GUARDIAN BANK LIMITED

ANNUAL REPORT 2019

REGISTERED OFFICE/HEAD OFFICE
Guardian Centre
Biashara Street
PO Box 67437 – 00100 GPO

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GUARDIAN BANK LIMITED
DIRECTORS AND STATUTORY INFORMATION

DIRECTORS

Dr. Maganlal M Chandaria*	Chairman
Mr. Vasant K Shetty	Managing Director
Mr. Hetul D. Chandaria	Executive Director
Mr. Bhavnish Chandaria	Non-Executive Director
Mr. Rajeshwar Sahi*	Independent Non-Executive Director
Mr. Shantilal R. Shah	Independent Non-Executive Director
Dr. Samson Ndegwa	Independent Non-Executive Director
Mr. Ajay Shah	Independent Non-Executive Director
Brig. (Rtd) Wilson A.C.Boinett	Independent Non-Executive Director

* British

SECRETARY
Jophece Yogo
PO Box 69952 – 00400
Nairobi

AUDITOR
KPMG Kenya
Certified Public Accountants
8th Floor, ABC Towers
Waiyaki Way
PO Box 40612 – 00100 GPO
Nairobi

REGISTERED OFFICE/
HEAD OFFICE
Guardian Centre
Biashara Street
PO Box 67437 – 00100 GPO
Nairobi

BRANCHES

Biashara Street
Guardian Centre
PO Box 67437 – 00200
Nairobi

Ngong Road Branch
The Green House
PO Box 9822 – 00200
Nairobi

Westlands Branch
Brick Court House
Mpaka Road
PO Box 66568 – 00800
Mombasa

Nyali Branch
Links Plaza
PO Box 34375 – 80118
Nyali

Mombasa Road Branch
Tulip House
PO Box 42060 – 00100
Nairobi

Nakuru Branch
Parana House
Kenyatta Avenue
PO Box 18633–20100
Nakuru

Mombasa Branch
Oriental Building
Nkurumah Road
PO Box 40619 – 80100
Mombasa

Eldoret Branch
Beharilal House
Uganda Road
PO Box 7685 – 30100
Eldoret

Kisumu Branch
Amalo Plaza
Oginga Odinga Road
Central Square
PO Box 2816 – 40100
Kisumu

LAWYERS
Ochieng', Onyango, Kibet & Ohaga Advocates
Mukiri Global Advocates
Bowman's (Coulson Harney Advocates)
AB Patel & Patel Advocates
Nyairo & Co Advocates
Kiruti & Co Advocates
LG Menezes Advocates
Ogolla Okello & Company Advocates
Oyatta & Associates Advocates
Iseme Kamau & Maema Advocates
Kabiru & Company Advocates
Anjarwalla & Khanna Advocates
Taibjee & Bhalla Advocates
LJA Associates Advocates
Hamilton, Harrison & Mathews
CMS Daly Inamdar Advocates

CORRESPONDENT BANKS
Crown Agents Bank
BMCE Bank International
DCB Bank, Mumbai (India)
Standard Bank of South Africa Ltd
Bank of China –South Africa
HDFC Bank Ltd, (India)
Bank of India, Nairobi
KCB Bank Kenya Ltd, Nairobi

Chairman's Report

I have the pleasure in presenting the Annual Report and the Financial Statements of the bank for the financial year ending 31st December 2019.

The year 2019 had serious challenges in the banking industry. The impact of the 'interest capping' remained during major part of the year. The interest capping was repealed in November 2019. However, banks are required to continue to charge interest in respect of advances sanctioned prior to removal of capping as per the existing terms. This has impacted interest income of banks substantially.

In spite of adverse economic conditions, Guardian Bank has performed reasonably well during the year. Some business sectors, have suffered heavily. Bank has been very cautious while lending to these sectors which has adversely affected the business growth of the bank.

Guardian Bank has been awarded with *"Best Commercial Bank in Kenya – 2019" by* International Bank which is part of 'Finance Publishing' based in UK. International banker has an established readership of senior decision makers around the world; CEOs, CIOs, Tax Executives, Institutional Investors, and Government Treasury Departments. The Banking Awards are established to identify the leading organisations within the industry across the globe that represent the benchmark of achievement, corporate governance, technological development and customer services, that help to drive economic growth in the countries that they operate. Banking Awards distinguish those that have excelled in providing an unparalleled service to their clients whilst also continuously maintaining a high level of regulatory compliance. The Banking Awards are open to all banking institutions regardless of size, market cap, number of employees etc.; the sole intentions of the awards are to highlight the best Banks globally. The nomination to the award is made by the readers of the magazine. We are proud of this achievement which was possible with the continued support And patronage of all our customers/well-wishers.

The gross deposit of the bank stood almost at the same level of previous year i.e. Kshs. 13.066 bn. With the reduced demand for advances, Bank has been holding substantial liquidity and bank has not been aggressive in mobilizing large deposit. The net advances of the bank stood at Kshs. 9.102 bn. The credit portfolio of the bank has been well managed with 86.95% of total advances were under 'normal' category. The gross non performing advances of the bank stood at Kshs. 944.211 bn. as against Kshs. 960.439 bn. during the previous year. Bank has been strictly adhering the statutory guidelines in classification of borrowal accounts. The Net non-performing advances of the bank stood at Kshs 154.557 mn. which is just 1.7% of the net advances. The non-performing assets of the bank are well secured by adequate security.

The liquidity of the bank was well managed. Bank was holding average liquidity at 47.00% during the year as against the statutory requirements of 20.0% The surplus funds were largely invested in government bills and bonds.

The gross profit of the bank stood at Kshs. 274.446 mn. as at 31st December 2019 and the net profit stood at Kshs. 183.658 mn. upon providing towards provision for advances and taxation. The core capital of the bank stood at Kshs. 2.740 bn. as against the statutory requirements of Kshs. 1.00 bn. Bank is strictly adhering to the statutory regulations in regard to various ratios.

The performance of the bank on other segments of operation has been very satisfactory. Board has put in place strong 'Corporate Governance' structure. Various Board member Committees and Management Committees have been formed to look into the specific segments. The committee meets regularly and the minutes of such meetings are placed before

the board for information. Bank is fully compliant of various statutory regulations and also the internal Board approved Policy documents. Strict control is put in place while opening the new accounts and monitoring the operations.

The board of directors of the bank consists of two Executive Directors, two Non-Executive Directors and five Independent Non-Executive Directors. The constitution of board members is within the stipulated guidelines of Central Bank of Kenya. Various Board members committees have been formed with specific duties and responsibilities. All the Committees are chaired by Independent Non-Executive Directors as per the CBK guidelines.

The day-to-day affairs of the Bank is managed by qualified, well experienced and dynamic professionals. Bank has dedicated work-force. Bank has put in place various board approved policy documents and working guidelines. These documents are available to the staff members through a dedicated "Intra-net' facility.

The policy of "Customer is the King" is adopted across the branches and Head Office and the customer service is of a very high standard. 'Customer Service Committees' have been formed at every branch. The committee meets every month and the meetings are attended by few of the customers by invitation. The comments/suggestions made by the customers during such meetings are adopted, where feasible.

Board Members have been actively participating in the Board Meetings and the meetings of the Board Committee and extending their valuable suggestions for the improvement of the bank. I sincerely appreciate the contribution by the board members. I wish to place on record my appreciation of the services of Bank's statutory auditors, Messrs. KPMG, Kenya for completing the annual audit of the bank well in time and their valuable suggestions.

On behalf of the members of the board and myself, I sincerely thank the Governor of Central Bank of Kenya and the Ministry of Finance and other statutory authorities for their co-operation and guidance from time to time.

Guardian Bank has a truly dedicated team who truly operate as – "Guardian Family". I thank every member of the staff for their dedication, team-work and loyalty. I am confident, each of the member of guardian family will continue to strive hard and build the image of the bank as a leading 'friendly bank' in the industry.

With very warm regards.

Dr. M. M. Chandaria {OGW}
Chairman

GUARDIAN BANK LIMITED
STATEMENT OF CORPORATE GOVERNANCE

Board/Management Committees

Tabulated below are Board/Management Committees, their composition and membership, functions and the frequency of meetings

	Credit Committee	**Audit Committee**	**Risk Management Committee**	**Strategy Committee**	**Human Resource Committee**	**Assets & Liabilities Management Committee**	**Business Continuity Management Committee (BCM):**
Composition	Non-Executive Directors, Managing Director Executive director	Non-Executive Directors.	Non-Executive Directors and Managing Director Executive Director	Executive Director, Managing Director, Chief Executive officer, Senior Management	Managing Director, Executive Director, Chief Executive officer, Senior Management	Managing Director, Executive Director, Chief Executive officer & Senior Management	Senior Management
Chairman	Dr. Shantilal R. Shah	Dr. Samson Ndegwa	Mr. Raj Sahi	Mr. Hetul D. Chandaria	Mr. Vasant K. Shetty	Mr. Vasant K. Shetty	Mr. K R. Sahasranaman
Members	Dr. Maganlal M. Chandaria Mr.Vasant K. Shetty Mr.Hetul D. Chandaria Mr. Ajay Shah	Dr. Shantilal R. Shah Mr. Ajay Shah Mr. Bhavnish Chandaria Brig. Rtd Wilson Boinett	Brig (Rtd) Wilson A.C.Boinett Mr.Vasant K. Shetty Mr.Hetul Chandaria Mr. Bhavnish Chandaria	Mr. Vasant K. Shetty Mr. N. Sabesan Mr. K R. Sahasranaman Mr. Joseph Wachira Ms. Shilpa Shah Mrs Lorraine Miranda Mr. Raj Sehmi Ms. Bharti Patel Ms. Jabin Ahmed Ms. Zohreen Jeraj Ms. Lily Muriuki	Mr. Hetul Chandaria Mr. N. Sabesan Mr. Sahasranaman Ms. Lorraine Miranda Mr. Joseph Wachira	Mr.Hetul Chandaria Mr. N. Sabesan Mr. K R. Sahasranaman Mr. N.P. Thaker Mrs Lorraine Miranda Mr. K. Solanki	Mrs Lorraine Miranda Mr. N.P. Thaker Ms. Grace Nyende Ms. Shilpa Shah Mr. Joseph Wachira

Board/Management Committees – continued

	Credit Committee	Audit Committee	Risk Management Committee	Strategy Committee	Human Resource Committee	Assets & Liabilities Management Committee	Business Continuity Management Committee (BCM):
Main Functions	Review and oversee the lending policy of the bank, sanctioning new/review credit proposals within the delegated authority, evaluate / review bank's risk under Credit Risk Management	To ensure that the financial statements are prepared in timely and accurate manner, review internal controls, review the management report of external auditors, comply with CBK inspection report, approve annual audit plan, and review internal audit report.	Review/Implementation of Risk Management Framework - Review/Monitor and deliberation on risk mitigation approach. -Enhance overall risk awareness and control.	Drawing short term/long term business strategy of the bank, preparation of annual business budget, monitoring the Performance of the branches vis-à-vis the target, marketing/ publicity, branch expansions.	Selection / recruitment, promotions, performance review, disciplinary issues, staff training, staff welfare, preparation/updating of HR Policy of the bank.	Compliance with the legal and regulatory requirements, monitoring the liquidity of the bank, take investment decision, fix rate of interest on deposit/bank's lending Rate, evaluate / review liquidity risk management, interest rate risk management price risk management.	"BCM Team" is responsible for Protecting the interest of stake holders and meeting CBK compliance/legal requirements, Developing disaster mitigation and resumption strategies for various business process, Allocate resources for Disaster Recovery centre - Creating awareness amongst staff about the Disaster Recover Management, - Facilitating creation and updating of Business Continuity Policy,
Frequency of Meetings	**Quarterly**	**Quarterly**	**Quarterly**	**Quarterly**	**Quarterly**	**Monthly**	**Quarterly**

Board Meetings Attendance

Names	27.02.19	21.06.19	09.09.19	26.11.19	%Attendance
Maganlal M. Chandaria	X	X	X	X	100%
Vasant K. Shetty	X	X	X	X	100%
Hetul Chandaria	X	X	X	X	100%
Rajeshwar Sahi	X	X	X	X	100%
Shantilal R. Shah	X	X	-	X	75%
Ajay Shah	X	X	X	-	75%
Samson Ndegwa	X	X	X	X	100%
Bhavnish D. Chandaria	X	X	X	X	100%
Brig(Rtd) Wilson A.C.Boinett	X	X	-	X	75%

X Present
-   Absent

Evaluation of the Board of Directors

An annual evaluation of the Board of Directors was undertaken in 2019 and every other year, as required by the Central Bank of Kenya.

The directors have pleasure in submitting their report together with the audited financial statements for the year ended 31 December 2019 which disclose the state of affairs of the Group and the Company, in accordance with Section 22 of the Banking Act and the Kenyan Companies Act, 2015.

1. Activities

The company is licensed to operate as a bank under the Banking Act.

2. Results

The results for the year are set out on page 14.

3. Dividend

The directors do not recommend the payment of a dividend (2018 – Nil).

4. Directors

The directors who served during the year and up to the date of this report are set out on page 3.

During the year 2019, there were 4 (2018 – 4) scheduled board meetings and the attendance by the directors is as tabulated on page 8.

Evaluation of board of directors was suitably carried out as required by Central Bank of Kenya regulations.

5. Business overview

Performance

Despite various challenges and uncertainties, more particularly confidence crisis in the banking industry, which has led to movement of large volume of deposits from the private sector banks to bigger banks, Guardian Bank has performed fairly well.

The Group and Company adopted International Financial Reporting Standard (IFRS) 9, financial instruments effective 1 January 2018. Accordingly, the current year 2019 results on classification, measurement and impairment of financial instruments are based on IFRS 9, same as previous year, and therefore, all amounts related to the financial instruments herein and related ratios are comparable. The main impact under IFRS 9 is related to impairment provisions on loans and advances. The provision for impairment on performing loans and advances is stages 1 and 2 under IFRS 9, while impairment provision for credit losses on impaired loans and advances is stage 3.

Risk management

The Group and Company has managed the risk associated with various segments fairly well by maintaining various business ratios above the statutory requirements. The Group and Company is committed to maintain a sustainable business growth and focus strongly on exemplary operational risk management and the concept of zero tolerance towards regulatory breaches. The Group and Company's approach to risk management, including financial risk management objectives and policies and information on its exposure to credit, liquidity, market and operational risk, is discussed in Note 4 of the financial statements.

Post balance events

There have been no significant events between the year end and the date of approval of these financial statements which would require a change to or disclosure in the financial statements.

Future outlook

The year 2020 is expected to be a tough year globally. There will be a range of uncertainties in the external environment. The Group and Company will continue to deliver on its strategic agenda and live up to the expectations of the various stakeholders, its customers, staff, investors, regulators and the society.

6. Relevant audit information

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

(i) There is no relevant audit information of which the Group and Company's auditor is unaware; and
(ii) Each director has taken all the steps that they ought to have taken as a director so as to be aware of any relevant audit information and to establish that the Group and Company's auditor is aware of that information.

7. Auditor

The auditor, KPMG Kenya, continues in office in accordance with Section 719 of the Kenyan Companies Act, 2015 and subject to Section 24 of the Banking Act (Cap. 488).

8. Approval of financial statements

The financial statements were approved and authorised for issue by the Board of Directors on 10th March 2020.

BY ORDER OF THE BOARD

Jophece Yogo
Company Secretary

Date: 10th March 2020

GUARDIAN BANK LIMITED

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The Directors are responsible for the preparation and presentation of the consolidated and separate financial statements of Guardian Bank Limited set out on pages 14 to 93 which comprise the statements of financial position of the Consolidated and the Company at 31 December 2019, the Consolidated and Company statements of profit and loss and other comprehensive income, the Consolidated and Company statements of changes in equity and the Consolidated and Company statements of cash flows for the year then ended, and the notes to the financial statements, including a summary of significant accounting policies and other explanatory information.

The Directors' responsibilities include: determining that the basis of accounting described in Note 2 is an acceptable basis for preparing and presenting the financial statements in the circumstances, preparation and presentation of financial statements in accordance with International Financial Reporting Standards and in the manner required by the 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 misstatements, whether due to fraud or error.

Under the Kenyan Companies Act, 2015 the Directors are required to prepare financial statements for each financial year which give a true and fair view of the financial position of the Group and the Company as at the end of the financial year and of the profit or loss of the Group and the Company for that year. It also requires the Directors to ensure the Group and Company keeps proper accounting records which disclose with reasonable accuracy the financial position of the Group and the Company.

The Directors accept responsibility for the annual financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgements and estimates, in conformity with International Financial Reporting Standards and in the manner required by the Kenyan Companies Act, 2015. The Directors are of the opinion that the consolidated and separate financial statements give a true and fair view of the financial position of the Group and the Company and of its profit or loss.

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

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

Approval of the financial statements

The financial statements, as indicated above, were approved and authorised for issue by the Board of Directors on 10th March 2020.

______________________	______________________
Vasant K Shetty *Director*	Hetul D. Chandaria *Director*

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Jophece Yogo
Group and Company Secretar

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF GUARDIAN BANK LIMITED

Report on the audit of the consolidated and separate financial statements

Opinion

We have audited the consolidated and separate financial statements of Guardian Bank Limited ("the Group and Company") set out on pages 14 to 93 which comprise the consolidated and company statements of financial position as at 31 December 2019, consolidated and company statement of profit and loss and other comprehensive income, consolidated and company statements of changes in equity and consolidated and company statements of cash flows, for the year then ended, and notes to the financial statements, including a summary of significant accounting policies and other explanatory information.

In our opinion, the accompanying consolidated and separate financial statements give a true and fair view of the consolidated and separate financial position of Guardian Bank Limited as at 31 December 2019, and of its consolidated and separate financial performance and its consolidated and separate cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs) and the Kenyan Companies Act, 2015.

Basis for opinion

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

Other information

The Directors are responsible for the other information. The other information obtained at the date of this auditor's report is the *Directors and statutory information, Statement of corporate governance, Report of the directors and Statement of directors' responsibilities,* but does not include the consolidated and separate financial statements and our auditor's report thereon.

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

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

If, based on the work we have performed on the other information obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of directors for the consolidated and separate financial statements

As stated on page 11, the directors are responsible for the preparation and fair presentation of these consolidated and separate financial statements in accordance with International Financial Reporting Standards (IFRSs) and in the manner required by the Kenyan Companies Act, 2015 and for such internal control as the Directors determine is necessary to enable the preparation of consolidated and separate financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's responsibilities for the audit of the consolidated and separate financial statements

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

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

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

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

Report on other legal and regulatory requirements

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

(a) In our opinion, the information given in the report of the directors on pages 9 and 10 is consistent with the consolidated and separate financial statements;
(b) Our report on the consolidated and separate financial statements is unqualified.

The signing Partner responsible for the audit resulting in this independent auditor's report is CPA Alexander Mbai – P/2172.

KPMG Kenya
Certified Public Accountants
PO Box 40612 – 00100
Nairobi, Kenya

Date: 17th March 2020

GUARDIAN BANK LIMITED

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2019

	Note	2019 KShs '000'	2018 KShs '000'
Interest income	5	1,625,107	1,781,214
Interest expense	6	(869,976)	(866,416)
Net interest income		**755,131**	**914,798**
Net fee and commission income	**7**	**108,447**	**102,039**
Net trading income	8	41,591	28,637
Other revenue	9	29,129	19,175
		70,720	**47,812**
Revenue		**934,298**	**1,064,649**
Net impairment losses on financial assets	4(a)	(23,897)	(49,500)
Personnel expenses	10(a)	(388,942)	(373,669)
Depreciation	11	(22,837)	(28,770)
Amortisation of intangible assets	11	(1,461)	(1,740)
Depreciation of right of use assets	32(a)	(38,105)	(7,999)
Other operating expenses	10(b)	(208,507)	(254,926)
Profit before tax	**11**	**250,549**	**348,045**
Income tax expense	12(a)	(66,891)	(122,477)
Profit for the year		**183,658**	**225,568**
Other comprehensive income			
Other comprehensive income, net of tax		**-**	**-**
Total comprehensive income		**183,658**	**225,568**
Basic earnings per share	**13**	**KShs 8.16**	**KShs 10.02**

The notes set out on pages 22 to 93 are an integral part of these financial statements.

GUARDIAN BANK LIMITED

COMPANY STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2019

	Note	2019 KShs '000'	2018 KShs '000'
Interest income	5	1,625,107	1,781,214
Interest expense	6	(869,976)	(866,416)
Net interest income		**755,131**	**914,798**
Net fee and commission income	7	**108,447**	**102,039**
Net trading income	8	41,591	28,637
Other revenue	9	29,129	19,175
		70,720	**47,812**
Revenue		**934,298**	**1,064,649**
Net impairment losses on financial assets	4(a)	(23,897)	(49,500)
Personnel expenses	10(a)	(388,942)	(373,669)
Depreciation	11	(22,837)	(28,770)
Amortisation of intangible assets	11	(1,461)	(1,740)
Depreciation on right of use assets	32(a)	(38,105)	(7,999)
Other operating expenses	10(b)	(208,507)	(254,926)
Profit before tax	**11**	**250,549**	**348,045**
Income tax expense	12(c)	(66,891)	(122,477)
Profit for the year		**183,658**	**225,568**
Other comprehensive income			
Other comprehensive income, net of tax		-	-
Total comprehensive income		**183,658**	**225,568**

The notes set out on pages 22 to 93 are an integral part of these financial statements.

GUARDIAN BANK LIMITED

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2019

	Note	2019 KShs '000	2018 KShs '000
Assets			
Cash and balances with Central Bank of Kenya	14	1,574,039	1,397,485
Placements with other banks	15	702,625	814,791
Investments in Government securities	16	3,951,029	4,255,794
Other investments	17	5,067	-
Loans and advances to customers (net)	18(a)	9,102,560	9,028,027
Other assets	19	298,939	243,630
Property and equipment	21	62,727	73,820
Right of use assets	32(a)	504,492	234,076
Intangible assets	22	3,824	1,740
Tax recoverable	12(b)	50,620	-
Deferred tax assets	23	130,528	136,600
Total assets		**16,386,450**	**16,185,963**
Liabilities			
Customers deposits	24	13,066,893	13,333,471
Tax payable	12(b)	-	19,842
Lease liabilities	32(b)	296,635	-
Other liabilities	25	210,045	202,384
Provisions	26(b)	72,067	73,114
Total liabilities		**13,645,640**	**13,628,811**
Equity (Page 15)			
Share capital	27(a)	450,375	450,375
Statutory credit risk reserve	27(b)	217,053	136,739
Retained earnings		2,073,382	1,970,038
Total equity		**2,740,810**	**2,557,152**
Total liabilities and equity		**16,386,450**	**16,185,963**

The financial statements on pages 14 to 93 were approved and authorised for issue by the Board of Director on 10th March 2020 and were signed on its behalf by:

Vasant K Shetty
Director

Hetul D. Chandaria
Director

Jophece Yogo
Group and Company secretary

The notes set out on pages 22 to 93 are an integral part of these financial statements.

GUARDIAN BANK LIMITED

COMPANY STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2019

	Note	2019 KShs '000	2018 KShs '000
Assets			
Cash and balances with Central Bank of Kenya	14	1,574,039	1,397,485
Placements with other banks	15	702,625	814,791
Investments in Government securities	16	3,951,029	4,255,794
Other investments	17	5,067	-
Loans and advances to customers (net)	18(b)	9,096,065	9,021,532
Other assets	19	298,939	243,630
Investment in subsidiaries	20(a)	300,375	300,375
Property and equipment	21	62,727	73,820
Right of use assets	32(a)	504,492	234,076
Intangible assets	22	3,824	1,740
Tax recoverable	12(d)	50,620	-
Deferred tax asset	23	130,528	136,600
		16,680,330	**16,479,843**
Liabilities			
Customers deposits	24	13,066,893	13,333,471
Due to subsidiary companies	20(b)	364,792	364,792
Tax payable	12(d)	-	19,842
Lease liabilities	32(b)	296,635	-
Other liabilities	25	210,045	202,384
Provisions	26(b)	72,067	73,114
Total liabilities		**14,010,432**	**13,993,603**
Equity (Page 16)			
Share capital	27(a)	450,375	450,375
Statutory credit risk reserve	27(b)	217,053	136,739
Retained earnings		2,002,470	1,899,126
Total equity		**2,669,898**	**2,486,240**
Total liabilities and equity		**16,680,330**	**16,479,843**

The financial statements on pages 14 to 93 were approved and authorised for issue by the Board of Directors on 10th March 2020 and were signed on its behalf by:

Vasant K Shetty
Director

Hetul D. Chandaria
Director

Jophece Yogo
Group and Company secretary

The notes set out on pages 22 to 93 are an integral part of these financial statements.

GUARDIAN BANK LIMITED

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2019

	Share capital KShs'000	Retained earnings KShs'000	Statutory credit risk reserve KShs'000	Total equity KShs'000
2019:				
Balance at 1 January 2019	450,375	1,970,038	136,739	2,557,152
Profit for the year	-	183,658	-	183,658
Other comprehensive income				
Impairment through statutory credit risk reserve	-	(80,314)	80,314	-
At 31 December 2019	**450,375**	**2,073,382**	**217,053**	**2,740,810**
2018:				
Restated balance at 1 January 2018	**450,375**	**1,861,598**	**19,611**	**2,331,584**
Profit for the year	-	225,568	-	225,568
Other comprehensive income				
Impairment through statutory credit risk reserve	-	(117,128)	117,128	-
At 31 December 2018	**450,375**	**1,970,038**	**136,739**	**2,557,152**

The notes set out on pages 22 to 93 are an integral part of these financial statements.

GUARDIAN BANK LIMITED

COMPANY STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2019

	Share capital KShs'000	Retained earnings KShs'000	Statutory credit risk reserve KShs'000	Total equity KShs'000
2019:				
Balance at 1 January 2019	450,375	1,899,126	136,739	2,486,240
Profit for the year	-	183,658	-	183,658
Other comprehensive income				
Impairment through statutory credit risk reserve	-	(80,314)	80,314	-
At 31 December 2019	**450,375**	**2,002,470**	**217,053**	**2,669,898**
2018:				
Restated balance at 1 January 2018	**450,375**	**1,790,686**	**19,611**	**2,260,672**
Profit for the year	-	225,568	-	225,568
Other comprehensive income				
Impairment through statutory credit risk reserve	-	(117,128)	117,128	-
At 31 December 2018	**450,375**	**1,899,126**	**136,739**	**2,486,240**

The notes set out on pages 22 to 93 are an integral part of these financial statements.

GUARDIAN BANK LIMITED

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2019

	Note	2019 KShs'000	2018 KShs'000
Net cash flow from operating activities	**29(a)**	64,602	(51,660)
Cash flows from investing activities			
Purchase of intangible assets	22	(3,546)	(1,000)
Purchase of property and equipment	21	(11,920)	(3,763)
Proceeds from sale of property and equipment		1,695	-
Net cash used in investing activities		**(13,771)**	**(4,763)**
Cash flows from financing activities			
Payment of lease liabilities	32(b)	(11,886)	-
Net cash used in financing activities		**(11,886)**	**-**
Net increase in cash and cash equivalents	29(b)	38,945	(56,423)
Cash and cash equivalents at 1 January	29(b)	2,913,104	2,969,527
Cash and cash equivalents at 31 December	**29(b)**	**2,952,049**	**2,913,104**

The notes set out on pages 22 to 93 are an integral part of these financial statements.

GUARDIAN BANK LIMITED

COMPANY STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2019

	Note	2019 KShs'000	2018 KShs'000
Net cash flow from operating activities	**29(c)**	**64,602**	**(51,660)**
Cash flows from investing activities			
Purchase of intangible assets	22	(3,546)	(1,000)
Purchase of property and equipment	21	(11,920)	(3,763)
Proceeds from sale of property and equipment		1,695	
Net cash flows from investing activities		**(13,771)**	**(4,763)**
Cash flow from financing activities			
Payment of lease liabilities	32(b)	(11,886)	
Net cash used in financing activities		**(11,886)**	
Net decrease in cash and cash equivalents	29(d)	38,945	(56,423)
Cash and cash equivalents at 1 January	29(d)	2,913,104	2,969,527
Cash and cash equivalents at 31 December	**29(d)**	**2,952,049**	**2,913,104**

The notes set out on pages 22 to 93 are an integral part of these financial statements.

1. REPORTING ENTITY

Guardian Bank Limited ("the Bank" or "the company") is a company domiciled in Kenya. The consolidated and separate financial statements of the company as at end of the year 31 December 2019 comprise the Bank and its subsidiaries (together referred to as the "Group" or "consolidated"). The Group and Company are involved in investment, corporate and retail banking. The address of the Group and Company's registered office is as follows:

Guardian Centre
Biashara Street
PO Box 67437 - 00100 GPO
Nairobi

2. BASIS OF PREPARATION

(a) Statement of compliance

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

Details of the Group and Company's significant accounting policies are included in Note 3.

This is the first set of the Group's and Company's annual financial statements in which IFRS 16 Leases has been applied. The related change to significant accounting policies are described in Note 3(f).

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

(b) Basis of measurement

The financial statements have been prepared on the historical cost basis of accounting.

(c) Use of judgments and estimates

The preparation of financial statements in conformity with IFRSs requires management to make judgments, estimates and assumptions that affect the application of accounting policies and reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. The estimates and assumptions are based on the Directors' best knowledge of current events, actions, historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

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

In particular, information about significant areas of estimation and critical judgments in applying accounting policies that have the most significant effect on the amounts recognized in the financial statements is set out below:

(i) Impairment of financial assets

Judgement is made on classification of financial assets assessment of the business model within which the assets are held and assessment of whether the contractual terms of the financial assets are Solely for Payment of Principal and Interest (SPPI) on the principal amount outstanding.

Judgement is made in establishing the criterion for determining whether credit risk on the financial instrument has increased significantly since initial recognition, determining methodology for incorporating forward-looking information into measurement of Expected Credit Losses (ECLs) and selection and approvals of models used to measure ECL.

Assets accounted for at amortised cost and fair value through other comprehensive income are evaluated for impairment on a basis described in accounting policy 3(h).

The Group and Company recognises loss allowance at an amount equal to either 12-month expected credit losses (ECLs) or lifetime ECLs. Lifetime ECLs are the ECLs that result from all possible default events over the expected life of a financial instrument, whereas 12-month ECLs are the portion of ECLs that result from default events that are possible within the 12 months after the reporting date.

For credit exposures where there have not been significant increases in credit risk since initial recognition, the Group and Company provides for 12-month ECLs. These are classified as Stage 1 assets. For credit exposures where there have been significant increases in credit risk since initial recognition on an individual or collective basis, a loss allowance is required for lifetime ECLs. These are classified as Stage 2 assets.

For credit exposures that are credit impaired and in default, similar to stage 2 assets, a loss allowance is required for lifetime ECLs however the probability of default for these assets is presumed to be 100% less any determined recovery and cure rate.

(ii) Fair value of financial instruments

Where the fair values of the financial assets and finance liabilities recorded in the statement of financial position cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of mathematical models. The input to these models is taken from observable market data where possible, but where this is not feasible, a degree of judgment is required in establishing fair values.

(iii) Taxation

Judgment is required in determining the provision for income taxes due to the complexity of legislation. There are many transactions and calculations for which ultimate tax determination is uncertain during the ordinary course of business. The Group and Company recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due.

Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

The Group and Company recognises the net future tax benefit that relates to deferred income tax assets to the extent that it is probable that the deductible temporary differences will reverse in the foreseeable future. Assessing the recoverability of deferred income tax assets requires the Group and Company to make significant estimates related to expectations of future taxable income. Estimates of future taxable income are based on forecast cash flows from operations and the application of existing tax laws in each jurisdiction. To the extent that future cash flows and taxable income differ significantly from estimates, the ability of the Group and Company to realise the net deferred tax assets recorded at the reporting date could be impacted.

(iv) Useful lives and residual values of property and equipment

The company tests annually whether the useful life and residual value estimates were appropriate and in accordance with its accounting policy. Useful lives and residual values of property and equipment have been determined based on previous experience and anticipated disposal values when the assets are disposed. The rates used are set out on Note 3(d).

(v) Business model assessment and assumptions

The following are the critical judgements, apart from those involving estimations (which are dealt with separately above), that the directors have made in the process of applying the Group and Company's accounting policies and that have the most significant effect on the amounts recognised in financial statements:

Business model assessment

Classification and measurement of financial assets depends on the results of the SPPI and the business model test (refer to note 3 (h). The Group and Company determines the business model at a level that reflects how groups of financial assets are managed together to achieve a particular business objective. This assessment includes judgement reflecting all relevant evidence including how the performance of the assets is evaluated and their performance is measured, the risks that affect the performance of the assets and how these are managed and how the managers of the assets are compensated. The Group and Company monitors financial assets measured at amortised cost or fair value through other comprehensive income that are derecognised prior to their maturity to understand the reason for their disposal and whether the reasons are consistent with the objective of the business for which the asset was held. Monitoring is part of the Group and Company's continuous assessment of whether the business model for which the remaining financial assets are held continues to be appropriate and if it is not appropriate whether there has been a change in business model and so a prospective change to the classification of those assets.

Significant increase of credit risk

As explained in note 2 (c)(i) above, ECL are measured as an allowance equal to 12-month ECL for stage 1 assets, or lifetime ECL for stage 2 or stage 3 assets. An asset moves to stage 2 when its credit risk has increased significantly since initial recognition. IFRS 9 does not define what constitutes a significant increase in credit risk. Instead management, in assessing whether the credit risk of an asset has significantly increased the Group and Company takes into account qualitative and quantitative reasonable and supportable forward-looking information.

Refer to note 3 and note 4 for more details.

Establishing groups of assets with similar credit risk characteristics

When ECLs are measured on a collective basis, the financial instruments are grouped on the basis of shared risk characteristics. Refer to note 3 for details of the characteristics considered in this judgement. The Group monitors the appropriateness of the credit risk characteristics on an ongoing basis to assess whether they continue to be similar. This is required in order to ensure that should credit risk characteristics change there is appropriate re-segmentation of the assets.

This may result in new portfolios being created or assets moving to an existing portfolio that better reflects the similar credit risk characteristics of that group of assets. Re-segmentation of portfolios and movement between portfolios is more common when there is a significant increase in credit risk (or when that significant increase reverses) and so assets move from 12-month to lifetime ECLs, or vice versa, but it can also occur within portfolios that continue to be measured on the same basis of 12-month or lifetime ECLs but the amount of ECL changes because the credit risk of the portfolios differ.

Models and assumptions used

The Group and Company uses various models and assumptions in estimating ECL. Judgement is applied in identifying the most appropriate model for each type of asset, as well as for determining the assumptions used in these models, including assumptions that relate to key drivers of credit risk. Refer to note 3 and note 4 for more details on ECL measurement.

(d) Functional and presentation currency

The financial statements are presented in Kenya Shillings which is also the Group and Company's functional and presentation currency, the currency of the primary economic environment in which the entity operates. Except when otherwise indicated, financial information presented in Kenya Shillings (KShs) has been rounded to the nearest thousand.

3. SIGNIFICANT ACCOUNTING POLICIES

Except for changes explained in Note 3 (f), the Group and Company has consistently applied the following accounting policies to all periods presented in these financial statements.

(a) Basis of consolidation

The consolidated financial statements include the Company and subsidiaries in which the company holds 100% of the voting rights. A listing of the company's subsidiaries is set out in Note 20. Subsidiaries are investees controlled by the Group. The Group controls an investee when it is exposed to, or has rights to, variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

All inter-company balances and transactions are eliminated upon consolidation. Investments in subsidiaries are accounted for at cost at company level. The carrying amounts of these investments are reviewed annually and written down for impairment where considered necessary.

(b) Revenue recognition

Income is derived substantially from banking business and related activities. Revenue comprises of net interest income and non-interest income. The group recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and when the specific criteria have been met for each of the group's activities as described below. The amount of revenue is not considered to be reliably measured until all contingencies relating to the sale have been resolved. The Group and Company bases its estimates on historical results, taking into consideration the type of customer, type of transaction and specifics of each arrangement.

(i) Interest income and interest expense

Interest income is recognised on an accrual basis using the effective interest rate method.

Effective interest rate

Income from loans and advances to customers, placements with other banks and Investments in government securities is recognised in profit or loss using the effective interest rate method. The 'effective interest rate' is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument to:

- The gross carrying amount of the financial asset; or
- The amortised cost of the financial liability

When calculating the effective interest rate for financial instruments other than purchased or originated credit-impaired assets, the Group and Company estimates future cash flows considering all contractual terms of the financial instrument, but not the expected credit loss (ECL). For purchased or originated credit-impaired financial assets, a credit-adjusted effective interest rate is calculated using estimated future cash flows including ECL.

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

Amortised cost and gross carrying amount

The 'amortised cost' of a financial asset is the amount at which the financial asset is measured on initial recognition minus the principal repayments, plus or minus the cumulative amortisation using the effective interest rate method of any difference between that initial amount and the maturity amount and, for financial assets, adjusted for any ECL (or impairment allowance before 1 January 2018).

The 'gross carrying amount of a financial asset' is the amortised cost of a financial asset before adjusting for any expected credit loss allowance.

Calculation of interest income

The effective interest rate of a financial asset is calculated on initial recognition of a financial asset. In calculating interest income, the effective interest rate is applied to the gross carrying amount of the asset (when the asset is not credit-impaired). The effective interest rate is revised as a result of periodic re-estimation of cash flows of floating rate instruments to reflect movements in market rates of interest.

For financial assets that were credit-impaired on initial recognition, purchased originated credit impaired (POCI) assets, interest income is calculated by applying the credit-adjusted effective interest rate to the amortised cost of the asset. The calculation of interest income does not revert to a gross basis, even if the credit risk of the asset improves.

For financial assets that have become credit-impaired subsequent to initial recognition, interest income is calculated by applying the effective interest rate to the amortised cost of the financial asset. If the asset is no longer credit-impaired, then the calculation of interest income reverts to the gross basis.

(ii) Fee and commission income

Fee and commissions are generally recognized on an accrual basis when the service has been provided. Loan commitment fees for loans that are likely to be drawn down are deferred (together with related direct costs) and recognized as an adjustment to the effective interest rate on the loan. Commission and fees arising from negotiating or participating in the negotiation of a transaction for a third party is recognized on completion of the underlying transaction. Other fee and commission income including account servicing fees and placement fees are recognized as the related services are performed. Other fee and commission expense relate mainly to transaction and services fee, which are expensed as the services are received.

(c) Translation of foreign currencies

Transactions in foreign currencies during the year are converted into Kenya Shillings at the exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies as at the reporting date are translated into Kenya Shillings at the exchange rate ruling at that date. The foreign currency gain or loss on monetary items is the difference between the amortised cost in the functional currency at the beginning of the year adjusted for effective interest and payments during the year, and the amortised cost in foreign currency translated at the spot exchange rate at the end of the year. Resulting exchange differences are recognised in profit or loss for the year. Non-monetary assets and liabilities denominated in foreign currency are recorded at the exchange rate ruling at the transaction date.

(d) Property and equipment

(i) Recognition and measurement

Items of property and equipment are measured at historical cost less accumulated depreciation and impairment losses.

Cost includes expenditure that are directly attributable to the acquisition of the asset.

(ii) Subsequent cost

The cost of replacing a component of an item of property or equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Group and Company and its cost can be measured reliably. The costs of the day-to-day servicing of property, plant and equipment are recognised in the profit or loss.

(iii) Depreciation

Depreciation is charged to the profit or loss on a straight-line basis over the estimated useful lives of each item of property, plant, and equipment. The estimated useful lives are as follows:

— Leasehold improvements	5 years
— Equipment, fixtures and fittings, motor vehicles	3 to 8 years
— Buildings	40 years

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

(iv) Disposal of property and equipment

Gain and losses on disposal of an item of property and equipment are determined by comparing the proceeds from the disposal with the carrying amount of the property and equipment and are recognised net in profit or loss.

(e) Intangible assets

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

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. Software is amortised on a straight-line basis in profit or loss over its estimated useful life, from the date that is available for use. The estimated useful life of software is 3 years.

The amortisation method, useful life and the residual value are reviewed at each financial year-end and adjusted if appropriate. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortisation method, as appropriate, and treated as changes in accounting estimates. The amortisation expense on intangible assets with finite lives is recognised in profit or loss in the expense category consistent with the function of the intangible asset.

(f) Leases

The Group and Company applies IFRS 16 using the modified retrospective approach and therefore the comparative information has not been restated and continues to be reported under IAS 17 and IFRIC 4. The details of accounting policies under IAS 17 and IFRIC 4 are disclosed separately.

Policy applicable from 1 January 2019

At inception of a contract, the Group and Company assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Group and Company uses the definition of a lease in IFRS 16.

This policy is applied to contracts entered (or changed) on or after 1 January 2019.

Group and Company acting as a lessee

At commencement or on modification of a contract that contains a lease component, the Group and Company allocates consideration in the contract to each lease component on the basis of its relative stand- alone price.

The Group and Company recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove any improvements made to branches or office premises.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the end of the lease term. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Group and Company's incremental borrowing rate. Generally, the Group and Company uses its incremental borrowing rate as the discount rate.

The Group and Company determines its incremental borrowing rate by analysing its bank borrowings and makes certain adjustments to reflect the terms of the lease and type of asset leased.

Lease payments included in the measurement of the lease liability comprise the following:

- fixed payments, including in-substance fixed payments;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable under a residual value guarantee; and
- the exercise price under a purchase option that the Group and Company is reasonably certain to exercise, lease payments in an optional renewal period if the Group and Company is reasonably certain to exercise an extension option, and penalties for early termination of a lease unless the Group and Company is reasonably certain not to terminate early.

The lease liability is measured at amortised cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Group's and Company's estimate of the amount expected to be payable under a residual value guarantee, if the Group and Company changes its assessment of whether it will exercise a purchase, extension or termination option or if there is a revised in-substance fixed lease payment.

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

Short-term leases and leases of low-value assets

The Group and Company has elected not to recognise right-of-use assets and lease liabilities for leases of low-value assets and short-term leases. The Group and Company recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

Policy applicable before 1 January 2019

For contracts entered before 1 January 2019, the Group and Company determined whether the arrangement was or contained a lease based on the assessment of whether:

- fulfilment of the arrangement was dependent on the use of a specific asset or assets; and
- the arrangement had conveyed a right to use the asset.

As a lessee

The Group and Company did not have any finance leases under IAS 17.

Assets held under other leases were classified as operating leases and were not recognised in the Group and Company's statement of financial position. Payments made under operating leases were recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received were recognised as an integral part of the total lease expense, over the term of the lease.

(g) Taxation

Tax on the profit or loss for the year comprises current tax and deferred tax. Current tax is provided on the results in the year as shown in the financial statements adjusted in accordance with tax legislation.

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes, except differences relating to the initial recognition of assets or liabilities which affect neither accounting nor taxable profit.

A deferred tax asset on tax losses is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax asset is reviewed at each reporting date and reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Deferred tax is calculated on the basis of the tax rates currently enacted.

(h) Financial instruments

(i) Classification

The Group and Company classifies its financial assets on initial recognition into three principal classification categories based on the cash flow characteristics of the asset and the business model assessment:

- measured at Amortised Cost;
- Fair Value through Other Comprehensive Income (FVOCI); and
- Fair Value through Profit or Loss (FVTPL)

The previous categories of Held to Maturity, Loans and Receivables and Available for Sale under IAS 39 have been replaced.

Amortised cost

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL:

- it is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest (SPPI) on the principal amount outstanding.

The Group and Company recognises cash and balances with Central Bank, placements with other banks, investments in government securities, loans and advances to customers and other assets at amortised cost.

Fair Value through Other Comprehensive Income (FVOCI) – Debt

A financial asset which is a debt instrument is measured at FVOCI only if it meets both of the following conditions and is not designated as at FVTPL:

- it is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and Interest (SPPI) on the principal amount outstanding.

The Group and Company has no financial assets classified at FVOCI.

Fair Value through Other Comprehensive Income (FVOCI) – Equity

On initial recognition of an equity investment that is not held for trading, the Group and Company may irrevocably elect to present subsequent changes in fair value in OCI. This election is made on an investment-by investment basis. The Group and Company currently does not have any equity investments.

Fair Value through Profit or Loss (FVTPL)

All financial assets not classified as measured at amortised cost or FVOCI as described above are measured at FVTPL. In addition, on initial recognition the Company may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at FVOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

The Group and Company does not have financial assets classified at FVTPL.

Under IFRS 9, derivatives embedded in contracts where the host is a financial asset in the scope of IFRS 9 are not separated. Instead, the hybrid financial instrument as a whole is assessed for classification.

Assessment of whether contractual cash flows are solely payments of principal and Interest (SSPI)

To determine whether a financial asset should be classified as measured at amortised cost, FVOCI or FVTPL, an entity assesses whether the cash flows from the financial asset represent, on specified dates, solely payments of principal and interest on the principal amount outstanding - i.e. the SPPI criterion. A financial asset that does not meet the SPPI criterion is always measured at FVTPL, unless it is an equity instrument for which an entity applies the FVOCI election.

For the purposes of this assessment, 'principal' is defined as the fair value of the financial asset on initial recognition. The definition of principal reflects the economics of the financial asset from the perspective of the current holder. This means that an entity assesses the asset's contractual cash flow characteristics by comparing the contractual cash flows to the amount that it actually invested.

'Interest' is defined as consideration for the time value of money, for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as a profit margin.

In assessing whether the contractual cash flows are solely payments of principal and interest, the Group and Company considered the contractual terms of the instrument. This included assessing whether the financial asset contained a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making the assessment, the Group and Company considered:

- contingent events that would change the amount and timing of cash flows;
- leverage features;
- prepayment and extension terms;
- terms that limit the Group and Company's claim to cash flows from specified assets – e.g. non-recourse asset arrangements; and
- features that modify consideration for the time value of money – e.g. periodic reset of interest rates.

Contractual features that introduce exposure to risks or volatility in the contractual cash flows that is unrelated to a basic lending arrangement, such as exposure to changes in equity prices or commodity prices, give rise to contractual cash flows that do not meet the SPPI criterion.

Non-recourse loans

In some cases, loans made by the Group and Company that are secured by collateral of the borrower limit the Group and Company's claim to cash flows of the underlying collateral (non-recourse loans). The group applies judgment in assessing whether the non-recourse loans meet the SPPI criterion. The Group and Company typically considers the following information when making this judgement:

- whether the contractual arrangement specifically defines the amounts and dates of the cash payments of the loan;
- the fair value of the collateral relative to the amount of the secured financial asset;
- the ability and willingness of the borrower to make contractual payments, notwithstanding a decline in the value of collateral;
- whether the borrower is an individual or a substantive operating entity or is a special-purpose entity;
- the Group and Company's risk of loss on the asset relative to a full-recourse loan;
- the extent to which the collateral represents all or a substantial portion of the borrower's assets; and
- whether the Group and Company will benefit from any upside from the underlying assets.

The Group and Company also provides floating interest rate loans. The bank has determined that the contractual cash flows of these loans and advances are SPPI because the interest is not leveraged and though may vary will still represent consideration for time value of money, other basic lending.

De minimis

A contractual cash flow characteristic does not affect the classification of a financial asset if it could have only a de minimis effect on the financial asset's contractual cash flows.

To make this determination, the Group and Company considers the possible effect of the contractual cash flow characteristic in each reporting period and cumulatively over the life of the financial asset.

Business model assessment

The Group and Company makes an assessment of the objective of the business model in which a financial asset is held at a portfolio level because this best reflects the way the business is managed and information is provided to management. The information considered includes:

- the stated policies and objectives for the portfolio and the operation of those policies in practice, including whether management's strategy focuses on earning contractual interest revenue, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of the liabilities that are funding those assets or realising cash flows through the sale of assets;
- how the performance of the portfolio is evaluated and reported to the Group and Company's management;
- the risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed;
- how managers of the business are compensated – e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected; and
- the frequency, volume and timing of sales in prior periods, the reasons for such sales and expectations about future sales activity. However, information about sales activity is not considered in isolation, but as part of an overall assessment of how the Group and Company's stated objective for managing the financial assets is achieved and how cash flows are realised.

Financial assets that are held for trading and those that are managed and whose performance is evaluated on a fair value basis will be measured at FVTPL because they are neither held to collect contractual cash flows nor held both to collect contractual cash flows and to sell financial assets.

The Group and Company's financial assets are all held within a business model whose objective is to hold assets to collect contractual cash flows.

Financial liabilities

IFRS 9 largely retains the existing requirements in IAS 39 for the classification and measurement of financial liabilities. However, although under IAS 39 fair value changes of liabilities designated under the fair value option were recognised in profit and loss, under IFRS 9, fair value changes are generally presented as follows:

- the amount of change in fair value that is attributable to changes in credit risk of the liability is presented in OCI and;
- the remaining amount of change in fair value is presented in profit or loss.

The Group and Company classifies all financial liabilities as subsequently measured at amortised cost.

Customer deposits, balances due to banking institutions and other liabilities are classified at amortised cost.

Reclassification

The Group and Company only reclassifies financial assets when management changes the business model for managing the financial assets. In that instance all affected financial assets are reclassified. Such changes are expected to be very infrequent, and are determined by the Group and Company's senior management as a result of external or internal changes.

Derecognition and contract modification

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

However, when the modification of a financial instrument not measured at FVTPL does not result in derecognition, the Group and Company will recalculate the gross carrying amount of the financial asset (or the amortised cost of the financial liability) by discounting the modified contractual cash flows at the original effective interest rate and recognise any resulting adjustment as a modification gain or loss in profit or loss.
The Group and Company derecognises a financial liability when its contractual obligations are discharged or cancelled or expire.

Write-off
The Group and Company directly reduces the gross carrying amount of a financial asset when the entity has no reasonable expectations of recovering a financial asset in its entirety or a portion thereof. A write-off constitutes a derecognition event.

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

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

Impairment – loans and advances, off balance sheet commitments and financial guarantee contracts

IFRS 9 replaced the previous 'incurred loss' model in IAS 39 with a forward-looking 'expected credit loss' model.
The Group and Company recognises loss allowances for ECL on the following financial instruments that are not measured at FVTPL:

- financial assets that are debt instruments – this applies to the Group and Company's loans and advances to customers, cash and balances with Central Bank, investments in government securities, placements

with other banking institutions and other assets; and

- Loan commitments and financial guarantee contracts issued (previously, impairment was measured under IAS 37 Provisions, Contingent Liabilities and Contingent Assets) - this applies to the Group and Company's off-balance sheet exposures where credit intervention is not required for the counterparty to access the credit facility.

No impairment loss is recognised on equity investments.

The Group and Company recognises loss allowance at an amount equal to either 12-month ECLs or lifetime ECLs. Lifetime ECLs are the ECLs that result from all possible default events over the expected life of a financial instrument, whereas 12-month ECLs are the portion of ECLs that result from default events that are possible within the 12 months after the reporting date (or a shorter period if the expected life of a financial instrument is less than 12 months), weighted by the probability of that default occurring.

The Group recognises loss allowances at an amount equal to lifetime ECLs, except in the cases where credit risk has not increased significantly since initial recognition. Loss allowances for trade and lease receivables will always be measured at an amount equal to lifetime ECLs applying the simplified approach.

The impairment requirements of IFRS 9 are complex and require management judgements, estimates and assumptions, particularly in the following areas, which are discussed in detail below and in note 4(a):

- assessing whether the credit risk of an instrument has increased significantly since initial recognition; and
- incorporating forward-looking information into the measurement of ECLs.

Measurement of ECLs

ECLs are a probability-weighted estimate of credit losses and will be measured as follows:

- financial assets that are not credit-impaired at the reporting date: the present value of all cash shortfalls – i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Group expects to receive;
- financial assets that are credit-impaired at the reporting date: the difference between the gross carrying amount and the present value of estimated future cash flows;
- undrawn loan commitments: the present value of the difference between the contractual cash flows that are due to the Group if the commitment is drawn down and the cash flows that the Group expects to receive; and
- financial guarantee contracts: the present value of the expected payments to reimburse the holder less any amounts that the Group expects to recover.

An asset is credit-impaired if one or more events have occurred that have a detrimental impact on the estimated future cash flows of the asset. The following are examples of such events:

- significant financial difficulty of the issuer or the borrower;
- a breach of contract - e.g. a default or past-due event;
- a lender having granted a concession to the borrower - for economic or contractual reasons relating to the borrower's financial difficulty - that the lender would not otherwise consider;
- it becoming 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
- the purchase of a financial asset at a deep discount that reflects the incurred credit losses.

Classification and measurement, de-recognition, and impairment of financial instruments effective prior to 1 January 2018

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability of another entity. Financial instruments are classified as follows:

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Group and Company provides money, goods and services directly to a debtor, with no intention of trading the receivable. Loans and receivables comprise loans and advances, placements with other banks, other assets (items in transit) and cash and bank balances.

Held-to-maturity

Held-to-maturity assets are non-derivative financial assets with fixed or determinable payments and fixed maturity that the bank has the positive intent and ability to hold to maturity. Were the Group and Company to sell, other than insignificant amount of held-to-maturity assets, the entire category would be tainted and reclassified as available for sale. These include treasury bills and bonds and other investments.

Other financial liabilities

The Group and Company classifies financial liabilities as other financial liabilities at amortised cost. Other financial liabilities include customer deposits, borrowings and deposits from banking and non-banking financial institutions.

(ii) Recognition and measurement

The Group and Company initially recognises loans and advances, deposits and debt securities issues on the date at which they are originated. All other financial assets and liabilities (including assets designated at fair value through the income statement) are initially recognized on the trade date, which is the date the Group and Company becomes party to the contractual provisions of the instrument.

A financial asset of financial liability is initially measured at fair value plus, for items not at fair value through profit or loss, translation costs are directly attributable to the acquisition or issue.

Subsequent to initial recognition, financial liabilities (deposits and debt securities) are measured at their amortised cost using the effective rate method except where the Group and Company design liabilities at fair value through profit or loss.

A financial asset is derecognised when the Group and Company loses control over the contractual rights that comprise that asset. This occurs when the rights are realised, expire or are surrendered. A financial liability is derecognised when its contractual obligations are discharged or cancelled or expire.

On de-recognition of a financial asset, the difference between the carrying amount of the asset and the consideration received is recognised in profit or loss.

Held-to-maturity instruments and originated loans and receivables are derecognised on the day they are repaid in full or when they are transferred by the Bank to a third party.

(iii) Identification and measurement of impairment of financial assets

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

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

Objective evidence that financial assets (including equity securities) are impaired can include default or delinquency by a borrower, restructuring of a loan or advance by the Group and Company on terms that the

Group and Company would otherwise consider, indications that a borrower or issuer will enter bankruptcy, the disappearance of an active market for a security, or other observable data relating to a group of assets such as adverse changes in the payment status of borrowers or issuers in the group, or economic conditions that correlate with defaults in the group.

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

Default rate, loss rates and the expected timing of future recoveries are regularly benchmarked against actual outcomes to ensure that they remain appropriate.

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

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

(iv) Amortised cost measurement

The amortised cost of a financial asset or liability is the amount at which the financial asset or liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initial amount recognised and the maturity amount, minus any reduction for impairment.

(i) Impairment of non-financial assets

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

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

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

Impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

(j) Contingent liabilities

Letters of credit, guarantees, bills for collection and swaps are accounted for as off-balance sheet transactions and disclosed as contingent liabilities. Estimates of the outcome and of the financial effect of contingent liabilities are made by the management based on the information available up to the date the financial statements are approved for issue by the directors. Any expected loss is charged to the profit or loss.

(k) Cash and cash equivalents

For the purpose of presentation of the cash flows in the financial statements the cash and cash equivalents include cash and balances with Central Bank of Kenya (CBK) available to finance the bank's day-to-day operations, net balances from banking institutions and treasury bills and bonds which mature within three months or less from the date of acquisition. Cash and cash equivalents are carried at amortised cost in the statement of financial position.

(l) Employee benefits

(i) Short term employee benefits

Short term employee benefits are expensed as the related services are provided. A liability is recognised for the amount expected to be paid if the company has a present or constructive obligation to pay this amount as a result of past services provided by the employee and the obligation can be estimated reliably.

(ii) Post-employment benefits

The Group and Company operated a non-contributory gratuity scheme which was terminated in August 2018 and a new defined contribution scheme started thereafter. The gratuity policy provided that an employee who worked for more than 5 years, was eligible for the gratuity amount based on the lower of six months monthly salary or an equivalent of 15 days salary for every year worked; however, this was at management's discretion. A provision was made in the Group and Company's financial statements for the accrued liability in respect of the benefits promised under the arrangement and movements in the provision recognised in profit or loss.

The Group and Company's net obligation in respect of the scheme was calculated separately as the present value of the benefits in respect of service completed to the valuation date but based on projected earnings to the date of retirement or earlier exit for each employee. The total accrued (past service) liability (or the required balance sheet provision as at the valuation date) was obtained by summing the individual benefits over all employees eligible as at August 2018. There was no separate pool of assets set aside to meet the accrued liabilities under the arrangement.

The required contribution rate for future years expressed as a percentage of basic salaries was determined as the cost of accrual of benefit in the year after the valuation date, but based on projected earnings to date of termination of the gratuity scheme. The retirement age, sex and salary distribution was expected to remain relatively stable provided that the age, sex and salary distribution of the employees remained broadly unchanged.

The calculation of defined benefit obligation by August 2018 has been performed by a qualified actuary using the projected unit credit method.

(iii) Defined contribution scheme

The Group and Company operates defined contribution retirement benefit scheme for both unionised and non-unionised employees beginning September 2018. The assets of this scheme are held in a separate trustee administered fund. The scheme is funded by contributions from both the employees and employer.

The Group and Company and all employees also contribute to the National Social Security Fund, which is a statutory defined contribution scheme. The Group and Company's contributions to the defined contribution schemes are charged to profit or loss in the year to which they relate.

(m) Dividends

Dividends on ordinary shares are recognised as a liability in the period in which they are declared and proposed dividends are disclosed as a separate component of equity.

(n) Provisions

Provisions are recognised when the company has a present legal or constructive obligation as a result of past events and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the amount of the obligation can be made.

(o) Earnings per share

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

(p) Determination of fair values

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or, in its absence, the most advantageous market to which the Group and Company has access at that date. The fair value of a liability reflects its non-performance risk. When available, the Group and Company measures the fair value of an instrument using the quoted price in an active market for that instrument. A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis. If there is no quoted prices in an active market, then the Group and Company uses valuation techniques that maximise the use of relevant observable inputs and minimise the use of unobservable inputs. The chosen valuation technique incorporates all of the factors that market participants would take into account in pricing a transaction.

(q) New standards, amendments and interpretations

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

The Group and Company has adopted the following new standards and amendments during the year ended 31 December 2019, including consequential amendments to other standards with the date of initial application by the Group and Company being 1 January 2019. The nature and effects of the changes are as explained here in.

New standard or amendments	Effective for annual periods beginning on or after
- IFRS 16 Leases	1 January 2019
- IFRIC 23 Uncertainty over income tax treatments	1 January 2019
- IFRS 9 Prepayment Features with Negative Compensation	1 January 2019

New standard or amendments	Effective for annual periods beginning on or after
— IAS 28 Long-term Interests in Associates and Joint Ventures	1 January 2019
— Annual improvements cycle (2015-2017)	1 January 2019
— IAS 19 Plan Amendment, Curtailment or Settlement (Amendments to IAS 19)	1 January 2019

— ***IFRS 16: Leases***

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

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

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

The standard eliminates the classification of leases as either operating leases or finance leases for a lessee and introduces a single lessee accounting model. All leases are treated in a similar way to finance leases.

Applying that model significantly affects the accounting and presentation of leases and consequently, the lessee is required to recognise:

Assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. A Company recognises the present value of the unavoidable lease payments and shows them either as lease assets (right-of-use assets) or together with property, plant and equipment. If lease payments are made over time, a Company also recognises a financial liability representing its obligation to make future lease payments.

(a) depreciation of lease assets and interest on lease liabilities in profit or loss over the lease term; and
(b) separate the total amount of cash paid into a principal portion (presented within financing activities) and interest (typically presented within either operating or financing activities) in the statement of cash flows

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

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

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

The Group and Company adopted the new standard effective on 1 January 2019. Refer to Note 32 in these financial statements.

Impact on financial statements on transition

On transition to IFRS 16, the Group recognised additional right-of-use assets and additional lease liabilities, recognising the difference in retained earnings. The impact on transition is summarised below.

	1 January 2019 KShs'000
Right-of-use assets	308,521
Lease liabilities	**308,521**

For the impact of IFRS 16 on profit or loss for the period and the details of accounting policies under IFRS 16 and IAS 17, see Note 32.

When measuring lease liabilities for leases that were classified as operating leases, the company discounted lease payments using its incremental borrowing rate at 1 January 2019. The weighted- average rate applied is 12.5%.

	1 January 2019 KShs'000'
Operating lease commitments at 31 December 2018 as disclosed under IAS 17 in the Group's consolidated financial statements	246,298
Discounted using the incremental borrowing rate at 1 January 2019	308,521
Recognition exemption for leases of low-value assets	-
Recognition exemption for leases with less than 12 months of lease term at transition	-
Lease liabilities recognised at 1 January 2019	**308,521**

— ***IFRIC 23 Clarification on accounting for income tax exposures***

IFRIC 23 clarifies the accounting for income tax treatments that have yet to be accepted by tax authorities, whilst also aiming to enhance transparency.

IFRIC 23 explains how to recognise and measure deferred and current income tax assets and liabilities where there is uncertainty over a tax treatment.

An uncertain tax treatment is any tax treatment applied by an entity where there is uncertainty over whether that treatment will be accepted by the tax authority.

If an entity concludes that it is probable that the tax authority will accept an uncertain tax treatment that has been taken or is expected to be taken on a tax return, it should determine its accounting for income taxes consistently with that tax treatment. If an entity concludes that it is not probable that the treatment will be accepted, it should reflect the effect of the uncertainty in its income tax accounting in the period in which that determination is made. Uncertainty is reflected in the overall measurement of tax and separate provision is not allowed.

The entity is required to measure the impact of the uncertainty using the method that best predicts the resolution of the uncertainty (that is, the entity should use either the most likely amount method or the expected value method when measuring an uncertainty).

The entity will also need to provide disclosures, under existing disclosure requirements, about

(a) judgments made;
(b) assumptions and other estimates used; and
(c) potential impact of uncertainties not reflected.

The adoption of this standard did not have a material impact on the Group and Company's financial statements.

— ***Prepayment Features with Negative Compensation (Amendments to IFRS 9)***

The amendments clarify that financial assets containing prepayment features with negative compensation can now be measured at amortised cost or at fair value through other comprehensive income (FVOCI) if they meet the other relevant requirements of IFRS 9.

The adoption of these amendments did not have an impact on the financial statements of the Group and Company.

— ***Long-term Interests in Associates and Joint Ventures (Amendment to IAS 28)***

The amendments clarify that an entity applies IFRS 9 to long-term interests in an associate and joint venture that form part of the net investment in the associate or joint venture but to which the equity method is not applied.

The adoption of these standards did not have an impact on the financial statements of the Group and Company.

— ***Annual improvement cycle (2015 – 2017) – various standards***

Standards	Amendments
IFRS 3 Business Combinations and IFRS 11 Joint Arrangements	Clarifies how a Company accounts for increasing its interest in a joint operation that meets the definition of a business: — If a party maintains (or obtains) joint control, then the previously held interest is not remeasured. — If a party obtains control, then the transaction is a business combination achieved in stages and the acquiring party remeasures the previously held interest at fair value.
IAS 12 *Income taxes*	Clarifies that all income tax consequences of dividends (including payments on financial instruments classified as equity) are recognised consistently with the transactions that generated the distributable profits – i.e. in profit or loss, OCI or equity.
IAS 23 *Borrowing costs*	Clarifies that the general borrowings pool used to calculate eligible borrowing costs excludes only borrowings that specifically finance qualifying assets that are still under development or construction. Borrowings that were intended to specifically finance qualifying assets that are now ready for their intended use or sale – or any non-qualifying assets – are included in that general pool. As the costs of retrospective application might outweigh the benefits, the changes are applied prospectively to borrowing costs incurred on or after the date an entity adopts the amendments.

The adoption of these amendments did not affect the amounts and disclosures of the Group's and Company's financial statements.

— ***IAS 19 Plan Amendment, Curtailment or Settlement (Amendments to IAS 19)***

The amendments clarify that:

- on amendment, curtailment or settlement of a defined benefit plan, a Company now uses updated actuarial assumptions to determine its current service cost and net interest for the period; and

- the effect of the asset ceiling is disregarded when calculating the gain or loss on any settlement of the plan and is dealt with separately in other comprehensive income (OCI).

Consistent with the calculation of a gain or loss on a plan amendment, entities will now use updated actuarial assumptions to determine the current service cost and net interest for the period. Previously, entities would not have updated the calculation of these costs until the year-end.

Further, if a defined benefit plan is settled, any asset ceiling would be disregarded when determining the plan assets as part of the calculation of gain or loss on settlement.

The amendments apply for plan amendments, curtailments or settlements that occur on or after 1 January 2019, or the date on which the amendments are first applied. Earlier application is permitted.

The adoption of this standard will not have an impact on the financial statements of the Company.

A number of new standards, amendments to standards and interpretations are not yet effective for the year ended 31 December 2019, and have not been applied in preparing these financial statements.

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

New standard or amendments	Effective for annual periods beginning on or after
— IFRS 3 Definition of a Business	1 January 2020
— Amendments to references to the Conceptual Framework in IFRS Standards	1 January 2020
— Amendments to IAS 1 and IAS 8 Definition of Material	1 January 2020
— IFRS 17 Insurance contracts	1 January 2022
— Sale or Contribution of Assets between an Investor and its Associate or Company (Amendments to IFRS 10 and IAS 28).	To be determined

All standards and interpretations will be adopted at their effective date (except for those standards and interpretations that are not applicable to the entity).

(ii) New and amended standards and interpretations in issue but not yet effective for the year ended 31 December 2019

— IFRS 3 Definition of a Business

With a broad business definition, determining whether a transaction results in an asset or a business acquisition has long been a challenging but important area of judgement. These amendments to IFRS 3 Business Combinations seek to clarify this matter as below however complexities still remain.

- Optional concentration test
  The amendments include an election to use a concentration test. This is a simplified assessment that results in an asset acquisition if substantially all of the fair value of the gross assets is concentrated in a single identifiable asset or a group of similar identifiable assets.

- Substantive process
  If an entity chooses not to apply the concentration test, or the test is failed, then the assessment focuses on the existence of a substantive process.

The definition of a business is now narrower and could result in fewer business combinations being recognised.

The amendment applies to businesses acquired in annual reporting periods beginning on or after 1 January 2020. Earlier application is permitted. The adoption of this standard will not have an impact on the financial statements of the Group and Company.

— Amendments to References to the Conceptual Framework in IFRS Standards

This amendment sets out amendments to IFRS Standards (Standards), their accompanying documents and IFRS practice statements to reflect the issue of the International Accounting Standards Board (IASB) revised Conceptual Framework for Financial Reporting in 2018 (2018 Conceptual Framework).

Some Standards, their accompanying documents and IFRS practice statements contain references to, or quotations from, the IASC's Framework for the Preparation and Presentation of Financial Statements adopted by the IASB in 2001 (Framework) or the Conceptual Framework for Financial Reporting issued in 2010. Amendments to References to the Conceptual Framework in IFRS Standards updates some of those references and quotations so that they refer to the 2018 Conceptual Framework, and makes other amendments to clarify which version of the Conceptual Framework is referred to in particular documents.

These amendments are based on proposals in the Exposure Draft Updating References to the Conceptual Framework, published in 2015, and amend Standards, their accompanying documents and IFRS practice statements that will be effective for annual reporting periods beginning on or after 1 January 2020.

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

(ii) New and amended standards and interpretations in issue but not yet effective for the year ended 31 December 2019 - continued

— IAS 1 and IAS 8 Definition of Material

The amendment refines the definition of Material to make it easier to understand and aligning the definition across IFRS Standards and the Conceptual Framework.

The amendment includes the concept of 'obscuring' to the definition, alongside the existing references to 'omitting' and 'misstating'. Additionally, the amendments also adds the increased threshold of 'could influence' to 'could reasonably be expected to influence' as below.

"Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity."

However, the amendment has also removed the definition of material omissions or misstatements from IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors.

The amendments are effective from 1 January 2020 but may be applied earlier.

The Group and Company is assessing the potential impact on its financial statements resulting from the application of the refined definition of materiality.

— IFRS 17 Insurance Contracts

IFRS 17 Insurance Contracts sets out the requirements that an entity should apply in reporting information about insurance contracts it issues and reinsurance contracts it holds. An entity shall apply IFRS 17 Insurance Contracts to:

(a) insurance contracts, including reinsurance contracts, it issues;
(b) reinsurance contracts it holds; and
(c) investment contracts with discretionary participation features it issues, provided the entity also issues insurance contracts.

IFRS 17 requires an entity that issues insurance contracts to report them on the statement of financial position as the total of:

(a) the fulfilment cash flows—the current estimates of amounts that the entity expects to collect from premiums and pay out for claims, benefits and expenses, including an adjustment for the timing and risk of those amounts; and
(b) the contractual service margin—the expected profit for providing insurance coverage. The expected profit for providing insurance coverage is recognised in profit or loss over time as the insurance coverage is provided.

(ii) New and amended standards and interpretations in issue but not yet effective for the year ended 31 December 2019 - continued

IFRS 17 requires an entity to recognise profits as it delivers insurance services, rather than when it receives premiums, as well as to provide information about insurance contract profits that the Company expects to recognise in the future. IFRS 17 requires an entity to distinguish between groups of contracts expected to be profit making and groups of contracts expected to be loss making. Any expected losses arising from loss-making, or onerous, contracts are accounted for in profit or loss as soon as the Company determines that losses are expected. IFRS 17 requires the entity to update the fulfilment cash flows at each reporting date, using

current estimates of the amount, timing and uncertainty of cash flows and of discount rates. The entity:

(a) accounts for changes to estimates of future cash flows from one reporting date to another either as an amount in profit or loss or as an adjustment to the expected profit for providing insurance coverage, depending on the type of change and the reason for it; and
(b) chooses where to present the effects of some changes in discount rates—either in profit or loss or in other comprehensive income.

IFRS 17 also requires disclosures to enable users of financial statements to understand the amounts recognised in the entity's statement of financial position and statement of profit or loss and other comprehensive income, and to assess the risks the Company faces from issuing insurance contracts.

IFRS 17 replaces IFRS 4 Insurance Contracts. IFRS 17 is effective for financial periods commencing on or after 1 January 2022. An entity shall apply the standard retrospectively unless impracticable. A Company can choose to apply IFRS 17 before that date, but only if it also applies IFRS 9 Financial Instruments and IFRS 15 Revenue from Contracts with Customers.

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

— ***Sale or Contribution of Assets between an Investor and its Associate or Company (Amendments to IFRS 10 and IAS 28)***

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

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

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

The Group and Company did not early adopt new or amended standards in the year ended 31 December 2019.

4. FINANCIAL RISK REVIEW AND MANAGEMENT

Introduction and overview

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

- credit risk
- liquidity risk
- market risks; and
- operational risks

This note presents information about the Group and Company's exposure to each of the above risks, the Group and Company's objectives, policies and processes for measuring and managing risk, and the Group and Company's management of capital.

Risk management framework

The Board of Directors has overall responsibility for the establishment and oversight of the Group and Company's risk management framework. The Board has established the Group and Company Asset and Liability (ALCO), Credit and Operational Risk committees, which are responsible for developing and monitoring Group and Company risk management policies in their specified areas.

All Board committees have both executive and non-executive members and report regularly to the Board of Directors on their activities.

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

The Group and Company Risk Management Committee is responsible for monitoring compliance with the Group and Company's risk management policies and procedures, and for reviewing the adequacy of the risk management framework in relation to the risks faced by the Group and Company. The Group and Company Audit Committee is assisted in these functions by Internal Audit. Internal Audit undertakes both regular and ad-hoc reviews of risk management controls and procedures, the results of which are reported to the Audit Committee.

(a) Credit risk

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

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

Management of credit risk

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

- *Formulating credit policies* in consultation with business units, covering collateral requirements, credit assessment, risk grading and reporting, documentary and legal procedures, and compliance with regulatory and statutory requirements.
- *Establishing the authorisation structure* for the approval and renewal of credit facilities. Authorisation limits are allocated to business unit Credit Officers. Larger facilities require approval by Group Credit Department, Head of Group Credit, Group Credit Committee or the Board of Directors as appropriate.
- *Reviewing and assessing credit risk*. The Bank's Credit Department assesses all credit exposures in excess of designated limits, prior to facilities being committed to customers by the business unit concerned. Renewals and reviews of facilities are subject to the same review process.
- *Limiting concentrations of exposure to counterparties, geographies and industries (for loans and advances), and by issuer, credit rating band, market liquidity and country (for investment securities).*
- *Developing and maintaining the Group's and Company's risk grading* in order to categorise exposures according to the degree of risk of financial loss faced and to focus management on the attendant risks. The risk grading system is used in determining where impairment provisions may

be required against specific credit exposures. The current risk grading framework consists of eight grades reflecting varying degrees of risk of default and the availability of collateral or other credit risk mitigation. The responsibility for setting risk grades lies with the final approving executive / committee as appropriate. Risk grades are subject to regular reviews by Group and Company Risk Management Department.

- *Reviewing compliance* of business units with agreed exposure limits, including those for selected industries, country risk and product types. Regular reports are provided to Group and Company Credit Department on the credit quality of local portfolios and appropriate corrective action is taken.
- *Providing advice, guidance and specialist* skills to business units to promote best practice throughout the Group and Company in the management of credit risk.

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

Regular audits of business units and Group and Company Credit processes are undertaken by Internal Audit.

Credit quality

The following tables sets out information about the credit quality and credit risk exposure of financial assets measured at amortised cost (31 December 2019) and loans and receivables (31 December 2018). Unless specifically indicated, the amounts in the table represent gross carrying amounts. For loan commitments the amounts in the table represent the undrawn portion of amounts committed. Loan commitments are overdraft facilities. Explanation of the terms 'Stage 1', 'Stage 2', 'Stage 3' and purchased originated credit impaired (POCI) assets is included in Note 2 (c (v)) and 4 (a).

Group and Company

					2019	**2018**
KShs'000	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**Total**	**Total**
Placements with other Banks						
Performing	703,286	-	-	-	703,286	817,261
Under performing	-	-	-	-	-	-
Non-performing	-	-	-	-	-	-
	703,286	**-**	**-**	**-**	**703,286**	**817,261**
Loss allowance	(661)	-	-	-	(661)	(2,470)
Carrying amount	**702,625**	**-**	**-**	**-**	**702,625**	**814,791**

Group and Company

					2019	**2018**
KShs'000	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**Total**	**Total**
Investment in Government securities						
Performing	3,962,537	-	-	-	3,962,537	4,265,948
Under performing	-	-	-	-	-	-
Non-performing	-	-	-	-	-	-
	3,962,537	**-**	**-**	**-**	**3,962,537**	**4,265,948**
Loss allowance	(11,508)	-	-	-	(11,508)	(10,154)
Carrying amount	**3,951,029**	**-**	**-**	**-**	**3,951,029**	**4,255,794**

Group

KShs'000	Stage 1	Stage 2	Stage 3	POCI	2019 Total	2018 Total
Corporate loans						
Normal	7,175,730	-	-	-	7,175,730	7,545,370
Watch	-	289,806	-	-	289,806	110,236
Non-performing	-	-	691,838	-	691,838	717,049
	7,175,730	**289,806**	**691,838**	**-**	**8,157,374**	**8,372,655**
Loss allowance	(39,097)	(5,154)	(417,826)	-	(462,077)	(441,636)
Carrying amount	**7,136,633**	**284,652**	**274,012**	**-**	**7,695,297**	**7,931,019**

Group

KShs'000	Stage 1	Stage 2	Stage 3	POCI	2019 Total	2018 Total
Business loans						
Normal	481,285	-	-	-	481,285	300,604
Watch	-	-	-	-	-	-
Non-performing	-	-	128,065	-	128,065	121,345
	481,285	**-**	**128,065**	**-**	**609,350**	**421,949**
Loss allowance	(1,223)	-	(98,710)	-	(99,933)	(95,540)
Carrying amount	**480,062**	**-**	**29,355**	**-**	**509,417**	**326,409**

Group

KShs'000	Stage 1	Stage 2	Stage 3	POCI	2019 Total	2018 Total
Personal loans						
Normal	838,242	-	-	-	838,242	749,888
Watch	-	40,757	-	-	40,757	954
Non-performing	-	-	124,308	-	124,308	122,044
	838,242	**40,757**	**124,308**	**-**	**1,003,307**	**872,886**
Loss allowance	(336)	(913)	(104,212)	-	(105,461)	(102,288)
Carrying amount	**837,906**	**39,844**	**20,096**	**-**	**897,846**	**770,598**

Company

KShs'000	Stage 1	Stage 2	Stage 3	POCI	2019 Total	2018 Total
Corporate loans						
Normal	7,175,730	-	-	-	7,175,730	7,545,370
Watch	-	289,806	-	-	289,806	110,236
Non-performing	-	-	636,177	-	636,177	661,388
	7,175,730	**289,806**	**636,177**	**-**	**8,101,713**	**8,316,994**
Loss allowance	(39,097)	(5,154)	(362,165)	-	(406,416)	(385,975)
Carrying amount	**7,136,633**	**284,652**	**274,012**	**-**	**7,695,297**	**7,931,019**

Company

KShs'000'	Stage 1	Stage 2	Stage 3	POCI	2019 Total	2018 Total
Business loans						
Normal	481,285	-	-	-	481,285	300,604
Watch	-	-	-	-	-	-
Non-performing	-	-	126,642	-	126,643	119,923
	481,285	**-**	**126,642**	**-**	**607,927**	**420,527**
Loss allowance	(1,223)	-	(97,288)	-	(98,511)	(94,118)
Carrying amount	**480,062**	**-**	**29,354**	**-**	**509,416**	**326,409**

Company

KShs'000'	Stage 1	Stage 2	Stage 3	POCI	2019 Total	2018 Total
Personal loans						
Normal	838,242	-	-	-	838,242	749,888
Watch	-	40,757	-	-	40,757	954
Non-performing	-	-	36,364	-	36,364	34,099
	838,242	**40,757**	**36,364**	**-**	**915,363**	**784,941**
Loss allowance	(336)	(913)	(22,762)	-	(24,011)	(20,838)
Carrying amount	**837,906**	**39,844**	**13,602**	**-**	**891,352**	**764,103**

Group and Company

					2019	2018
In '000 of KShs	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**Total**	**Total**
Off balance sheet commitments						
Performing	789,696	-	-	-	789,696	134,588
Under performing	-	-	-	-	-	-
Non-performing	-	-	-	-	-	-
	789,696	**-**	**-**	**-**	**789,696**	**134,588**
Loss allowance	(31)	-	-	-	(31)	(2)
Carrying amount	**789,665**	**-**	**-**	**-**	**789,665**	**134,586**

The following tables sets out the overdue status of loans and advances in stage 1, 2 and 3.

Group

				2019	2018
In '000 of KShs	**Stage 1**	**Stage 2**	**Stage 3**	**Total**	**Total**
Corporate loans					
0< 30	7,175,730	-	-	7,175,730	7,545,370
Overdue >30<90	-	289,806	-	289,806	110,236
Overdue >90	-	-	691,838	691,838	717,049
	7,175,730	**289,806**	**691,838**	**8,157,374**	**8,372,655**

				2019	2018
In '000 of KShs	**Stage 1**	**Stage 2**	**Stage 3**	**Total**	**Total**
Business loans					
0 < 30	481,285	-	-	481,285	300,604
Overdue >30<90	-	-	-	-	-
Overdue >90	-	-	128,065	128,065	121,345
	481,285	**-**	**128,065**	**609,350**	**421,949**

				2019	2018
In '000 of KShs	**Stage 1**	**Stage 2**	**Stage 3**	**Total**	**Total**
Personal loans					
0 < 30	838,242	-	-	838,242	749,888
Overdue >30<90	-	0,757	-	40,757	954
Overdue >90	-	-	124,308	124,308	122,044
	838,242	**40,757**	**124,308**	**1,003,307**	**872,886**

Company

In '000 of KShs	Stage 1	Stage 2	Stage 3	2019 Total	2018 Total
Corporate loans					
0< 30	7,175,730	-	-	7,175,730	7,545,370
Overdue >30<90	-	289,806	-	289,806	110,236
Overdue >90	-	-	636,177	636,177	661,388
	7,175,730	**289,806**	**636,177**	**8,101,713**	**8,316,994**

In '000 of KShs	Stage 1	Stage 2	Stage 3	2019 Total	2018 Total
Business loans					
0 < 30	481,285	-	-	481,285	300,604
Overdue >30<90	-	-	-	-	-
Overdue >90	-	-	126,643	126,643	119,923
	481,285	**-**	**126,643**	**607,928**	**420,527**

In '000 of KShs	Stage 1	Stage 2	Stage 3	2019 Total	2018 Total
Personal loans					
0 < 30	838,242	-	-	838,242	749,888
Overdue >30<90	-	40,757	-	40,757	954
Overdue >90	-	-	36,363	36,363	34,099
	838,242	**40,757**	**36,363**	**915,362**	**784,941**

Write-off policy

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

Collateral

The Group and Company holds collateral against loans and advances to customers in the form of mortgage interests over property, other registered securities over assets, and guarantees. Estimates of fair value are based on the value of collateral assessed at the time of borrowing, and generally are not updated except when a loan is individually assessed as impaired. Collateral generally is not held over loans and advances to banks, except when securities are held as part of reverse repurchase and securities borrowing activity. Collateral usually is not held against investment securities, and no such collateral was held at 31 December 2019 or 2018.

An estimate of the fair values of collateral against loans and advances to customers is shown below:

	2019	%	2018
	KShs'000		**KShs'000**
Stage 1	9,637,747	94	9,597,389
Stage 2	97,111	1	96,704
Stage 3	475,077	5	405,980
	10,209,935	**100**	**10,100,073**

The percentages above represent the portion of loans and advances that are covered by collateral

Inputs, assumptions and techniques used for estimating impairment

Significant increase in credit risk

The Group and Company in determining whether the credit risk (i.e. risk of default) on a financial instrument has increased significantly since initial recognition considered reasonable and supportable information that is relevant and available without undue cost or effort, including both quantitative and qualitative information and analysis based on the Group's and Company's historical experience, expert credit assessment and forward-looking information.

The Group and Company identifies a significant increase in credit risk where

- exposures have a regulatory risk rating of 'watch'.
- an exposure is greater than 30 days past due – this is in line with the IFRS 9 "30 days past due (DPD) rebuttable presumption";
- an exposure has been restructured in the past due to credit risk related factors or which was Non performing and is now regularised (subject to the regulatory cooling off period);or
- by comparing, where information is available, an exposure:
    - credit risk quality at the date of reporting; with
    - the credit risk quality on initial recognition of the exposure.

The assessment of significant deterioration is key in establishing the point of switching between the requirement to measure an allowance based on 12-month expected credit losses and one that is based on lifetime expected credit losses.

Determining whether credit risk has increased significantly

The Group and Company has established a framework that incorporates both past due information and qualitative information to determine whether the credit risk on a particular financial instrument has increased significantly since initial recognition.

The framework aligns with the Group's and Company's internal credit risk management process.

The Group and Company will deem the credit risk of a particular exposure to have increased significantly since initial recognition if, the financial asset is more than 30 days in arrears.

Additionally, in certain instances, using its expert credit judgement and, where possible, relevant historical experience, the Group and Company may determine that an exposure has undergone a significant increase in credit risk and classify the exposure as 'watch' if particular qualitative factors indicate so and those indicators may not be fully captured by its past due status on a timely basis.

The following qualitative criteria is applied:

- Classification of exposures by any other Banks and Financial institutions or local Credit Reference Bureau (CRB).
- Unavailable/inadequate financial information/financial statements;
- Qualified report by external auditors;
- Significant contingent liabilities;
- Loss of key staff in the organization;
- Increase in operational risk and higher occurrence of fraudulent activities;
- Continued delay and non-cooperation by the borrower in providing key relevant documentation;
- Deterioration in credit worthiness due to factors other than those listed above

As a backstop, and as required by IFRS 9, the Group and Company will presumptively consider that a significant increase in credit risk occurs no later than when an asset is more than 30 days past due. The Bank will determine days past due by counting the number of days since the earliest elapsed due date in respect of which full payment has not been received. Also see note 3(h).

Definition of default

The Bank will consider a financial asset to be in default when:

- the borrower is unlikely to pay its credit obligations to the Bank in full, without recourse by the Group and Company to actions such as realising security (if any is held); or
- the borrower is more than 90 days past due on any material credit obligation to the Group and Company. This definition is largely consistent with the Central Bank of Kenya definition that is used for regulatory purposes.

In assessing whether a borrower is in default, the Bank will consider indicators that are:

- qualitative: e.g. breaches of covenant;
- quantitative: e.g. overdue status and non-payment of another obligation of the same issuer to the Bank; and
- based on data developed internally and obtained from external sources.

Inputs into the assessment of whether a financial instrument is in default and their significance may vary over time to reflect changes in circumstances.

Incorporation of forward-looking information

Under IFRS 9, the Group and Company will incorporate forward-looking information in its measurement of ECLs.

The Group and Company applies linear regression to determine the forward-looking adjustment to incorporate in its ECL. The Group and Company formulates three economic scenarios: a base case, which is the median scenario assigned a probability of occurring based on the predictive strength of the relationship between the Group and Company's default rate and the macro economic variables (MEV's), and two less likely scenarios, one upside and one downside, each assigned a probability of occurring based on half the difference between the Base case and 100%.

External information considered includes economic data and forecasts published by governmental bodies and monetary authorities in Kenya, supranational organisations such as the World Bank and the International Monetary Fund, and selected private-sector and academic forecasters.

The Bank has identified key drivers of credit risk and credit losses for its overall portfolio of financial instruments and, using an analysis of historical data, has estimated relationships between macro-economic variables and credit risk and credit losses. These are reviewed by management periodically to ascertain relevance based on management's understanding of the current industry environment.

The key drivers for credit risk are GDP, growth in commercial bank loans, exports of goods and services and inflation

Modified financial assets

The contractual terms of loans and advances may be modified for a number of reasons, including changing market conditions, customer retention and other factors not related to a current or potential credit deterioration of the customer. An existing loan whose terms have been modified may be derecognised and the renegotiated loans and advances recognised as a new loans and advances at fair value.

Under IFRS 9, when the terms of a financial asset are modified and the modification does not result in derecognition, the determination of whether the asset's credit risk has increased significantly reflects comparison of the borrower's initial credit risk assessment and the current assessment at the point of modification.

The Group and Company renegotiates loans and advances with customers in financial difficulties (referred to as 'restructuring') to maximise collection opportunities and minimise the risk of default. Under the Group and Company's restructuring policy, loans and advances restructuring is granted on a selective basis if the debtor is currently in default on its debt or if there is a high risk of default, there is evidence that the debtor made all reasonable efforts to pay under the original contractual terms and the debtor is expected to be able to meet the revised terms.

The revised terms usually include extending the maturity, changing the timing of interest payments and amending the terms of loan covenants. The Bank Credit Committee regularly reviews reports on restructuring activities.
Generally, forbearance is a qualitative indicator of default and credit impairment and expectations of restructuring are relevant to assessing whether there is a significant increase in credit risk (see above).

Following forbearance, a customer needs to demonstrate consistently good payment behaviour over a period of time before the exposure is no longer considered to be in default/credit-impaired or the PD is considered to have decreased such that the loss allowance reverts to being measured at an amount equal to 12-month ECLs.

Inputs into measurement of ECLs

The key inputs into the measurement of ECLs are the term structures of the following variables:

— Probability of Default (PD);
— loss given default (LGD); and
— exposure at default (EAD).

These parameters will be derived from internally developed models and other historical data that leverage industry information. The PD will be adjusted to reflect forward-looking information as described above.

PD

Loan listings and the borrower central bank risk classifications from 2016 to date were used as the primary input in the determination of the PD structures.

PD estimates for loans and advances are estimates at a certain date, calculated based on statistical migration matrices that model the chance of an exposure transitioning to default over time and will be assessed at portfolio level for portfolios of assets that have similar characteristics. The Bank has categorised its loans and advances into three portfolios, Corporate, Business and Personal loans.

The PD estimates for other financial instruments assessed for impairment is based on external credit rating information obtained from reputable external rating agencies such as Moody's, Standard and Poors, Fitch and Global credit rating.

The PD estimates applied are probability weighted incorporating a forward-looking adjustment which is determined based on a base scenario, upside and downside scenario. Please see the section on forward-looking information.

Loss Given Default (LGD)

LGD is the magnitude of the likely loss if there is a default. The Group and Company will estimate LGD parameters based on collateral available against exposures and the history of recovery rates of claims against defaulted counterparties.

The LGD models will consider the type of collateral, seniority of the claim, time to recover in the event of foreclosure, counterparty industry and recovery costs of any collateral that is integral to the financial asset. LGD estimates are calibrated to consider the time to recover cash flows for different collateral types and apply the forced sale value (FSV) of collateral. The collateral values to consider will be calculated on a discounted cash flow basis using the effective interest rate (EIR) or a close proxy of the EIR.

Exposure at Default

EAD represents the expected exposure in the event of a default. The Group and Company will derive the EAD from the current exposure to the counterparty and potential changes to the current amount allowed under the contract, including amortisation, and prepayments. For loan commitments and financial guarantees, the EAD will consider the amount drawn, as well as potential future amounts that may be drawn or repaid under the contract, which will be estimated based on historical observations and forward-looking forecasts.

As described above, and subject to using a maximum of a 12-month PD for financial assets for which credit risk has not significantly increased, the Group and Company will measure ECLs considering the risk of default over the maximum contractual period (including any borrower's extension options) over which it is exposed to credit risk, even if, for risk management purposes, the Group and Company considers a longer period.

The maximum contractual period extends to the date at which the Group and Company has the right to require repayment of an advance or terminate a loan commitment or guarantee.

For guarantee facilities, overdrafts and other revolving facilities that include both a drawn and an undrawn commitment component, the Group and Company will measure ECLs over a period of one year unless the expected life of the exposure can be reasonably determined.

Where modelling of a parameter is carried out on a collective basis, the financial instruments will be grouped on the basis of shared risk characteristics that include:

- Product type; and
- Industry.

The groupings will be subject to regular review to ensure that exposures within a particular Bank remain appropriately homogeneous.

Amount arising from ECL

Loss allowance

The following tables show reconciliations from the opening to the closing balance of the loss allowance by Segment with comparative figures for year 2018.

Group and Company Loss allowance					2019					2018
In KShs'000	Stage 1	Stage 2	Stage 3	POCI	Total	Stage 1	Stage 2	Stage 3	POCI	Total
Placements with other banks										
Balance at 1 January	**2,470**	**-**	**-**	**-**	**2,470**	**4,010**	**-**	**-**	**-**	**4,010**
Transfer to Stage 1	-	-	-	-	-	-	-	-	-	-
Transfer to Stage 2	-	-	-	-	-	-	-	-	-	-
Transfer to Stage 3	-	-	-	-	-	-	-	-	-	-
Net re-measurement of loss allowance	(42)	-	-	-	(42)	476	-	-	-	476
Net financial assets originated or purchased	30	-	-	-	30	1,797	-	-	-	1,797
Financial assets that have been derecognised	(1,797)	-	-	-	(1,797)	(3,813)	-	-	-	(3,813)
Write offs	-	-	-	-	-	-	-	-	-	-
Recoveries	-	-	-	-	-	-	-	-	-	-
Foreign exchange and other movements	-	-	-	-	-	-	-	-	-	-
Balance at 31 December	**661**	**-**	**-**	**-**	**661**	**2,470**	**-**	**-**	**-**	**2,470**

Group and Company Loss allowance					2019					2018
In KShs'000	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**Total**	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**Total**
Investment in Government securities										
Balance at 1 January	**10,154**	**-**	**-**	**-**	**10,154**	**9,299**	**-**	**-**	**-**	**9,299**
Transfer to Stage 1	-	-	-	-	-	-	-	-	-	-
Transfer to Stage 2	-	-	-	-	-	-	-	-	-	-
Transfer to Stage 3	-	-	-	-	-	-	-	-	-	-
Net re-measurement of loss allowance	(2)	-	-	-	(2)	257	-	-	-	257
Net financial assets originated or purchased	8,449	-	-	-	8,449	7,201	-	-	-	7,201
Financial assets that have been derecognised	(7,093)	-	-	-	(7,093)	(6,603)	-	-	-	(6,603)
Write offs	-	-	-	-	-	-	-	-	-	-
Recoveries	-	-	-	-	-	-	-	-	-	-
Balance at 31 December	**11,508**	**-**	**-**	**-**	**11,508**	**10,154**	**-**	**-**	**-**	**10,154**

Group Loss allowance					2019					2018
In KShs'000	Stage 1	Stage 2	Stage 3	POCI	Total	Stage 1	Stage 2	Stage 3	POCI	Total
Loans and advances to customers – Corporate										
Balance at 1 January	**19,549**	**1,190**	**420,897**	**-**	**441,636**	**6,855**	**16,516**	**539,390**	**-**	**562,761**
Transfer to Stage 1	(726)	726	-	-	-	5,506	-	(5,506)	-	-
Transfer to Stage 2	-	-	-	-	-	(2)	2	-	-	-
Transfer to Stage 3	-	-	-	-	-	-	(26)	26	-	-
Net re-measurement of loss allowance	8,669	4,080	26,684	-	39,433	6,332	(14,682)	50,065	-	41,715
Net financial assets originated or purchased	10,870	-	-	-	10,870	2,636	24	211	-	2,871
Financial assets that have been derecognised	(2,896)	-	-	-	(2,896)	(1,777)	(644)	-	-	(2,421)
Write offs	-	(1)	(26,965)	-	(26,967)	-	-	(164,932)	-	(164,932)
Recoveries	-	-	-	-	-	-		1,642	-	1,642
Foreign exchange and other movements	-	-	-	-	-	-	-	-	-	-
Balance at 31 December	**35,466**	**5,995**	**420,616**	**-**	**462,076**	**19,550**	**1,190**	**420,896**	**-**	**441,636**

Group Loss allowance					2019					2018
In KShs'000	Stage 1	Stage 2	Stage 3	POCI	Total	Stage 1	Stage 2	Stage 3	POCI	Total
Loans and advances to customers – Business*										
Balance at 1 January	**512**	**-**	**95,028**	**-**	**95,540**	**2,290**	**-**	**89,378**	**-**	**91,668**
Transfer to Stage 1	(119)	-	119	-	-	6,950	-	(6,950)	-	-
Transfer to Stage 2	-	-	-	-	-	-	-	-	-	-
Transfer to Stage 3	-	-	-	-	-	-	-	-	-	-
Net re-measurement of loss allowance	5,052	-	805	-	5,857	(8,095)	-	12,600	-	4,505
Net financial assets originated or purchased	302	-	-	-	302	109	-	-	-	109
Financial assets that have been derecognised	(1,735)	-	-	-	(1,735)	(741)	-	-	-	(741)
Write offs	-	-	(31)	-	(31)	-	-	-	-	-
Recoveries	-	-	-	-	-	-	-	-	-	-
Foreign exchange and other movements	-	-	-	-	-	-	-	-	-	-
Balance at 31 December	**4,012**	**-**	**95,921**	**-**	**99,933**	**513**	**-**	**95,028**	**-**	**95,541**

Group Loss allowance					2019					2018
In KShs'000	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**Total**	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**Total**
Loans and advances to customers – Personal*										
Balance at 1 January	**433**	**4**	**101,851**	**-**	**102,288**	**1,863**	**2,116**	**109,124**	**-**	**113,103**
Transfer to Stage 1	-	-	-	-	-	-	-	-	-	-
Transfer to Stage 2	(72)	72	-	-	-	-	538	(538)	-	-
Transfer to Stage 3	-	-	-	-	-	-	(11)	11	-	-
Net re-measurement of loss allowance	2,873	(4)	3,284	-	6,153	(277)	(2,627)	699	-	(2,205)
Net financial assets originated or purchased	246	-	-	-	246	158	-	-	-	158
Financial assets that have been derecognised	(2,302)	-	-	-	(2,302)	(1,311)	(11)	-	-	(1,322)
Write offs	-	-	(24)	-	(924)	-	-	(7,446)	-	(7,446)
Recoveries	-	-	-	-	-	-	-	-	-	-
Foreign exchange and other movements	-	-	-	-	-	-	-	-	-	-
Balance at 31 December	**1,178**	**72**	**104,211**	-	**105,461**	**433**	**5**	**101,850**	-	**102,288**

See Note 17 (c) and (d) for the total amounts arising from ECL for the Group and Company.

Group and Company **Loss allowance**					**2019**					**2018**
In KShs'000	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**Total**	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**Total**
Loans commitments – off balance sheet commitment										
Balance at 1 January	**2**	**-**	**-**	**-**	**2**	**2**	**-**	**-**	**-**	**2**
Transfer to Stage 1	-	-	-	-	-	-	-	-	-	-
Transfer to Stage 2	-	-	-	-	-	-	-	-		-
Transfer to Stage 3	-	-	-	-	-	-	-	-	-	-
Net re-measurement of loss allowance	29	-	-	-		-	-	-	-	-
Net financial assets originated or purchased	-	-	-	-	-	-	-	-	-	-
Financial assets that have been derecognised	-	-	-	-	-	-	-	-	-	-
Write offs	-	-	-	-	-	-	-	-	-	-
Recoveries	-	-	-	-	-	-	-	-	-	-
Balance at 31 December	**31**	**-**	**-**	**-**	**31**	**2**	**-**	**-**	**-**	**2**

The expected credit loss on off balance sheet items was recorded in other liabilities – refer to Note 25.

The loss allowance in these tables includes ECL on off balance sheet financing arrangement commitments for overdrafts, because the Group cannot separately identify the ECL on the off-balance sheet commitment component from those on the financial instrument component.

The ECL on placements with other banks, investment in government securities, loans and advances to customers and loan commitments are presented in placements with other banks, investment in government securities, loans and advances to customers and other liabilities respectively in the statement of financial position.

The following table provides a reconciliation between:

— Amounts shown in the above tables reconciling opening and closing balances of loss allowance for financing arrangements.

— The 'Net impairment provision on financing assets' line item in the statement of profit or loss and other comprehensive income.

Group In KShs'000	Placements with other banks	Investment in government securities	Loans and advances to customers	Off balance sheet commitments	Total	2018
Net re-measurement of loss allowance	(42)	(2)	51,444	29	51,429	44,748
Net financial assets originated or purchased	30	8,449	11,417	-	19,896	12,136
Financial assets that have been derecognised	(1,797)	(7,093)	(6,932)	-	(15,822)	(14,899)
Write backs/ recoveries	-	-	(31,606)	-	(31,606)	-
Net write off	-	-	-	-	-	7,515
	(1,809)	**1,354**	**24,323**	**29**	**23,897**	**49,500**

Company In KShs'000	Placements with other banks	Investment in government securities	Loans and advances to customers	Off balance sheet commitments	Total	2018
Net re-measurement of loss allowance	(42)	(2)	51,444	29	51,429	44,748
Net financial assets originated or purchased	30	8,449	11,417	-	19,896	12,136
Financial assets that have been derecognised	(1,797)	(7,093)	(6,932)	-	(15,822)	(14,899)
Write backs, recoveries	-	-	(31,606)	-	(31,606)	-
Net write off	-	-	-	-	-	7,515
	(1,809)	**1,354**	**24,323**	**29**	**23,897**	**49,500**

Offsetting financial assets and financial liabilities

There are no financial assets and financial liability amounts in the statement of financial position that have been offset in these financial statements.

Concentrations of credit risk

The Group monitors concentrations of credit risk by sector. An analysis of concentrations of credit risk from loans and advances, loan commitments and Investment in Government securities at the reporting date is shown below:

Concentration by sector

	Group 2019 KShs'000	Company 2019 KShs'000	Group 2018 KShs'000	Company 2018 KShs'000
Agriculture, hunting, fishing and forestry	50,714	50,714	43,199	43,199
Manufacturing	954,325	954,325	1,259,451	1,259,451
Trade	4,322,796	4,267,135	4,266,064	4,210,403
Transport & Communication	510,816	510,816	426,843	426,843
Real estate	1,646,655	1,646,655	1,675,811	1,675,811
Personal loans	962,551	874,605	834,220	746,275
Others	1,322,174	1,320,753	1,161,904	1,160,481
	9,770,031	**9,625,003**	**9,667,492**	**9,522,463**

	Group 2019 KShs'000	Company 2019 KShs'000	Group 2018 KShs'000	Company 2018 KShs'000
Cash and balances with Central Bank of Kenya	1,574,039	1,574,039	1,397,485	1,397,485
Placements with other banks	702,625	702,625	814,791	814,791
Investments in Government securities	3,951,029	3,951,029	4,255,794	4,255,794
Other assets – items in transit	299,313	299,313	243,635	243,635
	6,527,006	**6,527,006**	**6,711,705**	**6,711,705**

(b) Liquidity risk

Settlement risk

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

For certain types of transactions, the Group and Company mitigates this risk by conducting settlements through a settlement/clearing agent to ensure that a trade is settled only when both parties have fulfilled their contractual settlement obligations. Settlement limits form part of the credit approval/limit monitoring process described earlier. Acceptance of settlement risk on free settlement trades requires transaction specific or counterparty specific approvals from Group and Company Risk.

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

Management of liquidity risk

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

The Group's and Company's central treasury receives information from other business units regarding the liquidity profile of their financial assets and liabilities and details of other projected cash flows arising from projected future business. Central Treasury then maintains a portfolio of short-term liquid assets, largely made up of short-term liquid investment securities, loans and advances to banks and other inter-bank facilities, to

ensure that sufficient liquidity is maintained within the Group and Company as a whole. The liquidity requirements of business units and subsidiaries are met through short-term loans from Central Treasury to cover any short-term fluctuations and longer-term funding to address any structural liquidity requirements.

When an operating subsidiary or branch is subject to a liquidity limit imposed by its local regulator, the subsidiary or branch is responsible for managing its overall liquidity within the regulatory limit in co-ordination with Central Treasury. Central Treasury monitors compliance of all operating subsidiaries and foreign branches with local regulatory limits on a daily basis.

The daily liquidity position is monitored, and regular liquidity stress testing is conducted under a variety of scenarios covering both normal and more severe market conditions.
All liquidity policies and procedures are subject to review and approval by ALCO. Daily reports cover the liquidity position of both the Group and operating subsidiaries and foreign branches. A summary report, including any exceptions and remedial action taken, is submitted regularly to ALCO.

Exposure to liquidity risk

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

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

Group and Company	**2019**	**2018**
Average for the period	46.96%	44.41%
Maximum for the period	48.63%	48.59%
Minimum for the period	44.14%	40.11%

Residual contractual maturities of assets and liabilities
Customer deposits represent current, savings, call and fixed deposit balances, which past experience have shown to be stable.

Group **31 December 2019**	**Due within 3 months KShs'000**	**Due between 3 and 12 months KShs'000**	**Due between 1 and 5 years KShs'000**	**Due after 5 years KShs'000**	**Total KShs'000**
Assets					
Cash and balances with Central Bank of Kenya	1,574,039	-	-	-	1,574,039
Investment in Government Securities	1,356,646	1,500,016	174,646	919,721	3,951,029
Placements with other banks	702,625	-	-	-	702,625
Loans and advances to customers (net)	75,600	4,728,460	2,492,417	1,806,083	9,102,560
Other assets	298,939	-	-	-	298,939
Total financial assets	**4,007,849**	**6,228,476**	**2,667,063**	**2,725,804**	**15,629,192**
Liabilities					
Customers' deposits	13,034,303	32,590	-	-	13,066,893
Lease liabilities	2,945	8,836	86,893	197,961	296,635
Other liabilities	-	210,045	-	-	210,045
Total financial liabilities	**13,037,248**	**251,471**	**86,893**	**197,961**	**13,573,573**
	(9,029,399)	**5,977,005**	**2,580,170**	**2,575,843**	**2,055,619**

Group 31 December 2018	Due within 3 months KShs'000	Due between 3 and 12 months KShs'000	Due between 1 and 5 years KShs'000	Due after 5 years KShs'000	Total KShs'000
Assets					
Cash and balances with Central Bank of Kenya	1,397,485	-	-	-	1,397,485
Investment in Government Securities	1,396,196	1,867,035	183,108	809,455	4,255,794
Placements with other banks	814,791	-	-	-	814,791
Loans and advances to customers (net)	88,707	4,570,772	2,445,200	1,923,348	9,028,027
Other assets	243,630	-	-	-	243,630
Total financial assets	**3,940,809**	**6,437,807**	**2,628,308**	**2,732,803**	**15,739,727**
Liabilities					
Customers' deposits	11,430,564	1,902,907	-	-	13,333,471
Other liabilities	-	202,384	-	-	202,384
Total financial liabilities	**11,430,564**	**2,105,291**	**-**	**-**	**13,535,855**
	(7,489,755)	**4,332,516**	**2,628,308**	**2,732,803**	**2,203,872**

Residual contractual maturities of assets and liabilities

Customer deposits represent current, savings, call and fixed deposit balances, which past experience have shown to be stable.

Company 31 December 2019	Due within 3 months KShs'000	Due between 3 and 12 months KShs'000	Due between 1 and 5 years KShs'000	Due after 5 years KShs'000	Total KShs'000
Assets					
Cash and balances with Central Bank of Kenya	1,574,039	-	-	-	1,574,039
Investment in Government Securities	1,356,646	1,500,016	174,646	919,721	3,951,029
Placements with other banks	702,625	-	-	-	702,625
Loans and advances to customers (net)	71,849	4,493,902	2,751,928	1,778,386	9,096,065
Other assets	298,939	-	-	-	298,939
Total financial assets	**4,004,098**	**5,993,918**	**2,926,574**	**2,698,107**	**15,622,697**
Liabilities					
Customers' deposits	13,034,303	32,590	-	-	13,066,893
Lease liabilities	2,945	8,836	86,893	197,961	296,635
Due to subsidiary companies	-	-	-	364,792	364,792
Other liabilities	-	210,045	-	-	210,045
Total financial liabilities	**13,037,248**	**251,471**	**86,893**	**562,753**	**13,938,365**
	(9,033,150)	**5,742,447**	**2,839,681**	**2,135,354**	**1,684,332**

Company 31 December 2018	Due within 3 months KShs'000	Due between 3 and 12 months KShs'000	Due between 1 and 5 years KShs'000	Due after 5 years KShs'000	Total KShs'000
Assets					
Cash and balances with Central Bank of Kenya	1,397,485	-	-	-	1,397,485
Investment in Government Securities	1,396,196	1,867,035	183,108	809,455	4,255,794
Placements with other banks	814,791	-	-	-	814,791
Loans and advances to customers (net)	88,707	4,570,772	2,430,578	1,931,475	9,021,532
Other assets	243,630	-	-	-	243,630
Total financial assets	**3,940,809**	**6,437,807**	**2,613,686**	**2,740,930**	**15,733,232**
Liabilities					
Customers' deposits	11,430,564	1,902,907	-	-	13,333,471
Due to subsidiary companies	-	-	-	364,792	364,792
Other liabilities	-	202,384	-	-	202,384
Total financial liabilities	**11,430,564**	**2,105,291**	**-**	**364,792**	**13,900,647**
	(7,489,755)	**4,332,516**	**2,613,686**	**2,376,138**	**1,832,585**

The above tables show the undiscounted cash flows on the Group's and Company's financial liabilities and unrecognised loan commitments on the basis of their earliest possible contractual maturity. The Group's and Company's expected cash flows on these instruments vary significantly from this analysis. For example, demand deposits from customers are expected to maintain a stable or increasing balance; and unrecognised loan commitments are not all expected to be drawn down immediately.

The gross nominal inflow/(outflow) disclosed in the previous table is the contractual, undiscounted cash flow on the financial liability or commitment. The disclosure for derivatives shows a net amount for derivatives that are net settled, but a gross inflow and outflow amount for derivatives that have simultaneous gross settlement (e.g., forward exchange contracts and currency swaps).

(c) Market risk

Market risk is the risk that changes in market prices, such as interest rate, equity prices, foreign exchange rates and credit spreads (not relating to changes in the obligor's / issuer's credit standing) will affect the Group's and Company's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return on risk.

Management of market risks

The Group and the Company separates its exposure to market risk between trading and non-trading portfolios. Trading portfolios mainly are held by the corporate banking unit, and include positions arising from market making and proprietary position taking, together with financial assets and liabilities that are managed on a fair value basis.

With the exception of translation risk arising on the Group and Company's net investment in its foreign operations, all foreign exchange risk within the Group and Company is transferred and sold down by Central Treasury to the corporate Banking unit. Accordingly, the foreign exchange position is treated as part of the Group and Company's trading portfolios for risk management purposes.

Overall authority for market risk is vested in ALCO. Group Risk is responsible for the development of detailed risk management policies (subject to review and approval by ALCO) and for the day-to-day review of their implementation.

Exposure to interest rate risk – non-trading portfolios

The principal risk to which non-trading portfolios are exposed is the risk of loss from fluctuations in the future cash flows or fair values of financial instrument because of a change in market interest rates. Interest rate risk is managed principally through monitoring interest rate gaps and by having pre-approved limits for repricing bands. The ALCO is the monitoring body for compliance with these limits and is assisted by Risk Management in its day-to-day monitoring activities.

Interest rate risk

This table shows the extent to which the group's interest rate exposures on assets and liabilities are matched. Items are allocated to time bands by reference to the earlier of the next contractual interest rate repricing date and maturity date.

Group 31 December 2019	Effective interest rate	Due within 3 months	Due between 3 and 12 months	Due between 1 and 5 years	Due after 5 years	Non-interest bearing	Total
	%	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000
Assets							
Cash and balances with Central Bank of Kenya	-	-	-	-	-	1,574,039	1,574,039
Investment in Government Securities	10.38%	1,356,646	1,500,016	174,646	919,721	-	3,951,029
Placements with other banks	4.97%	702,625	-	-	-	-	702,625
Loans and advances to customers (net)	11.98%	75,600	4,728,460	2,492,417	1,806,083	-	9,102,560
Other assets	-	-	-	-	-	298,939	298,939
Total financial assets		**2,134,871**	**6,228,476**	**2,667,063**	**2,725,804**	**1,872,978**	**15,629,192**
Liabilities							
Customers' deposits	6.22%	13,034,303	32,590	-	-	-	13,066,893
Lease liabilities	12.50%	2,945	8,836	86,893	197,961	-	296,635
Other liabilities	-	-	-	-	-	210,045	210,045
Total financial liabilities		**13,037,248**	**41,426**	**86,893**	**197,961**	**210,045**	**13,573,573**
Net exposure		**(10,902,377)**	**6,187,050**	**2,580,170**	**2,527,843**	**1,662,933**	**2,055,619**

Group 31 December 2018	Effective interest rate	Due within 3 months	Due between 3 and 12 months	Due between 1 and 5 years	Due after 5 years	Non-interest bearing	Total
	%	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000
Assets							
Cash and balances with Central Bank of Kenya	-	-	-	-	-	1,397,485	1,397,485
Investment in Government Securities	10.38%	1,396,196	1,867,035	183,108	809,455	-	4,255,794
Placements with other banks	4.97%	814,791	-	-	-	-	814,791
Loans and advances to customers (net)	11.98%	88,707	4,570,772	2,445,200	1,923,348	-	9,028,027
Other assets	-	-	-	-	-	243,630	243,630
Total financial assets		**2,299,694**	**6,437,807**	**2,628,308**	**2,732,803**	**1,641,115**	**15,739,727**
Liabilities							
Customers' deposits	6.22%	11,430,564	1,902,907	-	-	-	13,333,471
Other liabilities	-	-	-	-	-	202,384	202,384
Total financial liabilities		**11,430,564**	**1,902,907**	**-**	**-**	**202,384**	**13,535,855**
Net exposure		**(9,130,870)**	**4,534,900**	**2,628,308**	**2,732,803**	**1,438,731**	**2,203,872**

This table shows the extent to which the Company's interest rate exposures on assets and liabilities are matched. Items are allocated to time bands by reference to the earlier of the next contractual interest rate repricing date and maturity date.

Company 31 December 2019	Effective interest rate	Due within 3 months	Due between 3 and 12 months	Due between 1 and 5 years	Due after 5 years	Non-interest bearing	Total
	%	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000
Assets							
Cash and balances with Central Bank of Kenya	-	-	-	-	-	1,574,039	1,574,039
Investment in Government Securities	10.38%	1,356,646	1,500,016	174,646	919,721	-	3,951,029
Placements with other banks	4,97%	702,625	-	-	-	-	702,625
Loans and advances to customers (net)	11.98%	71,849	4,493,902	2,751,928	1,778,386	-	9,096,065
Other assets	-	-	-	-	-	298,939	298,939
Total financial assets		**2,131,120**	**5,993,918**	**2,926,574**	**2,698,107**	**1,872,978**	**15,622,697**
Liability							
Customers' deposits	6.22%	13,034,303	32,590	-	-	-	13,066,893
Lease liabilities	12.50%	2,945	8,836	86,893	197,961	-	296,635
Other liabilities	-	-	-	-	-	210,045	210,045
Total financial liabilities		**13,037,248**	**41,426**	**86,893**	**197,961**	**210,045**	**13,573,573**
Net exposure		**(10,906,128)**	**5,952,492**	**2,839,681**	**2,500,146**	**1,662,933**	**2,049,124**

Company 31 December 2018	Effective interest rate	Due within 3 months	Due between 3 and 12 months	Due between 1 and 5 years	Due after 5 years	Non-interest bearing	Total
	%	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000
Assets							
Cash and balances with Central Bank of Kenya	-	-	-	-	-	1,397,485	1,397,485
Investment in Government Securities	10.72%	1,396,196	1,867,035	183,108	809,455	-	4,255,794
Placements with other banks	5.42%	814,791	-	-	-	-	814,791
Loans and advances to customers (net)	12.56%	88,707	4,570,772	2,430,578	1,931,475	-	9,021,532
Other assets	-	-	-	-	-	243,630	243,630
Total financial assets		**2,299,694**	**6,437,807**	**2,613,686**	**2,740,930**	**1,641,115**	**15,733,232**
Liabilities							
Customers' deposits	6.57%	11,430,564	1,902,907	-	-	-	13,333,471
Other liabilities	-	-	-	-	-	202,384	202,384
Total financial liabilities		**11,430,564**	**1,902,907**	**-**	**-**	**202,384**	**13,535,855**
Net exposure		**(9,130,870)**	**4,534,900**	**2,613,686**	**2,740,930**	**1,438,731**	**2,197,377**

The management of interest rate risk against interest rate gap limits is supplemented by monitoring the sensitivity of the Group's and Company's financial assets and liabilities to various standard and non-standard interest rate scenarios. Standard scenarios that are considered on a monthly basis include a 100 basis point (bp) parallel fall or rise in all yield curves worldwide and a 50 bp rise or fall in the greater than 12-month portion of all yield curves. Overall non-trading interest rate risk positions are managed by Central Treasury, which uses investment securities, advances to banks, deposits from banks and derivative instruments to manage the overall position arising from the Group's and Company's non-trading activities.

Exposure to other market risks – non-trading portfolios

Credit spread risk (not relating to changes in the obligor / issuer's credit standing) on debt securities held by Central Treasury and equity price risk is subject to regular monitoring by Group Risk, but is not currently significant in relation to the overall results and financial position of the Group and Company.

The result of structural foreign exchange positions on the Group's and Company's net investments in foreign subsidiaries and branches, together with any related net investment hedges, is recognised in equity. The Group's policy is only to hedge such exposures when not to do so would have a significant impact on the regulatory capital ratios of the Group and its banking subsidiaries. The result of this policy is that hedging generally only

becomes necessary when the ratio of structural exposures in a particular currency to risk-weighted assets denominated in that currency diverges significantly from the capital ratio of the entity being considered.

Currency risk

The group and company are exposed to currency risk through transactions in foreign currencies. The group's and Company's transactional exposures give rise to foreign currency gains and losses that are recognised in the statement of comprehensive income. In respect of monetary assets and liabilities in foreign currencies, the group ensures that its net exposure is kept to an acceptable level by buying and selling foreign currencies at spot rates when considered appropriate. The table below summarizes the foreign currency exposure as at 31 December 2019 and 31 December 2018:

Group and Company		**2019**	**2018**
		KShs'000	**KShs'000**
Assets in foreign currencies		1,208,661	1,217,560
Liabilities in foreign currencies		(1,189,054)	(1,202,751)
Net foreign currency exposure		**19,607**	**14,809**

The following table demonstrates the sensitivity to a reasonably possible change in the below mentioned exchange rates, with all other variables held constant, of the Group's and Company's profit before tax (due to changes in the fair value of monetary assets and liabilities).

Group and Company

Increase/decrease in exchange rate		**Effect on profit before tax**	
		2019	**2018**
		KShs'000	**KShs'000**
USD	10%	1,526	1,208
GBP	10%	37	(49)
EURO	10%	301	213
OTHERS	10%	97	109

The table below analyses the currencies to which the Group and Company is exposed at 31 December 2019:

Group and Company

At 31 December 2019 – KShs'000	USD	GBP	EURO	OTHER	TOTAL
Assets					
Cash and balances with Central Bank of Kenya	65,873	23,270	5,130	-	94,273
Deposits and balances due from banking institutions	418,208	161,005	26,690	1,026	606,929
Loans and advances to customers (net)	425,071	-	82,388	-	507,459
Total foreign currency assets	**909,152**	**184,275**	**114,208**	**1,026**	**1,208,661**
Liabilities					
Other liabilities	12,584	81	96,363	30	109,058
Deposits and balances due to banking institutions	881,313	183,826	14,830	27	1,079,996
Total foreign currency liabilities	**893,897**	**183,907**	**111,193**	**57**	**1,189,054**
Foreign currency exposure at 31 December 2019	**15,255**	**368**	**3,015**	**969**	**19,607**
Off balance sheet items	**540,287**	**8,097**	**108,054**	**-**	**656,438**
At 31 December 2018 – KShs'000	**USD**	**GBP**	**EURO**	**OTHER**	**TOTAL**
Assets					
Cash and balances with Central Bank of Kenya	49,996	6,820	4,422	-	61,238
Deposits and balances due from banking institutions	410,306	231,734	24,660	1,136	667,836
Loans and advances to customers (net)	407,803	2,421	78,262	-	488,486
Total foreign currency assets	**868,105**	**240,975**	**107,344**	**1,136**	**1,217,560**
Liabilities					
Other liabilities	2,452	79	87,335	20	89,886
Deposits and balances due to banking institutions	853,578	241,385	17,876	26	1,112,865
Total foreign currency liabilities	**856,030**	**241,464**	**105,211**	**46**	**1,202,751**
Foreign currency exposure at 31 December 2018	**12,075**	**(489)**	**2,133**	**1,090**	**14,809**
Off balance sheet items	**588,715**	**2,490**	**105,076**	**-**	**696,281**

(d) Operational risk

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

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

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

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

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

(e) Capital management

Regulatory capital

The Central Bank of Kenya sets and monitors capital requirements for the Group and Company as a whole. The parent company and individual banking operations are directly supervised by the regulator.

In implementing current capital requirements, the Central Bank of Kenya requires the Group and Company to maintain a prescribed ratio of total capital to total risk-weighted assets. The Group and Company calculates requirements for market risk in its trading portfolios based upon the Group's and Company's value at risk (VaR) models and uses its internal grading as the basis for risk weightings for credit risk.

The Group and Company's regulatory capital is analysed into two tiers:

- Tier 1 capital, which includes ordinary share capital, share premium, perpetual bonds (which are classified as innovative Tier 1 securities), retained earnings, translation reserve and minority interests after deductions for goodwill and intangible assets, and other regulatory adjustments relating to items that are included in equity but are treated differently for capital adequacy purposes.

- Tier 2 capital, which includes qualifying subordinated liabilities, collective impairment allowances and the element of the fair value reserve relating to unrealised gains on equity instruments classified as available-for-sale.

Various limits are applied to elements of the capital base. The amount of innovative tier 1 securities cannot exceed 15 percent of total tier 1 capital; qualifying tier 2 capital cannot exceed tier 1 capital; and qualifying term subordinated loan capital may not exceed 50 percent of tier 1 capital.

There also are restrictions on the amount of collective impairment allowances that may be included as part of tier 2 capital. Other deductions from capital include the carrying amounts of investments in subsidiaries that are not included in the regulatory consolidation, investments in the capital of banks and certain other regulatory items.

Banking operations are categorised as either trading book or banking book, and risk-weighted assets are determined according to specified requirements that seek to reflect the varying levels of risk attached to assets and off-balance sheet exposures.

The Group's and Company's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business.

The impact of the level of capital on shareholders' return is also recognised and the Group and Company recognises the need to maintain a balance between the higher returns that might be possible with greater gearing and the advantages and security afforded by a sound capital position.

The Group and Company and its individually regulated operations have complied with all externally imposed capital requirements throughout the period.

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

The Group's and Company's regulatory capital position at 31 December was as follows:

	Group		Company	
	2019	**2018**	**2019**	**2018**
Core capital (Tier 1)	**KShs'000**	**KShs'000**	**KShs'000**	**KShs'000**
Paid up share capital	450,375	450,375	450,375	450,375
Retained earnings	1,889,724	1,744,470	1,818,812	1,673,558
Net after tax profits	183,658	225,568	183,658	225,568
Core capital	**2,523,757**	**2,420,413**	**2,452,845**	**2,349,501**
Supplementary capital (Tier 2)	217,053	136,739	217,053	136,739
Total capital	**2,740,810**	**2,557,152**	**2,669,898**	**2,486,240**
On balance sheet risk weighted assets	11,584,343	10,489,149	11,577,848	10,482,654
Off balance sheet risk weighted assets	761,319	752,754	761,319	752,754
Total risk weighted assets	**12,345,662**	**11,241,903**	**12,339,167**	**11,235,408**
Capital adequacy ratios				
Percentage of Core Capital to Risk Weighted Asset ratio	20.44%	21.53%	19.88%	20.91%
Minimum requirement	10.50%	10.50%	10.50%	10.50%
Percentage of Total Capital to Risk Weighted Asset ratio	22.20%	22.75%	21.64%	22.13%
Minimum requirement	14.50%	14.50%	14.50%	14.50%
Percentage of Core Capital to Deposits ratio	19.31%	18.15%	18.77%	17.62%
Minimum requirement	8.00%	8.00%	8.00%	8.00%

Capital allocation

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

Although maximisation of the return on risk-adjusted capital is the principal basis used in determining how capital is allocated within the Group and Company to particular operations or activities, it is not the sole basis used for decision making. Account also is taken of synergies with other operations and activities, the availability of management and other resources, and the fit of the activity with the Group's and Company's longer-term strategic objectives. The Group's and Company's policies in respect of capital management and allocation are reviewed regularly by the Board of Directors.

(f) Financial assets and liabilities and their fair values

The table below sets out the Group's classification of each class of financial assets and liabilities, and their fair values (excluding accrued interest):

Group	Amortised cost KShs'000	Amortised cost KShs'000	Other amortised cost KShs'000	Total carrying amount KShs'000	Fair values KShs'000
As at 31 December 2019					
Assets					
Cash and cash equivalents	-	-	1,574,039	1,574,039	1,574,039
Placements with other banks	-	-	702,625	702,625	702,625
Investments in Government securities	3,951,029	-	-	3,951,029	3,951,029
Loans and advances to customers (net)	-	9,102,560	-	9,102,560	9,102,560
Other assets – items in transit	-	298,939	-	298,939	298,939
Total assets	**3,951,029**	**9,401,499**	**2,276,664**	**15,629,192**	**15,629,192**
Liabilities and shareholders' funds					
Customers' deposits	-	-	12,976,397	12,976,397	12,976,397
Total liabilities	**-**	**-**	**12,976,397**	**12,976,397**	**12,976,397**
As at 31 December 2018					
Assets					
Cash and cash equivalents	-	-	1,397,485	1,397,485	1,397,485
Placements with other banks	-	-	814,791	814,791	814,791
Investments in Government securities	4,255,794	-	-	4,255,794	4,255,794
Loans and advances to customers (net)	-	9,028,027	-	9,028,027	9,028,027
Other assets – items in transit	-	243,630	-	243,630	243,630
Total assets	**4,255,794**	**9,271,657**	**2,212,276**	**15,739,727**	**15,739,727**
Liabilities and shareholders' funds					
Customers' deposits	-	-	13,245,095	13,245,095	13,245,095
Total liabilities	**-**	**-**	**13,245,095**	**13,245,095**	**13,245,095**

The table below sets out the Company's classification of each class of financial assets and liabilities, and their fair values (excluding accrued interest):

Company	Amortised cost KShs'000	Amortised cost KShs'000	Other amortised cost KShs'000	Total carrying amount KShs'000	Fair values KShs'000
As at 31 December 2019					
Assets					
Cash and cash equivalents	-	-	1,574,039	1,574,039	1,574,039
Placements with other banks	-	-	702,625	702,625	702,625
Investments in Government securities	3,951,029	-	-	3,951,029	3,951,029
Loans and advances to customers (net)	-	9,096,065	-	9,096,065	9,096,065
Other assets – items in transit	-	298,939	-	298,939	298,939
Total assets	**3,951,029**	**9,395,004**	**2,276,664**	**15,622,697**	**15,622,697**
Liabilities and shareholders' funds					
Customers' deposits	-	-	12,976,397	12,976,397	12,976,397
Total liabilities	**-**	**-**	**12,976,397**	**12,976,397**	**12,976,397**
As at 31 December 2018					
Assets					
Cash and cash equivalents	-	-	1,397,485	1,397,485	1,397,485
Placements with other banks	-	-	814,791	814,791	814,791
Investments in Government securities	4,255,794	-	-	4,255,794	4,255,794
Loans and advances to customers (net)	-	9,021,532	-	9,021,532	9,021,532
Other assets – items in transit	-	243,630	-	243,630	243,630
Total assets	**4,255,794**	**9,265,162**	**2,212,276**	**15,733,232**	**15,733,232**
Liabilities and shareholders' funds					
Customers' deposits	-	-	13,245,095	13,245,095	13,245,095
Total liabilities	**-**	**-**	**13,245,095**	**13,245,095**	**13,245,095**

The financial instruments have been disclosed at either original cost or amortised cost. The market has not developed a standard yield curve that can be used to fair value securities held to maturity (HTM). The total HTM portfolio is therefore reflected at amortised cost. Loans and advances are not actively traded in the market, rendering fair valuation impractical. The carrying amount approximates the fair value of the financial instruments.

5. INTEREST INCOME - Group and Company

	2019 KShs'000	2018 KShs'000
Interest income		
Loans and advances to customers	1,200,203	1,348,197
Interest on government securities	403,488	385,746
Placements with other banks and banking institutions	21,416	47,271
Total interest income	**1,625,107**	**1,781,214**

6. INTEREST EXPENSE

	2019 KShs'000	2018 KShs'000
Interest expense		
Customer deposits	823,484	851,945
Deposits from other banks and banking institutions	169	-
Lease liabilities	37,842	-
Other interest expenses	8,481	14,471
Total interest expense	**869,976**	**866,416**

7. FEE AND COMMISSION INCOME - Group and Company

Fee and commission on loans and advances	93,173	86,980
Other fee and commissions	15,274	15,059
	108,447	**102,039**

8. NET TRADING INCOME - Group and Company

Foreign exchange	25,680	18,750
Other	15,911	9,887
	41,591	**28,637**

9. OTHER REVENUE - Group and Company

Service income	10,996	12,157
Other income	18,133	7,018
	29,129	**19,175**

10. OPERATING EXPENSES - Group and Company

(a) Personnel expenses

Salaries	361,988	357,136
Other staff costs	26,955	16,533
	388,942	**373,669**

The average number of employees of the Group and Company during the year was 117 (2018 – 120).
44 employees were management staff (2018 - 50) and 73 employees were non-management staff (2018 - 70).

10. OPERATING EXPENSES - Group and Company (Continued)

(b) Other operating expenses

	2019 KShs'000	2018 KShs'000
Donations	181	10,355
Insurance expenses	38,695	36,006
Legal expenses	13,538	11,230
Occupancy expenses	34,096	81,163
Other operating expenses	121,997	116,172
	208,507	**254,926**

11. PROFIT BEFORE INCOME TAX - Group and Company

Profit before income tax is arrived at after charging/(crediting):

	2019	2018
Depreciation expense (Note 20)	22,837	28,770
Depreciation of right of use assets	38,105	38,105
Amortisation of intangible assets (Note 22)	1,461	1,740
Directors fees - As directors	5,590	5,440
- As employees	59,573	57,641
Auditor's remuneration	5,050	5,550
Profit on sale of property and equipment	**(1,695)**	**-**

12. INCOME TAX

(a) Income tax expense – Group

	2019	2018
Current tax expense:		
Current year 60,819	101,308	
Prior year's tax assessment paid (2014 – 2016)	-	45,755
Prior year adjustment	-	(22)
	60,819	147,041
Deferred tax credit (Note 23):		
Current year 6,072	(24,564)	
Total tax expense	**66,891**	**122,477**

The tax on the bank's profit differs from the theoretical amount using the basic tax rate as follows:

	2019	2018
Profit before income tax	**250,549**	**348,045**
Tax at applicable rate	75,165	104,414
Net effect of non-deductible costs and		
non-taxable income	(8,274)	(27,670)
Prior years tax assessment paid (2014 – 2016)	-	45,755
Prior year Current tax adjustment	-	(22)
Total tax expense	**66,891**	**122,477**

12. INCOME TAX (Continued)

(b) Tax payable (recoverable) - Group	**2019 KShs'000**	**2018 KShs'000**
At 1 January	19,842	(47,089)
Charge for the year	60,819	147,042
Prior year's tax assessment paid (2014 – 2016)	-	(45,755)
Paid during the year	(131,281)	(34,356)
At 31 December	**(50,620)**	**19,842**

(c) Income tax expense - Company

Current tax expense:		
Current year	60,819	101,308
Prior year's tax assessment paid (2014 – 2016)		45,755
Prior year adjustment		(22)
	60,819	147,041
Deferred tax credit (Note 23):		
Current year	6,072	(24,564)
Total tax expense	**66,891**	**122,477**

The tax on the bank's profit differs from the theoretical amount using the basic tax rate as follows:

Profit before income tax	**250,549**	**348,045**
Tax at applicable rate	75,165	104,414
Net effect of non-deductible costs and		
non-taxable income	(8,274)	(27,670)
Prior years tax assessment paid (2014 – 2016)	-	45,755
Prior year current tax adjustment	-	(22)
Total tax expense	**66,891**	**122,477**

(d) Tax payable/(recoverable) - Company

At 1 January	19,842	(47,089)
Charge for the year	60,819	147,042
Prior years tax assessment paid (2014 – 2016)	-	(45,755)
Paid during the year	(131,281)	(34,356)
At 31 December	**(50,620)**	**19,842**

13. BASIC EARNINGS PER SHARE - Group

The calculation of basic earnings per share is based on:

	2019	2018
Net profit for the year attributable to shareholders (KShs '000)	**183,658**	**225,568**
Number of ordinary shares in issue during the year	**22,518,750**	**22,518,750**
Earnings per share (KShs)	**8.16**	**10.02**

At 31 December 2019 there are no ordinary shares with dilutive potential (2018 – Nil).

14. CASH AND BALANCES WITH CENTRAL BANK OF KENYA - Group and Company

	2019 KShs'000	2018 KShs'000
Cash on hand	161,288	130,658
Balances with Central Bank of Kenya:		
Cash reserve ratio	681,261	695,367
Other	731,490	571,460
	1,574,039	**1,397,485**

The cash ratio reserve is non-interest earning and is based on the value of deposits as adjusted for Central Bank of Kenya requirements. At 31 December 2019, the cash reserve ratio requirement was 5.25% of eligible deposits (2018 – 5.25%). The funds are available for use by the Group and Company in its day-to-day operations in a limited way provided that on any given day this balance does not fall below 3.00% requirement and provided the overall average in the month is at least 5.25%.

15. PLACEMENTS WITH OTHER BANKS

Group and Company	2019 KShs'000	2018 KShs'000
Due within 12 months of reporting date	703,286	817,261
Less impairment allowance	(661)	(2,470)
Net due within 12 months of reporting date	**702,625**	**814,791**

16. INVESTMENTS IN GOVERNMENT SECURITIES - Group and Company

Amortized cost	2019 KShs'000	2018 KShs'000
Term deposits		
Maturing within 90 days of reporting date	-	500,075
Treasury bills		
Maturing within 90 days of reporting date	896,120	1,356,646
Maturing after 90 days of reporting date	1,500,016	1,824,663
	2,856,662	**2,720,783**
Treasury bonds		
Maturing between 0 months and 3 months	-	-
Maturing between 3 months and 1 year	-	42,373
Maturing between 1 year and 5 years	174,646	225,481
Maturing after 5 years	919,721	809,455
	1,094,367	1,034,936
	3,951,029	**4,255,794**

The above investments in government securities have been presented net of impairment losses of KShs 11,507,976 (2018 – KShs 10,153,648) – See note 4(a).

The weighted average effective interest rate on Government securities at 31 December 2019 was 10.38% (2018 – 10.72%).

17. OTHER INVESTMENTS

Private placements

	2019	2018
Group and Company	**KShs'000**	**KShs'000**
Private placements	**5,067**	-

18. LOANS AND ADVANCES TO CUSTOMERS

(a) Group

	2019 KShs'000	2018 KShs'000
Overdrafts	4,107,195	4,207,904
Loans	4,810,872	4,675,763
Bills discounted	148,416	176,235
Hire purchase	364,554	370,819
Premium financing	264,501	193,574
Bills purchased	74,493	43,196
	9,770,031	9,667,491
Less: Impairment losses reserve (Note 18(c))	(667,471)	(639,464)
	9,102,560	**9,028,027**

(b) Company

	2019 KShs'000	2018 KShs'000
Overdrafts	4,017,829	4,118,537
Loans	4,755,211	4,620,102
Bills discounted	148,416	176,235
Hire purchase	364,553	370,819
Premium financing	264,501	193,574
Bills purchased	74,493	43,196
	9,625,003	9,522,463
Less: Impairment losses reserve (Note 18(d))	(528,938)	(500,931)
	9,096,065	**9,021,532**

(c) Amounts arising from ECL – Group

Group										
Loss allowance					**2019**					**2018**
In KShs'000	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**Total**	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**Total**
Loans and advances to customers – Total										
Balance at 1 January	**20,493**	**1,194**	**617,777**	**-**	**639,464**	**11,007**	**18,631**	**737,892**	**-**	**767,530**
Transfer to Stage 1	(844)	726	118	-	-	12,455	-	(12,455)	-	-
Transfer to Stage 2	(72)	72	-	-	-	(2)		(537)	-	-
Transfer to Stage 3	-	-	-	-	-	-	(38)		-	-
Net re-measurement of loss allowance	16,593	4,077	30,773	-	51,443	(2,040)	(17,309)	63,364	-	44,015
Net financial assets originated or purchased	11,417	-	-	-	11,417	2,903	24	211	-	3,138
Financial assets that have been derecognized	(6,932)	-	-	-	(6,932)	(3,830)	(653)	-	-	(4,483)
Write offs	-	(1)	(27,920)	-	(27,921)		-	(172,378)	-	(172,378)
Recoveries	-	-	-	-	-	-	-	1,642	-	1,642
Foreign exchange and other movements	-	-	-	-	-	-	-	-	-	-
Balance at 31 December	**40,655**	**6,068**	**620,748**	**-**	**667,471**	**20,493**	**1,194**	**617,777**	**-**	**639,464**

(c) Amounts arising from ECL – Company

Company										
Loss allowance					**2019**					**2018**
In KShs'000	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**Total**	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**Total**
Loans and advances to customers – Total										
Balance at 1 January	**20,493**	**1,194**	**479,244**	**-**	**500,391**	**11,007**	**18,631**	**599,359**	**-**	**628,997**
Transfer to Stage 1	(844)	726	118	-	-	12,455	-	(12,455)	-	-
Transfer to Stage 2	(72)	72	-	-	-	(2)	539	(537)	-	-
Transfer to Stage 3	-	-	-	-	-	-	(38)	38	-	-
Net re-measurement of loss allowance	16,593	4,077	30,773	-	51,443	(2,040)	(17,309)	63,364	-	44,015
Net financial assets originated or purchased	11,417	-	-	-	11,417	2,903	24	211	-	3,138
Financial assets that have been derecognized	(6,932)	-	-	-	(6,932)	(3,830)	(653)	-	-	(4,483)
Write offs	-	(1)	(27,920)	-	(27,921)		-	(172,378)	-	(172,378)
Recoveries	-	-	-	-	-	-	-	1,642	-	1,642
Foreign exchange and other movements	-	-	-	-	-	-	-	-	-	-
Balance at 31 December	**40,655**	**6,068**	**482,215**	**-**	**528,938**	**20,493**	**1,194**	**479,244**	**-**	**500,931**

(d) Loans and advances to customers movement – Group

Group **Gross loans movement**	**2019**				
In KShs'000	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**Total**
Loans and advances to customers – Total					
Balance at 31 December 2018/ 1 January 2019	**8,595,862**	**111,189**	**960,439**	**-**	**9,667,490**
Transfer to Stage 1	(150,886)	150,886	-	-	-
Transfer to Stage 2	(38,666)	38,666	-	-	-
Transfer to Stage 3	(33,361)	-	33,361	-	-
Net re-measurement of loss allowance	(591,247)	31,383	(21,440)	-	(581,304)
Net financial assets originated or purchased	2,098,358	-	-	-	2,098,358
Financial assets that have been derecognised	(1,384,803)	-	-	-	(1,384,803)
Write offs	-	(1,561)	(28,149)	-	(29,710)
Recoveries	-	-	-	-	-
Foreign exchange and other movements	-	-	-	-	-
Balance at 31 December 2019	**8,495,257**	**328,563**	**944,211**	**-**	**9,770,031**

(d) Loans and advances to customers movement – Group

Group **Gross loans movement**	**2018**				
In KShs'000	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**Total**
Loans and advances to customers – Total					
Balance at 31 December 2017/ 1 January 2018	**9,122,643**	**91,921**	**1,121,769**	**-**	**10,336,333**
Transfer to Stage 1	44,027	-	(44,027)	-	-
Transfer to Stage 2	(57,850)	58,387	(537)	-	-
Transfer to Stage 3	-	(9,123)	9,123	-	-
Net re-measurement of loss allowance	(725,349)	(24,554)	55,888	-	(694,015)
Net financial assets originated or purchased	1,912,694	411	211	-	1,913,316
Financial assets that have been derecognised	(1,700,303)	(5,852)	-	-	(1,706,155)
Write offs	-	-	(183,630)	-	(183,630)
Recoveries	-	-	1,642	-	1,642
Foreign exchange and other movements	-	-	-	-	-
Balance at 31 December 2018	**8,595,862**	**111,190**	**960,439**	**-**	**9,667,491**

The table above represents the movement in loan outstanding balances within the year based on the staging of the loan.

(d) Loans and advances to customers movement – Company

Company **Gross loans movement**	**2019**				
In KShs'000	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**Total**
Loans and advances to customers – Total					
Balance at 31 December 2018/ 1 January 2019	**8,595,862**	**111,189**	**815,411**	**-**	**9,522,462**
Transfer to Stage 1	(150,886)	150,886	-	-	-
Transfer to Stage 2	(38,666)	38,666	-	-	-
Transfer to Stage 3	(33,361)	-	33,361	-	-
Net re-measurement of loss allowance	(591,247)	31,383	(21,440)	-	(581,304)
Net financial assets originated or purchased	2,098,358	-	-	-	2,098,358
Financial assets that have been derecognised	(1,384,803)	-	-	-	(1,384,803)
Write offs	-	(1,561)	(28,149)	-	(29,710)
Recoveries	-	-	-	-	-
Foreign exchange and other movements	-	-	-	-	-
Balance at 31 December 2019	**8,495,257**	**330,563**	**799,183**	**-**	**9,625,003**

(d) Loans and advances to customers movement – Company

Company Gross loans movement	2018				
In KShs'000	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**Total**
Loans and advances to customers – Total					
Balance at 31 December 2017/ 1 January 2018	**9,122,643**	**91,921**	**976,742**	**-**	**10,191,306**
Transfer to Stage 1	44,027	-	(44,027)	-	-
Transfer to Stage 2	(57,850)	58,387	(537)	-	-
Transfer to Stage 3	-	(9,123)	9,123	-	-
Net re-measurement of loss allowance	(725,349)	(24,554)	55,887	-	(694,016)
Net financial assets originated or purchased	1,912,694	411	211	-	1,913,316
Financial assets that have been derecognised	(1,700,303)	(5,852)	-	-	(1,706,155)
Write offs	-	-	(183,630)	-	(183,630)
Recoveries	-	-	1,642	-	1,642
Foreign exchange and other movements	-	-	-	-	-
Balance at 31 December 2018	**8,595,862**	**111,190**	**815,411**	**-**	**9,522,463**

The table above represents the movement in loan outstanding balances within the year based on the staging of the loan.

(e) Non-performing loans and advances – Group and Company

Loans and advances include a net amount of KShs 323,463,000 (2018 – KShs 342,662,000) for the Group and Company and KShs 316,968,000 (2018 – KShs 336,168,000) for the Company, which have been classified as non-performing. The estimated value of securities held against this net balance is KShs 413,036,000 (2018 – KShs 405,980,000).

	2019 KShs'000	2018 KShs'000
Interest on impaired loans and advances which has not yet been received in cash	**316,960**	**277,028**

19. OTHER ASSETS

Group and Company

	2019	2018
Items in transit	120,647	121,176
Accounts receivable and prepayments	178,292	122,454
	298,939	**243,630**

20. INVESTMENT IN SUBSIDIARIES

(a) Investment in subsidiaries

Company ownership

		2019	2018
		KShs'000	KShs'000
The First National Finance Bank Ltd	100%	104,375	104,375
Guilders International Bank Ltd	100%	196,000	196,000
		300,375	**300,375**

(b) Balances due to subsidiary companies

Balance as at 1 January	364,792	364,792
Prior year tax paid by Holding Company	-	
Balance as at 31 December	**364,792**	**364,792**

Comprising:

The First National Finance Bank Ltd	156,245	156,245
Guilders International Bank Ltd	208,547	208,547
	364,792	**364,792**

In the view of the directors, the investment in subsidiaries is not impaired.

21. PROPERTY AND EQUIPMENT

Group and Company			**Equipment**		**Capital**	
		Leasehold	**furniture**	**Motor**	**work in**	
2019:	**Buildings**	**improvements**	**and fittings**	**vehicles**	**progress**	**Total**
	KShs'000	**KShs'000**	**KShs'000**	**KShs'000**	**KShs'000**	**KShs'000**
Cost						
At 1 January 2019	**51,503**	**83,476**	**129,675**	**44,849**	**-**	**309,503**
Additions	-	-	3,896	7,649	375	11,920
Write offs	-	-	(2,625)	-	-	(2,625)
Disposals	-	-	-	(2,560)	-	(2,560)
At 31 December 2019	**51,503**	**83,476**	**130,946**	**49,938**	**375**	**316,238**
Depreciation						
At 1 January 2019	18,704	70,011	109,941	37,027	-	235,683
Charge for the year	1,570	5,973	6,928	8,366	-	22,837
Write offs	-	-	(2,449)	-	-	(2,449)
Disposals	-	-	-	(2,560)	-	(2,560)
At 31 December 2019	**20,274**	**75,984**	**114,420**	**42,833**	**-**	**253,511**
Carrying amount						
At 31 December 2019	**31,229**	**7,492**	**16,526**	**7,105**	**375**	**62,727**

Group and Company			**Equipment**		
		Leasehold	**furniture**	**Motor**	
2018:	**Buildings**	**improvements**	**and fittings**	**vehicles**	**Total**
	KShs'000	**KShs'000**	**KShs'000**	**KShs'000**	**KShs'000**
At 1 January 2018	**51,503**	**124,197**	**134,416**	**47,899**	**358,015**
Additions	-	-	3,763	-	3,763
Write offs	-	(40,721)	(8,504)	(3,050)	(52,275)
At 31 December 2018	**51,503**	**83,476**	**129,675**	**44,849**	**309,503**
Depreciation					
At 1 January 2018	**17,134**	**103,807**	**107,841**	**30,406**	**259,188**
Charge for the year	1,570	6,925	10,604	9,671	28,770
Write offs	-	(40,721)	(8,504)	(3,050)	(52,275)
Disposals	-	-	-	-	-
At 31 December 2018	**18,704**	**70,011**	**109,941**	**37,027**	**235,683**
Carrying amount					
At 31 December 2018	**32,799**	**13,465**	**19,734**	**7,822**	**73,820**

The gross carrying value of fully depreciated leasehold improvements and equipment that are still in use is KShs 174,744,196 (2018 – KShs 134,590,004). Such assets would have attracted a notional depreciation of KShs 33,286,426 (2018 – KShs 29,702,118).

22. INTANGIBLE ASSETS - SOFTWARE

Group and company	**2019**	**2018**
	KShs'000	**KShs'000**
Cost		
At 1 January	24,330	25,951
Additions	3,546	1,000
Write-offs	(1,152)	(2,621)
At 31 December	26,724	24,330
Amortisation		
At 1 January	22,590	23,472
Amortisation during the year	1,461	1,739
Write-offs	(1,151)	(2,621)
At 31 December	22,900	22,590
Carrying amount as at 31 December	**3,824**	**1,740**
Capital work in progress		
Cost		
At 1 January	-	-
Additions	35,167	-
At 31 December	**35,167**	-

23. DEFERRED TAX ASSET

Group and company

Deferred tax asset at 31 December 2019 and 2018 is attributable to the items detailed in the table below:

2019	At 01-Jan-19 KShs'000	Recognised in profit or loss KShs '000	At 31-Dec-19 KShs '000
Arising from:			
Property and equipment	5,755	723	6,478
Provision for loans and advances	109,306	-11,145	98,161
Gratuity provision	20,559	-1,588	18,971
Other provisions	-	-128	-128
IFRS 16 adjustment	-	5,466	5,466
Leave accrual	980	600	1,580
	136,600	**-6,072**	**130,528**

2018	At 01-Jan-18 KShs'000	Recognised in profit or loss KShs '000	Recognised in equity KShs '000	At 31 Dec-18 KShs '000
Arising from:				
Property and equipment	3,446	2,309	-	5,755
Provision for loans and advances	68,987	21,877	18,442	109,306
Gratuity provision	19,470	1,089	-	20,559
Leave accrual	1,691	-711	-	980
	93,594	**24,564**	**18,442**	**136,600**

24. CUSTOMERS DEPOSITS

Group and Company	2019 KShs'000	2018 KShs'000
Non-profit institutions and individuals	9,204,723	9,325,325
Private enterprises	2,782,174	2,895,280
Foreign currency accounts	1,079,996	1,112,866
	13,066,893	**13,333,471**

25. OTHER LIABILITIES

Group and Company

Sundry creditors	81,014	90,815
Expected credit losses on off balance sheet items	32	2
Accruals	128,999	111,567
	210,045	**202,384**

26. PROVISIONS

Group and Company

(a) Gratuity provision

The Company operated a non-contributory gratuity scheme for qualifying employees paid at the discretion of management until 31 August 2018. An employee who worked for more than five years was eligible for the gratuity amount based on the lower of six months monthly salary or an equivalent of 15 days salary for every year worked. The lump sum benefits were payable to the employees of the Bank on their normal retirement at age 55, on leaving service, on ill-health early retirement or on death in service based on service completed and salary at date of leaving service. The most recent actuarial valuations of the present value of the obligation were carried out at 31 December 2018 by Zamara Actuaries, Administrators & Consultants Limited (formerly, Alexander Forbes). The gratuity scheme was stopped on 31 August 2018, however gratuity that had accrued for qualifying employees is still held in the scheme and will be paid at management's discretion when the above criteria is met. From 1 September 2018 all staff were transferred to the defined contribution scheme.

A provision is made in the financial statements for the estimated liability in respect of the benefits promised under the arrangement. The movement in provision is as shown below:

	2019 KShs'000	**2018 KShs'000**
Value of obligation at 1 January	**68,530**	64,900
Final dues paid during the year	(5,294)	(6,870)
Actuarial loss – obligation	-	10,500
	63,236	**68,530**
Included in profit or loss		
Actuarial loss – obligation	**-**	**10,500**

The principal assumptions used for the purposes of the actuarial valuations were as follows:

Discount rate	14.5% per annum
Salary escalation rate	6% per annum
Mortality–in–service	A 1949/52 Ultimate
Ill-health early retirement	At rates consistent with similar arrangements
Withdrawals	At rates consistent with similar arrangements
Retirement age	55 years

The actuarial valuation of the gratuity arrangement is sensitive to the actuarial assumptions made which could change based on future events.

(b) Other provisions

	2019 KShs'000	**2018 KShs'000**
Leave provision	5,267	3,267
Utility costs	3,564	1,317
	8,831	4,584
Total gratuity and other provisions	**72,067**	**73,114**

27. RESERVES

Group and Company

(a) Share capital

Authorised		
25,000,000 ordinary shares of KShs 20 each	**500,000**	**500,000**
Issued and fully paid		
22,518,750 ordinary shares of KShs 20 each	**450,375**	**450,375**

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at general meetings of the parent company.

(b) Statutory credit risk reserve

This represents an amount set aside to cover additional provisions for loan losses required to comply with the requirements of Central Bank of Kenya Prudential Guidelines. The amount is not available for distribution. The reserve balance as at 31 December 2019 was KShs 217,053,000 (2018 – 136,739,000).

28. ASSETS PLEDGED AS SECURITY

As at 31 December 2019, treasury bonds/bills amounting to KShs 50,000,000 (2018 – KShs 50,000,000) with Bank of India were pledged as security for letter of credit facilities.

29. NOTES TO THE STATEMENT OF CASH FLOWS

Group

(a) Reconciliation of profit before income tax to cash flows from operating activities

	2019 KShs '000	2018 KShs '000
Profit before income tax	250,549	348,045
Impairment adjustment on initial application of IFRS 9	-	(61,473)
Depreciation	22,837	28,770
Depreciation on right of use assets	38,105	7,999
Amortisation of intangible asset	1,461	1,739
Loss on write off of asset	176	-
Profit on sale of property and equipment	(1,695)	-
	311,433	325,080
(Increase)/decrease in operating assets		
Central Bank of Kenya cash reserve ratio	14,106	(11,209)
Other Investments	(5,067)	-
Loans and advances to customers	(74,533)	588,938
Government securities maturing in more than 3 months	265,216	(1,076,885)
Other assets	(55,309)	21,699
	144,414	(477,457)
Increase/(decrease) in operating liabilities		
Customers deposits	(266,578)	215,331
Other liabilities	7,661	(35,051)
Provisions	(1,047)	548
	(259,964)	180,828
Net cash flows from/used in operations before income tax	195,883	28,451
Income taxes paid	(131,281)	(80,111)
Net cash flows from operating activities	**64,602**	**(51,660)**

(b) Analysis of the balances of cash and cash equivalents

Group	2019 KShs '000	2018 KShs '000	Change in the year KShs '000
Balances with Central Bank of Kenya	731,490	571,460	160,030
Cash on hand	161,288	130,658	30,630
Placements with other banks	702,625	814,791	(112,166)
Term deposits maturing within 3 months	-	500,075	(500,075)
Treasury bills maturing within 3 months	1,356,646	896,120	460,526
	2,952,049	**2,913,104**	**38,945**

Company

(c) Reconciliation of profit before income tax to cash flows from operating activities

	2019 KShs '000	2018 KShs '000
Profit before income tax	250,549	348,045
Impairment adjustment on initial application of IFRS 9	-	(61,473)
Depreciation	22,837	28,770
Amortisation of intangible asset	1,461	1,739
Depreciation of right of use assets	38,105	7,999
Loss on write off of asset	176	-
Profit on sale of property and equipment	(1,695)	-
	311,433	325,080
(Increase)/decrease in operating assets		
Central Bank of Kenya cash reserve ratio	14,106	(11,209)
Other Investments	(5,067)	-
Loans and advances to customers	(74,533)	588,938
Government securities maturing in more than 3 months	265,216	(1,076,885)
Other assets	(55,309)	21,699
	144,414	(477,457)
Increase/(decrease) in operating liabilities		
Customers deposits	(266,578)	215,331
Other liabilities	7,661	(35,051)
Provisions	(1,047)	548
	(259,964)	180,828
Net cash flows from operations before income tax	195,883	28,451
Income taxes paid	(131,281)	(80,111)
Net cash flows from/(used in) operating activities	**64,602**	**(51,660)**

(d) Analysis of the balances of cash and cash equivalents

Company	**2019 KShs '000**	**2018 KShs '000**	**Change in the year KShs '000**
Balances with Central Bank of Kenya	731,490	571,460	160,030
Cash on hand	161,288	130,658	30,630
Placements with other banks	702,625	814,791	(112,166)
Term deposits maturing within 3 months	-	500,075	(500,075)
Treasury bills maturing within 3 months	1,356,646	896,120	460,526
	2,952,049	**2,913,106**	**38,945**

30. CONTINGENT LIABILITIES

Group and Company

In the ordinary course of business, the Group and Company conducts business involving guarantees, acceptances and performance bonds. These facilities are offset by corresponding obligations of third parties. At the year end, the contingencies were as follows:

	2019	2018
	KShs '000	KShs '000
Commitments with respect to:		
Irrevocable letters of credit	326,791	415,980
Guarantees	462,905	343,555
Bills for collection	34,589	57,525
Swaps	96,363	87,335
Less impairment allowance	(32)	(2)
	920,616	**904,393**

Nature of contingent liabilities

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

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

An acceptance is an undertaking by a bank to pay a bill of exchange drawn on a customer. The Group and Company expects most acceptances to be presented and reimbursement by the customer is almost immediate.

In the ordinary course of business, the bank and its subsidiaries are defendants in various litigation and claims. Although there can be no assurances, the directors believe, based on the information currently available and legal advice, that the claims can be successfully defended and therefore no provision has been made in the financial statements.

31. RELATED PARTY TRANSACTIONS

(a) Loans and advances

The Bank has entered into transactions with its staff, directors, significant shareholders and their affiliates.

	2019	2018
The aggregate amount of loans:	**KShs'000**	**KShs'000**
Loans to employees:		
Balance at the beginning of the year	19,650	20,996
Loans advanced during the year	12,449	8,424
Loans repayments received	(13,409)	(9,770)
Balance at end of year	**18,690**	**19,650**
Loans and advances to directors, shareholders and associates	**84,593**	**80,769**
Off balance sheet items	**13,556**	**13,556**

The related interest income in 2019 was KShs 8,359,720 (2018 – KShs 11,022,902).

(b) Key management remuneration

	2019 KShs '000	2018 KShs '000
Salaries and other employee benefits	101,611	80,978

Salaries and other employee benefits include those relating to the senior management.

The aggregate amounts of deposits withdrawn from related parties at 31 December 2019 were KShs 1,559,096 (2018 – KShs 4,624,029,718). The aggregate amounts of deposits made by related parties during the same period were Kshs. 3,214,694 (2018 – KShs 4,052,223,551). The transactions were carried out on commercial terms and conditions.

In the normal course of business, the bank has entered into transactions with certain related parties. These transactions are at commercial terms and conditions.

32. RIGHT OF USE ASSETS

(a) Leasehold Land and office and branch premises

Leasehold	office and Land	branch premises	Total
2019:	**KShs'000**	**KShs'000**	**KShs'000**
Cost			
At 1 January	269,201	308,521	577,722
Amortisation			
At 1 January	35,125	-	35,125
Amortisation for the year	7,999	30,106	38,105
At 31 December	43,124	30,106	73,230
Carrying amount			
As at 31 December	**226,077**	**278,415**	**504,492**
2018:			
Cost			
At 1 January and 31st December	269,201	-	269,201
Amortisation			
At 1 January	27,126	-	27,126
Amortisation for the year	7,999	-	7,999
At 31 December	35,125	-	35,125
Carrying amount			
As at 31 December	**234,076**	**-**	**234,076**

Right of use assets in respect of leasehold land is recognised as an asset and amortised over the lease period. The Group and Company holds leases over two pieces of land in Parklands and Nairobi Central Business District (CBD) which are being amortised on a straight-line basis over 33 years and 40 years, respectively.

The Group and Company leases a number of office premises for branch operations. The leases typically run for an initial period of between five and six years with an option to renew the lease at its expiry for the same period. This has been classified as right of use assets above.

(b) Lease liabilities

The lease liabilities are initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Group and Company's incremental borrowing rate.

	2019
	KShs'000
Balance at January 2019	308,521
Additions	-
Interest expense	37,842
Repayment of the lease liability	(49,728)
	(11,886)
Balance at 31 December 2019	**296,635**

Maturity analysis – Contractual undiscounted cash flows

2018 – Operating leases under IAS 17

As at 31 December 2018, the future minimum lease payments under non-cancellable operating leases were payable as follows:

	2018
	KShs'000
Tenancy	
Less than one year	53,125
Between one and five year	166,512
Over 5 years	26,661
Total undiscounted lease liabilities at 31 December	**246,298**

Extension options

Some leases of office premises contain extension options exercisable by the Group and Company up to one year before the end of the non-cancellable contract period.

Extension options

Where practicable, the Company seeks to include extension options in new leases to provide operational flexibility. The extension options held are exercisable only by the Group and

Company and not by the lessors. The Group and Company assesses at lease commencement date whether it is reasonably certain to exercise the extension options. The Group and Company reassesses whether it is reasonably certain to exercise the options if there is a significant event or significant changes in circumstances within its control.

(c)	**Amounts recognised in profit or loss**	**KShs'000**
	2019 – Leases under IFRS 16	
	Interest in lease liabilities	37,842
	Depreciation of right of use assets	**38,105**
	2018 – Leases under IAS 17	
	Lease expense	**37,842**

		2019
		KShs'000
(d)	**Amounts recognised in statement of cash flows**	11,886

33. SUBSEQUENT EVENTS

There are no material events after the reporting date which require to be disclosed (2018 – Nil).