

CONSOLIDATED BANK OF KENYA LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

5 CAPITAL MANAGEMENT (Continued)

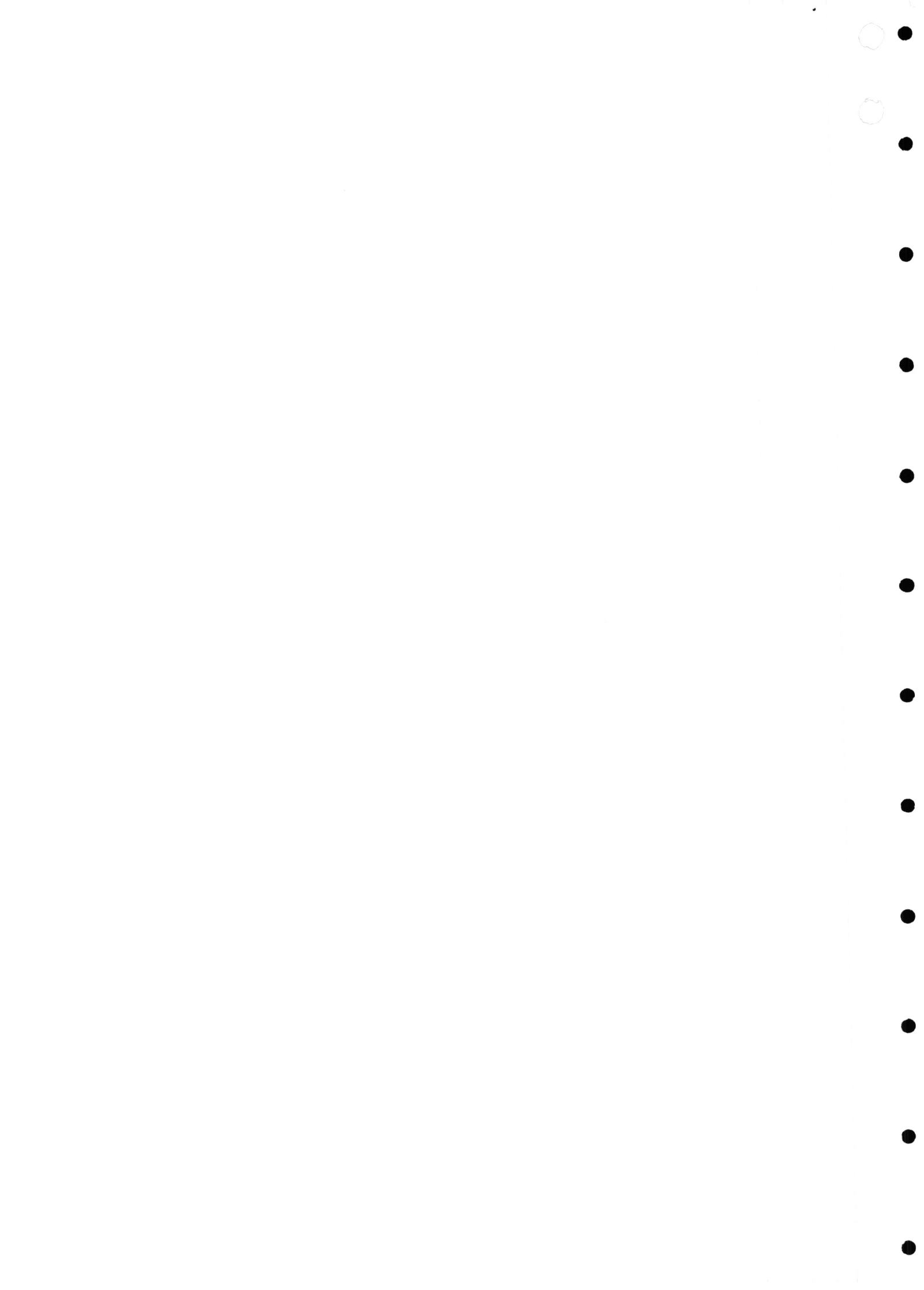
Except for the minimum regulatory capital of Shs 1 billion, the Bank had not complied with the other requirement as at 31 December 2017 and 31 December 2016.

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

- Tier 1 capital, which includes ordinary share capital, non-cumulative irredeemable non-convertible preference shares, disclosed reserves such as share premiums, retained earnings, and 50% un-audited after tax profit less investment in subsidiaries conducting banking business, investments in equity of other institutions, intangible assets (excluding computer software) and goodwill.
- Tier 2 capital, which includes 25% revaluation surplus which have received prior CBK approval, subordinated debt, hybrid capital instruments or any other capital instruments approved by CBK.

The Bank's regulatory capital position at 31 December 2017 and 31 December 2016 was as follows:

	2017 Sh'000	2016 Sh'000
Tier 1 capital		
Ordinary share capital	898,400	898,400
Non-cumulative irredeemable shares	721,130	721,130
	-----	-----
Share capital	1,619,530	1,619,530
Accumulated deficit	(1,265,665)	(873,623)
	-----	-----
Total	353,865	745,907
	-----	-----
Tier 2 capital		
Revaluation reserves (25%)	94,783	96,938
General loan loss provision-statutory reserve (Maximum of 1.25% of RWA)	146,112	158,364
	-----	-----
Total	240,895	255,302
	-----	-----
Total regulatory capital	594,760	1,001,209
	=====	=====
Risk-weighted assets	11,685,595	12,669,090
	=====	=====
Capital ratios:		
Total regulatory capital expressed as a percentage of total risk-weighted assets (CBK minimum 14.5%)	5.09%	8.00%
Total tier 1 capital expressed as a percentage of risk-weighted assets (CBK minimum 10.5%)	3.03%	5.90%
	=====	=====



CONSOLIDATED BANK OF KENYA LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

	2017 Sh'000	2016 Sh'000
6	INTEREST INCOME	
	Interest on loans and advances	1,115,343
	Interest on Bank placements	10,036
	Interest on government securities - Held to maturity	219,274
	1,344,653	1,671,787
7	INTEREST EXPENSE	
	Interest on customer deposits	513,196
	Interest on inter-bank borrowings	3,040
	Interest on Central Bank of Kenya Repos	101,553
	Interest on borrowed funds	228,424
	846,213	985,700
8	FEE AND COMMISSION INCOME	
	Ledger related fees and commissions	42,472
	Credit related fees and commissions	163,370
	Transaction related fees	117,808
	323,650	269,932
9	FOREIGN EXCHANGE INCOME	
	Foreign exchange net income includes gains and losses from spot and forward contracts and translated foreign currency assets and liabilities.	
	Gains on foreign exchange trading	31,627
	Losses on foreign exchange trading	(3,194)
	28,433	30,548
10	OTHER OPERATING INCOME	
	2017 Sh'000	2016 Sh'000
	Rental income	73,978
	Recoveries on loans and advances	350,302
	Gain/(loss) on disposal of property and equipment	17
	Sundry income*	1,440
	425,737	451,245

* Mainly relate to income on sale of tenders.

CONSOLIDATED BANK OF KENYA LIMITED
NOTES TO THE FINANCIAL STATEMENTS (Continued)

11	OPERATING EXPENSES	2017 Sh'000	2016 Sh'000
	Staff costs (note 12)	719,588	742,100
	Directors' emoluments - Fees	4,824	11,828
	- Other	21,580	22,090
	Depreciation - Current year (note 22)	80,569	93,220
	Amortisation of intangible assets (note 23)	77,553	72,616
	Amortisation of operating lease (note 24)	170	170
	Contribution to Kenya Deposit Insurance Corporation	14,214	15,475
	Auditors' remuneration-Current year	4,834	4,834
	-Prior year under provision	3,147	2,193
	Other operating expenses	393,324	441,046
		<u>1,319,803</u>	<u>1,405,572</u>
12	STAFF COSTS		
	Salaries and wages	598,311	615,454
	Training, recruitment and staff welfare costs	26,919	36,758
	Pension contributions	39,968	38,912
	Medical expenses	44,021	42,579
	Leave pay provision	(695)	(2,870)
	Staff insurance	6,186	6,340
	Gratuity provision	4,200	4,200
	NSSF contributions	678	727
		<u>719,588</u>	<u>742,100</u>
13	TAXATION		
	a) Taxation credit		
	Current tax based on the taxable profit for the year at 30%	15,202	19,322
	Deferred tax credit (note 27)	(116,728)	(84,965)
	Prior year (over)/under provision- current taxation	(1,426)	10,572
	Prior year under/(over) provision- deferred taxation	63	(10,346)
		<u>(102,889)</u>	<u>(65,417)</u>
	b) Reconciliation of expected tax based on accounting loss to tax credit		
	Loss before taxation	(377,682)	(276,777)
	Tax calculated at a tax rate of 30%	(113,305)	(83,033)
	Tax effect of expenses not deductible for tax purposes:		
	- non eligible depreciation	6,360	11,651
	- other items not deductible*	7,219	7,539
	Non-taxable income (interest on infrastructure bonds)	(1,800)	(1,800)
	Prior year (over)/under provision- current taxation	(1,426)	10,572
	Prior year under/(over) provision- deferred taxation	63	(10,346)
		<u>(102,889)</u>	<u>(65,417)</u>

* Other items not deductible for tax purposes mainly relate to excess pension contribution, stamp duty and donations.

CONSOLIDATED BANK OF KENYA LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

13	TAXATION (CONTINUED)	2017 Sh'000	2016 Sh'000
	c) Taxation recoverable/(payable)		
	At 1 January	(2,029)	12,165
	Charge for the year	(15,202)	(19,322)
	Prior year (over)/under provision	1,426	(10,572)
	Tax paid during the year	21,827	15,700
		<u> </u>	<u> </u>
	At 31 December	<u>6,022</u>	<u>(2,029)</u>

14 LOSS PER SHARE

Loss per share is calculated by dividing the net loss attributable to shareholders by the number of ordinary shares in issue during the year.

	2017	2016
Loss for the year (Sh'000)	(335,681)	(211,360)
	<u> </u>	<u> </u>
Number of ordinary shares (number in thousands)	44,920	44,920
	<u> </u>	<u> </u>
Loss per share		
Basic and diluted (Sh)	(7.47)	(4.71)
	<u> </u>	<u> </u>

There were no potentially dilutive shares outstanding as at 31 December 2017 and 31 December 2016, respectively. Diluted earnings per share are therefore the same as basic earnings per share.

15 CASH AND BALANCES WITH CENTRAL BANK OF KENYA

	2017 Sh'000	2016 Sh'000
Cash in hand	276,107	305,079
Balances with Central Bank of Kenya:		
- Cash ratio reserve	497,143	329,075
- Other balances (available for use by the Bank)	84,488	18,787
	<u> </u>	<u> </u>
	<u>857,738</u>	<u>652,941</u>

Cash in hand and balances with Central Bank of Kenya are non-interest bearing. The cash ratio reserve is based on the value of customer deposits as adjusted by the Central Bank of Kenya requirements. As at 31 December 2017 the cash ratio reserve requirement was 5.25% (2016 – 5.25%) of all customer deposits held by the Bank. These funds are not available to finance the Bank's day to day operations.



CONSOLIDATED BANK OF KENYA LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

16 DEPOSITS AND BALANCES DUE FROM BANKING INSTITUTIONS

	2017 Sh'000	2016 Sh'000
a) Balances due from banking institutions maturing within 90 days:		
Balances with correspondent banks	39,599	45,924
Balances with local banks	67,854	7,789
	<u>107,453</u>	<u>53,713</u>
b) Balances due to banking institutions maturing within 90 days:		
Deposits from local banks	208,561	91,258
c) Balances due to Central Bank of Kenya maturing within 90 days:		
Borrowing from Central Bank of Kenya	1,484,201	820,000

Deposits with/from local banks as at 31 December 2017 represent overnight lending. The effective interest rate on deposits due from and due to local banking institutions at 31 December 2017 was 10.17 % (2016 – 12%) and nil (2016–nil) for balances with correspondent banks.

The borrowings from Central Bank of Kenya was a REPO:

- Tenure: The period of the borrowings was 1 month from 28 December 2017 to 25 January 2018 and 13 December 2017 to 10 January 2018.
- Interest rate: the borrowing attracted an interest rate of 10%.
- Security: pledge of the Banks only a portion of the Treasury Bonds whose fair value was sh 1,725,000,000.

17 GOVERNMENT SECURITIES

	2017 Sh'000	2016 Sh'000
HELD TO MATURITY		
Treasury bonds –at amortised cost	2,605,899	2,663,491
The maturity profile of government securities is as follows:		
Less than 1 year	144,996	92,765
3 years to 5 years	747,831	434,645
Over 5 years	1,713,072	2,136,081
	<u>2,605,899</u>	<u>2,663,491</u>

The weighted average effective interest rate on treasury bonds was 8.9% (2016 –8.4%). As at 31 December 2017 treasury bonds with a fair value of sh 1,725,000,000 (2016 –1,025,000,000) had been pledged to secure borrowings from Central Bank of Kenya.



CONSOLIDATED BANK OF KENYA LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

18 LOANS AND RECEIVABLES

	2017 Sh'000	2016 Sh'000
(a) Commercial loans	4,150,001	4,176,279
Overdrafts	1,014,510	1,101,559
Mortgages	1,862,604	2,147,948
Asset finance loans	1,314,017	1,535,671
Staff loans	538,092	638,609
	<hr/>	<hr/>
Gross loans and receivables	8,879,224	9,600,066
Less:		
Impairment losses on loans and receivables (note 19)	(458,152)	(438,582)
	<hr/>	<hr/>
Net loans and receivables	<u>8,421,072</u>	<u>9,161,484</u>

The weighted average effective interest rate on loans and receivables as at 31 December 2017 was 14.0% (2016 – 17.9%).

Included in gross loans and receivables of Sh 8,879,224,000 (2016 – Sh 9,600,066,000) are non-performing loans amounting to Sh 1,720,170,000 (2016 – Sh 1,478,108,230). These are included in the statement of financial position net of specific provisions of Sh 433,900,000 (2016 – Sh 400,977,000).

	2017 Sh'000	2016 Sh'000
(b) Analysis of gross loans and receivables by maturity		
Maturing:		
Within 1 year	2,835,776	4,237,462
Between 1 and 3 years	2,464,252	1,543,009
After 3 years	3,579,196	3,819,595
	<hr/>	<hr/>
Loans and receivables to customers	<u>8,879,224</u>	<u>9,600,066</u>

The related party transactions and balances are covered under note 37 and concentration of advances to customers is covered under note 4.

19 IMPAIRMENT LOSSES ON LOANS AND RECEIVABLES

	2017 Sh'000	2016 Sh'000
At 1 January	438,582	510,209
Increase in impairment allowances	395,027	309,017
Write offs	(36,278)	(35,369)
Reversals in impairment allowances	(339,179)	(345,275)
	<hr/>	<hr/>
At 31 December	<u>458,152</u>	<u>438,582</u>
	<hr/>	<hr/>
Collectively assessed impairment	24,252	37,605
Individually assessed impairment	433,900	400,977
	<hr/>	<hr/>
	<u>458,152</u>	<u>438,582</u>

CONSOLIDATED BANK OF KENYA LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

	2017 Sh'000	2016 Sh'000
20 OTHER ASSETS		
Un-cleared items in the course of collection	27,032	28,212
Prepayments	51,139	42,344
Rent receivable	15,059	9,755
Deposits for services	13,449	15,585
Others*	177,759	147,203
	<u>284,438</u>	<u>243,099</u>

* Mainly relate to Mpesa and Kenswitch balances.

21 QUOTED EQUITY SHARES – AVAILABLE FOR SALE		
At beginning of the year	6,097	6,879
Gain/(loss) in market value of investment	1,042	(782)
At end of the year	<u>7,139</u>	<u>6,097</u>

The investment consists of 21,699 shares of Kakuzi Limited which are in the name of Jimba Credit Corporation Limited, a dormant subsidiary company.

In accordance with IFRS 13, the fair value ranking of the available for sale equity investment is at level 1.

	Freehold land and buildings Sh'000	Leasehold improvements Sh'000	Motor vehicles Sh'000	Fixtures, fittings, equipment & ATMs Sh'000	Computers Sh'000	Work in progress	Total Sh'000
22 PROPERTY AND EQUIPMENT							
COST/VALUATION							
At 1 January 2016	719,000	405,860	17,988	309,967	137,002	-	1,589,817
Additions	-	22,782	9,887	9,201	4,002	1,834	47,706
Disposal	-	(16,825)	(7,399)	-	(81)	-	(24,305)
At 31 December 2016	<u>719,000</u>	<u>411,817</u>	<u>20,476</u>	<u>319,168</u>	<u>140,923</u>	<u>1,834</u>	<u>1,613,218</u>
At 1 January 2017	719,000	411,817	20,476	319,168	140,923	1,834	1,613,218
Additions	-	7,819	-	10,659	5,429	1,185	25,092
Transfer from WIP	-	-	-	6,440	-	-	6,440
Disposal	-	-	-	-	(157)	-	(157)
At 31 December 2017	<u>719,000</u>	<u>419,636</u>	<u>20,476</u>	<u>336,267</u>	<u>146,195</u>	<u>3,019</u>	<u>1,644,593</u>
Comprising							
At cost	-	419,636	20,476	336,267	146,195	3,019	925,593
At valuation 2017	719,000	-	-	-	-	-	719,000
	<u>719,000</u>	<u>419,636</u>	<u>20,476</u>	<u>336,267</u>	<u>146,195</u>	<u>3,019</u>	<u>1,644,593</u>



CONSOLIDATED BANK OF KENYA LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

22 PROPERTY AND EQUIPMENT (Continued)

	Freehold land and buildings Sh'000	Leasehold improvements Sh'000	Motor vehicles Sh'000	Fixtures, fittings, equipment & ATMs Sh'000	Computers Sh'000	Work in progress	Total Sh'000
ACCUMULATED DEPRECIATION							
At 1 January 2016	17,225	337,078	16,739	239,727	134,610	-	745,379
Charge for the year	15,425	42,839	2,930	32,018	9	-	93,220
Elimination on disposal	-	(13,400)	(7,399)	-	(35)	-	(20,834)
At 31 December 2016	32,650	366,517	12,270	271,745	134,584	-	817,766
At 1 January 2017	32,650	366,517	12,270	271,745	134,584	-	817,766
Charge for the year	17,525	29,837	2,718	25,595	4,894	-	80,569
Elimination on disposal	-	-	-	-	(88)	-	(88)
At 31 December 2017	50,175	396,354	14,988	297,340	139,390	-	898,247
NET BOOK VALUE							
At 31 December 2017	668,825	23,282	5,488	38,927	6,805	3,019	746,346
At 31 December 2016	686,350	45,300	8,206	47,423	6,340	1,834	795,453

In accordance with IFRS 13, the fair value ranking of the land and buildings is at Level 2 as the fair value measurement is derived from 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.

Freehold land and buildings were last revalued as at 31 December 2015, by Vidmerck Limited, independent valuers. Valuations were made on the basis of the open market value using the highest and best use valuation model resulting in a total valuation surplus of Sh 151,293,000. The book values of the properties were adjusted to the revalued amounts and the resultant surplus was credited to the revaluation surplus.

Motor vehicles, fixtures fittings and equipment with a cost of Sh.740,998,018 (2016- Sh 495, 121,167) were fully depreciated as at 31 December 2017. The notional depreciation charge on these assets would have been Sh 140,091,437 (2016- Sh 112,523,331).

Work in progress relates to the digital banking which is at various stages of completion.

If the land and buildings were stated on the historical cost basis, their carrying amounts would be as follows:

	2017 Sh'000	2016 Sh'000
At 1 January	131,118	135,639
Depreciation charge	(4,521)	(4,521)
At 31 December	126,597	131,118



CONSOLIDATED BANK OF KENYA LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

23 INTANGIBLE ASSETS

	Computer Software Sh'000	Work in Progress Sh'000	Total Sh'000
COST/VALUATION			
At 1 January 2016	354,978	-	354,978
Additions	35,905	74,020	109,925
At 31 December 2016	390,883	74,020	464,903
At 1 January 2017	390,883	74,020	464,903
Additions	35,826	9,691	45,517
Transfer from WIP	34,551	(40,991)	(6,440)
At 31 December 2017	461,260	42,720	503,980
ACCUMULATED AMORTISATION			
At 1 January 2016	114,283	-	114,283
Charge for the year	72,616	-	72,616
At 31 December 2016	186,899	-	186,899
At 1 January 2017	186,899	-	186,899
Charge for the year	77,553	-	77,553
At 31 December 2017	264,452	-	264,452
NET BOOK VALUE			
At 31 December 2017	196,808	42,720	239,528
At 31 December 2016	203,984	74,020	278,004

Work in progress relates to the digital banking project which is at various stages of completion.

CONSOLIDATED BANK OF KENYA LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

24	PREPAID OPERATING LEASE RENTALS (LEASEHOLD LAND)		
		2017	2016
		Sh'000	Sh'000
	COST		
	At 1 January and 31 December	45,298	45,298
	ACCUMULATED AMORTISATION		
	At 1 January	38,319	38,149
	Charge for the year	170	170
	At 31 December	38,489	38,319
	NET BOOK VALUE		
	At 31 December	6,810	6,979

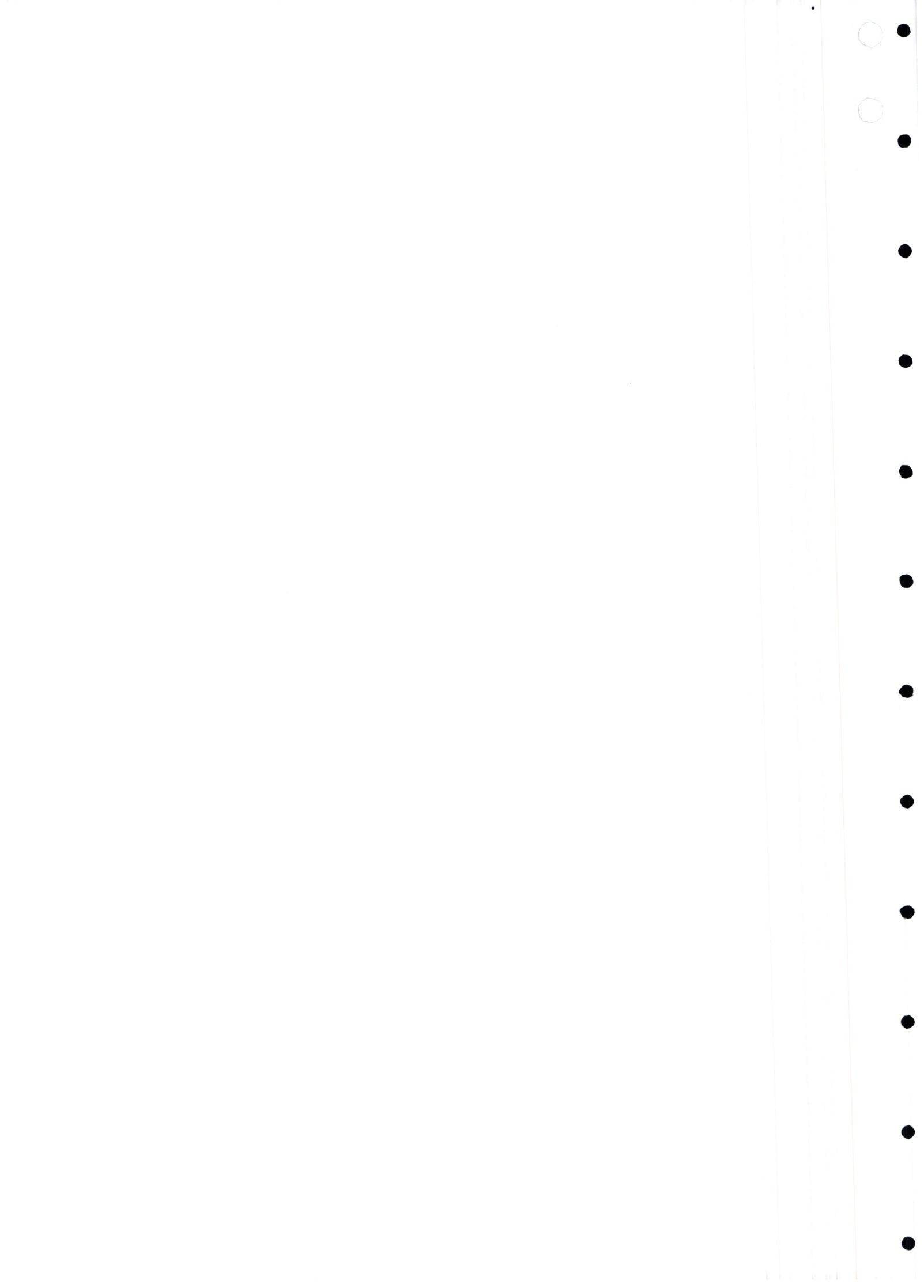
25	CUSTOMER DEPOSITS		
	Current and demand accounts	3,154,517	2,983,985
	Savings accounts	995,543	1,171,715
	Fixed deposit accounts	4,406,202	5,288,488
	Margins	90,043	47,615
		8,646,305	9,491,803

Maturity analysis of customer deposits:

Repayable:		
On demand	4,240,103	4,203,315
Within one year	4,406,202	5,288,488
	8,646,305	9,491,803

The weighted average effective interest rate on interest bearing customer deposits at 31 December 2017 was 7.2% (2016 – 7.2%). The related party transactions and balances are covered under note 37 and concentration of customers' deposits is covered under note 4.

26	OTHER LIABILITIES		
		2017	2016
		Sh'000	Sh'000
	Accrued expenses	6,846	5,145
	Gratuity (note 26(a))	11,442	7,242
	Leave pay provision (note 26(b))	7,327	8,022
	Tenants deposits	18,341	17,569
	Cheques for collection	1,089	3,009
	Deferred income	63,484	38,623
	Sundry payables	132,712	144,174
		241,241	223,784



CONSOLIDATED BANK OF KENYA LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

26 OTHER LIABILITIES (continued)

	2017 Sh'000	2016 Sh'000
a) Gratuity		
Balance as at 1 January	7,242	3,042
Charge for the year	4,200	4,200
	<hr/>	<hr/>
Balance as at 31 December	11,442	7,242
	<hr/>	<hr/>
b) Leave pay provision		
Balance as at 1 January	8,022	10,892
(Credit)/charge for the year	(695)	(2,870)
	<hr/>	<hr/>
Balance as at 31 December	7,327	8,022
	<hr/>	<hr/>

27 DEFERRED TAX ASSET

The deferred tax asset computed at the enacted rate of 30% is attributed to the following items:

	2017 Sh'000	2016 Sh'000
<i>Deferred tax assets:</i>		
General bad debts provision	16,385	(20,391)
Provision for leave pay	(2,198)	(2,406)
Provision for gratuity	(3,433)	(2,173)
Accelerated depreciation allowances	(11,773)	(7,782)
Tax losses	(300,678)	(188,288)
	<hr/>	<hr/>
	(334,467)	(221,040)
	<hr/>	<hr/>
<i>Deferred tax liabilities:</i>		
Revaluation surplus	161,168	164,406
	<hr/>	<hr/>
	161,168	164,406
	<hr/>	<hr/>
Net deferred tax asset	(173,299)	(56,634)
	<hr/>	<hr/>
Movement in deferred tax asset is as follows:		
At 1 January	(56,634)	38,677
Credit to profit or loss (note 13)	(116,728)	(84,965)
Prior year over/(under) provision (note 13)	63	(10,346)
	<hr/>	<hr/>
At 31 December	(173,299)	(56,634)
	<hr/>	<hr/>

As at 31 December 2017, the Bank had accumulated tax losses amounting to Sh 1,002,260,706 (2016 –Sh 627,625,339) available to be offset against future taxable profit.

Under Kenyan legislation, tax losses can only be carried forward to a maximum of ten years. Deferred tax on tax losses had been provided based on management's projections of profits within the 10 years period.



CONSOLIDATED BANK OF KENYA LIMITED

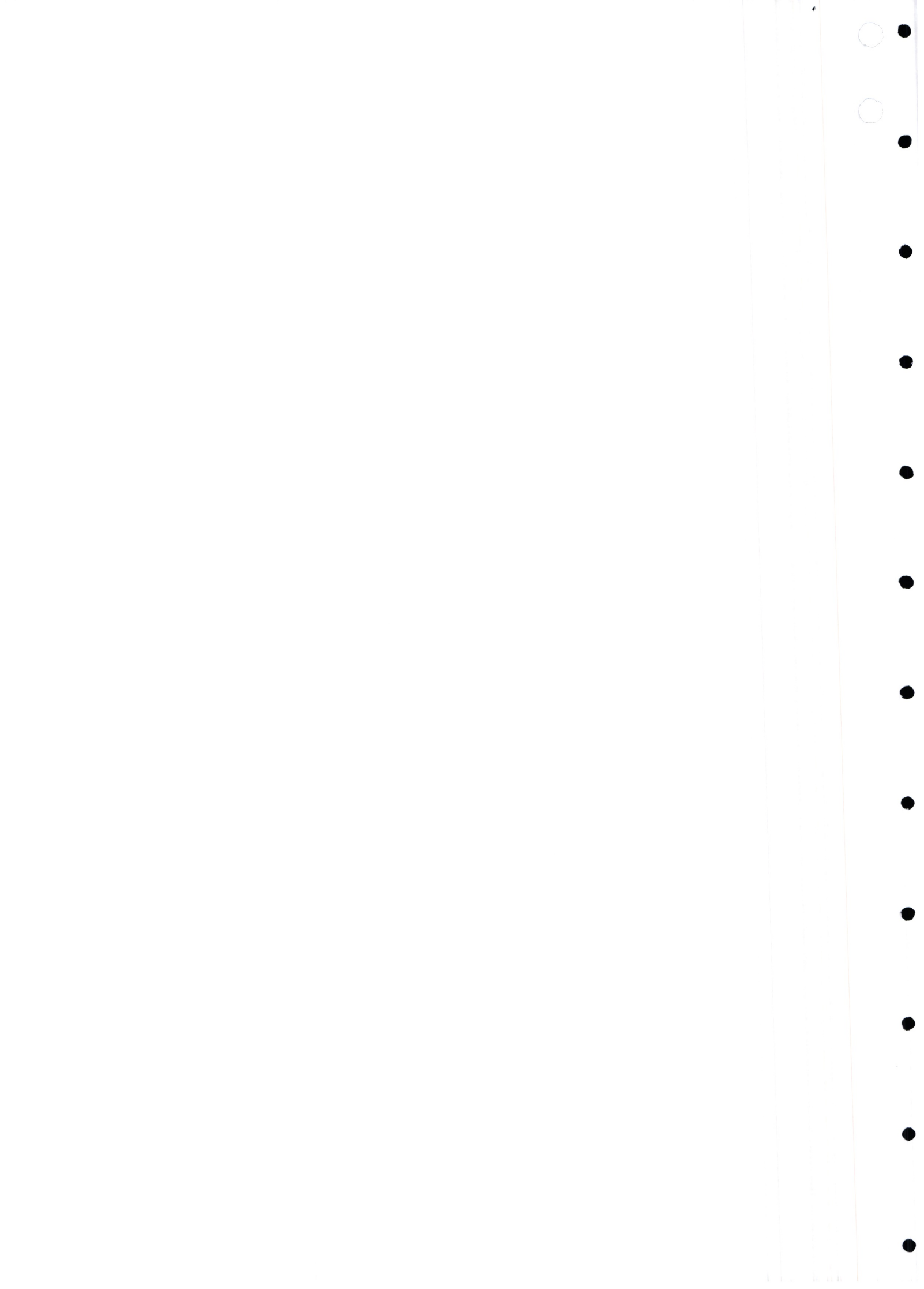
NOTES TO THE FINANCIAL STATEMENTS (Continued)

28 BORROWINGS

	2017 Sh'000	2016 Sh'000
As 1 January	1,885,948	1,969,294
Interest expense	228,423	237,935
Repayments during the year	(307,369)	(321,281)
	<hr/>	<hr/>
At the end of the year	1,807,002	1,885,948
	<hr/> <hr/>	<hr/> <hr/>
<i>Analysis by currency:</i>		
Borrowings in Euros	160,485	197,985
Borrowings in Kenya Shillings (Sh)	1,646,517	1,687,963
	<hr/>	<hr/>
	1,807,002	1,885,948
	<hr/> <hr/>	<hr/> <hr/>
<i>Analysis by lender:</i>		
European Investment Bank (EIB)	160,485	197,985
Corporate bond – medium term notes	1,646,517	1,687,963
	<hr/>	<hr/>
	1,807,002	1,885,948
	<hr/> <hr/>	<hr/> <hr/>

Facility terms:

- a) EIB Loan facility: The facility from European investment Bank was credit line of Eur 6,500,000 received by the Bank as part of its participation in the global loan facility extended by EIB to a group of financial institutions in Kenya under the Cotonou Agreement. The facility terms are as follows:
- Tenure: The period of the financing which shall be between 4 to 10 years save in respect of sub-loans for small projects where the sub loan is less than the equivalent of EUR 50,000 and finance leases, which shall have a minimum tenor of 3 years.
 - Interest rate: For a tranche denominated in EUR or Usd as margin of 2.88% per annum and for tranches denominated in Kenya shillings will attract additional currency risk premium depending on the tenor of the loan
 - Security: a negative pledge on present and future business undertakings together with all the assets or revenues of the Bank.
- b) Medium term notes: this refers to a series of senior and subordinated notes issued by the Bank and traded on the Nairobi Securities Exchange. The issued and currently traded notes have a face value Sh 1,678,200,000.
- Tenor: the notes mature on 22 July 2019
 - Interest rate: the notes attract a fixed interest rate of 13.5 % for the senior notes and 13.25% for the subordinated notes.



CONSOLIDATED BANK OF KENYA LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

29 SHARE CAPITAL

	2017 Sh'000	2016 Sh'000
a) Authorised:		
55,000,000 ordinary shares of Sh 20 each	1,100,000	1,100,000
80,000,000 4% non-cumulative irredeemable non-convertible preference shares of Sh 20 each	1,600,000	1,600,000
	<u>2,700,000</u>	<u>2,700,000</u>
b) Issued and fully paid:		
44,920,000 ordinary shares of Sh 20 each (2016 – 19,920,000)	898,400	898,400
36,056,500 4% non-cumulative irredeemable Non-convertible preference shares of Sh 20 each	721,130	721,130
	<u>1,619,530</u>	<u>1,619,530</u>

Non-convertible non-participating preference shares are entitled to receive a discretionary dividend before any dividend is declared to the ordinary shareholders. The preference shares have no right to share in any surplus assets or profits and no voting rights.

30 REVALUATION SURPLUS

	2017 Sh'000	2016 Sh'000
At 1 January	387,751	396,372
Transfer of excess depreciation	(12,316)	(12,316)
Deferred tax on transfer of excess depreciation- Buildings	3,695	3,695
	<u>379,130</u>	<u>387,751</u>
At 31 December	<u>379,130</u>	<u>387,751</u>

The revaluation surplus arises on the revaluation of freehold land and buildings. Where revalued land or buildings are sold, the portion of the revaluation surplus that relates to that asset, and is effectively realised, is transferred directly to revenue reserves. The revaluation surpluses are non-distributable.

31 ACCUMULATED DEFICIT

	2017 Sh'000	2016 Sh'000
At 1 January	(873,623)	(533,841)
Loss for the year	(335,681)	(211,360)
Transfer of excess depreciation	12,316	12,316
Deferred tax on transfer of excess depreciation	(3,695)	(3,695)
Transfer to statutory reserve	(64,982)	(137,043)
	<u>(1,265,665)</u>	<u>(873,623)</u>
At 31 December	<u>(1,265,665)</u>	<u>(873,623)</u>



CONSOLIDATED BANK OF KENYA LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

	2017 Sh'000	2016 Sh'000
32 STATUTORY RESERVE		
At 1 January	264,186	127,143
Transfer from accumulated deficit	64,982	137,043
	<hr/>	<hr/>
At 31 December	329,168	264,186
	<hr/> <hr/>	<hr/> <hr/>

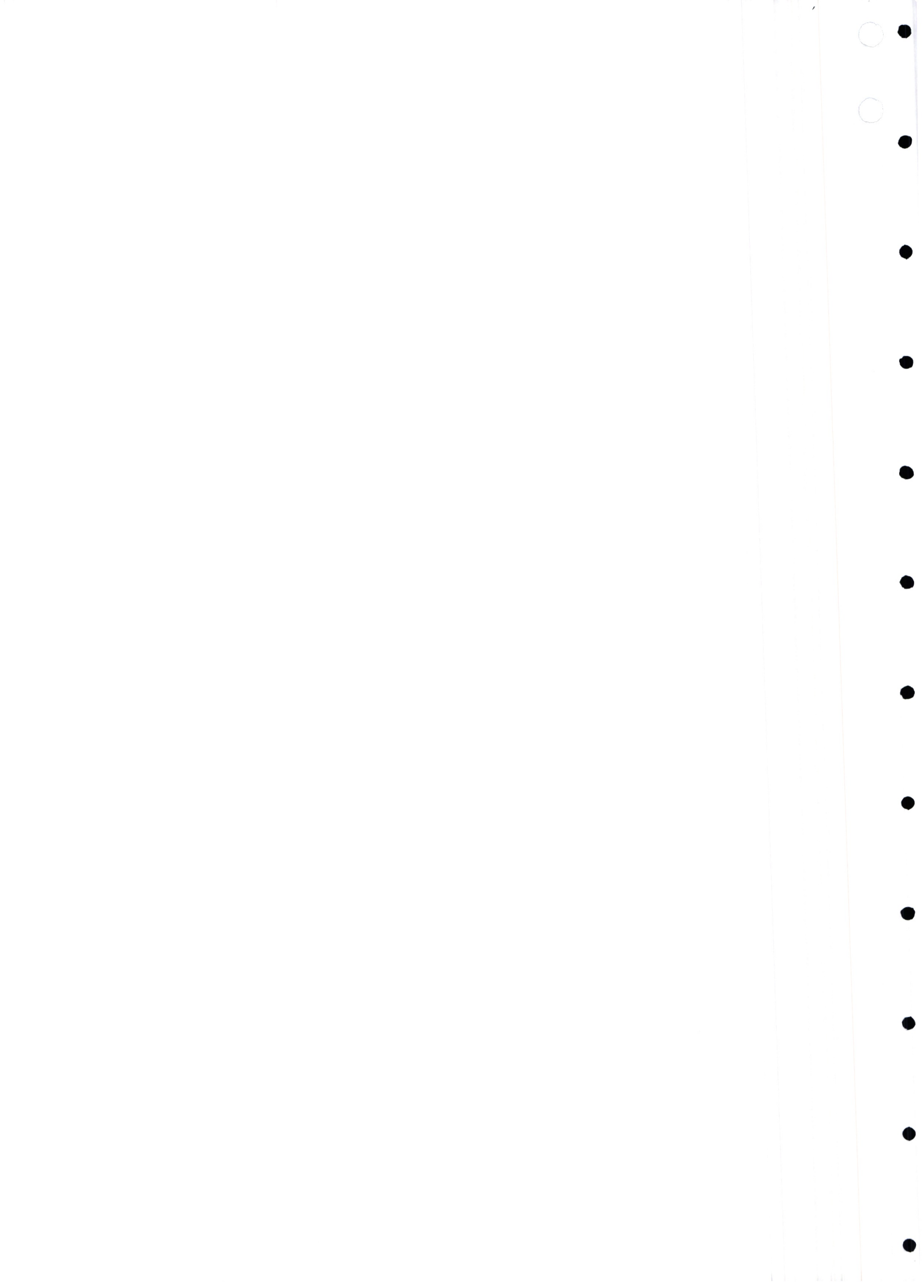
33 FAIR VALUE RESERVE

At 1 January	5,229	6,011
Gain/(loss) in market value of quoted equity shares	1,042	(782)
	<hr/>	<hr/>
At 31 December	6,271	5,229
	<hr/> <hr/>	<hr/> <hr/>

The fair value deficit shows the effects from the fair value measurement of available-for-sale quoted investments. Any gains and losses are not recognised in the profit or loss until the asset has been sold or impaired. Refer to note 4 (c) for additional fair value disclosures.

34 NOTES TO THE STATEMENT OF CASH FLOWS

	2017 Sh'000	2016 Sh'000
(a) Reconciliation of loss before taxation to cash used in operations		
Loss before taxation	(438,570)	(276,777)
Adjustments for:		
Depreciation of property and equipment (note 22)	80,569	93,220
Amortisation of intangible assets (note 23)	77,553	72,616
Amortisation of leasehold land (note 24)	170	170
(Gain)/loss on disposal of property and equipment	(17)	1,468
Interest expense on borrowings (note 28)	228,423	237,935
Impairment (credit)/charge on loans and advances (note 19)	55,848	(36,258)
	<hr/>	<hr/>
Profit before working capital changes	3,976	92,374
(Increase)/decrease in cash ratio balance	(168,068)	13,777
(Increase)/decrease in other assets	(41,339)	7,387
Decrease in gross loans and receivables	684,564	96,030
Decrease in customer deposits	(845,498)	(504,255)
Increase/(decrease) in other liabilities	17,457	(17,038)
Decrease in treasury bonds	57,592	24,543
	<hr/>	<hr/>
Cash used in operations	(291,316)	(287,182)
	<hr/> <hr/>	<hr/> <hr/>



CONSOLIDATED BANK OF KENYA LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

34 NOTES TO THE STATEMENT OF CASH FLOWS (Continued)

	2017 Sh'000	2016 Sh'000
(b) Analysis of the balances of cash and cash equivalents as shown in the statement of financial position and notes		
Cash on hand(Note 15)	276,107	305,079
Balances with Central Bank of Kenya –other (Note 15)	84,488	18,787
Balances with other banking institutions	107,453	53,713
Balance from Central Bank (Note 16 (c))	(1,484,201)	(820,000)
Deposits and balances from other banking institutions (note 16 (b))	(208,561)	(91,258)
	<hr/>	<hr/>
	(1,224,714)	(533,679)
	<hr/> <hr/>	<hr/> <hr/>

For the purpose of the cash flow statement, cash and cash equivalents comprise balances with less than three months' maturity from the date of acquisition, including cash in hand, deposits held at call with banks and other short term highly liquid investments with original maturities of three months or below, less advances from banks repayable within three months from the dates of the advances.

35 INVESTMENTS IN SUBSIDIARIES

The subsidiary companies of Consolidated Bank of Kenya Limited are:

Jimba Credit Corporation Limited
 Kenya Savings & Mortgages Limited
 Citizen Building Society
 Estate Building Society
 Estate Finance Company of Kenya Limited
 Business Finance Company Limited
 Home Savings and Mortgages Limited
 Union Bank of Kenya Limited
 Nationwide Finance Company Limited
 Consolidated Bank Insurance Agency Limited

All the subsidiaries are domiciled and incorporated in Kenya under the Kenyan Companies Act.

The operations of the above companies were vested in the Bank in July 2002 and are all incorporated in Kenya. All the subsidiaries are dormant and are wholly owned by the Bank. The subsidiaries had a nil carrying value as at 31 December 2017 (2016: Nil). The subsidiaries have not been consolidated because the parent Company has determined that the investments are not material and have no impact to the reported profit or loss and its statement of financial position.

36 OPERATING SEGMENTS

Management has determined the operating segments based on the reports reviewed by the Chief Executive Officer as used to make strategic decisions.

The bank's business comprises the following reportable segments:

- Corporate Banking – This include banking services such as business current accounts, fixed deposits, overdrafts, loans, asset finance and other credit facilities in local and foreign currencies
- Retails and Small medium size enterprises (SME) – incorporating banking current accounts, savings accounts, individual fixed deposits, personal loans, retail and SME lending
- Treasury – operates the bank's fund management and investment activities.

Others comprise rental income and other incidental income from the rental space in the Bank's Head Office building at Consolidated Bank House.

CONSOLIDATED BANK OF KENYA LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

36 SEGMENT REPORTING (Continued)

The table below summarizes the breakdown of segmental assets, liabilities, income and expenses;

Profit or loss for the year ended 31 December 2017

	Corporate banking Sh'000	Retail banking Sh'000	Treasury Sh'000	Other Sh'000	Total Sh'000
Net interest income	273,751	309,999	(85,310)	-	498,440
Net fee and commission	178,107	497,302	28,433	-	703,842
Other income	-	-	-	73,978	73,978
Operating income	451,858	807,301	(56,877)	73,978	1,276,260
Operating expenses	(425,609)	(1,255,511)	(14,914)	(18,796)	(1,714,830)
Profit/(loss) before tax	26,249	(448,210)	(71,791)	55,182	(438,570)

Profit or loss for the year ended 31 December 2016

Net interest income	190,557	628,405	(132,875)	-	686,087
Net fee and commission	68,727	201,205	-	-	269,932
Other income	-	379,780	30,548	71,465	481,793
Operating income	259,284	1,209,390	(102,327)	71,465	1,437,812
Operating expenses	(71,482)	(1,617,182)	(15,785)	(10,140)	(1,714,589)
Profit/(loss) before tax	187,802	(407,792)	(118,112)	61,325	(276,777)

Statement of financial position as at 31 December 2017

Assets					
Short term funds	-	368,560	3,202,530	-	3,571,090
Loans	2,243,144	6,177,928	-	-	8,421,072
Other assets	-	794,757	-	668,825	1,463,582
Total assets	2,243,144	7,341,245	3,202,530	668,825	13,455,744
Liabilities and equity:					
Customer deposits	2,121,466	6,524,839	-	-	8,646,305
Borrowed funds	-	-	3,499,764	-	3,499,764
Other liabilities	-	241,241	-	-	241,241
Shareholders' funds	-	1,068,434	-	-	1,068,434
Total liabilities and equity	2,121,466	7,834,514	3,499,764	-	13,455,744

CONSOLIDATED BANK OF KENYA LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

36 SEGMENT REPORTING (Continued)

Statement of financial position as at 31 December 2016

	Corporate banking Sh'000	Retail banking Sh'000	Treasury Sh'000	Other Sh'000	Total Sh'000
Assets					
Short term funds	-	358,792	3,011,353	-	3,370,145
Loans	2,586,681	6,574,803	-	-	9,161,484
Other assets	-	699,916	-	686,350	1,386,266
Total assets	2,586,681	7,633,511	3,011,353	686,350	13,917,895
Liabilities and equity:					
Customer deposits	2,367,834	7,123,969	-	-	9,491,803
Borrowed funds	-	-	2,797,206	-	2,797,206
Other liabilities	-	225,813	-	-	225,813
Shareholders' funds	-	1,403,073	-	-	1,403,073
Total liabilities and equity	2,367,834	8,752,855	2,797,206	-	13,917,895

37 CONTINGENCIES AND COMMITMENTS INCLUDING OFF BALANCE SHEET ITEMS

a) Contingent liabilities

In common with other financial institutions, the Bank conducts business involving acceptances, letters of credit, guarantees, performance bonds and indemnities. The majority of these facilities are offset by corresponding obligations of third parties.

	2017 Sh'000	2016 Sh'000
Acceptances and letters of credit	57,601	167,665
Guarantees	1,079,860	818,721
Forwards and spot contingents	104,800	117,782
	<u>1,242,261</u>	<u>1,104,168</u>
Litigations against the bank	<u>2,285,195</u>	<u>13,000</u>

Nature of contingent liabilities:

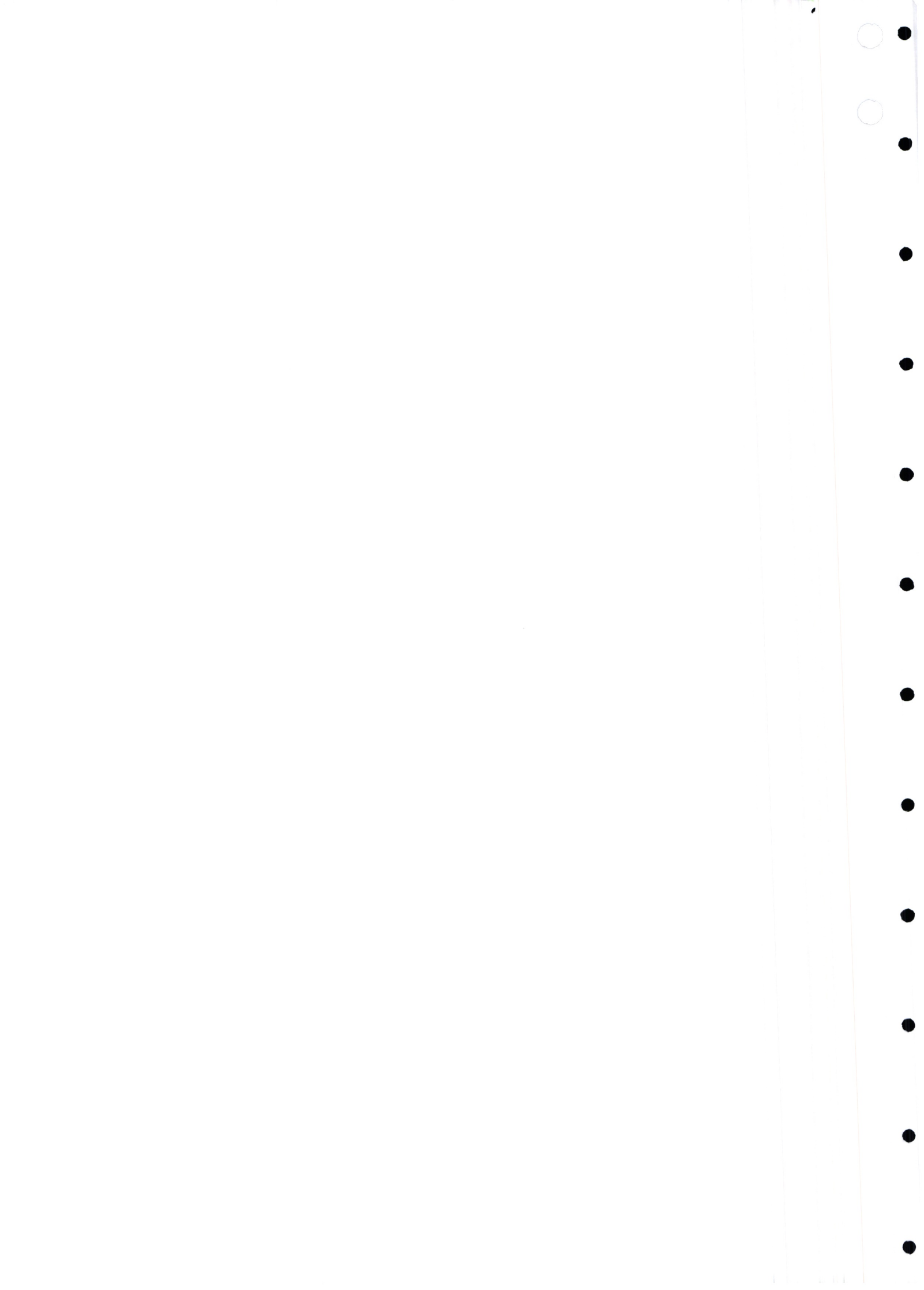
An acceptance is an undertaking by a Bank to pay a bill of exchange drawn on a customer. The Bank expects most acceptances to be presented, but reimbursement by the customer is normally immediate.

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

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

Forwards and spot contingents are the foreign exchange deals carried out in the inter bank markets.

Concentrations of contingent liabilities are covered under note 4.



CONSOLIDATED BANK OF KENYA LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

37 CONTINGENCIES AND COMMITMENTS INCLUDING OFF BALANCE SHEET ITEMS (Continued)

a) Contingent liabilities (Continued)

Litigations against the Bank relate to civil suits lodged against the Bank by customers and employees in the normal course of business. The likely outcome of these suits cannot be determined as at the date of signing these financial statements. The Directors, however, do not anticipate that any liability will accrue from the pending suits.

b) Commitments to extend credit

	2017 Sh'000	2016 Sh'000
Undrawn formal stand-by facilities, credit lines and other commitments to lend	721,000	931,757

Commitments to extend credit are agreements to lend to a customer in future subject to certain conditions. Such commitments are normally made for a fixed period. The Bank may withdraw from its contractual obligation to extend credit by giving reasonable notice to the customer.

c) Capital commitments

	2017 Sh'000	2016 Sh'000
Authorised but not contracted for	181,846	223,154

Capital commitments relate to; construction of two new branches, CCTV installation, ATMs, notes counters, painting Head office and five branch renovations.

d) Operating lease commitments

Rental income earned during the year was Sh 73,977,583 (2016 – Sh 71,038,863). At the reporting date, the Bank had contracted with tenants for the following minimum future lease receivables:

	2017 Sh'000	2016 Sh'000
<i>The Bank as a lessor:</i>		
Within one year	54,678	56,784
In the second to fifth year inclusive	135,780	150,428
After five years	2,267	6,877
	<u>192,725</u>	<u>214,089</u>

Operating leases relate to the buildings and are negotiated for an average term of 6 years, with the rentals being reviewed every two years and hence classified as operating leases. The leases are cancellable with a penalty when the tenants do not give three months' notice to vacate the premises.

All operating lease contracts contain market review clauses in the event that the lessor exercises its option to renew. The lessees do not have an option to purchase the property at the expiry of the lease period. The operating lease contracts are cancellable.



CONSOLIDATED BANK OF KENYA LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

37 CONTINGENCIES AND COMMITMENTS INCLUDING OFF BALANCE SHEET ITEMS (Continued)

d) Operating lease commitments (Continued)

The Bank as a lessee

At the reporting date, the Bank had outstanding commitments under operating leases which fall due as follows:

	2017 Sh'000	2016 Sh'000
Within one year	50,957	49,815
In the second to fifth year inclusive	130,387	165,454
After five years	18,847	20,201
	<hr/>	<hr/>
	200,191	235,470
	=====	=====

Operating lease payments represent rentals payable by the Bank for its office premises.

38 RELATED PARTY TRANSACTIONS

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

Placings are made in the Bank by Directors, their associates and companies associated to Directors. Advances to customers at 31 December 2017 include advances and loans to companies associated with the directors. Contingent liabilities at 31 December 2017 include guarantees and letters of credit for companies associated with the 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.

	Directors	
	2017 Sh'000	2016 Sh'000
Movement in related party balances was as follows:		
<i>Loans and advances:</i>		
At 1 January	4,043	6,846
Advanced during the year	-	-
Interest earned	372	383
Repaid during the year	(3,353)	(3,186)
	<hr/>	<hr/>
At 31 December	1,062	4,043
	=====	=====

As at 31 December 2017 loans and advances to staff amounted to Sh 538,092,160 (2016– Sh 638,578,840).

The loans and advances to related parties are performing and are adequately secured.

CONSOLIDATED BANK OF KENYA LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

38 RELATED PARTY TRANSACTIONS (Continued)

	Directors and employees	
	2017 Sh'000	2016 Sh'000
<i>Customer deposits:</i>		
At 1 January	29,334	36,672
Placed during the year	1,108,065	1,407,075
Net interest applied	699	971
Withdrawals	(1,108,916)	(1,415,384)
	<hr/>	<hr/>
At 31 December	29,182	29,334
	<hr/> <hr/>	<hr/> <hr/>

Key management compensation

The remuneration of Directors and other members of key management during the year were as follows:

<i>Short term benefits</i>		
Salaries and other benefits	125,294	126,432
Fees for services as Directors	4,824	11,828
	<hr/>	<hr/>
	130,118	138,260
	<hr/> <hr/>	<hr/> <hr/>

Staff number

The total number of staff as at the end of the year was as follows:

	2017	2016
Number of staff	266	290

39 INCORPORATION

The Bank is domiciled and incorporated in Kenya under the Kenyan Companies Act.

40 CURRENCY

These financial statements are prepared in Kenya shillings thousands (Sh'000) which is the Bank's functional and presentation currency.

41 EVENTS AFTER THE REPORTING DATE

No material events or circumstances have arisen between the reporting date and the date of this report that require disclosure.

