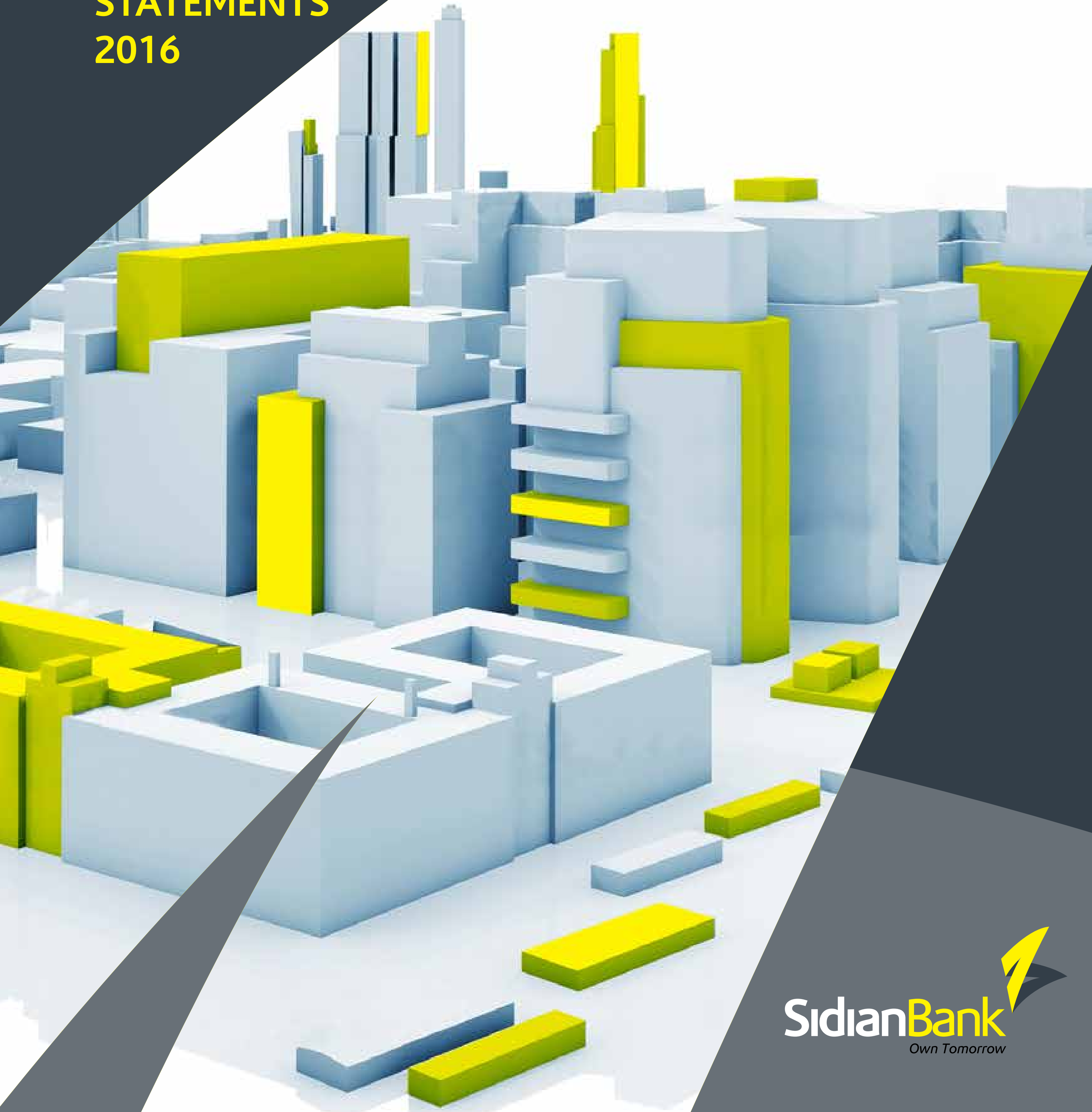
ANNUAL REPORT & FINANCIAL STATEMENTS 2016



SidianBank
Own Tomorrow

The Home of
Transformational Financial Solutions

Contents

Corporate Information

Financial Report

AGM

Sidian Bank's goal is to create wealth through provision of transformational financial solutions that meet entrepreneurs' needs and facilitate growth through convenience and choice.

40
Sidian Bank branch network Countrywide

Corporate Information

Our Company

At Sidian Bank, we recognize the significant accountability and inherent risks that an entrepreneur takes to make his ideas and dreams a reality.

It is for this reason that our mission is to empower entrepreneurs to create wealth through provision of transformational financial solutions that meet entrepreneurs' needs and facilitate growth through convenience and choice.

Our Mission

To empower entrepreneurs to create wealth through provision of transformational financial solutions.

Our Vision

To be the preferred partner in realizing entrepreneurial potential.

Our Values

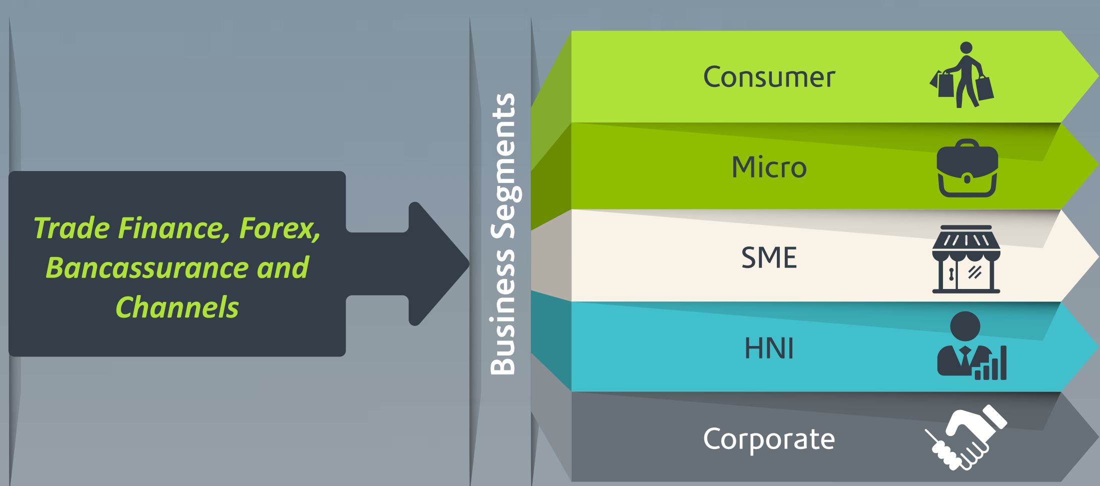
We Explore: We continuously seek and discover new frontiers and possibilities for our clients, our partners, our society and ourselves.

We Innovate: We provide new ideas and better solutions that create wealth for all. We constantly seek to improve whatever we do.

We Create: We are dynamic and committed to bring new possibilities to life.

Branch Network

We have a network of 40 branches across the country.



Corporate Information

Directors

Executive
Titus Karanja

Non-Executive
James Mworia (Chairman)
Tom Kariuki
Mary-Ann Musangi
Kimanthi Mutua
Catherine Mturi-Wairi
Donald B Kipkorir
Polycarp Igathe Kamau - Resigned on 21 March 2016

Board Committees

Audit and Risk Committee
Catherine Mturi-Wairi
Donald B Kipkorir
Kimanthi Mutua
Tom Kariuki
Mary-Ann Musangi

Asset and Liability Committee
Kimanthi Mutua - Chairperson
Tom Kariuki
Catherine Mturi-Wairi
Titus Karanja

Credit Committee
Tom Kariuki - Chairperson
Kimanthi Mutua
Donald B Kipkorir
Titus Karanja

Nominations and Governance Committee
Donald B Kipkorir - Chairperson
Mary-Ann Musangi
Catherine Mturi-Wairi
Titus Karanja

Brand and Strategy Committee
Mary Ann Musangi - Chairperson
Donald B Kipkorir
Catherine Mturi-Wairi
Titus Karanja

ICT and Operations Committee
Mary-Ann Musangi - Interim Chairperson
Tom Kariuki
Kimanthi Mutua
Titus Karanja

Secretary
Daisy Ajima
R/CPS 2003
Certified Public Secretary
P.O. Box 57962- 00200
Nairobi

Registered Office
K-Rep Centre
Wood Avenue, Kilimani
P.O. Box 25363 - 00603
Nairobi

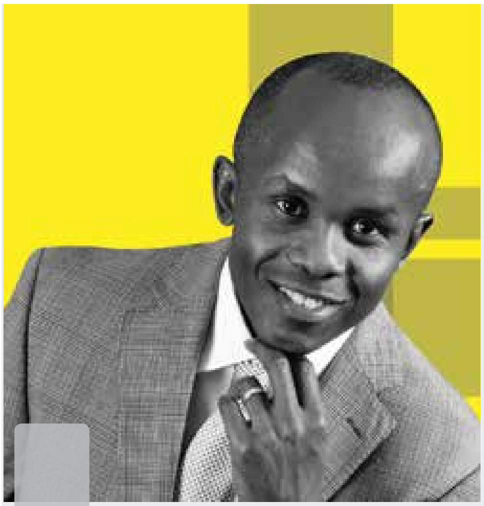
Auditor
PricewaterhouseCoopers
PwC Tower, Waiyaki Way / Chiromo Road, Westlands
P.O. Box 43963 - 00100
Nairobi

Legal Advisers
Mohammed Muigai & Co. Advocates
K-Rep Centre, 4th floor,
Wood Avenue, Off Lenana Road, Kilimani.
P.O. Box 61323 – 00200
Nairobi

Munyao Muthama & Kashindi Co. Advocates,
ACK Cathedral Complex, Office No. 14
1st Floor, Cathedral Road, Off Nkrumah Road
P.O. Box 2419 - 80100
Mombasa

Waruhiu K'Owade Nganga Co. Advocates,
Taj Tower, 4th Floor Wing B,
Upper hill Road,
P.O. Box 47122 – 00100,
Nairobi

Board of Directors



Dr. James Mworia
Chairman

Dr. James Mworia is a non-executive director and the Chairman of the Sidian Board of Directors since 2014. He is the Group Chief Executive Officer and Managing Director of Centum Investment Company Limited, since December 2008. Centum is the largest listed investment company in East Africa, with direct and third party assets under management of approximately USD 1.8 billion up from USD 60 million at the time he took over the leadership of the organization. The Group's primary focus is on the development of investment grade assets of scale across key sectors of the economy, including real estate and infrastructure, power, financial services, agribusiness, education and healthcare, amongst others. During Dr. Mworia's tenure as CEO, the Group's net asset value has increased seven-fold.

Dr. Mworia is an Advocate of the High Court of Kenya, a Chartered Financial Analyst Charter Holder, a Chartered Global Management Accountant, a Fellow of the Kenya Institute of Management and a member of the Institute of Certified Public Accountants of Kenya. He holds a Bachelors of Law Degree from the University of Nairobi. He is also a World Economic Forum Young Global Leader, and an Archbishop Tutu Leadership Fellow.

Dr. Mworia serves on the boards of several organizations, including Sidian Bank and Almasi Beverages, where he is the Chairman of the respective boards, Nairobi Securities Exchange, Nairobi Bottlers Limited, General Motors East Africa Limited and Lewa Wildlife Conservancy.

He has received numerous awards in his career to date, including East Africa Business Leader of Year 2015 at the All Africa Business Leaders Awards, the Corporate Council for Africa, Africa Business Leader of the Year 2014 which was presented in Washington DC, the Africa Young Business Leader of the Year 2011 at the Africa Business Leaders Awards, the Champion of Governance CEO of the Year Award in 2015, amongst many other awards.

Dr. Mworia was appointed the Chancellor of Machakos University as a testament to his significant contribution as a business leader in the Kenyan economy. Following his appointment as the Chancellor of the University he was awarded an honorary Doctorate degree in Business.

Titus Karanja
(Managing Director and Chief Executive Officer)

Mr. Karanja is the Chief Executive Officer and Managing Director of Sidian Bank Limited, a role he has held since 2015. During this time, he has fostered strategic partnerships that offer non-conventional banking solutions to the bank's customers and has overseen the Bank's adoption of the ICT transformative agenda that seeks to embed ICT and innovation in the core of the business. He also steered the Bank's brand transformation through the successful rebrand in 2016 and the expansion of the bank's network, competitively positioning the bank in the industry.

Mr. Karanja possesses over 16 years banking and leadership experience and a reputation of improving financial services and operational efficiency in banking having served in various capacities as Director, Co-operatives Banking Division and Head of Merchant and Investment Banking at the Co-operative Bank, Head of African Alliance Kenya Securities for the African Alliance Investment Bank and Chief Executive Officer at Mayfair Securities, among others.

Mr. Karanja holds a Bachelor of Commerce (Finance) degree from the University of Nairobi. He is a qualified accountant, with ACCA certification and holds a Diploma in Computer Science (IDPM) among other professional qualifications.

Catherine Mturi-Wairi

Mrs. Wairi has been a non-executive director at Sidian Bank since 2014, She is currently the Managing Director at Kenya Ports Authority(KPA). Mrs. Wairi is a finance professional who has served in various roles over the last 23 years at the Kenya Ports Authority (KPA) and holds an MBA in Strategic Management, BSc. in Finance and Accounting from USIU and various professional qualifications including (CPA K), (CPS K), and is a Certified SAP Consultant. She is a member of Kenya Institute of Directors of Kenya (IOD), ICPAK, ICPSK, KIM, KNLS, WOMESA, AWAK and the Trustee KPA Staff Pension Scheme and Nyali Schools Board.

Mr. Kimanthi Mutua is currently the Executive Director of K-Rep Group Limited. He is the founder of K-Rep Bank limited (now Sidian Bank Limited) the first NGO microfinance institution in Africa to transform into a regulated commercial bank specializing in micro-finance and served as its founding Managing Director from 1999 to March 2010. Currently, Mr. Mutua serves as a board member and Chair of Commercial Banks and Organizations that focus on Financial Inclusion and micro-finance. These include Centenary Bank (Uganda), the K-Rep Group (Kenya), PAMIGA Association (France), ECLOF International (Geneva) and Makao Mashinani. Mr. Mutua has devoted over three decades to diverse issues and initiatives on Micro-finance and Financial Inclusion and currently involved in advising Regulatory & Supervision bodies, as well as Micro-Finance Institutions. He has hands on and extensive experience in leadership, governance, transformation, policy formulation, and funding strategies that have made him a widely sought after public speaker, resource person, adviser of several national and international organizations.

Kimanthi Mutua

Mrs. Musangi holds a Master's of Science degree in Management from University of Surrey, UK as well as a Bachelor of Arts in International Business Administration. She has over 15 years of experience in brand management having worked for the Coca-Cola Company, Kenya Commercial Bank, GlaxoSmithKline and Ogilvy & Mather. She is a board member of Haco Tiger Brands, UAP Investments Limited, International House Limited, Croyden Limited, Sheraton Rongai Limited.

Mary-Ann Musangi

Mr. Kipkorir is the co-founder and the Managing Partner, KTK Advocates, a Corporate & Commercial law Practice Advocate, Commissioner for Oaths, Notary Public, Patent Agent and a Gazetted Special Public Prosecutor. He is an LLB. holder with a diploma in Law and over 24 years of legal experience.

Mr. Kipkorir is a member of Law Society of Kenya, International Trademarks Association (INTA), International Bar Association (IBA), East Africa Law Society (EALS) and Commonwealth Bar Association (CBA), British Chamber of Commerce- Kenya and a Platinum Member of American Chamber of Commerce. His other directorships include: Kenya Post Office Savings Bank (Postbank) (2001 – 2003) Stonyridge Developments Limited, LK40Limited, Dal Mare Limited, FIG Ventures Limited, he is the current Chairman of Government of Kenya Task Force on Administration of Foreign Employment and Management of Labour Migration, the Chairman Football Kenya Federation Election Board and the Vice Chairman, Football Kenya Federation Appeals Board.

Donald Kipkorir

Mr. Kariuki has been a non-executive director at Sidian Bank since 2014. He has over 16 years of experience mainly in lending, Treasury and Relationship Management, and has previously worked at CBA and Co-operative Bank in various capacities. He retired as the Group Corporate and Institutional Banking Director, Co-operative Bank in 2013. He is currently a director at Jabulani Investments and Zohari Leasing and a senior advisor at Khweza Consulting.

He holds an MBA in Finance and a degree in International Business Administration (Finance and Strategy) from USIU as well as an ACI Dealing Certificate.

Tom Kariuki

JAMES MWORIA
Chairman, Sidian Bank

Esteemed Shareholder,

I am pleased to present Sidian Bank's Annual Report and Financial Statements for the year ended December 31st 2016.

Our Performance in The Operating Environment

Kenya's Gross Domestic Product (GDP) is estimated to have expanded by 5.8 per cent in 2016 compared to 5.7 per cent in 2015, driven by growth in real estate; information and communication; transport and storage and accommodation and food services, underpinned by consumption in both the public and private sector. The economy is expected to retain a bullish growth rate in 2017.

The overall growth of the financial sector recorded a slow-down from 9.4 per cent in 2015 to 6.9 per cent in 2016. The banking sector including other monetary intermediary services declined from a growth of 10.1 per cent in 2015 to 7.1 per cent in 2016.

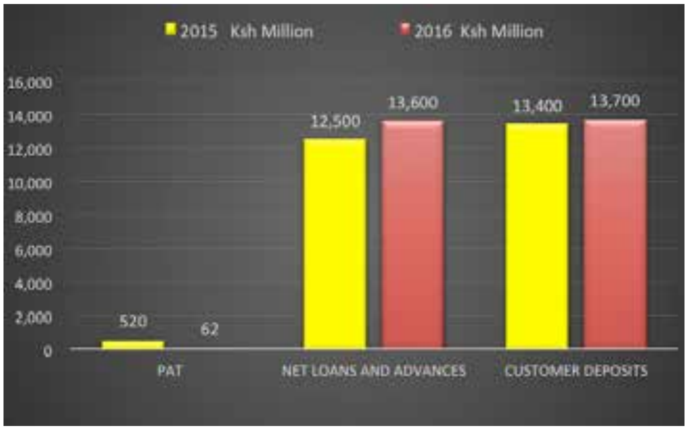
The banking industry experienced a major shift with the amendment of the Banking Act in August 2016 to cap the lending rates to a maximum of 4.0 per cent above the Central Bank Rate (CBR), and deposit interest rate floor of 70% of that base rate. The implementation which began in September 2016, resulted in a substantial decline in the interest rates during the month of September to 13.84% compared to 16.75% during the same month in 2015. Additionally, it also led to a significant reduction in margins against static operating expenditure. Kenya's banking sector will continue to be shaped by stricter prudential and conduct regulations.

2016 was also a year that saw increase in systemic risk, specifically liquidity risk, for tier II and III banks following the placement of Chase Bank under statutory management which saw deposit flight to tier one banks. Tier II and III banks have had to slow down on lending as they fight to stabilize liquidity further reducing their income against higher cost of funds and hence lower profitability. In 2016, arising from continued unfavourable business environment, there was continued slowdown in loan repayment performance.

In the face of the above conditions, the bank's interest income grew by 14% to KSh3.1 billion, driven by growth in the loan book. On the other hand, interest expense went up by 12% in line with market conditions during the year. Operating outlays went up by 37% from KSh1.8 billion to KSh2.4 billion. This includes KSh310 million attributed to investments in strategic transformation; rebranding, branch refurbishment, people re-organization and technology upgrades.

As a result, we recorded a Profit Before Tax of Ksh. 62 million from Ksh. 520 million in 2015 largely on account of investment made in 2016 to improve our efficiency and upgrade the bank's capability to serve entrepreneurs as well as to adjust to the operating environment.

While these investments towards improving the long-term viability of the core franchise will pay off in future, the short-term impact is a dip in profitability.



2017-2019 Strategic Focus

2016 represented the second year of our 2015-2019 strategy and was largely a year of 'Setting The Pace' by building on the foundation established in 2015 for the achievement of the set targets as envisaged in our strategic focus.

The bank invested extensively in key areas that will enhance capacity for business growth. Our infrastructure and capabilities are ahead of the bank's position in 2015, with a share capital equivalent to that of a Tier II bank. Our core capital to asset ratio can facilitate growth of up to two to three times its current size without any further capital injection by shareholders. The bank is now positioned to drive revenue growth by leveraging the investments of the past two years.

In 2017, the bank will continue to leverage industry linkages and offer value chain solutions on scale. As such, the bank plans to increase focus on key sectors such as:

1. Agribusiness
2. Public Transport
3. Green Energy
4. Fast Moving Consumer Goods (FMCG)
5. Education
6. Health

On behalf of the board of directors, I would like to let you know of the appointment of Mr. Chege Thumbi as the Chief Executive Officer, with effect from August 1, 2017. Mr. Chege Thumbi will take over the reins and steer the bank to achieve its five year strategic goals and vision of being a tier II bank.

The Board wishes Mr. Thumbi all the best in his new role and is grateful to Mr. Karanja for his immense contribution in the period he has led Sidian Bank.

Appreciation

I would like to sincerely thank our customers for their stalwart loyalty and support. We have come this far because of your audacious confidence in the bank. Additionally, I acknowledge and appreciate the staff and management; our forefront ambassadors, for their belief in the bank's vision and their concerted efforts in driving the bank towards its desired position.

I would also like to recognize my fellow board members for their efforts, insights and leadership that have shaped and continue to steer the bank towards the achievement of our strategic goals.

God bless.

DR. JAMES MWORIA

Senior Management Pictorial

Titus Karanja
Managing Director and Chief Executive Officer

Mr. Karanja is the Chief Executive Officer and Managing Director of Sidian Bank Limited, a role he has held since 2015. During this time, he has fostered strategic partnerships that offer non-conventional banking solutions to the bank's customers and has overseen the Bank's adoption of the ICT transformative agenda that seeks to embed ICT and Innovation in the core of the business. He also steered the Bank's brand transformation through the successful rebrand held in 2016 and the expansion of the bank's network, competitively positioning the bank in the industry.

Mr. Karanja holds a Bachelor of Commerce (Finance) degree from the University of Nairobi. He is a qualified accountant, with ACCA certification and holds a Diploma in Computer Science (IDPM) among other professional qualifications.

Theo Joseph Osogo
Head - Treasury & Trade Finance

Mr. Theo Osogo has extensive local and regional experience gained working within East Africa, specifically South Sudan and Rwanda and consulting in Tanzania and Uganda. Over the years he has gained a wealth of experience working with Transnational Bank, Equity Bank and Co-operative Bank.

He is a Bachelor of Science graduate in International Business Administration (Management). He also holds a Master's Degree in Banking and Finance (Financial Markets) with over 14 years banking experience in various roles including Branch Banking, Finance and extensive experience in Treasury Management. He joined the bank in February 2015

Daisy Ajima
Head - Legal and Company Secretary

Ms. Daisy is an Advocate of the High Court of Kenya, Commissioner for Oaths, Notary Public, Registered CPS and a Certified Governance Auditor. She has 12 years of legal, banking and credit experience, having previously worked at Diamond Trust Bank and Commercial Bank of Africa.

She is a member of LSK and ICPSK and holds a Bachelor of Law (LLB) and Masters LLM (International Trade and Investment Law) degrees from University of Nairobi. She has a Diploma in Law (Kenya School of Law), CPA (Part II) and CPS (K). She joined the bank in June 2013.

Peter Karichu
Head - Internal Audit

Mr. Peter Karichu is a Certified Information Systems Auditor and a Certified Information Security Manager with over 11 years' hands on experience in the audit field.

Peter holds a Bachelor of Commerce (Finance) and is pursuing a Master's of Commerce in Finance degree from Strathmore University. He is a Chartered Certified Accountant CPA (K) with other professional qualifications including ACCA (I -III), CIA (I-III), CISA and CISM.

Catherine Muraga
Director- Information Technology & Operations

Mrs. Catherine has been at the fore front of the digital transformation at Sidian Bank by spearheading various ICT initiatives that have led to integration of ICT into the core business for the bank. She has extensive experience in Information Technology and Operations, having managed various functions in IT.

She is well versed with the IT landscape having worked in different industry sectors; East Africa Breweries, Kenya Airways and with her most recent role as the Head of IT Operations at Stanbic Bank. Catherine holds a Bachelor of Science degree in Computer Science from Africa Nazarene University. She joined the bank in November 2015.

Senior Management Pictorial

Jeanne Waluchio
Head - Human Resources

Mrs. Jeanne Waluchio has extensive experience managing and administration of a full spectrum of Human Resources programs having worked in FMCG and Telecommunication industries with her responsibilities stretching across various African Countries. She has created and implemented various strategic initiatives in the Key HR pillars thereby influencing the people agenda. Mrs. Waluchio holds a Bachelor of Commerce – Accounting Option and a Higher National Diploma in Human Resource.

She is a Certified Organizational Effectiveness Coach. In addition, she holds a Certificate in Strategic Management from the Copen Hagen Business School.

She is a Member of the institute of Human Resources Management. She Joined the bank in 2015.

Douglas Mwangi
Director - Finance and Strategy

Mr. Douglas Mwangi possess a wealth of experience that spans across Financial & Management Reporting, Corporate Planning, Corporate Finance, Asset Liability Management, Performance Management and Strategy. He derives his expertise from over 12 years of leadership roles at both Bank of Africa Kenya as the Head of Finance and PricewaterhouseCoopers (PwC). At PwC, he worked both in Kenya and in the United Kingdom (UK), providing Assurance and Business Advisory Services to companies in various industries with a focus on the Financial Services Industry. Mr. Mwangi holds a Masters in Business Administration (MBA) from Warwick University, UK and a Bachelor of Commerce, First Class honours degree, from the University of Nairobi. He is also a Certified Public Accountant of Kenya, CPA (K). He joined the bank in June 2017.

George Njoroge
Director- Branch Banking

Mr. George Njoroge has extensive experience in growth of sustainable business models, development and execution of diverse business development strategies in the financial industry, derived from over 10 years' practical banking experience in various business leadership roles at Family Bank, Ecobank, Chase Bank and Sidian Bank.

He holds a Masters of Art, Rural Sociology and Community Development and Bachelor of Arts in Economics and Sociology. Mr. Njoroge joined the bank in 2016.

Christabel Onyango
Director – Credit Risk Management

Ms. Christabel Onyango has 18 years' experience in banking operations, relationship management and credit risk management.

She has a wealth of knowledge in credit risk management having specialized in credit risk management for over 11 years in Co-operative Bank, Consolidated Bank and now Sidian Bank.

Ms. Christabel holds a Bachelor of Arts Degree in Business Studies and Mathematics and a Diploma in Credit. She is currently pursuing a Masters of Business Administration. She joined the bank in February 2017.

Njeri Mwangi, MCIM
Head of Marketing, Digital and Communication

Miss Mwangi has over 10 years experience in marketing, communication, events and project management. Prior to joining Sidian Bank, Ms. Mwangi was seconded to PesaLink at IPSL, a subsidiary of KBA to develop and manage the marketing and communication for the payment platform –in her capacity as a marketing manager at Barclays Bank of Kenya. She previously held the position of Group Account Director with Ogilvy and Mather where she handled accounts such as The Coca Cola Company, Bacardi Limited, GSK, SC Johnson, Population Services International, East African Cables, Save the Children, Housing Finance, Western Union, Kenya Airports Authority, Vision 2030, and NHIF amongst others.

She is a holder of a Bachelor of Arts Degree in Communication from Daystar University and is currently pursuing an MBA in Innovation and Technology with London School of Business and Finance. She also holds certification in Advertising from The European Advertising Association and Project management from Anderson Human Capital and is a Member of the Chartered Institute of Marketing, UK. Ms. Mwangi is a member of the AISEC Daystar board and Women on Boards Network (WOBN). She joined the bank in September 2016.

Dear Shareholder,

I am pleased to present Sidian Bank's performance results for the year ended 31st December 2016.

2016 was a pivotal year for Sidian Bank. On April 4, 2016, the bank rebranded from K-rep Bank to Sidian Bank, with a new promise to transform banking in Kenya by leveraging technology, people and processes to drive our unique selling proposition – A bank by entrepreneurs for entrepreneurs.

2016 Strategic Focus

2016 was a year of building onto the foundation laid throughout 2015 in terms of upscaling infrastructure, business re-engineering and organizational re-alignment to ensure the success of subsequent strategic developments.
To provide a base for enhanced service delivery in the years ahead, we invested in technological platforms and staff capacity building.

TITUS KARANJA
Managing Director and Chief Executive Officer

1. Digital Transformation

This has been an on-going process since 2015 with an initial investment of Ksh. 150 million towards a stable core banking system and branch connectivity. The bank made a further injection of Ksh. 400 million in 2016.

A key driver for the digital transformation was our partnership with IBM In March 2016, for Cloud and Cognitive solutions, executed through infrastructure as a service. All our applications were migrated to IBM infrastructure through a hybrid cloud model which is live and fully operational. Thus, we have reaped major benefits such as; system availability, speed of access and improved transactional processing both at branch and mobile banking. Overall, systems uptime improved from an average of below 60% to over 98%.

The industry today is focused on service delivery through alternate channels and digital solutions. To this end we increased the access to, and availability of our financial products and services through digital channels as enumerated below, to pursue sustainable growth.

Online Banking
In this digital age, it's imperative that we innovate to remain digitally relevant to our customers. Due to demand and increased need by our customers, we introduced internet banking; corporate and retail. The platform is quite convenient as one can easily pay their bills, transfer funds between accounts, which gives our customers around the clock access transacting power. Salary processing has been made easier, for corporates with enabled real time bank to consumer payments.

Agency Banking
Agency banking is becoming increasingly important as it is a means to financial inclusion. Our agency banking network offers banking services such as registering customers, taking deposits, dispensing withdrawals, funds transfers, processing payments (e.g. utility bills) and providing mobile phone airtime top-up.

As at the end of 2016, we had established a robust agency banking network of one hundred and eighteen agents, with a target of 3000 agents by 2019, thereby offering our customers convenience and choice for real-time transactions.

Paybill and Till Numbers
In our bid to continuously provide convenience and choice for our customers, in the last quarter of 2016, we became an acquirer of Safaricom's pay bill/till numbers. With this arrangement, we directly issue Paybill and Till Number payment options to customers, making it easier and seamless for their cash management needs, with real-time settlement of funds.

2. Strategic Alliances

To deliver optimal value to our customers, we sought partnerships that will enable the business gain competitive advantage for sustainable growth. The bank realized success through partnerships in key sectors. The first of its kind is our partnership with Uber for vehicle solutions programme. To date, we have enabled over 130 Uber driver partners acquire their own vehicles and the portfolio value stands at Ksh. 142 million. The partnership is still running on a strong trajectory, creating sustainable economic and entrepreneurship opportunities; enabling individuals to own tomorrow.

Equally successful is our partnership with Medical Credit Fund in the health sector, that carries a loan book of Ksh. 450 million. Through these partnerships the bank has created entrepreneurs, by bringing the reach of life changing economic opportunities within their grasp.

A new partnership with our group customer, Almasi Beverages Limited, saw the bank issue short term stock financing loans to its distributors to provide working capital that meets demand during peak seasons.

3. New Business Units to Drive Growth in Ambitious Transformation

In line with our strategic plan to 2019, we established new business units to uniquely target customer segments; Corporate, SME, Consumer, Trade Finance, High Net-worth individuals (HNI) and Agribusiness. Enterprise, Corporate and Institutional banking units now deliver financial service solutions tailored for business banking customers of varying scale and size and whose unique needs call for solutions tailored-to-fit.

This new structure has yielded a sharper focus on our business and product development, informed by an understanding of the unique needs that drive the customers' selection of a financial solution provider.

4. Employees

On the People Pillar, the bank invested in recruitment of top talent in the industry, for optimal performance of the new business units and effective implementation of our strategy.

In the last quarter of 2016, the bank embarked on a voluntary early retirement (VER) scheme. The VER plan was aimed at transforming Sidian Bank's members of staff into bankers of the future - with superior skill-set, enhanced professional knowledge and a culture that supports diversity of thought. The scheme has aligned the staff headcount with strategic needs and in tandem with a vigorous performance management program that the bank is currently implementing. The bank will continue acquiring top talent from the market, even as the scheme takes effect.

Financial Year 2016 Versus Financial Year 2015

The profit before tax for the year 2016 was down to KSh. 62 million from KSh 520 million in 2015 largely because of investments made in 2016 to improve our efficiency and upgrade the bank's capability to serve entrepreneurs as well as to adjust to the operating environment.

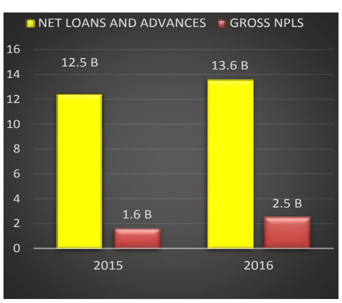
Interest Expense rose by 12% attributed to high cost of funds owing to the tight liquidity in the market during the year.

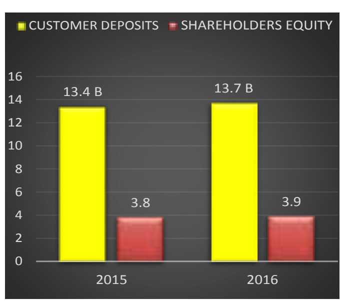
Operating outlays went up by 37%, this includes Ksh. 310 million attributed to investments in strategic transformation, including the rebrand, branch refurbishment, staff re-organization and technology upgrades. Towards the end of 2016, the bank engaged in a voluntary early retirement programme, which saw the bank incur an additional Ksh. 100m on staff costs.

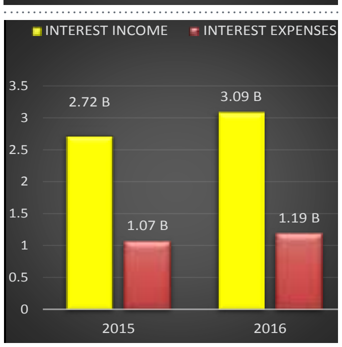
While these investments towards improving the long-term viability of the core franchise will pay off in future, the short-term impact is a dip in profitability.

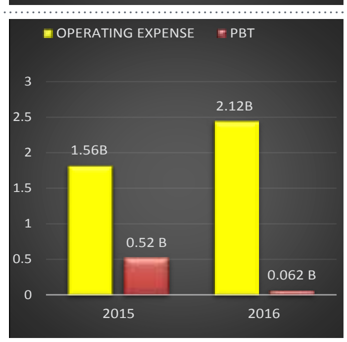
Net loans and advances increased by 8% credited to the bank tapping into productive sectors of the economy for lending that included the Uber Vehicle Solutions Programme in the transport sector and Micro Credit Fund loans to the health sector. Customer deposits registered slight growth by 2% owing to the tight liquidity in the market witnessed in 2016, coupled with the challenging operating environment after two banks were placed under receivership by CBK.

Gross non-performing loans and advances went up by 53% to Kes 2.5b from Kes 1.6b in 2015. The tight liquidity & market conditions in the year 2016 affected the loan portfolio repayment, explaining the rise in the NPLs.









2017- 2019 Focus

The bank is now well positioned to leverage on all the investments undertaken in the last year. Like all other players in the industry, Sidian Bank is clear on its business model post interest rate capping which will see the achievement of the set targets. With the Micro and SME segments at the helm of the business, the bank has designed a scalable structure upon which to build business through partnerships.

In 2017, partnerships become the bank's business acquisition machine as they build a bigger chain of customers who will benefit from our solutions. Our partnership ecosystem structure ensures an expansive reach of stakeholders from whom to create and draw value.

In order to ensure a sustainable competitive edge, the bank has leveraged partnerships to increase funding with international development institutions such as FMO Dutch Development Bank, Oiko Credit and Pamiga Financial Consultants.

We recognize that increased access to credit for our customers will in turn continue to increase their transactional activity. To this end, an enhanced risk profiling model has been applied to ensure that lending is increasingly focused on customers with good quality turnovers actively transacting with the bank. This model will serve to grow transactional deposits and non-funded income.

We shall continue empowering Kenyan entrepreneurs, ranging from micro to medium scale businesses, with the delivery of an enhanced customer experience at the core our all our services.

I extend to our shareholders heartfelt appreciation for your steadfast support all through.

I would also like to thank our Board of Directors, Sidian Bank Management and the entire Sidian Bank family for their belief in the brand and commitment to the achievement of our strategic goals.

TITUS KARANJA
Chief Executive Officer

2016 Overview

"Setting the Pace"

Rebrand

Corporate Identity Change and Positioning

On April 4, 2016, the bank rebranded from K-rep Bank to Sidian Bank, with a new promise to transform banking in Kenya by leveraging technology, people and processes to drive our unique selling proposition – A bank by entrepreneurs for entrepreneurs.

Our vision positions us as the catalyst for entrepreneur growth and transformation in our target markets by being the financial partner that is inspiring a winning spirit in people's personal lives and their businesses. Our role is empowering entrepreneurs to achieve their dreams and aspirations.

Toasting to a New Brand! *(L-R Mr. Donald Kipkorir, Mrs. Catherine Mturi-Wairi, Dr. James Mworia, Mr. Titus Karanja, Mr. Mohammed Nyaoga and Mrs. Mary-Ann Musangi).*

All under One Roof! *Members of staff pose for a photo with Dr. James Mworia, Chairman*

New Beginnings! *Dr. James Mworia officially opens Sidian Bank's Head Office, looking on is Mr. Titus Karanja, MD & C.E.O.*

A consolidated Head Office and Branch refurbishment

One of the key goals that we set when we embarked on this transformation journey was to have the whole head office team under one roof with the aim of improved service delivery to our customers and branches. The same was realized in September 2016 with a consolidated head office domiciled at K-rep Centre, Wood Avenue. This move has enabled quick turnaround times on customer matters and requests from branches.

Rebrands and refurbishments often go hand in hand, and in that spirit, we invested in a new look that transformed the head office giving members of staff a feeling of pride of association in the space they work in. Our branches likewise, got a new lease of life with a make-over that overall rendered a great ambience for our customers, to transact their businesses with ease in a comfortable environment.

Board Members cutting the cake to celebrate a consolidated head office; *(L-R Mr. Titus Karanja, Mrs. Mary-Ann Musangi, Mrs. Catherine Mturi-Wairi, Dr. James Mworia, Mr. Tom Kariuki).*

Partnerships

To deliver optimal value to our customers, we sought partnerships that will enable the business gain competitive advantage for sustainable growth and expand and efficiently. Some of the partnerships we forged were:

It's A Deal; Mr. Titus Karanja, MD, Sidian Bank inks the deal. Looking on is Mr. Nate Anderson, General Manager, Uber Kenya (L) and Mr. Joe Mucheru Cabinet Secretary, Information & Technology(R).

I. Sidian Bank and Uber Partnership; The Making of Entrepreneurs.

May 25, 2016, saw Sidian Bank in partnership with Uber, partner in a ground breaking Ksh. 10 billion Vehicle Solutions Programme that gives driver-partners and business investors convenient and affordable access to the quality vehicles they need to start or grow their Uber-based businesses.

In the last year, we have walked the entrepreneurship journey with our customers on this platform, additionally equipping them with technical assistance in the way of continuous training on financial and business management and customer service for the success of their businesses. Our main goal is to create new entrepreneurs, moving them from being employed into self-employment, thus enabling them to own tomorrow. To date, we have enabled over 130 Uber driver partners acquire their own vehicles. Several drivers from the very first group have put in applications for second cars thereby creating employment for others.

Through this partnership, we have not only inspired a winning spirit in people's personal lives and their businesses, but also empowered them to achieve their dreams and aspirations.

The partnership is still running on a strong trajectory, creating sustainable economic and entrepreneurship opportunities by enabling individuals to own tomorrow.

Proud Owner; Ms. Jane Mwangi beside her newly purchased car. #IOwnThis

Ms. Eunice Wambui, the first entrepreneur on the #SidianDrivesUber partnership.

When Dreams come True: Ms. Purity Kurgatt cannot hide her absolute joy as she is handed the keys to her car. Looking on is Ms. Kagure Wamunyu, Operations Lead, Uber Kenya

Mr. Felix Simpirri is all smiles; he owns his tomorrow #TheMakingOfEntrepreneurs

II. Sidian Bank & Medical Credit Fund Partnership

Additionally, we partnered with Medical Credit Fund (MCF) in a Ksh. 2 billion partnership to the benefit of private health care service providers in Kenya.

The agreement targets the 2,500 private medical services providers; health facilities, health training institutes and suppliers to the health sector in Kenya, with facilities of between Ksh. 100,000 – 250 million towards the purchase or maintenance of medical equipment and expansion of facilities. To date, we have partnered with over 400 medical service providers in Kenya, and facilitated more than Ksh. 700 million in loans.

Mr. Titus Karanja, MD, Sidian Bank and Mr. Bart Schaap, Finance Director, Medical Credit Fund shake hands after signing the partnership. Looking on is Ms. Evelyn Gitonga, Director, Medical Credit Fund (East Africa)

III. European Investment Bank (EIB) SME Training

As part of our value proposition to our enterprise customers, Sidian Bank partnered with European Investment Bank (EIB) to provide technical assistance for financial empowerment to our customers. This is through trainings leveraging on our wide branch network across the country on areas such as business expansion, business management, and record keeping for overall health of their businesses. We have equipped over two hundred entrepreneurs with the technical know-how needed to run a successful business.

Mr. Andrew Muriithi, Head-SME Banking, facilitates a training session for our customers in Eldoret

Facilitators registering for the training

Andrew Muriithi, Sidian Bank's Head of Enterprise Banking and Teresa Munlo from EIB

Technology & Infrastructure Enhancement

IBM

A key driver for the digital transformation was our Ksh 300 million multi-year partnership with IBM, March 2016, for Cloud and Cognitive solutions, executed through infrastructure as a service. Sidian Bank is the first financial institution in the country to adopt IBM cognitive management capabilities that supports and enhances the efficiency of the whole banking infrastructure. All our applications were migrated to IBM infrastructure through a hybrid cloud model which is live and fully operational. Thus, we have reaped major benefits such as; system availability, speed of access, improved transactional processing both at branch and mobile banking. Overall systems uptime has improved from an average of below 60% to over 98%. The partnership is has also enabled the bank realize 34 percent savings in capital expenses and a 60 percent improvement in transactional times across all ATMs and teller counters.

Safaricom

As part of the digital transformation we partnered with Safaricom for collocation services in which the bank's servers are hosted at the Safaricom facility. This has seen the bank forgo the cost of power, UPS, cooling and human resources that would have been required to manage an internal data centre. Additionally, Safaricom facilitates connectivity to all the 40 branches of the bank. The two services have greatly contributed to operational efficiency within the bank.

Visa Cards

In 2016, we introduced Visa chip and pin enabled card solutions that ultimately gave our customers the choice and convenience for multiple payment options across the country and the world.

Online Banking

In this digital age, it's imperative that we innovate to remain digitally relevant to our customers. Due to demand and increased need by our customers, we introduced internet banking; corporate and retail, providing our customers with around the clock access transacting power. It is also a medium where the bank can push its products and services.

Agency Banking

The industry today is focused on service delivery through alternate channels and digital solutions. To this end, we increased the access to, and availability of our financial products and services through agency banking, offering our customers convenience and choice for real-time transactions.

Our agents offer banking services such as registering customers, taking deposits, dispensing withdrawals, funds transfers, processing payments (e.g. utility bills) and providing mobile phone airtime top-ups. As at the end of 2016, we had established a robust agency banking network of one hundred and eighteen agents. We endeavor to increase the same to 3000 agents by 2019.

Lipa na Mpesa Service

In this millennial, there has been an unprecedented growth in mobile money across the African continent. This has catapulted great innovations especially in Kenya. With the inventions, the country is slowly moving into a cashless society. One of the products facilitating cashless money transfer is Lipa na MPESA. In the last quarter of 2016, we became an acquirer of Safaricom's pay bill/till numbers.

The partnership has made it easier and seamless for our customers' cash management needs, with real-time settlement of funds.

Social Media

Digital transformation is a result of businesses seeking to adapt to disruptive technologies to effectively engage consumers at every touch point. The rebrand saw us move onto online platforms such as Facebook, twitter, instagram and LinkedIn for real-time interaction with our customers and other stakeholders. This opened yet another way for us to enhance customer experience and drive business value on a personal level while resolving issues and incorporating customer feedback.

24 Hour Contact Centre

Our contact centre transitioned into 24-hour operation mode, providing our customers with efficient solutions around the clock. Having a 24 hour contact center has ensured that our customer have access to a bank representative responding to enquiries or resolving issues thus enhancing customer experience.

Customer Engagement

At Sidian Bank, continuous customer engagement is at the core of our business.

We hosted our customers to networking events in Mombasa and Nakuru in which they interacted with our staff members, including the top management of the bank.

Through this interaction, we received feedback from customers which we have in turn used for overall improvement of our services as well as generation of tailor-made solutions for specific customer segments.

Nakuru Customer Cocktail

Nakuru Customer Cocktail

Mombasa Customer Cocktail

Redefined Customer Value Proposition

In line with our strategic plan to 2019, we established new business units to uniquely target Corporate, SME, Consumer, Trade Finance, High Net-worth Individuals (HNI) and Agribusiness customer segments.

Enterprise, Corporate and Institutional banking units now deliver financial service solutions tailored for business banking customers of varying scale and size and whose unique needs call for tailored-to-fit solutions.

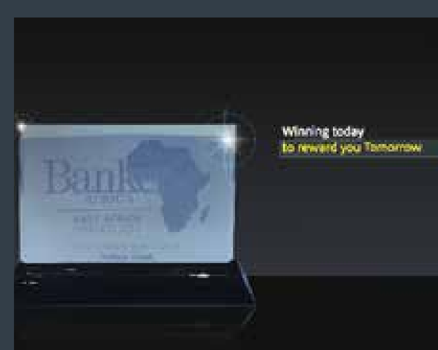
This new structure has yielded a sharper focus on our business and product development, informed by an understanding of the unique needs that drive the customer's selection of a financial solution provider.

The business segments are supported by trade finance, channels, Bancassurance and a 24-Hour customer care centre.

Awards & Recognition

Best Emerging Bank, Banker Africa, East Africa Award 2017

Sidian Bank scooped 'The Best Emerging Bank' in The 2016 Banker Africa, East Africa Awards.



Report of the Directors

The Directors submit their report together with the audited financial statements for the year ended 31 December 2016 in accordance with Section 22 of the Banking Act and section 147 to 163 of the repealed companies Act Cap 486, which remain inforce under the transition rules contained in the sixth schedule, the transition and saving provisions of the companies Act 2015 which discloses the state of affairs of Sidian Bank Limited (the "Bank").

Principal activities

The Bank is engaged in the business of banking and the provision of related services.

Change of name

By resolution of the Board and Shareholders and by further approval of the Central Bank of Kenya, K-Rep Bank Limited changed its name to Sidian Bank Limited with effect from 4 April 2016. This was made via Kenya Gazette Notice Vol CXVIII-No 33 dated 4 April 2016.

Results and dividend

The profit for the year of Shs 28,048,000 (2015: Shs 372,320,000) has been added to retained earnings. The Directors do not recommend payment of any dividend for the year (2015: Nil)

Directors

The Directors who served during the year and to the date of this report are shown on page 3.

Auditor

PricewaterhouseCoopers have expressed their willingness to continue in office in accordance with Section 159 (2) of the repealed Companies Act (Cap 486) and section 24(1) of the Banking Act (Cap 488 Laws of Kenya).

Approval of financial statements

The financial statements set out on pages 27 to 74 were approved at a meeting of the Directors held on 22 February 2017

By Order Of the Board

Daisy Ajima
Company Secretary

Nairobi

24th March 2017

Compliance with Sound Corporate Governance

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

The Board is committed to full compliance of all the relevant laws including The Guidelines on Corporate Governance (CBK/PG/02) issued by the Central Bank of Kenya in January 2013 under Section 33(4) of the Banking Act, guidelines set by itself in accordance with international best practices. The Bank has adopted the highest standards of integrity and ethics in all the Bank's undertakings. The Board has adopted a comprehensive framework of Corporate Governance Guidelines, designed to ensure performance of the Bank enhanced targets and regulatory compliance.

The Bank ensures that there is adequate accountability in its actions and openness in relation with Stakeholders, Shareholders and the general public.

Board of Directors

The Bank's Board consists of seven members chaired by Mr. James Mworia. It consists of six non-executive Directors and one executive Director. The Board collectively pools together vast experience in various relevant fields inter alia, investment management, banking, finance, law and marketing. And with this, it is able to effectively ensure that the Bank establishes and maintains internal controls that observe profitability and sustainable growth. The Board delegates its authority to Board Committees, which meet quarterly or whenever need arises. The authority for the day to day running of the Bank is delegated to the Managing Director, who runs the Bank together with the Executive Management Committee.

Appointment of New Directors and Tenure

There was no new Director brought onboard in 2016.One Director resigned in March 2016.

Corporate Planning

The Board is responsible for formulating the strategic plan of the Bank. The Board has been instrumental in formulating sustainable policies and strategies to ensure that the Bank stays profitable. The Board holds an annual strategic planning workshop with the senior management at which the projections and targets are reviewed and amended as circumstances dictate.

Board Effectiveness

The Board of Directors appointed in the year 2014/2015 comprises of six non-executive Directors and one executive Director, the Managing Director. This arrangement initiates the significance of impartiality in matters of corporate governance. It also ensures that the Board is free from undue influence on matters affecting the day to day running of the Bank. Generally, the conduct of the Board in particularly the non- executive Directors, are regulated by the Bank's Memorandum and Articles of Association as well as a Board Charter, Terms of Reference and Directors' Code of Board Principles and Conduct. Management also ensures that the Board is well informed on the operations of the Bank at all times. Annual board evaluation exercise for the year 2016, is conducted in February 2017 by an independent consultant.

Executive Management Committee

The role of implementation of the Bank strategic decision is handled by the Executive committee which is chaired by the Managing Director. The Committee meets weekly to review the Bank's performance, control overall direction of business and make strategic decisions. The committee is composed of departmental heads of Human Resources, Finance, Credit, Treasury, Marketing, Branch Banking, Legal and ICT & Operations. The heads of enterprise risk and audit are invited to give an overview.

Board Committees

The Board has established Board Committees to assist in discharging its duties and responsibilities. The Board committees have formally determined terms of reference, which define their role, function, reporting procedures and scope of authority. The existing committees are Audit and Risk Committee, Asset and Liability Committee, Credit Committee, Brand Committee, Nominations and Governance Committee, ICT and Operations Committee. The Board also ensures that effective communication with shareholders is upheld. This is done through holding of the Annual General Meeting and also provision of annual report and financial statements in full compliance with the requirements of the Kenyan Companies Act and the International Financial Reporting Standards (IFRSs).

Audit and Risk Committee

This committee consists of Non – Executive Directors who check on the quality of financial reporting, selectiveness of internal and external auditing functions, advise the board on best practices, provide oversight on risk management and compliance with relevant local legislation, regulations and guidelines issued by regulatory bodies together with the bank's laid down policies and procedures. The committee further defines the scope of risk management work, ensure that adequate risk policies and strategies are in place to identify, monitor and effectively mitigate the various risk issues the bank is exposed to in the day to day activities. The committee yearly reviews the proposed work plans for the internal audit function. The committee is also responsible for ensuring that the Bank operates within the set risk appetite levels and must ensure that any deviations are corrected within a given time frame. The Chair of this committee is a member of ICPAK.

Asset and Liability Committee (ALCO)

The ALCO committee is set up to derive the most appropriate strategy for the Bank by optimizing returns while prudently managing and observing the assets and liabilities. It also considers the potential consequences of interest rate movements, market risk, liquidity constraints, and foreign exchange exposure and capital adequacy. The committee ensures compliance with the Bank's strategies on statutory requirements on liquidity, foreign exchange exposure and cash ratio.

Brand Committee

The committee oversees the development of the brand of the Banks products advisory duties on brand managements and product strategy. This is all done in line with an aim to create a niche for the Bank in the market. In 2016 the committee spearheaded the rebrand process as the bank was rebranding from K-Rep Bank Limited to Sidian Bank Limited. The rebrand has so far improved the image of the bank as well as its services.

Nominations and Governance Committee

The purpose of the Nominations and Governance Committee is to ensure that the Board fulfills its legal, ethical and functional responsibilities through adequate governance policy development, recruitment strategies, training programs, monitoring of Board activities and evaluation of Board members' performance.

Credit Committee

The Credit committee oversees the establishing and implementing of the credit and lending policies of the Bank. It is responsible for the sanction of credit proposals in line with the Bank's Credit Policy and effective follow up of all credit-related matters. The Committee is also responsible for formulating the credit policies of the Bank.

The Board scheduled six board meetings during the year which were inclusive of two Special Board meetings. The average attendance of board meetings is above 80%.

Board meeting membership and attendance for the year ended 31 December 2016 is as below;

	February	March	April	July	October	November	Percentage attendance
James Mworia	√	√	√	√	√	√	100%
Polycarp Igathe*	x	√	n/a	n/a	n/a	n/a	---
Mary Ann Musangi	√	√	√	√	√	√	100%
Kimanthi Mutua	x	√	√	x	√	√	66.7%
Tom Kariuki	√	√	√	x	√	√	83.3%
Donald B. Kipkorir	√	√	√	√	√	√	100%
Catherine Mturi-Wairi	√	√	√	√	√	√	100%
Titus Karanja	√	√	√	√	√	√	100%
Average							**87.5%**

* Resigned on 21st March 2016

Board Evaluation

In line with the requirements of the Bank's Corporate Governance Policy and the relevant prudential guideline issued by the CBK, each member of the Board (including the Chairman) conducts a peer as well as self-evaluation of the Board and the returns made to the CBK. In 2016, the board conducted Board evaluation and results discussed with the board. Management was also involved in evaluating Directors performance.

Compliance

The Bank operates within the requirements of the Banking Act, among other Acts, 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).

Shareholders - Rights Issue

The rights issue exercise that started in 2015 after the approval of an injection of additional Shs.1,700,000,000 with the Board approving allotment of 975,765 shares to the shareholders was closed on 30 May 2016 with three shareholders (Centum Investment Company Limited, Bakki HoldCo Limited and Mwenda Thiribi) taking up the shares allotted to them and paying up in full for the shares.

Shareholding structure post right issue

No.	Name and postal address	Number of shares held	% shareholding	Comments *
1.	Bakki HoldCo Limited.*** P.O. Box 10518-00100 Nairobi	2,144,497	72.90%	Allotted 642,867 on 2nd October 2015. **All paid for.**
2.	K-Rep Group Limited** P.O. Box 39312 – 00623 Nairobi	501,430	17.1%	Allotted 214,669 on 2nd October 2015.**All forfeited**.
3.	KWA Multipurpose Cooperative Society limited** P.O. Box 39312 – 00623 Nairobi	143,376	4.90%	Allotted 61,381 on 2nd October 2015. **All forfeited.**
4.	Centum Investment Company Limited*** P.O. Box 10518-00100 Nairobi	53,984	1.80%	Allotted 16,183 on 2nd October 2015**. All paid for.**
5.	Kimanthi Mutua **** P.O. Box 15333-00599 Nairobi	21,040	0.70%	Allotted 9,008 on 2nd October 2015. **All forfeited.**
6.	Sara Talaso Bonaya** P.O. Box 41842-00100 Nairobi	15,495	0.50%	Allotted 6,634 on 2nd October 2015. **All forfeited.**
7.	Kabiru Kinyanjui** P.O. Box 30197 Nairobi	12,222	0.40%	Allotted 5,232 on 2nd October 2015. **All forfeited.**
8.	Mwenda Thiribi*** P.O. Box 51270-00200 Nairobi	10,316	0.40%	Allotted 3,528 on 2nd October 2015. **2075 shares paid for.**
9.	Anthony Kamau Wainaina** P.O. Box 47973 Nairobi	8,887	0.30%	Allotted 3,805 on 2nd October 2015. **All forfeited.**
10.	Francis Kihiko** P.O. Box 55738-00200 Nairobi	8,871	0.30%	Allotted 3,798 on 2nd October 2015**. All forfeited.**
11.	Bethuel Kiplangat** P.O. Box 76621-00508 Nairobi	8,242	0.30%	Allotted 3,529 on 2nd October 2015. **All forfeited.**
12.	Aleke Dondo** P.O. Box 15140-00509	6,495	0.20%	Allotted 2,781 on 2nd October 2015. **All forfeited.**

Statement on Corporate Governance

No.	Name and postal address	Number of shares held	% shareholding	Comments *
13.	Judith Mbula Bahemuka** P.O. Box 39312-00603 Nairobi	4,995	0.20%	Allotted 2,138 on 2nd October 2015. **All forfeited.**
14.	Francis Munyao Kinyumu** P.O. Box 8672-00100	500	0.0%	Allotted 214 on 2nd October 2015. **All forfeited.**
Total		**2,940,350**	**100%**	

* All the rights issue shares were allotted to the shareholders, with a payment period of one year from the date of the AGM, after which the rights was forfeited.
** Shareholder who forfeited the allotted shares
***Shareholders who took up and fully paid for the shares
**** Director interest

The Company's Act 2015 requires the Directors to prepare financial statements for each financial year which give a true and fair view of the financial position of the Bank at the end of the financial year and its financial performance for the year then ended. The Directors are responsible for ensuring that the Bank keeps proper accounting records that are sufficient to show and explain the transactions of the company; disclose with reasonable accuracy at any time the financial position of the Bank; and that enables them to prepare financial statements of the Bank that comply with prescribed financial reporting standards and the requirements of the Company's Act. They are also responsible for safeguarding the assets of the Bank and for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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

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

In preparing the financial statements, the Directors have assessed the Bank's ability to continue as a going concern and disclosed, as applicable, matters relating to the use of going concern basis of preparation of the financial statements. Nothing 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 responsibility.

Approved by the Board of Directors on 22nd February 2017 and signed on its behalf by:

....
Titus Karanja
Director

....
Tom Kariuki
Director

22 February 2017

Report of the independent auditor to the shareholders of Sidian Bank Limited

Report on the audit of the financial statements

Opinion

We have audited the accompanying financial statements of Sidian Bank Limited (the "Bank") set out on pages 27 to 74 which comprise the statement of financial position at 31 December 2016 and the statements of comprehensive income, changes in equity and cash flows for the year then ended, and the notes to the financial statements, which include a summary of significant accounting policies.

In our opinion, the financial statements give a true and fair view of the financial position of Sidian Bank Limited at 31 December 2016 and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Kenyan Companies Act 2015.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial statements* section of our report.

We are independent of the Bank in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements that are relevant to our audit of the financial statements in Kenya, and we have fulfilled our ethical responsibilities in accordance with these requirements and the IESBA Code.

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

Other information

The directors are responsible for the other information. The other information comprises the information included in the annual report but does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express 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, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the directors for the financial statements

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

Report of the independent auditor to the shareholders of Sidian Bank Limited (continued)

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

The directors are responsible for overseeing the Bank's financial reporting process.

Auditor's responsibilities for the audit of the financial statements

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

Report of the independent auditor to the shareholders of Sidian Bank Limited

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

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

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

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

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

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

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

Report on other legal and regulatory requirements

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

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

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

iii) the Bank's statement of financial position and statement of comprehensive income are in agreement with the books of account.

The engagement partner responsible for the audit resulting in this independent auditor's report is FCPA Richard Njoroge – P/No 1244.

PricewaterhouseCoopers

Certified Public Accountants
Nairobi

29th March 2017

Statement of comprehensive income

	Notes	2016 Shs'000	2015 Shs'000
Interest income	5	3,095,572	2,726,530
Interest expense	6	(1,194,873)	(1,069,641)
Net interest income		1,900,699	1,656,889
Credit impairment charge	12	(300,542)	(188,901)
Net interest income after credit impairment charge		1,600,157	1,467,988
Net fees and commission income	7	511,455	560,913
Gains on foreign exchange dealings	8	70,833	52,363
Other income	9	4,091	2,784
Non funded income		586,379	616,060
Net operating income		2,186,536	2,084,048
Operating expenses	10	(2,124,644)	(1,564,315)
Profit before income tax		61,892	519,733
Income tax expense	13	(33,844)	(147,413)
Profit for the year		28,048	372,320
Other comprehensive income		-	-
Total comprehensive income		28,048	372,320
Earnings per share (Shs)			
Basic and diluted	14	Shs 9.54	Shs 159.52

The notes on pages 31 to 74 are an integral part of these financial statements.

Statement of financial position

Assets	Notes	Shs'000	Shs'000
Cash and balances with Central Bank of Kenya	15	2,216,043	1,469,805
Deposits and balances due from banking institutions	16	885,735	1,509,158
Investments – held to maturity	17	2,522,997	2,361,914
Investment in subsidiary	32	1,000	-
Loans and advances to customers	18(a)	13,434,572	12,519,387
Other assets	19	780,650	426,859
Property and equipment	20	537,399	373,669
Intangible assets	21	335,737	295,333
Current income tax	13 (a)	104,177	90,367
Deferred income tax	22	57,189	60,064
Total Assets		20,875,499	19,106,556
Equity and liabilities			
Liabilities			
Customer deposits	23 (a)	13,685,093	13,379,556
Deposits due to banking Institutions	23 (b)	2,269,645	831,411
Borrowings	24	589,149	642,123
Other liabilities	25	462,824	415,981
		17,006,711	15,269,071
Equity			
Share capital	26	1,470,175	1,469,137
Share Premium		706,082	703,865
Retained earnings	27	1,609,146	1,582,617
Revaluation reserve	28	68,553	69,338
Regulatory reserve	29	14,832	12,528
Total Equity		3,868,788	3,837,485
Total equity and liabilities		20,875,499	19,106,556

The financial statements were approved by the Board of Directors on 22 February 2017 and were signed on its behalf by:

………………………………
James Mworia (Chairman)

………………………………
Tom Kariuki (Director)

………………………………
Titus Karanja (Director)

………………………………
Daisy Ajima (Company Secretary)

Statement of changes in equity

	Notes	Share capital	Share Premium	Revaluation reserve	Retained earnings	Regulatory reserve	Total
		Shs'000	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000
Year ended 31 December 2015							
At start of year		1,139,612	-	70,613	1,197,733	23,817	2,431,775
Additional share capital		329,525	703,865				1,033,390
Total comprehensive income for the year:							
Profit for the year		-	-	-	372,320	-	372,320
		-	-	-	372,320	-	372,320
Transfer of excess depreciation		-	-	(1,821)	1,821	-	-
Deferred tax on transfer of excess depreciation		-	-	546	(546)	-	-
Transfer to regulatory reserve	29	-	-	-	11,289	(11,289)	-
At end of year		1,469,137	703,865	69,338	1,582,617	12,528	3,837,485
Year ended 31 December 2016							
At start of year		1,469,137	703,865	69,338	1,582,617	12,528	3,837,485
Additional share capital		1,038	2,217				3,255
Total comprehensive income for the year:							
Profit for the year		-	-	-	28,048	-	28,048
		-	-	-	28,048	-	28,048
Transfer of excess depreciation		-	-	(1,121)	1,121	-	-
Deferred tax on transfer of excess depreciation				336	(336)		
Transfer from regulatory reserve	29	-	-	-	(2,304)	2,304	-
At end of year		1,470,175	706,082	68,553	1,609,146	14,832	3,868,788

The notes on pages 31 to 74 are an integral part of these financial statements

Statement of cash flow

	Notes	2016 Shs'000	2015 Shs'000
Cash flows from operating activities			
Cash generated from operations	30 (a)	790,238	800,150
Income tax paid		(44,779)	(288,026)
Net cash flows generated from operating activities		745,459	512,124
Cash flows from investing activities			
Purchase of financial instruments	17	(1,298,080)	(1,830,166)
Proceeds on disposal of investments	17	1,190,144	1,385,755
Purchase of property and equipment	20(a)	(274,967)	(118,118)
Purchase of intangible assets	21	(135,882)	(237,911)
Proceeds from disposal of property and equipment		824	-
Net cash flows used in investing activities		(517,961)	(800,440)
Cash flows from financing activities			
Proceeds from borrowings	24	300,000	-
Repayment of borrowings	24	(407,938)	(434,933)
Proceeds from issuance of ordinary shares in rights issue	26	3,255	1,033,390
Net cash (used in) /generated from financing activities		(104,683)	598,457
Net increase in cash and cash equivalents		122,815	310,140
Cash and cash equivalents at beginning of year	30 (b)	2,978,963	2,668,823
Cash and cash equivalents at end of year	30 (b)	3,101,778	2,978,963

The notes on pages 31 to 74 are an integral part of these financial statements.

Notes

1 Corporate information

Sidian Bank Limited (the "Bank") is incorporated and domiciled in Kenya. The address of the Bank's registered office is:

K-Rep Centre,
Wood Avenue, Kilimani
P O Box 25363 - 00603
Nairobi.

The Bank is licensed under the Kenyan Banking Act (Chapter 488), and continues to offer retail banking and related services with focus on micro, small and medium enterprises.

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

2 Summary of significant accounting policies

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

2.1 Basis of preparation

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

(a) Basis of measurement

The measurement basis used is the historical cost basis except where otherwise stated in the accounting policies below.

For those assets and liabilities measured at fair value, fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. When measuring the fair value of an asset or a liability, the Bank uses market observable data as far as possible. If the fair value of an asset or a liability is not directly observable, it is estimated by the Bank using valuation techniques that maximise the use of relevant observable inputs and minimise the use of unobservable inputs (e.g. by use of the market comparable approach that reflects recent transaction prices for similar items or discounted cash flow analysis). Inputs used are consistent with the characteristics of the asset / liability that market participants would take into account.

Fair values are categorised into three levels of fair value hierarchy based on the degree to which the inputs to the measurements are observable and the significance of the inputs to the fair value measurement in its entirety:

- Level 1 fair value measurements are derived from quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2 fair value measurements are 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).

Transfers between levels of the fair value hierarchy are recognised by the Bank at the end of the reporting period during which the change occurred.

(b) Use of estimates

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Bank's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in note 3.

Notes (Continued)

2 Summary of significant accounting policies (continued)

2.1 Basis of preparation (continued)

(c) Changes in accounting policies and disclosures

New standards, amendments and interpretations adopted by the Bank

The following standards and amendments have been applied by the Bank for the first time for the financial year beginning 1 January 2016:

Amendments to IAS 1, 'Presentation of Financial Statements': The amendments are made in the context of the IASB's Disclosure Initiative, which explores how financial statement disclosures can be improved. The amendments, effective 1 January 2016, provide clarifications on a number of issues, including:

- Materiality – an entity should not aggregate or disaggregate information in a manner that obscures useful information. Where items are material, sufficient information must be provided to explain the impact on the financial position or performance.
- Disaggregation and subtotals – line items specified in IAS 1 may need to be disaggregated where this is relevant to an understanding of the entity's financial position or performance. There is also new guidance on the use of subtotals.
- Notes – confirmation that the notes do not need to be presented in a particular order.
- OCI arising from investments accounted for under the equity method – the share of OCI arising from equity-accounted investments is grouped based on whether the items will or will not subsequently be reclassified to profit or loss. Each group should then be presented as a single line item in the statement of other comprehensive income.

According to the transitional provisions, the disclosures in IAS 8 regarding the adoption of new standards/accounting policies are not required for these amendments.

Annual Improvements to IFRSs 2012-2014 Cycle. The latest annual improvements, effective 1 January 2016, clarify:

- IFRS 5 – when an asset (or disposal group) is reclassified from 'held for sale' to 'held for distribution' or vice versa, this does not constitute a change to a plan of sale or distribution and does not have to be accounted for as such.
- IFRS 7 – specific guidance for transferred financial assets to help management determine whether the terms of a servicing arrangement constitute 'continuing involvement' and, therefore, whether the asset qualifies for de recognition.
- IFRS 7 – that the additional disclosures relating to the offsetting of financial assets and financial liabilities only need to be included in interim reports if required by IAS 34.
- IAS 19 – that when determining the discount rate for post-employment benefit obligations, it is the currency that the liabilities are denominated in that is important and not the country where they arise.

Amendments to IAS 16 and IAS 38; The IASB has amended IAS 16 Property, Plant and
Equipment to clarify that a revenue-based method should not be used to calculate the depreciation of items of property, plant and equipment.

IAS 38 Intangible Assets now includes a rebuttable presumption that the amortisation of intangible assets based on revenue is inappropriate. This presumption can be overcome if either

- The intangible asset is expressed as a measure of revenue (i.e. where a measure of revenue is the limiting factor on the value that can be derived from the asset), or
- It can be shown that revenue and the consumption of economic benefits generated by the asset are highly correlated.

As these amendments merely clarify the existing requirements, they do not affect the Bank's accounting policies or any of the disclosures.

Notes (Continued)

2 Summary of significant accounting policies (continued)

2.1 Basis of preparation (continued)

New and revised standards and interpretations not yet adopted (continued)

Other standards, amendments and interpretations which are effective for the financial year beginning on 1 January 2016 are not material to the Bank.

New and revised standards and interpretations not yet adopted

A number of new standards and amendments to standards and interpretations are effective for annual periods beginning after 1 January 2016, and have not been applied in preparing these financial statements. None of these is expected to a significant effect on the financial statements of the Bank, except the following set out below

IFRS 9, 'Financial instruments', addresses the classification, measurement and recognition of financial assets and financial liabilities. The complete version of IFRS 9 was issued in July 2014. It replaces the guidance in IAS 39 that relates to the classification and measurement of financial instruments. IFRS 9 retains but simplifies the mixed measurement model and establishes three primary measurement categories for financial assets: amortised cost, fair value through OCI and fair value through P&L. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. Investments in equity instruments are required to be measured at fair value through profit or loss with the irrevocable option at inception to present changes in fair value in OCI not recycling. There is now a new expected credit losses model that replaces the incurred loss impairment model used in IAS 39. For financial liabilities there were no changes to classification and measurement except for the recognition of changes in own credit risk in other comprehensive income, for liabilities designated at fair value through profit or loss. IFRS 9 relaxes the requirements for hedge effectiveness by replacing the bright line hedge effectiveness tests. It requires an economic relationship between the hedged item and hedging instrument and for the 'hedged ratio' to be the same as the one management actually use for risk management purposes. Contemporaneous documentation is still required but is different to that currently prepared under IAS 39. The standard is effective for accounting periods beginning on or after 1 January 2018. Early adoption is permitted.

IFRS 15, 'Revenue from contracts with customers' deals with revenue recognition and establishes principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. Revenue is recognised when a customer obtains control of a good or service and thus has the ability to direct the use and obtain the benefits from the good or service. The standard replaces IAS 18 'Revenue' and IAS 11 'Construction contracts' and related interpretations. The standard is effective for annual periods beginning on or after 1 January 2018 and earlier application is permitted.

*IFRS 16,'Leases' A*fter ten years of joint drafting by the IASB and FASB they decided that lessees should be required to recognise assets and liabilities arising from all leases (with limited exceptions) on the balance sheet. Lessor accounting has not substantially changed in the new standard.

The model reflects that, at the start of a lease, the lessee obtains the right to use an asset for a period of time and has an obligation to pay for that right. In response to concerns expressed about the cost and complexity to apply the requirements to large volumes of small assets, the IASB decided not to require a lessee to recognise assets and liabilities for short-term leases (less than 12 months), and leases for which the underlying asset is of low value (such as laptops and office furniture).

A lessee measures lease liabilities at the present value of future lease payments. A lessee measures lease assets, initially at the same amount as lease liabilities, and also includes costs directly related to entering into the lease. Lease assets are amortised in a similar way to other assets such as property, plant and equipment.

This approach will result in a more faithful representation of a lessee's assets and liabilities and, together with enhanced disclosures, will provide greater transparency of a lessee's financial leverage and capital employed.

One of the implications of the new standard is that there will be a change to key financial ratios derived from a lessee's assets and liabilities (for example, leverage and performance ratios).

Notes (Continued)

2 Summary of significant accounting policies (continued)

2.1 Basis of preparation (continued)

New and revised standards and interpretations not yet adopted (continued)

IFRS 16 supersedes IAS 17, 'Leases', IFRIC 4, 'Determining whether an Arrangement contains a Lease', SIC 15, 'Operating Leases – Incentives' and SIC 27, 'Evaluating the Substance of Transactions Involving the Legal Form of a Lease'. The standards is effective for annual periods beginning 1 January 2019. Early adoption is permitted only if IFRS 15 is adopted at the same time.

There are no other IFRSs or IFRIC interpretations that are not yet effective that would be expected to have a material impact on the Bank.

2.2 Foreign currency translation

(a) Functional and presentation currency

The accounting records are maintained in 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 presentation currency. The figures shown in the financial statements are stated in Kenya Shillings (Shs), rounded to the nearest thousand.

(b) Transactions and balances

Transactions in foreign currencies during the year are translated into the functional currency using the exchange rates prevailing at the dates of the transaction or valuation where items are re-measured.

Monetary items denominated in foreign currency are translated at the closing rate as at the reporting date.

Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss.

Translation differences on non-monetary financial instruments, such as equities held at fair value through profit or loss, are reported as part of the fair value gain or loss. Translation differences on non-monetary financial instruments, such as equities classified as available-for-sale financial assets, are included in other comprehensive income.

2.3 Sale and repurchase agreements

Securities sold subject to repurchase agreements ('repos') are classified in the financial statements as pledged assets when the transferee has the right by contract or custom to sell or repledge the collateral; the counterparty liability is included in amounts due to Central Bank of Kenya, due to other banks, deposits from banks, other deposits or deposits due to customers, as appropriate.

Securities purchased from Central Bank of Kenya under agreements to resell ('reverse repos') are disclosed separately as they are purchased and are not negotiable/discounted during their tenure. The difference between sale and repurchase price is treated as interest and accrued over the life of the agreements using the effective interest method.

2.4 Financial assets and liabilities

2.4.1 Financial assets

The Bank classifies its financial assets in the following categories: financial assets at fair value through profit or loss; loans and receivables, held to maturity and available for sale financial assets. The Directors determine the classification of its financial assets at initial recognition. The Bank uses trade date accounting for regular way contracts and when recording financial asset transactions.

Notes (Continued)

2 Summary of significant accounting policies (continued)

2.4 Financial assets and liabilities (continued)

2.4.1 Financial assets (continued)

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

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

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

A financial asset is classified as held for trading if it is acquired or incurred principally for the purpose of selling or repurchasing it in the near term or if it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking.

Derivatives are also categorised as held for trading unless they are designated and effective as hedging instruments. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative.

The Bank designates certain financial assets upon initial recognition as at fair value through profit or loss (fair value option). This designation cannot subsequently be changed and can only be applied when the following conditions are met:

- the application of the fair value option reduces or eliminates an accounting mismatch that would otherwise arise or
- the financial assets are part of a portfolio of financial instruments which is risk managed and reported to senior management on a fair value basis or
- the financial assets consists of debt host and embedded derivatives that must be separated.

Financial assets at fair value through profit or loss are carried at fair value. Purchases and sales of financial assets at fair value through profit or loss are recognized on trade-date, the date on which the Bank commits to purchase or sell the asset. Fair value changes relating to financial assets designated at fair value through profit or loss are recognized in the statement of profit or loss in the year in which they arise.

The Bank did not have any financial assets in this class at 31 December 2016 (2015: Nil).

(b) Loans and receivables

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

- those that the Bank intends to sell immediately or in the short term, which are classified as held for trading, and those that the Bank upon initial recognition designates as at fair value through profit or loss; or
- those that the Bank upon initial recognition designates as available–for–sale; or
- those for which the holder may not recover substantially all of its initial investment, other than because of credit deterioration.

Loans and receivables are initially recognised at fair value – which is the cash consideration to originate or purchase the loan including any transaction costs – and measured subsequently at amortised cost using the effective interest method.

Notes (Continued)

2 Summary of significant accounting policies (continued)

2.4 Financial assets and liabilities (continued)

2.4.1 Financial assets (continued)

(c) Held to maturity investments

Held to maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Directors may have positive intention and ability to hold to maturity, other than:

- those that the Bank upon initial recognition designates as at fair value through profit or loss;
- those that the Bank designates as available for sale; and
- those that meet the definition of loans and receivables.

Held to maturity investments are initially recognised at fair value including direct and incremental transaction costs and measured subsequently at amortised cost, using the effective interest method.

(d) Available for sale financial assets

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

Available for sale financial assets are initially recognised at fair value, which is the cash consideration including any transaction costs, and measured subsequently at fair value with gains and losses being recognised in other comprehensive income, except for impairment losses and foreign exchange gains and losses, until the financial asset is derecognised. If an available-for-sale financial asset is determined to be impaired, the cumulative gain or loss previously recognised in other comprehensive income is recognised in the statement of profit or loss. However, interest is calculated using the effective interest method, and foreign currency gains and losses on monetary assets classified as available for sale are recognised in the statement of profit or loss.

2.4.2 Financial liabilities

The Bank's holding in financial liabilities represents mainly deposits from banks and customers and other liabilities. Such financial liabilities are initially recognized at fair value and subsequently measured at amortised costs.

2.4.3 Determination of fair value

For financial instruments traded in active markets, the determination of fair values of financial assets is based on quoted market prices or dealer price quotations. This includes listed equity securities and quoted debt instruments on major exchanges and broker quotes from Bloomberg and Reuters.

A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. If the above criteria are not met, the market is regarded as being inactive. Indicators that a market is inactive are when there is a wide bid-offer spread or significant increase in the bid-offer spread or there are few recent transactions.

For all other financial instruments, fair value is determined using valuation techniques. These include the use of recent arm's length transactions, discounted cash flow analysis and other valuation techniques commonly used by market participants.

Notes (Continued)

2 Summary of significant accounting policies (continued)

2.4 Financial assets and liabilities (continued)

2.4.3 Determination of fair value (continued)

The Bank uses widely recognised valuation models for determining fair values of government securities. For these financial instruments, inputs into models are generally market-observable.

The fair values of the Bank's financial assets and liabilities approximate the respective carrying amounts, due to the generally short periods to contractual re-pricing or maturity dates. Fair values are based on discounted cash flows using a discount rate based upon the borrowing rate that Directors expect would be available to the Bank at the reporting date.

In cases when the fair value of unlisted equity instruments cannot be determined reliably, the instruments are carried at cost less impairment.

The fair values of contingent liabilities correspond to their carrying amounts.

2.4.4 Derecognition

Financial assets are derecognized when the contractual rights to receive the cash flows from these assets have ceased to exist or the assets have been transferred and substantially all the risks and rewards of ownership of the assets are also transferred (that is, if substantially all the risks and rewards have not been transferred, the Bank tests control to ensure that continuing involvement on the basis of any retained powers of control does not prevent derecognition).

Financial liabilities are derecognised when they have been redeemed or otherwise extinguished.

2.4.5 Classes of financial instruments

The Bank classifies the financial instruments into classes that reflect the nature of information and take into account the characteristics of those financial instruments. The classification made can be seen in the table as follows:

<table>
<tr><th colspan="2">Category(as defined by IAS 39)</th><th colspan="2">Class (as determined by the Bank)</th><th>Subclasses</th></tr>
<tr><td rowspan="12">Financial assets and liabilities</td><td rowspan="6">Loans and receivables</td><td colspan="2">Deposits and balances due from banking institutions</td><td></td></tr>
<tr><td rowspan="4">Loans and advances to customers</td><td rowspan="2">Loans to individuals (retail – micro and SME)</td><td>Overdrafts</td></tr>
<tr><td>Term loans</td></tr>
<tr><td rowspan="2">Loans to corporate customers</td><td>Large corporate customers</td></tr>
<tr><td>Others</td></tr>
<tr><td colspan="3">Items in the course of collection</td></tr>
<tr><td rowspan="2">Held to maturity investments</td><td rowspan="2">Investments</td><td rowspan="2">Government securities</td><td>Treasury bills</td></tr>
<tr><td>Treasury bonds</td></tr>
<tr><td rowspan="4">Financial liabilities at amortised cost</td><td colspan="2">Deposits and balances due to banking institutions</td><td></td></tr>
<tr><td rowspan="2">Deposits from customers</td><td>Individual (retail – micro and SME) customers</td><td></td></tr>
<tr><td>Corporate customers</td><td></td></tr>
<tr><td colspan="3">Items in the course of collection</td></tr>
<tr><td rowspan="2">Off- balance sheet financial Instruments</td><td colspan="4">Loan commitments</td></tr>
<tr><td colspan="4">Guarantees, acceptances and other financial facilities</td></tr>
</table>

Notes (Continued)

2 Summary of significant accounting policies (continued)

2.5 Impairment of financial assets

(a) Assets carried at amortised cost

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 a 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 the 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.

The criteria that the Bank uses to determine that there is objective evidence of an impairment loss include:

- significant financial difficulty of the issuer or obligor;
- a breach of contract, such as a default or delinquency in interest or principal payments;
- the lender, for economic or legal reasons relating to the borrower's financial difficulty, granting to the borrower a concession that the lender would not otherwise consider;
- it becomes probable that the borrower will enter bankruptcy or other financial reorganisation;
- the disappearance of an active market for that financial asset because of financial difficulties; or
- observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the portfolio, including:

(i) adverse changes in the payment status of borrowers in the portfolio; and
(ii) national or local economic conditions that correlate with defaults on the assets in the portfolio.

The estimated period between a loss occurring and its identification is determined by local management for each identified portfolio. In general, the periods used vary between 1 and 6 months; in exceptional cases, longer periods are warranted.

The Bank first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial 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.

If there is objective evidence that an impairment loss on loans 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 estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial instrument's 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 statement of profit or loss. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Bank may measure impairment on the basis of an instrument's fair value using an observable market price.

The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

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

Notes (Continued)

2 Summary of significant accounting policies (continued)

2.5 Impairment of financial assets (continued)

(a) Assets carried at amortised cost (continued)

Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows of the assets in the group and historical loss experience for assets with credit risk characteristics similar to those in the group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not currently exist.

Estimates of changes in future cash flows for groups of assets should reflect and be directionally consistent with changes in related observable data from period to period (for example, changes in unemployment rates, property prices, payment status, or other factors indicative of changes in the probability of losses in the Bank and their magnitude). The methodology and assumptions used for estimating future cash flows are reviewed regularly by the Bank to reduce any differences between loss estimates and actual loss experience.

When a loan is uncollectible, it is written off against the related allowance for loan impairment. Such loans are written off after all the necessary procedures have been completed and the amount of the loss has been determined. Impairment charges relating to loans and advances to customers are included in credit impairment charges. Subsequent recoveries of amounts previously written off decrease the amount of the provision for loan impairment in the statement of profit or loss.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the previously recognised impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognised in the statement of profit or loss.

(b) Assets classified as available for sale

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

2.6 Offsetting of financial instruments

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

2.7 Cash and cash equivalents

Cash and cash equivalents includes cash in hand, deposits held at call with banks, other short term highly liquid investments with original maturities of three months or less, including: cash and non-restricted balances with the Central Bank of Kenya, Treasury and other eligible bills, and amounts due from other banks. Cash and cash equivalents excludes the cash reserve requirement held with the Central Bank of Kenya.

Notes (Continued)

2 Summary of significant accounting policies (continued)

2.8 Property and equipment

Property and equipment are stated at historical cost less depreciation.

Depreciation is calculated on the straight line basis to allocate their cost less their residual values over their estimated useful lives, as follows:

• Office premises	50 years
• Office improvements	8 years
• Furniture, fittings and equipment	8 years
• Motor vehicles	4 years
• Computer equipment	3-5 years

Freehold land is not depreciated

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

The Bank assesses at each reporting date whether there is any indication that any item of property and equipment is impaired. If any such indication exists, the Bank estimates the recoverable amount of the relevant assets. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units).

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

2.9 Intangible assets - software

Acquired computer software licenses are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised over their estimated useful lives of 5 years.

Costs associated with maintaining computer software programmes are recognised as an expense as incurred.

2.10 Impairment of non – financial assets

Assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). The impairment test also can be performed on a single asset when the fair value less cost to sell or the value in use can be determined reliably.

Non-financial assets that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

2.11 Employee benefits

(a) Retirement benefit obligations

The Bank and all its employees contribute to the National Social Security Fund, which is a defined contribution scheme. A defined contribution plan is a retirement benefit plan under which the Bank pays fixed contributions into a separate entity. The Bank has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods.

The Bank's contribution to the defined contribution scheme is charged to profit or loss in the year in which it falls due. The Bank has no further obligations once the contribution is paid.

Notes (Continued)

2 Summary of significant accounting policies (continued)

2.12 Income tax

(a) Current income tax

Income tax expense is the aggregate of the charge to the income statement in respect of current income tax and deferred income tax. Tax is recognised in the income statement unless it relates to items recognised directly in equity, in which case it is also recognised directly in equity.

Current income tax is the amount of income tax payable on the taxable profit for the year determined in accordance with the Kenyan Income Tax Act.

(b) Deferred income tax

Deferred income tax is recognised, using the liability method, for all temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes. However, the deferred income tax is not accounted for if it arises from the initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates and laws that have been enacted or substantively enacted at the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

2.13 Dividend payable

Dividends on ordinary shares are charged to equity in the period in which they are declared. Proposed dividends are shown as a separate component of equity until declared.

2.14 Share capital

Ordinary shares are classified as 'share capital' in equity. Any premium received over and above the par value of the shares is classified as 'share premium' in equity.

2.15 Interest income and expense

Interest income and expense for all interest-bearing financial instruments, except for those classified as held for trading or designated at fair value through profit or loss, are recognised within 'interest income' or 'interest expense' in profit or loss using the effective interest method.

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. The calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

Once a financial asset or a 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.

2.16 Fee and commission income

Fees and commissions are generally recognised on an accrual basis when the service has been provided. Loan commitment fees for advances are credited to income upon first utilisation of the facility and are charged on an annual basis.

2.17 Dividend income

Dividends are recognised in profit or loss when the Bank's right to receive payment is established.

Notes (Continued)

2 Summary of significant accounting policies (continued)

2.18 Acceptances and letters of credit

Acceptances and letters of credit are accounted for as off-balance sheet transactions and disclosed as contingent liabilities.

2.19 Derivative financial instruments

Derivatives, which comprise solely forward foreign exchange contracts, are initially recognised at fair value on the date the derivative contract is entered into and are subsequently measured at fair value. The fair value is determined using forward exchange market rates at the balance sheet date or appropriate pricing models. The derivatives do not qualify for hedge accounting. Changes in the fair value of derivatives are recognised immediately in the statement of profit or loss.

3 Significant accounting estimates and judgements

The preparation of financial statements in accordance with IFRSs requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities at the date of the financial statements and the income and expenses during the reporting period. Although these estimates are based on the Directors' best knowledge of current events and actions, actual results ultimately may differ from those estimates. Estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognised in the year in which the estimates are revised and in any future years affected.

Estimates and assumptions:

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

Property and equipment

Directors make estimates in determining the useful lives and residual values of property and equipment and intangible assets. The depreciation rates used are set out in the accounting policy for property and equipment (note 2.8). These estimates are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the prevailing circumstances.

The Bank based its assumptions and estimates on parameters available when the financial statements were prepared. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances beyond the control of the Bank. Such changes are reflected in the assumptions when they occur.

Judgements:

In the process of applying the Bank's accounting policies, management has made the following judgements, which have the most significant effect on the amounts recognised in the consolidated financial statements:

Impairment losses on loans and advances

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

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

3 Significant accounting estimates and judgements (continued)

Impairment of non-financial assets

The Bank assesses whether there are any indicators of impairment for all non-financial assets at each reporting date. Indefinite life intangibles are tested for impairment annually and at other times when such indicators exist. Other non-financial assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre–tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded subsidiaries or other available fair value indicators.

4 Financial risk management

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

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

Risk management policies

Risk is an integral part of the banking business and the Bank aims at the delivery of superior shareholder value by achieving an appropriate trade-off between risk and returns. The Bank's risk management strategy is based on a clear understanding of various risks, disciplined risk assessment and measurement procedures and continuous monitoring. The policies and procedures established for this purpose are continuously benchmarked with the industry best practices. The risk management function at the Bank is supported by a Board Audit and Risk Committee using a comprehensive range of quantitative tools. The Board Audit and Risk Committee is responsible for the assessment, management and mitigation of risk in the Bank. This committee is accountable to the Board of Directors. The Internal Audit department independently reviews the risk on a Periodic basis and reports to the Board of Directors.

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

Risk management is carried out by the compliance department under policies approved by the Board of Directors. The compliance department identifies, evaluates and hedges financial risks in close cooperation with the operating units. The Board provides written principles for overall risk management as well as written policies covering specific areas such as foreign exchange risk, interest rate risk, credit risk and derivative and non-derivative financial instruments.

a) Credit risk

Credit risk is the risk that a borrower is unable to meet its financial obligations to the lender, leading to the lender's financial loss. The Bank measures, monitors and manages credit risk for each borrower and also at the portfolio level. The Bank has a standardised credit approval process, which includes a well-established procedure of comprehensive credit appraisal and rating. The Bank has developed internal credit rating methodologies for rating obligors as well as for products and facilities. The credit risk attached to every borrower is reviewed at least annually and for higher risk credits and large exposures at shorter intervals.

Sector knowledge has been institutionalised across the Bank through the availability of sector-specific information from the various publications of the Central Bank of Kenya and of the Ministry of Finance and is included in the Credit Risk Policy. Industry knowledge is constantly updated through field visits, interactions with clients, regulatory bodies and industry experts. In respect of the retail credit business, the Bank has a system of centralised approval of all products and policies and monitoring of the retail portfolio.

Notes (Continued)

4 Financial risk management (continued)

a) Credit risk (continued)

The Bank's credit risk is primarily attributable to its loans and advances. 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. Limits on the level of credit risk by product, industry sector and by region are approved quarterly by the Board of Directors.

The financial risk management objectives and policies are as outlined below:

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. Exposure to credit risk is also managed in part by obtaining collateral and corporate guarantees. Credit risks are spread over a diversity of microfinance, personal and commercial customers. However, a significant portion of the loans and advances are under microfinance where group guarantees are applicable.

The Bank takes on exposure to credit risk, which is the risk that a counterparty will cause a financial loss to the Bank by failing to pay amounts in full when due. Credit risk is an important risk for the Bank's business. Management therefore carefully manages the exposure to credit risk. Credit exposures arise principally in lending and investment activities. There is also credit risk in financial instruments not recognised in the statement of financial position, such as loan commitments and letters of credit.

The exposure to any one borrower is further restricted by sub-limits covering exposures recognised and not recognised in the statement of financial position.

Credit related commitments

The primary purpose of these instruments is to ensure that funds are available to a customer as required. Guarantees and standby letters of credit, which represent irrevocable assurance that the Bank will make payments in the event that a customer cannot meet its obligations to third parties, carry the same credit risks 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 cash collateral and the underlying shipments of goods to which they relate and therefore carry less risk than a direct borrowing.

Commitment to extend credit represents 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 monitors the term to maturity of credit commitment because longer-term commitments generally have a greater degree of credit risk than shorter-term commitments.

Notes (Continued)

4 Financial risk management (continued)

a) Credit risk (continued)

Maximum exposure to credit risk before collateral held

	Notes	2016 Shs'000	%	2015 Shs'000	%
Credit exposures					
Items recognised in the statement of financial position :					
Balances with Central Bank of Kenya	15	1,574,820	8	954,029	5
Other assets	19	628,099	3	327,232	2
Placements with other banks	16	885,735	4	1,509,158	8
Loans and advances to customers	18(a)	13,434,572	65	12,519,387	66
Investments held to maturity	17	2,522,997	12	2,361,914	13
		19,046,223	92	17,671,720	94
Items not recognised in the statement of financial position:					
Letters of credit, guarantees and performance bonds		896,748	4	345,324	2
Foreign currency swaps		684,548	4	742,246	4
		20,627,519	100	18,759,290	100

The above table represents a worst case scenario of credit risk exposure to the Bank at 31 December 2016 and 31 December 2015 without taking account of any collateral held or other credit enhancement attached. For assets recognised in the statement of financial position, the exposures set out above are based on carrying amounts as reported in the statement of financial position.

As shown above, 65% of the total maximum exposure is derived from loans and advances to customers (2015: 66%), 4% represents placement with other banks (2015: 8%), while investments in debt securities was at 12% (2015: 13%).

Loans and advances to customers are secured by collateral in the form of charges over cash, land and building and/or plant and machinery or corporate guarantees.

Management is confident in its ability to continue to control and sustain minimal exposure of credit risk to the Bank resulting from both its loans and advances portfolio and debt securities.

The Bank's internal risk ratings scale is as follows:

Grade 1 - Normal

Grade 2 - Watch

Grade 3 - Sub-standard

Grade 4 - Doubtful

Grade 5 - Loss

Notes (Continued)

4 Financial risk management (continued)

a) Credit risk (continued)

Impairment and provisioning policies

The Bank establishes an allowance for impairment losses that represents its estimate of incurred losses in its loans and advances portfolio. The main components of this allowance are a specific loss component that relates to individually significant exposures. The second component is in respect of losses that have been incurred but have not been identified in relation to the loans and advances portfolio that is not specifically impaired. The impairment provision shown in the statement of financial position at year-end is derived from each of the five internal rating grades. However, the impairment provision is composed largely of the bottom three grades.

The table below summarises the Bank's Loans and advances and the associated impairment provision:

	2016 Shs'000	2015 Shs'000
Grade 1- Normal	11,666,114	10,800,621
Grade 2- Watch	333,977	1,026,813
Grade 3- Substandard	540,203	510,389
Grade 4- Doubtful	1,588,296	694,362
Grade 5- Loss	330,230	402,879
	14,458,820	13,435,064
Less: allowance for impairment	(1,024,248)	(915,677)
Net	13,434,572	12,519,387

Grade 1 - Normal
All loans are performing in accordance with the contractual terms and are expected to continue doing so. Loans in this category are fully protected by the current sound net worth and paying capacity of the borrower.

Grade 2 - Watch
Loans and advances less than 90 days past due are not considered impaired, unless other information is available to indicate the contrary. The gross amounts of loans and advances that were past due but not impaired were as follows:

	2016 Shs'000	2015 Shs'000
Past due up to 30 days	619,248	535,313
Past due 31- 60 days	218,013	223,184
Past due 61 - 90 days	82,345	182,050
Renegotiated 1 - 90 days	33,619	86,266
	953,225	1,026,813

Notes (Continued)

4 Financial risk management (continued)

a) Credit risk (continued)

Impaired-Grade 3, 4 & 5-Substandard, Doubtful risk and loss

	2016 Shs'000	2015 Shs'000
Grade 3 - Substandard	540,203	510,389
Grade 4 - Doubtful	1,588,296	694,362
Grade 5 - Loss	330,230	402,879
Total	2,458,729	1,607,630
Individually assessed impaired loans and advances		
Micro	288,957	327,888
SME	2,169,772	1,279,742
	2,458,729	1,607,630
Fair value of collateral held	3,200,943	1,956,583

Collateral on Loans and Advances

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

	2016 Shs '000	2015 Shs '000
Land and Building	24,312,535	19,111,623
Cash and other pledges	1,651,718	1,565,572
Motor Vehicle	3.020,853	1,469,987
Debenture and Guarantees	516,663	602,876
Other Chattels	96,320	81,826
Sub total	26,577,236	22,831,884

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 or when a borrower has cleared a loan and would like to obtain another facility at the time when the validity of the valuation has since expired.

Notes (Continued)

4 Financial risk management (continued)

a) Credit risk (continued)

Analysis of gross loans and advances by performance	2016 Shs '000	2015 Shs '000
Current	11,046,866	10,800,621
1-30 days	619,248	535,313
31-60 days	218,013	223,184
61-90 days	82,345	182,050
91-180 days	151,261	162,041
181-360 days	1,501,976	677,191
Over 360 days	244,741	309,987
Sub total	13,864,450	12,890,387
Renegotiated/rescheduled loans		
1-90 days	33,619	86,266
Over 90 days	560,751	458,411
Sub total	594,370	544,677
Grand total (note 18 (b))	14,458,820	13,435,064

According to Central Bank of Kenya prudential guidelines, loans and advances overdue by above 90 days are considered non-performing.

The provisions made amount to 7% (2015: 6.3%) of gross advances. These provisions are considered adequate in view of the realizable value of securities held.

Renegotiated/rescheduled loans are tracked and monitored the same way classified loans are, whether they are performing normally or not.

Exposure to Chase Bank Limited

In April 2016, the Central Bank of Kenya (CBK) placed Chase Bank Limited under statutory management following reported significant fraud at the institution. The Bank's exposure to Chase Bank Limited at the time comprised of a money market placement of Shs 300 million and matured foreign currency forward transactions. A provision of Shs 37 million has been made against the balance.

No other assets are past due or impaired.

b) Liquidity risk

The Bank is exposed to the risk that it will encounter difficulty in raising funds to meet commitments associated with financial instruments as they fall due and to replace funds when they are withdrawn. Liquidity risk is addressed through the following measures:

- 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 for short term liquidity requirements.
- The Bank invests in short term liquid instruments, which can easily be sold in the market when the need arises.

The Asset and Liability Committee (ALCO) role in liquidity is to manage the day to day treasury operations, ascertain adequacy of funds to meet the bank's obligations, advises on pricing of assets and liabilities, prepares cash flow projections to ensure the bank's liquidity is within set limits by CBK, monitors maturities of assets and liabilities and finally advises on placements and liquidations as appropriate. The bank also ensures the CBK cash and liquidity ratios are maintained. The table below represents cash flows payable by the bank under non-derivative financial liabilities by remaining periods to maturity at the reporting date.

4 Financial risk management (continued)

b) Liquidity risk (continued)

Expected maturity dates	1 month Shs'000	1 - 3 months Shs'000	3 – 6 months Shs'000	6 - 12 months Shs'000	1 - 3 years Shs'000	3 - 5 years Shs'000	Over 5 years Shs'000	Total Shs'000
2016								
Financial assets								
Cash and balances with Central Bank of Kenya	2,216,043	-	-	-	-	-	-	2,216,043
Investments	524,685	141,172	300,000	-	-	-	1,557,140	2,522,997
Deposits and balances due from banking institutions	885,735	-	-		-	-	-	885,735
Loans and advances to customers	1,126,623	497,154	662,727	748,118	4,002,934	3,909,247	2,487,769	13,434,572
Other assets	218,856	107,952	61,463	131,621	260,758	-	-	780,650
Total financial assets	4,971,942	746,278	1,024,190	879,739	4,263,692	3,909,247	4,044,909	19,839,997
Financial liabilities								
Customer deposits	8,515,218	3,922,584	326,231	536,712	379,142	4,000	1,206	13,685,093
Deposits due to banks	2,269,645							2,269,645
Borrowings	-	-	90,194	498,955	-	-	-	589,149
Other liabilities	107,358	135,516	54,657	60,688	104,605	-	-	462,824
Total financial liabilities	10,892,221	4,058,100	471,082	1,096,355	483,747	4,000	1,206	17,006,711
Net liquidity gap	(5,920,279)	(3,311,822)	553,108	(216,616)	3,779,945	3,905,247	4,043,703	2,833,285
Financial guarantees	64,921	73,339	59,886	361,254	337,348	-	-	896,748
Foreign currency swaps	182,393	408,038	94,117	-	-	-	-	684,548

Notes (Continued)

4 Financial risk management (continued)

b) Liquidity risk (continued)

Expected maturity dates	1 month Shs'000	1 - 3 months Shs'000	3 – 6 months Shs'000	6 - 12 months Shs'000	1 - 3 years Shs'000	3 - 5 years Shs'000	Over 5 years Shs'000	Total Shs'000
2015								
Financial assets								
Cash and balances with Central Bank of Kenya	1,469,805	-	-	-	-	-	-	1,469,805
Investments	499,583	6,165	18,374	6,376	19,127	306,289	1,506,000	2,361,914
Deposits and balances due from banking institutions	1,509,158	-	-		-	-	-	1,509,158
Loans and advances to customers	816,646	1,514,990	201,654	3,051,547	1,946,521	4,342,931	645,098	12,519,387
Other assets	66,099	35,024	94,510	66,673	76,016	21,949	66,588	426,859
Total financial assets	4,361,291	1,556,179	314,538	3,124,596	2,041,664	4,671,169	2,217,686	18,287,123
Financial liabilities								
Customer deposits	4,858,963	5,517,047	688,814	122,035	56,671	2,133,186	2,840	13,379,556
Deposits due to banks	831,411							831,411
Borrowings	-	-	164,682	106,859	370,582	-	-	642,123
Other liabilities	108,829	93,039	34,877	73,433	105,803	-	--	415,981
Total financial liabilities	5,799,203	5,610,086	888,373	302,327	533,056	2,133,186	2,840	15,269,071
Net liquidity gap	(1,437,912)	(4,053,907)	(573,835)	2,822,269	1,508,608	2,537,983	2,214,846	3,018,052
Financial guarantees	-	16,554	168,587	160,083	100	-	-	345,324
Foreign currency swaps	428,696	207,200	106,350	-	-	-	-	742,246

Notes (Continued)

4 Financial risk management (continued)

c) Market risk

The objective of the Bank's market risk management is to manage and control market risk exposures in order to optimize return on risk while maintaining a market profile consistent with the bank's mission.

Market risk is the risk that movements in market risk factors, including foreign exchange rates and interest rates will reduce the Bank's income or capital. 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. The 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. The Bank monitors foreign exposure positions, ensures there is adequate foreign currency to meet obligations as well as takes corrective action if the exposure exceeds the set limits.

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. The overall responsibility for managing market risk rests with the Asset and Liability Committee (ALCO). The compliance department is responsible for the development of detailed risk management policies (subject to review and approval by ALCO).

The major market risk sensitivity analysis measurements techniques used to measure and control market risks are outlined below:

i) Currency risk

The Bank is exposed to the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Bank participates in the foreign currency market as a market maker and a market user.

The table below summarises the Bank's exposure to foreign currency exchange rate risk at 31 December 2016 and 31 December 2015.

At 31 December 2016	USD balances Shs'000	Euro balances Shs'000	GBP balances Shs'000	OTHER balances Shs'000	Total balances Shs'000
Financial assets					
Cash and balances with CBK	604,810	13,228	6,549	132	624,719
Deposits and balances due from banking institutions	772,779	168,031	51,285	9,684	1,001,779
Loans and advances	42,936	-	-	-	42,936
	1,420,525	181,259	57,834	9,816	1,669,434
Financial liabilities					
Customers deposits	460,436	163,882	73,275	-	697,593
	460,436	163,882	73,275	-	697,593
Net exposure	960,089	17,377	(15,441)	9,816	971,841

Notes (Continued)

4 Financial risk management (continued)

c) Market risk (continued)

i) Currency risk (continued)

At 31 December 2015	USD balances Shs'000	Euro balances Shs'000	GBP balances Shs'000	OTHER balances Shs'000	Total balances Shs'000
Financial assets					
Cash and balances with CBK	63,378	4,384	3,284	70	71,116
Deposits and balances due from banking institutions	929,390	3,136	131,412		1,063,938
	992,768	7,520	134,696	70	1,135,054
Financial liabilities					
Customers deposits	284,910	6,172	13,035	-	304,117
	284,910	6,172	13,035	-	304,117
Net exposure	707,858	1,348	121,661	70	830,937

The bank has assets and liabilities in three major currencies. The most significant exposure arises from assets denominated in US dollar and the EURO. The following table demonstrates the sensitivity to reasonably possible change in the KShs/US dollar and KShs / Euro, with all other variables held constant, of the banks profit before tax. Other foreign currency include Uganda shilling, Tanzanian Shilling, Canadian dollar, Japanese yen and South African rand.

Shs/ US dollar	2016 Shs'000	2015 Shs'000
Effect on profit before tax of a +/-5% change in exchange rates	48,004	35,393
Effect on equity of a +/-5% change in exchange rates	33,603	24,775
Shs / Euro		
Effect on profit before tax of a +/-5% change in exchange rates	869	67
Effect on equity of a +/-5% change in exchange rates	608	47

ii) Interest rate risk

The Bank is exposed to the risk that the value of a financial instrument will fluctuate due to changes in market interest rate. Interest rates on advances are either pegged to the Bank's base lending rate or Treasury bill rate. The interest rates, therefore, fluctuate depending on the movement in the market interest rates. The Bank also invests in fixed and variable interest rate instruments issued by the Central Bank of Kenya. Interest rates on customer deposits are negotiated between the Bank and the customer. The Bank has the discretion to change the rates in line with changes in market trends.

These measures minimise the Bank's exposure to interest rate risk.

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 projections make other assumptions including that all positions run to maturity.

Notes (Continued)

4 Financial risk management (continued)

c) Market risk (continued)

ii) Interest rate risk (continued)

Sensitivity Analysis

The sensitivity analysis on the income statement is the effect of the assumed changes in interest rates on loans and advances on the Bank's profit before income tax and for the year and equity.

	2016 Shs'000	2015 Shs'000
Effect on profit before tax of a +/-2% change in interest rates	38,014	33,138
Effect on profit before tax (%)	+/- 53.5%	+/- 6.4%
Effect on equity of a +/-2% change in interest rates	26,629	23,197
Effect on equity	+/- 0.6%	+/- 0.6%

The table below analysis the Bank's interest rate risk exposure on non-trading financial assets and liabilities. The bank's assets and liabilities are included at carrying amount categorised by the earlier of contractual re-pricing or maturity dates. The sensitivity computations assume that the financial assets maintain a constant rate of return from one year to the next. The bank bases its sensitivity analysis on the interest sensitivity gap.

Notes (Continued)

4 Financial risk management (continued)

c) Market risk (continued)

ii) Interest rate risk (continued)

2016	Up to 1 month Shs'000	1-3 months Shs'000	3-6 months Shs'000	6-12 months Shs'000	1-3 years Shs'000	3-5 years Shs'000	Over 5 years Shs'000	Non-interest bearing Shs'000	Carrying amount Shs'000
Financial assets:									
Cash and balances with the Central Bank of Kenya	-	-	-	-	-	-	-	2,216,043	2,216,043
Government securities	524,685	141,172	300,000	-	-	-	1,557,140	-	2,522,997
Deposits and balances due from banking institutions	307,500	-	-	-	-	-	-	578,235	885,735
Loans advances to customers	-	13,191,390	-	-	-	-	-	243,182	13,434,572
	832,185	13,332,562	300,000	-	-	-	1,557,140	3,037,460	19,059,347
Financial liabilities:									
Customer deposits	5,681,906	3,922,584	326,231	536,712	379,142	4,000	1,206	2,833,312	13,685,093
Deposits due to banks	2,269,645								2,269,645
Borrowings	-	-	90,194	498,955	-	-	-	-	589,149
	7,951,551	3,922,584	416,425	1,035,667	379,142	4,000	1,206	2,833,312	16,543,887
Total interest sensitivity gap	(7,119,366)	9,409,978	(116,425)	(1,035,667)	(379,142)	(4,000)	1,555,934	204,148	2,515,460

Notes (Continued)

4 Financial risk management (continued)

c) Market risk (continued)

ii) Interest rate risk (continued)

2015	Up to 1 month Shs'000	1-3 months Shs'000	3-6 months Shs'000	6-12 months Shs'000	1-3 Years Shs'000	3-5 years Shs'000	Over 5 years Shs'000	Non-interest bearing Shs'000	Carrying amount Shs'000
Financial assets:									
Cash and balances with the Central Bank of Kenya	-	-	-	-	-	-	-	1,469,805	1,469,805
Government securities	499,583	6,165	18,374	6,376	19,127	306,289	1,506,000		2,361,914
Deposits and balances due from banking institutions	375,000	-	-	-	-	-	-	1,134,158	1,509,158
Loans advances to cus-tomers	-	12,335,151	-	-	-	-	-	184,236	12,519,387
	874,583	12,341,316	18,374	6,376	19,127	306,289	1,506,000	2,788,199	17,860,264
Financial liabilities:									
Customer deposits	1,276,388	5,517,047	688,814	122,035	56,671	2,133,186	2,840	3,582,575	13,379,556
Deposits due to banks	831,411	-	-	-	-	-	-	-	831,411
Borrowings	-	-	164,682	106,859	370,582	-	- -	-	642,123
	2,107,799	5,517,047	853,496	228,894	427,253	2,133,186	2,840	3,582,575	14,853,090

Notes (Continued)

4 Financial risk management (continued)

d) Capital Adequacy and Management

The Bank monitors the adequacy of its capital using ratios established by the Central Bank of Kenya. The ratios measure capital adequacy by comparing the bank's eligible capital with its assets in the statement of financial position, commitments not recognised in the statement of financial position, market and other risk positions at a weighted amount to reflect their relative risk.

The Bank manages its capital to ensure that it is a going concern while maximizing the return to stakeholders through the optimization of the debt and equity balance. The capital structure of the bank consists of debt which includes the borrowings, cash and cash equivalents and equity attributable to equity holders of the parent, comprising issued capital, reserves and retained earnings.

The Bank's Enterprise Risk Management committee reviews the capital structure on a semi-annual basis. As part of this review, the committee considers the cost of capital and the risks associated with each class of capital. Based on recommendations of the committee, the bank will balance its overall capital structure.

The Bank has 3 main capital objectives:

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

Capital adequacy and use of regulatory capital are monitored regularly 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 do the following:

- Hold the minimum level of regulatory capital of Shs 1billion
- Maintain a ratio of total regulatory capital to the risk weighted assets plus risk weighted assets not recognized in the statement of financial position at or above the required minimum of 8%.
- Maintain core capital of not less than 10.5% (2015: 10.5%) of total deposit liabilities
- Maintain total capital of not less than 14.5% (2015: 14.5%) of risk-weighted assets plus risk-weighted items not recognised in the statement of financial position.

The Bank's total regulatory capital is divided into two tiers:

- Tier 1 capital (core capital): Share capital, share premium, plus retained earnings
- Tier 2 capital (supplementary capital): 25% (subject to prior approval) of revaluation reserves, subordinated debt not exceeding 50% of Tier 1 capital and hybrid capital instruments. Qualifying Tier 2 is limited to 100% of Tier 1 Capital.

Notes (Continued)

4 Financial risk management (continued)

d) Capital Adequacy and Management (continued)

Assets are weighted according to broad categories of notional credit risk, being assigned a risk weighted according to the amount of capital deemed to be necessary to support them. Five categories of risk weights (0%, 20%, 50%, 70% and 100%) are applied. Tier 1 capital consists of shareholders equity while Tier 2 capital consists of the bank's eligible long-term debt, 25% of Revaluation reserve and statutory reserves.

	2016 Shs'000	2015 Shs'000
Tier I Capital		
Share capital	1,470,175	1,469,137
Share premium	706,082	703,865
Retained earnings	1,609,146	1,582,617
	3,785,403	3,755,619
Tier II Capital		
Revaluation reserve	17,139	17,335
Regulatory reserve	14,832	12,528
Total regulatory capital	3,817,374	3,785,482
Risk Weighted Assets	16,421,056	15,340,370
Core capital to risk assets	23.1%	24.5%
Total capital to risk assets	23.2%	24.7%
Minimum total capital to risk assets ratio	14.5%	14.5%
Minimum core capital to risk assets ratio	10.5%	10.5%

5 Interest income

Loans and advances	2,765,478	2,414,397
Government securities	281,902	284,199
Placements and overnight lending	48,192	27,934
	3,095,572	2,726,530
Portfolio analysis Interest on financial assets held at amortised cost	3,095,572	2,726,530

6 Interest expense

	2016 Shs'000	2015 Shs'000
Term deposits	902,605	856,508
Savings accounts	29,082	28,066
Placement & overnight borrowings	208,222	100,218
Borrowed funds	54,964	84,849
	1,194,873	1,069,641
Portfolio analysis Interest on financial liability held at amortised cost	1, 194,873	1,069,641

Notes (Continued)

7 Fees and commission income

	2016 Shs'000	2015 Shs'000
Ledger related fees and commissions	91,568	86,298
Credit related fees and commissions	264,095	326,138
Transaction related fees	155,792	148,477
	511,455	560,913

8 Gain on foreign exchange

Gain on foreign exchange dealings	70,833	52,363

Gains on foreign currency dealings arose from trading in foreign currency transactions and translation of foreign currency assets and liabilities to Kenya Shillings at year-end.

9 Other income

	2016 Shs'000	2015 Shs'000
Other miscellaneous income	4,091	2,784

10 Operating expenses

		2016 Shs'000	2015 Shs'000
Employee benefits (Note 11)		897,505	625,316
Directors' emoluments	- Non-executive	14,241	14,079
	- Executive	20,402	31,153
Auditors' remuneration		4,250	4,048
Depreciation on property and equipment (Note 20)		111,234	108,989
Amortisation of intangible assets (Note 21)		95,478	49,044
Deposit protection fund contributions		18,208	15,616
Rent		171,319	138,682
Telephone, connectivity and postage		90,903	71,241
Printing, stationery & ATM card expense		91,122	39,567
Electricity and water		34,690	35,292
Marketing, promotion and public relations		85,417	14,961
Travelling expenses		50,942	34,365
Cleaning, repairs and maintenance		72,071	103,520
Insurances & security		92,716	75,885
Professional fees		77,189	103,183
Subscriptions		6,409	8,093
Licenses		104,227	64,599
Lease rentals		18,571	-
Other operating expenses		67,750	26,682
		2,124,644	1,564,315

Notes (Continued)

11 Employee benefits

	2016 Shs'000	2015 Shs'000
Salaries and allowances including termination benefits of Shs 100,811,000 (2015: Nil)	783,728	525,252
Pension contributions - Defined contribution	34,054	31,593
- National Social Security Fund	1,371	1,292
Staff medical expenses	52,752	33,757
Staff welfare and training expenses	25,600	33,422
	897,505	625,316

12 Provision for impaired loans and advances

	2016 Shs'000	2015 Shs'000
Profit or loss:		
Provisions in the year	310,536	218,256
Bad debt recovery	(9,994)	(29,355)
	300,542	188,901
Statement of financial position:		
At start of year	776,077	622,130
Provisions in the year	310,536	218,257
Write - off in the year	(373,627)	(64,310)
Net provision	712,986	776,077
Suspended interest	311,262	139,600
At end of year	1,024,248	915,677

Suspended interest relates to unrecognised interest on non-performing loans. Interest income is not recognised for loans deemed non-performing.

Notes (Continued)

13 Taxation

	2016 Shs'000	2015 Shs'000
a) Statement of financial position:		
Current income tax:		
At start of year	90,367	(34,830)
Income tax expense	(30,969)	(162,829)
Paid during the year	44,779	288,026
At end of year	104,177	90,367
b) Profit or loss:		
Current income tax	30,969	162,829
Deferred income tax charge (Note 22)	2,875	(15,416)
	33,844	147,413
Reconciliation of tax expense to tax based on profit before income tax		
Profit before income tax	61,892	519,733
Tax at the applicable rate of 30%	18,568	155,920
Tax effect of expenses not deductible for tax	15,276	15,490
Under /(over) provision of deferred income tax in prior year	-	(23,997)
Tax charge for the year	33,844	147,413

14 Earnings per share

Earnings per share is calculated by dividing the profit attributable to equity holders of the bank by the weighted average number of ordinary shares in issue during the year.

	2016 Shs'000	2015 Shs'000
Profit for purposes of basic and diluted earnings per share (in Shs'000)	28,048	372,320
Number of shares		
Weighted average number of ordinary shares for purposes of basic and diluted earnings per share (in thousands)	2,940	2,334
Earnings per share - basic and diluted (Shs)	9.54	159.52

There were no potentially dilutive shares outstanding as at 31 December 2016 or 31 December 2015. Therefore, diluted earnings per share is the same as the basic earnings per share.

Notes (Continued)

15 Cash and balances with Central bank of Kenya

	2016 Shs'000	2015 Shs'000
Cash in hand	641,223	515,776
Balances with Central Bank of Kenya	1,574,820	954,029
	2,216,043	1,469,805

Cash balances at Central Bank does earn interest at floating rates based on daily deposit rates and are available for use by the bank. No balances have been pledged as security.

16 Deposits and balances due from banking institutions

	2016 Shs'000	2015 Shs'000
Maturing within 30 days of the reporting date:		
Local currency	40,694	445,220
Foreign currency	845,041	1,063,938
	885,735	1,509,158

The weighted average effective interest rate for deposits due from banking institutions as at 31 December 2016 was 10.27% (2015:10%).

17 Investments – held to maturity

	2016 Shs'000	2015 Shs'000
At amortised cost		
Treasury bills and bonds:		
- maturing within one year	965,858	530,498
- maturing after 1 year	1,557,139	1,831,416
	2,522,997	2,361,914

The movement in investments was as summarised below:

At start of year	2,361,914	1,868,105
Additions	1,298,080	1,830,166
Interest income (accrued)	53,147	49,398
Disposal of investments on maturity	(1,190,144)	(1,385,755)
At end of year	2,522,997	2,361,914

The weighted average effective interest rate for treasury investments as at 31 December 2016 was 11% (2015: 11.5%).

Notes (Continued)

18 Loans and advances to customers

		2016 Shs '000	2015 Shs '000
(a)	Term loans	13,572,828	12,315,168
	Overdrafts	885,992	1,119,896
	Gross loans and advances	14,458,820	13,435,064
	Provision for impaired loans and advances – (note 12)	(1,024,248)	(915,677)
		13,434,572	12,519,387
(b)	Analysis of gross loans and advances by maturity		
	Maturing within one year	4,095,155	2,793,043
	Between two and three years	5.002,934	3,651,547
	Over three years	5,360,731	6,990,474
		14,458,820	13,435,064

The aggregate amount of non-performing advances was Shs 2,458,729,344 (2015: Shs 1,607,629,842) against which specific provisions of Shs 605,556,576 (2015: Shs 658,375,417) have been made leaving a net balance of Shs 1,853,172,768 (2015: Shs 949,254,425) which is included in the statement of financial position in the loans and advances line item.

The weighted average effective interest rate on loans and advances as at 31 December 2016 was 14% (2015: 20%). The collateral held against these loans includes mortgages, motor vehicles, land and building, chattels, share certificates among other assets.

19 Other assets

	2016 Shs '000	2015 Shs '000
Prepaid expenses	152,551	99,627
Travel and other advances	1,827	4,094
Rent and utility deposits	43,745	18,442
Balances with Channel agents	35,197	12,543
Unpaid insurance claims	31,677	27,022
Other receivables	249,477	265,131
Placement with Chase Bank	300,000	-
Less : provision for impairment of Chase balances	(33,824)	-
	780,650	426,859

Other assets are non-interest bearing and are generally on 30-90 day terms. Other receivable includes deferred staff benefit derived from valuation of staff loans provided at below market rates of interest.

20 Property and equipment

Year ended 31 December 2016

	Freehold land and buildings Shs'000	Furniture and fittings Shs'000	Motor vehicles Shs'000	Office equipment and computers Shs'000	Renovations and refurbishment Shs'000	Total Shs'000
Cost or valuation						
At start of year	150,000	85,113	6,177	523,575	418,528	1,183,393
Additions	-	51,579	-	89,112	134,276	274,967
Disposals	-	(3,684)	-	(710)	-	(4,394)
At end of year	150,000	133,008	6,177	611,977	552,804	1,453,966
Depreciation						
At start of year	3,000	72,240	4,548	417,605	312,331	809,724
Charge for the year	3,000	6,163	996	65,010	36,064	111,234
Eliminated on disposal	-	(3,680)	-	(710)	-	(4,390)
At end of year	6,000	74,723	5,544	481,905	348,395	916,567
Net carrying amount At end of year	144,000	58,285	633	130,072	204,409	537,399

Year ended 31 December 2015

	Freehold land and buildings Shs'000	Furniture and fittings Shs'000	Motor vehicles Shs'000	Office equipment and computers Shs'000	Renovations and refurbishment Shs'000	Total Shs'000
Cost or valuation						
At start of year	150,000	80,692	6,177	422,101	406,305	1,065,275
Additions	-	4,421	-	101,474	12,223	118,118
At end of year	150,000	85,113	6,177	523,575	418,528	1,183,393
Depreciation						
At start of year	-	67,042	3,545	356,171	273,977	700,735
Charge for the year	3,000	5,198	1,003	61,434	38,354	108,989
At end of year	3,000	72,240	4,548	417,605	312,331	809,724
Net carrying amount At end of year	147,000	12,873	1,629	105,970	106,197	373,669

If the revalued freehold land and building were measured using the cost model, the carrying amounts would be as follows:

	2016 Shs'000	2015 Shs'000
Cost	77,151	77,151
Accumulated depreciation	(31,645)	(29,766)
At end of year	45,506	47,385

Notes (Continued)

21 Intangible assets

Computer software

	2016 Shs'000	2015 Shs'000
Cost		
At start of year	586,227	348,316
Additions	135,882	237,911
Written off	(175,668)	-
At end of year	546,441	586,227
Amortisation		
At start of year	290,894	241,850
Charge for the year	95,478	49,044
Written off	(175,668)	-
At end of year	210,704	290,894
Net carrying amount At end of year	335,737	295,333

22 Deferred income tax

The net deferred income tax asset computed at the enacted rate of 30% is attributable to the following:

	Balance at 01/01/2016 Shs '000	Profit or loss Shs '000	Other comprehensive income Shs '000	Balance at 31/12/2016 Shs '000
Property and equipment	(30,772)	691	-	(30,081)
General provisions	(29,292)	2,184	-	(27,108)
Net deferred income tax (asset) / liability	(60,064)	2,875	-	(57,189)

	Balance at 01/01/2015 Shs '000	Profit or loss Shs '000	Other comprehensive income Shs '000	Balance at 31/12/2015 Shs '000
Property and equipment	(41,853)	11,081	-	(30,772)
General provisions	(2,795)	(26,497)	-	(29,292)
Net deferred income tax (asset) / liability	(44,648)	(15,416)	-	(60,064)

Notes (Continued)

23 Customer deposits

	2016 Shs'000	2015 Shs'000
a)		
Call and fixed deposits	7,600,525	7,751,509
Current and demand accounts	2,400,728	2,846,618
Savings accounts - micro savers	2,982,990	2,327,996
- other	700,850	453,433
	13,685,093	13,379,556
Analysis of customer deposits by maturity:		
Payable within one year	13,300,745	11,243,529
Between one year and three years	384,348	2,136,027
	13,685,093	13,379,556
b) Deposit due to Banking Institutions	2,269,645	831,411

Included in 'Customer deposits' were deposits of Shs 1,119,786,026 (2015: Shs 1,565,572,181) that have been pledged to the Bank by the customers as securities for loans and advances.

The weighted average effective interest rate on interest bearing customer deposits for the year ended 31 December 2016 was 7% (2015: 8%). The deposits due to banking institutions relate to overnight borrowings from other commercial banks. The weighted average interest rate on the deposits for the year ended 31 December 2016 was 9% (2015: 10%).

24 Borrowings

	2016 Shs'000	2015 Shs'000
Terms loans:		
European Investment Bank	183,858	367,716
Oiko Credit	405,291	206,859
Government of Kenya – SME	-	67,548
	589,149	642,123

The borrowings are payable as follows:

	2016	2015
Payable within one year	589,149	271,541
Payable after one year- three years	-	370,582
	589,149	642,123

The movement in borrowings is a summarised below:

	2016	2015
At start of year	642,123	992,207
Additions	300,000	-
Payments	(407,938)	(434,933)
Interest income (accrued)	54,964	84,849
	589,149	642,123

The fair value of current borrowings equals their carrying amount, as the impact of discounting is not significant.

Notes (Continued)

24 Borrowings (continued)

The weighted average effective interest rate on the borrowings as at 31 December 2016 was 9.42% (2015: 8.58%). The borrowings are measured at amortised cost and are all unsecured.

The European Investment Bank (EIB) loan of Shs 220 million was received in October 2012 at a fixed rate of 9.35% p.a. The total loan amount signed with EIB is 7 million Euros denominated in local currency. The principal of the first tranche is payable semi-annually after a grace period of 1 year over a period of 5 years. The second tranche of Shs 564 million was received in June 2013 at a fixed rate of 9.19% p.a. The second tranche principal and interest are repayable semi-annually over a period of 5 years.

Oiko Credit loan of Shs 300 million was received on 22 September 2014. It accrued interest at a rate of 11.07% for the first six months. Thereafter, the net interest rate was reviewed by Oiko Credit and adjusted semi-annually based on the 182 day T bill rate plus a margin of 1.25%, subject to a minimum rate of 10% p.a. The interest rate is repayable semi-annually. The loan will be paid in 3 equal instalments of Shs 100 million after 12 months from the date of disbursement. The second tranche was received on 8th of December 2016. It will accrue interest at the rate of 10.84%, for the first six month, thereafter the interest will be reviewed by Oiko Credit. Interest is repayable semi-annually with 3 equal instalments of Shs100 million after the date of disbursement.

The Small and Medium Enterprises (SME) loan of Shs 250 million was received in June 2011. It is repayable in 4 annual instalments with a grace period of 1 year. The loan attracts an interest rate of 4%. The last principal instalment was paid in June 2016.

Financial covenants relating to the ratio of non-performing loans was not met as at 31 December 2016. The two lenders, EIB and Oiko, have not recalled the loans.

25 Other liabilities

	2016 Shs'000	2015 Shs'000
Bills payable	2,620	1,068
Loan insurance fund	13,788	3,607
Special project fund	156,172	191,107
Accrued expenses	97,048	100,055
Bank draft	23,125	22,960
Stale cheque	18,594	11,735
Statutory deductions	49,389	34,243
Investment payable to subsidiary	1,000	
Other payables	101,088	51,206
	462,824	415,981

Other liabilities are non-interest bearing and have a repayment period of between 30 and 60 days.

Notes (Continued)

26 Share capital

	2016 Shs'000	2015 Shs'000
Authorised share capital:		
4,000,000 ordinary shares of Shs 500 each	2,000,000	2,000,000

The Annual General Meeting held on 16 July 2015 approved injection of an additional Shs 1.7 billion by way of rights issue to shareholders. The Board ALCO committee approved allotment of 975,765 to shareholders. The request to take up the shares was forwarded to shareholders with a payment period of one year from the date of the AGM. 659,050 of these shares were taken up and paid for in 2015. In 2016 one shareholder took up his rights issue. As at 31 December 2016, the subscription received from him was 2,075, amounting to Shs 1,037,500 share capital and share premium of Shs 2,210,100.

Share capital	Number of shares (Thousands)	Ordinary shares Shs'000	Share premium Shs'000
Balance at 1 January 2015	2,279,225	1,139,612	
Issue of shares	659,050	329,525	703,865
Balance at 31 December 2015	2,938,275	1,469,137	703,865
Balance at 1 January 2016	2,938,275	1,469,137	703,865
Issue of shares	2,075	1,038	2,217
Balance at 31 December 2016	2,940,350	1,470,175	706,082

27 Retained earnings

	2016 Shs'000	2015 Shs'000
At start of year	1,582,617	1,197,733
Profit for the year	28,048	372,320
Transfer of excess depreciation	1.121	1,821
Deferred tax on transfer of excess depreciation	(336)	(546)
Transfer (from)/ to regulatory reserve	(2,304)	11,289
At end of year	1,609,146	1,582,617

28 Revaluation reserve

The revaluation reserve is used to record increases in the fair value of land and buildings.

Notes (Continued)

29 Regulatory reserve

	2016 Shs'000	2015 Shs'000
At start of year	12,528	23,817
Transfer to retained earnings	2,304	(11,289)
At end of year	14,832	12,528

Central Bank of Kenya prudential guidelines requires the Bank to make an appropriation to a regulatory reserve for unforeseeable risks and future losses.

The amount transferred is the excess of loan provision computed in accordance with the Central Bank of Kenya prudential guidelines over the provision for impairment of loans and advances computed in accordance with IAS 39, Financial Instruments: Recognition and Measurement. The regulatory reserve is not distributable.

30 a) Cash generated from operations

Reconciliation of profit before income tax to cash generated from operations:

	2016 Shs'000	2015 Shs'000
Profit before income tax	61,892	519,733
Adjustments for:		
Depreciation on property and equipment (Note 20)	111,234	108,989
Interest on borrowings	54,964	84,849
Accrued interest income on investments	(53,147)	(49,398)
Amortisation of intangible assets (Note 21)	95,478	49,044
Gain on Sale of assets	(822)	-
Operating profit before changes in operating assets and liabilities	269,599	713,217
Changes in operating assets and liabilities:		
Increase in loans and advances to customers	(915,185)	(2,065,673)
Increase in other assets	(354,791)	(131,716)
Increase in customer deposits	305,537	1,314,378
Increase in balances due to banking institutions	1,438,234	831,411
Increase in other liabilities	46,844	138,533
Cash generated from operations	790,238	800,150

b) Analysis of cash and cash equivalents as shown in the cash flow statement:

	2016 Shs'000	2015 Shs'000
Cash in hand (Note 15)	641,223	515,776
Balance with Central Bank of Kenya (Note 15)	1,574,820	954,029
Balances due from banking institutions (Note 16)	885,735	1,509,158
	3,101,778	2,978,963

Notes (Continued)

31 Contingent liabilities

	2016 Shs'000	2015 Shs'000
Letters of guarantees and performance bonds	896,748	345,324
Pending legal suits	28,832	25,904

In the ordinary course of business, the Bank conducts business involving letters of credit, performance bonds and guarantees. Letters of guarantee and performance bonds are issued by the Bank, on behalf of customers, to guarantee performance by a customer to third parties. The Bank holds cash collateral to the extent of the guarantee that is realised in the events of default by customers (Note 23).

Even though these obligations are not recognised on the statement of financial position, they contain credit risk and are part of the overall risk of the Bank (Note 4).

The Bank is a defendant in various legal suits. In the opinion of the Directors, after taking appropriate legal advice, the outcome of such suits are unlikely to result in any significant loss. The legal suits are claims against various issues including claims for general and specific damages, injunctions to stop the bank from selling the customers' pledged assets and suits challenging the bank's actions on customers' accounts.

32 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 operation decisions, or one other party controls both.

The Bank's parent is Bakki Holdco Limited and the ultimate parent is Centum Investment Company Limited, both incorporated in Kenya.

There are other companies which are related to the Bank through common shareholdings or common Directorships.

In the normal course of business, a number of banking transactions are entered into with related parties. These are staff, Directors, their associates and companies associated with Directors. They include loans, deposits and foreign currency transactions.

Included in customers' deposits and advances to customers at 31 December 2016 were the following related party balances:

Advances to customers:	2016 Shs'000	2016 Shs'000
Staff loans		
At start of year	475,063	517,617
Advanced during the year	240,873	69,459
Interest charged	55,794	31,201
Repayments	(454,997)	(143,214)
At end of year	316,733	475,063
Key management staff		
At start of year	-	5,016
Advances during the year	500	-
Interest charged	70	253
Repayments	(485)	(5,269)
At end of year	85	-

Notes (Continued)

32 Related party transactions (continued)

The loans to senior key management are personal loans, car loans and mortgages. All the loans are charged at an interest rate of 6%. Personal and car loans have a maximum period of 5 years and are secured by land and cars respectively. Mortgages have a maximum of 25 years. There are no provisions for bad debts on the balances.

Related companies	1 January 2016 Shs '000	Advances Shs '000	Interest Shs '000	Repayment Shs '000	31 December 2016 Shs '000
KWA Multipurpose Co-operative Society	10,980	18,000	4,057	(12,047)	20,990
Directors and their associates	31,220	504	4,441	(10,634)	25,530
Kings Beverage	30,473	-	4,266	(12,029)	22,710
Makao Mashinani	12,050	-	1,687	(4,347)	9,390
	84,723	18,504	14,451	(39,057)	78,620

	1 January 2015 Shs '000	Advances Shs '000	Interest Shs '000	Repayment Shs '000	31 December 2015 Shs '000
KWA Multipurpose Co-operative Society	28,777	-	5,677	(23,474)	10,980
Directors and their associates	7,002	25,450	6,080	(7,312)	31,220
Kings Beverage	20,964	14,187	7,970	(12,648)	30,473
Makao Mashinani	25,433	-	3,815	(17,198)	12,050
	82,176	39,637	23,542	(60,632)	84,723

No impairment losses have been recorded against balances outstanding during the year and no specific allowance has been made for impairment losses on balances at the year end. Advances to staff members are at an average interest rate of 6 percent whereas other advances are at commercial rates. The loans are running for an average period of 12 years (2015: 12 years).

Notes (Continued)

32 Related party transactions (continued)

Customer deposits	2016 Shs'000	2015 Shs'000
Makao Mashinani	17,381	19,137
K-Rep Development Agency	3,430	24,873
KWA Multipurpose Co-operative Society	3,882	1,184
K-Rep Group Limited	384	1,295
Two Rivers Development Company	94,693	1,106,571
Centum Investment Company Limited	822,105	1,580,746
Rift Valley Bottlers Limited	415,935	-
Kisii Bottlers Limited	104,304	-
Premier Kenya Limited	77,721	-
Longhorn Publishers Limited	18,379	-
Nabo Capital	2,388	-
Athena Properties	415	-
Platinum Credit Limited	251,747	-
Almasi Bottlers Limited	1,058,167	-
Mount Kenya Bottlers Limited	76,280	-
	2,947,211	2,733,806
Rental expenses:		
K-Rep Group Limited	8,823	8,021

Deposits received from related parties attract interest rates at bank's floating interest rates.

K-Rep Development Agency, Makao Mashinani and K-Rep Fedha Limited are related to the Bank by virtue of the significant influence and control exercised by their common holding company, K-Rep Group Limited. On the other hand, KWA Multipurpose Co-operative Society and Centum are shareholders of the Bank. Centum affiliate companies include, Two Rivers Limited, Almasi Bottlers Limited, Kisii Bottlers Limited, Mt Kenya Bottlers Limited, Rift Valley Bottlers Limited, Platinum Credit Limited, Premier Kenya Limited, Longhorn publishers Limited Nabo Capital, Athena Properties, and Kings Beverages Limited.

Key management personnel include all the Directors and Senior Management who are referred to as Heads of Department. The remuneration of Directors and other members of key management during the year were as follows:

Key management	2016 Shs'000	2015 Shs'000
Short term benefits	77,738	71,234
Termination benefits	3,668	6,087
Medical costs	6,330	4,123
	87,736	81,444
Directors' remuneration		
Fees for services as Directors – Non-executive	14,239	14,079
Termination benefits - Executive	2	3,513
Salary - Executive	20,402	27,640
	34,643	45,232

Notes (Continued)

32 Related party transactions (continued)

Subsidiary

In 2015, the Bank introduced a Banc assurance unit in the form of an agency. K-Rep Insurance Agency was incorporated on 13th February 2015 and commenced business in August 2015. Its results are summarized below.

		2016 Shs'000	2015 Shs'000
Agency			
Revenue		17,489	3,136
Expenses		(9,809)	(3,681)
Profit/(Loss) before tax		7,680	(545)
Profit/(Loss) after tax		7,680	(545)
Share capital			
K-rep Insurance Agency	100%	1,000	1,000

The subsidiary will be consolidated in the accounts of the ultimate holding company

33 Future rental commitments under operating leases

The future lease payments in respect of obligations under operating leases are as follows:

	2016 Shs'000	2015 Shs'000
Within one year	97,452	88,562
Between two and five years	245,253	289,333
After five years	84,511	58,288
	427,216	436,183

The Bank has entered into commercial property leases for its office space. These non-cancellable leases have remaining terms of between 3 and 10 years. All leases include a clause to enable upward revision of the rental charge on an annual basis according to prevailing market conditions.

34 Operating lease rentals

Operating lease rentals disclosed in note 10 relates to amounts paid out for rent for premises.

35 Capital commitments

Capital commitments relating to software contracted for at the statement of financial position date but not recognized are as follows:

	2016 Shs'000	2015 Shs'000
Authorised and contracted for	38,128	45,308

36 Assets pledged as security

No assets were pledged to secure any facilities (2015: Nil).

37 Events after the reporting date

No material events or circumstances have arisen between the accounting date and the date of this report.

Notes (Continued)

38 Shareholders of the bank

At 31 December 2016

	Shareholders	Number of shares	Percentage shareholding
1	Bakki Holdco Limited	2,144,497	72.93%
2	K-Rep Group Limited	501,430	17.05%
3	KWA Multi-Purpose Coop Limited	143,376	4.88%
4	Centum Investment Company Limited	53,984	1.84%
5	Kimanthi Mutua	21,040	0.72%
6	Sarah Godana	15,495	0.53%
7	Kabiru Kinyanjui	12,222	0.42%
8	Mwenda Thiribi	10,316	0.35%
9	Anthony Wainaina	8,887	0.30%
10	Francis Kihiko	8,871	0.30%
11	Bethuel Kiplangat	8,242	0.28%
12	Aleke Dondo	6,495	0.22%
13	Judith Behemuka	4,995	0.17%
14	Francis Kimunyu	500	0.02%
	Total	**2,940,350**	**100.00%**

Notes (Continued)

At 31 December 2015

	Shareholders	Number of shares	Percentage shareholding
1	Bakki Holdco Limited	2,144,497	72.98%
2	K-Rep Group Limited	501,430	17.07%
3	KWA Multi-Purpose Coop Limited	143,376	4.88%
4	Centum Investment Company Limited	53,984	1.84%
5	Kimanthi Mutua	21,040	0.72%
6	Sarah Godana	15,495	0.53%
7	Kabiru Kinyanjui	12,222	0.42%
8	Anthony Wainaina	8,887	0.30%
9	Francis Kihiko	8,871	0.30%
10	Bethuel Kiplangat	8,242	0.28%
11	Mwenda Thiribi	8,241	0.28%
12	Aleke Dondo	6,495	0.22%
13	Judith Behemuka	4,995	0.17%
14	Francis Kimunyu	500	0.02%
	Total	**2,938,275**	**100.00%**

NOTICE OF ANNUAL GENERAL MEETING

Notice is hereby given that the 17th Annual General Meeting of Sidian Bank Limited will be held on July 14th 2017, at The Capital Club, Sixth Floor, Kilimanjaro Meeting Room, Westlands, from 3.00 P.M.

Agenda

1. To read the Notice convening the meeting.
2. To confirm the minutes of the previous AGM held on July 15th 2016.
3. To receive and consider the audited Financial Statements for the year ended December 31st 2016.
4. To approve nil dividend payment for the year ended December 31st 2016.
5. To note the appointment or removal of directors or company secretary, if any, pursuant to the provisions of Article 77 of the Company's Articles of Association.
6. To authorize the Board to fix the remuneration of directors.
7. To reappoint M/S PricewaterhouseCoopers as auditors, who have expressed their willingness to continue as auditors until the conclusion of the next AGM and to authorize the directors to fix their remuneration.
8. To transact the following business and considering, if deemed fit, passing of the following resolutions which will be proposed as a special resolution;
   a). To note the final allotment of rights shares and forfeiture thereof.
9. To transact any other business of which due notice has been forwarded to the Chairman.
10. The secretary be mandated to file the necessary returns.

By order of the Board

Daisy Ajima
Secretary

Amended at Nairobi this 31st day of March 2017.

Notes:

1. A member entitled to attend and vote at the above meeting and any adjourned meeting thereof is entitled to appoint one or more proxies to attend and vote on his stead. Such proxy need not be a member.
2. A proxy form is available at: -
   a) The Bank's Head Office K-rep Centre, 7th Floor Wood Avenue Kilimani Nairobi or
   b) The Bank's website www.sidianbank.co.ke
3. Shareholders who will not be able to attend the Annual General Meeting are requested to complete and return the proxy form through;
   a) Hand delivery to the Registered Office of the Bank or
   b) Post office mail addressed to ''The office of the Company Secretary, Sidian Bank Ltd, P.O. Box 25363-00603 Nairobi'' or
   c) Email a scanned proxy in PDF format to: dajima@sidianbank.co.ke
4. Proxy forms must be received by the Company not later than 10.00 am on Friday 7th July 2017.

PROXY FORM

I..of...being a member of the Sidian Bank Limited hereby appoint ....of...
.... as my proxy to vote for me on my behalf at the Annual General Meeting of the Company to be held on________________________________2017 and at any adjournment thereof.

Provided that if the above mentioned fail to make an appearance the Chairman of the Meeting of the Company may act as my proxy to vote for me on my behalf at the Annual General Meeting of the Company to be held on ____________ 2017 and at any adjournment thereof.

Signed/Sealed this .... day of 2017

Important Notes:

i) If you are unable to attend this meeting personally, this form of proxy should be completed and returned to: The Company Secretary, Sidian Bank Limited P.O. Box 25363-00603 Nairobi to reach not later than 48 hours before the time appointed for holding the meeting or at any adjourned meeting thereof.

ii) Any person appointed to act as a proxy need not be a member of the Company.

iii) If the appointer is a corporation, the form of proxy must be under seal, witnessed by two directors or one director and the Company Secretary or under the hand of any officer or attorney duly authorised in writing.

Branch Network

HEAD OFFICE
K-Rep Centre, Wood Avenue, Kilimani
P O Box 25363 – 00603, Nairobi
Landline: 254 020 3906000/1-7;
Mobile: 0711058000/1-30

NAIROBI REGION

NAIVASHA ROAD BRANCH - RIRUTA
Opp. Precious Blood Secondary School
P.O. Box 25363-00603 – Nairobi
Mobile: 0724-253352
Landline: 050-2020590/1/2/3

MOI AVENUE BRANCH, NAIROBI
Guilders Building,
Opposite Ebrahim's Supermarket
P.O. Box 49248-00100, Nairobi
Mobile: 0728-970613 / 0750-555163

KENYATTA AVENUE BRANCH, NAIROBI
Standard Building
Kenyatta Avenue, Nairobi
P O Box 4890-00200, Nairobi
Mobile: 0722-205905 / 0755058202

BURUBURU BRANCH
Vision Plaza, First Floor,
Buruburu between Tuskys and
Uchumi Supermarkets
P.O. Box 853-00515, Buruburu
Mobile: 0755-058205, 0750-555028

KENYATTA MARKET BRANCH
Ajit Chambers, Mtongwe Road
Off Mbagathi Road
P.O. Box 25363-00603, Lavington
Mobile: 0725-049700 / 0750555057

KILIMANI BRANCH
K-Rep Centre, Wood Avenue, Kilimani
P.O. Box 25363-00603, Lavington
Mobile: 0711-058000/1-7 /
0732-158000/1-7
Landline: 390000/1-7

KANGEMI BRANCH
Palace Building - Kangemi
Opposite Naks Supermarket
Next to Co-operative Bank
P.O. Box 25363-00603, Nairobi
Mobile: 0755-058119 / 0715428107

MLOLONGO BRANCH
Merchant Shopping Arcade
P.O. Box 239-00519, Mlolongo
Mobile: 0705-411995 /
0750-555042/6/8

RONGAI BRANCH
Honeymoon Building
Magadi Road, next to
Tuskys Supermarket
P.O. Box 185 Rongai
Mobile: 0755-058253/4

SAMEER PARK BRANCH
Sameer Park, Along Mombasa road
P.O. Box 25363-00603, Nairobi
Mobile: 0711058906

TWO RIVERS BRANCH
Two Rivers Shopping Mall,
Kiambu Road
P.O. Box 25363-00603, Nairobi
Mobile: 0711058665

RIVER ROAD, BRANCH
County Park Hotel Building
Kamae Road, Off Luthuli Avenue
P.O. Box 25363-00603, Nairobi
Mobile: 0711058904

RIFT VALLEY

NAKURU BRANCH
Belpar House,
Kenyatta Avenue, Nakuru
P.O. Box 15222, Nakuru
Mobile: 0755-058103
Landline: 51-2216211

ELDORET BRANCH
Kirem Arcade, Nairobi Road
P.O. Box 1362, Eldoret
Mobile: 0724-253360 / 0733-600109
Landline: 053-20-60539 / 20-62835

NAIVASHA BRANCH
Naivasha Town, Moi Road
Penibrah House, next to
Total Petrol Station
P.O. Box 558, Naivasha
Mobile: 0755-058121/221
Landline: 050-2020590/1/2/3

KERICHO BRANCH
Kuriot House Moi Highway
Opposite Police Station, next
to Shell Petrol Station
P.O. Box 1455-20200 Kericho
Mobile: 0728-951772
Landline: 052-21409

KAJIADO BRANCH
Kajiado Township, Market Road
P.O. Box 377, Kajiado
Mobile: 0724-255190 / 0734-312891
Landline: 045-21205 / 21406

EASTERN

MACHAKOS BRANCH
Mbolu Malu Road, off Syokimau Road
P.O. Box 1932-90100, Machakos
Mobile: 0734-634444

KITUI BRANCH
Mututo Plaza, Kilungya Street
P.O. Box 408, Kitui
Mobile: 0755-058216 / 0750-555077

EMALI BRANCH
Next to Post Bank
Nairobi/Mombasa Highway
Mobile: 0755-058120 / 0755-058220 /
0714-779941

KIBWEZI BRANCH
Manna House, opp. Post Office
P.O. Box 390, Kibwezi
Mobile: 0755058126 / 0755058226

MOUNT KENYA

NYAHURURU BRANCH
Kenyatta Road
P.O. Box 1098, Nyahururu
Mobile: 0724-253346
Landline: 065-2022285

NYERI BRANCH
Caledonia House, Nyeri
Next to Telcom Kenya
P.O. Box 870, Nyeri
Mobile: 0755 058104/204

KERUGOYA BRANCH
Kerugoya Kagumo Road,
Opp. Total Petrol Station
P.O. Box 1041-10300, Kerugoya
Mobile: 0755-058112
Landline: 060-021601 / 060 21453

ISIOLO BRANCH
Ibada Plaza Building
Isiolo Town, along Isiolo Marsabit Road
P.O. Box 188, Isiolo
Mobile: 0755058223/123

EMBU BRANCH
Mumaka Building, Embu
Kiritiri Road, Opp. Uchumi
Supermarket
P.O. Box 1167, Embu
Mobile: 0755058206/
0750555029/0750555 030
Landline: 068-30587/31014/5/6

THIKA BRANCH
Nellion Plaza
Harry Thuku Road, off Uhuru Highway
P.O. Box 6043-0100, Thika
Mobile: 0711058211/111

NKUBU BRANCH
Nkubu Centre, along Embu/Meru Road
P.O. Box 3066, Meru
Mobile: 0755-058129
Landline: 064-5051275

MERU BRANCH
Ghana Road, Opp. Uchumi
Supermarket
P.O. Box 3066 - 60200, Meru
Mobile: 0755-058124 / 0750-555120 /
0755-058224

CHUKA BRANCH
Captain House,
Meru/Nairobi Highway
P.O. Box 2544-60400, Chuka
Mobile: 0755-058115
Landline: 064-630302

MWEA BRANCH
Nairobi Meru Highway
Opposite Merica Petrol Station
P.O. Box 352, Wanguru
Mobile: 0710-642764/0735-600264

NANYUKI BRANCH
Lumumba Road
P.O. Box 1359, Nanyuki
Mobile: 0711-311929/0733-401077
Landline: 062-31902 /6 /38104

NYANZA

KISII BRANCH
Ouru Superstore House
P.O. Box 4110, Kisii
Mobile: 0728-970737 / 0733-590057
Landline: 058-31506 / 31456 / 9 / 61

KISUMU BRANCH
Imperial Express Hotel,
Oginga Odinga Road
P.O. Box 3558 - 40100, Kisumu
Mobile: 0755058108 / 0755058208
Landline: 057-2026083/5

WESTERN

BUSIA BRANCH
Tesla Plaza
P.O. Box 649 Bungoma
Mobile: 0755-058131
Landline: 055-22193

BUNGOMA BRANCH
Moi Avenue, Opposite KCB
P.O. Box 288, Bungoma
Mobile: 0755058127/227
Landline: 055-30032 / 30822 / 30108

KITALE BRANCH
Ndege House
Kenyatta Avenue
P.O. Box 314-30200 Kitale
Mobile: 0755058125/225

COAST

KENGELENI BRANCH
Kongowea Market, Mombasa
P.O. Box 95615-80106, Mombasa
Mobile: 0724-995959 / 0755-058235,
0755058134 / 0750555173

MTWAPA BRANCH
Malindi Road – North Coast
Next to Safaricom, Ground floor
P.O. Box 513-80109, Mtwapa
Mobile: 0724-257109
Landline: 041-5480348

MOI AVENUE BRANCH – MOMBASA
Austin House, Moi Avenue Mombasa
P.O. Box 90297-80100, Mombasa
Mobile: 0755058201, 0721-786446 /
0733-717202