SIDIAN BANK LIMITED

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019

Contents **Page**

Directors	**Executive**	
	Chege Thumbi	
	Non-executive	
	Dr. James Mworia	Chairman
	Mary Ann Musangi	
	Kimanthi Mutua	
	Tom Kariuki	Independent
	Catherine Mturi-Wairi	Independent
	Oscar Kang'oro	Independent
Board Committees		
Audit and Risk Committee	Catherine Mturi-Wairi	Chairperson
	Kimanthi Mutua	
	Tom Kariuki	
	Mary Ann Musangi	
	Oscar Kang'oro	
Asset and Liability Committee	Kimanthi Mutua	Chairperson
	Catherine Mturi-Wairi	
	Chege Thumbi	
	Mary Anne Musangi	
	Oscar Kang'oro	
Credit Committee	Tom Kariuki	Chairperson
	Kimanthi Mutua	
	Chege Thumbi	
	Oscar Kang'oro	
Nominations and Governance Committee	Mary Ann Musangi	Chairperson
	Catherine Mturi-Wairi	
	Chege Thumbi	
	Tom Kariuki	
Company Secretary	Daisy Ajima R/CPS 2003 Certified Public Secretary P O Box 25363 - 00603 Nairobi	
Registered Office	K-Rep Centre Wood Avenue, Kilimani P O Box 25363 - 00603 Nairobi	
Auditor	PricewaterhouseCoopers LLP PwC Tower, Waiyaki Way / Chiromo Road, Westlands P O Box 43963 - 00100 Nairobi	

The directors submit their report together with the audited financial statements of Sidian Bank Limited (the "Bank" or "Company") and its subsidiary, Sidian Insurance Agency Limited (the "Subsidiary") (together, the "Group") for the year ended 31 December 2019.

Principal activities

The Group is engaged in the business of banking and the provision of related services as well as provision of bancassurance services.

Business review

A detailed business review is included on pages 3 to 6 of this report.

Results and dividend

The Group profit for the year of Shs 112,488,000 (2018: loss of Shs 377,883,000) has been added to retained earnings. The directors did not recommend payment of a dividend for the year (2018: Nil).

Directors

The directors who held office during the year and to the date of this report are shown on page 1.

Disclosures to the auditor

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

(a) there was, as far as each director is aware, no relevant audit information of which the Group's auditor is unaware; and

(b) each director had taken all steps that ought to have been taken as a director so as to be aware of any relevant audit information and to establish that the Group's auditor is aware of that information.

Terms of appointment of the auditor

PricewaterhouseCoopers LLP continues in office in accordance with the Company's Articles of Association and Section 719 of the Kenyan Companies Act, 2015.

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

Approval of financial statements

The financial statements set out on pages 14 to 92 were approved at a meeting of the directors held on 6 March 2020.

By order of the Board

Daisy Ajima
Company Secretary

6 March 2020

Overall performance

The Group recorded a profit of Shs 112,488,000 in 2019. The profit is largely attributed to the growth of non-funded income by 34% as a result of increased lending fees from the loan book growth as well as increased income from trading activities as the Bank continues to focus on non-funded business. Further, the Group's operating expenses were well contained with a reduction of 1% in the year driven by stringent cost management measures.

Net interest income reduced by 12% attributed to the impact of higher interest expense from the increased deposits from customers as well as interest expense on lease liabilities on the implementation of IFRS 16 - Leases. Non-funded income was driven by Trade Finance business, foreign exchange income and banc assurance income which the Group continues to focus on.

Net loans and advances to customers increased by 11% as the Bank continued lending in the year supported by its high liquidity. Deposits from customers increased by 2% in the year driven by trade finance related deposits, increased transactions by the Bank's customers as well as better deposit mobilization through the forty-one-branch network.

During the year, the Bank secured long term funding from different financiers as below which will support the Bank's growth and transition to a tier II bank;

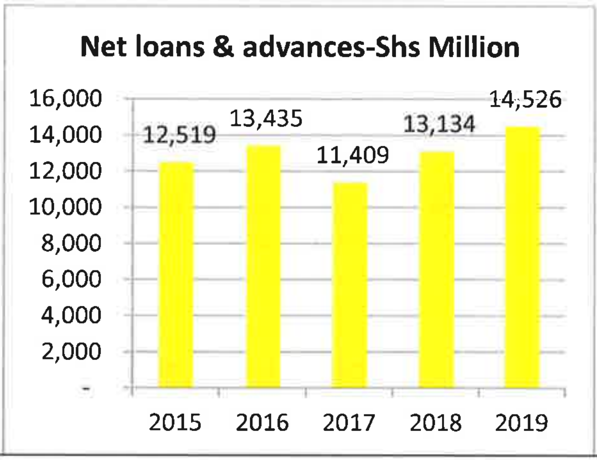
- FMO- United states dollars (USD) 10 million
- IFU - United states dollars (USD) 12 million
- Oiko Credit- Shs. 300 million

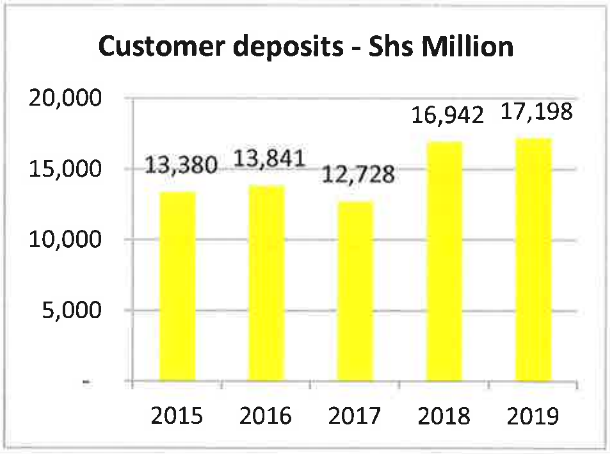
The Group's financial performance over the last five years is detailed below;

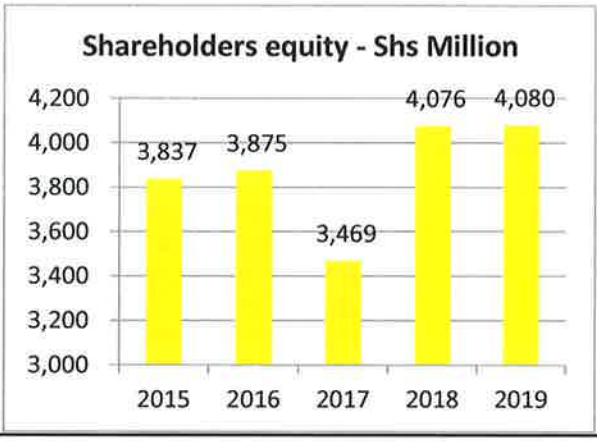
	2015	2016	2017	2018	2019
BALANCE SHEET	**Shs'000**	**Shs'000**	**Shs'000**	**Shs'000**	**Shs'000**
Assets					
Cash and bank balances with CBK	1,469,805	2,216,043	2,621,332	2,140,313	3,306,661
Deposits with other banks	1,509,158	885,735	1,220,949	3,986,393	1,743,226
Investment securities and financial assets at FVPL	2,361,914	2,522,997	1,899,299	3,317,236	2,300,990
Loans and advances to customers	12,519,387	13,434,572	11,409,325	13,134,315	14,526,066
Other assets	1,246,293	1,812,513	2,138,777	2,730,667	4,583,126
Total assets	19,106,557	20,871,860	19,289,682	25,308,924	26,460,069
Liabilities and equity					
Deposits from banks	831,411	2,269,645	2,379,413	3,523,597	745,245
Deposits from customers	13,379,556	13,840,644	12,727,825	16,941,908	17,197,726
Borrowings	642,123	589,149	434,340	413,450	2,882,177
Other liabilities	415,982	297,477	279,458	353,661	1,554,683
Equity	3,837,485	3,874,945	3,468,646	4,076,308	4,080,238
Total liabilities and equity	19,106,557	20,871,860	19,289,682	25,308,924	26,460,069
INCOME STATEMENT					
Interest income	2,726,530	3,095,572	2,013,912	2,118,405	2,133,370
Interest expense	(1,069,641)	(1,194,873)	(966,574)	(1,055,421)	(1,199,462)
Net interest income	1,656,889	1,900,699	1,047,338	1,062,984	933,908
Non- interest income	616,060	586,379	674,484	1,066,242	1,430,084
Total income	2,272,949	2,487,078	1,721,822	2,129,226	2,363,992
Credit impairment losses	(188,901)	(300,542)	(463,571)	(762,941)	(383,131)
Operating expenses	(1,564,315)	(2,124,644)	(1,869,821)	(1,903,647)	(1,881,216)
Profit/(loss) before income tax	519,733	61,892	(611,570)	(537,262)	99,644
Income tax (expense)/credit	(147,413)	(33,844)	205,271	159,479	12,844
Profit/(loss) for the year	372,320	28,048	(406,299)	(377,883)	112,488

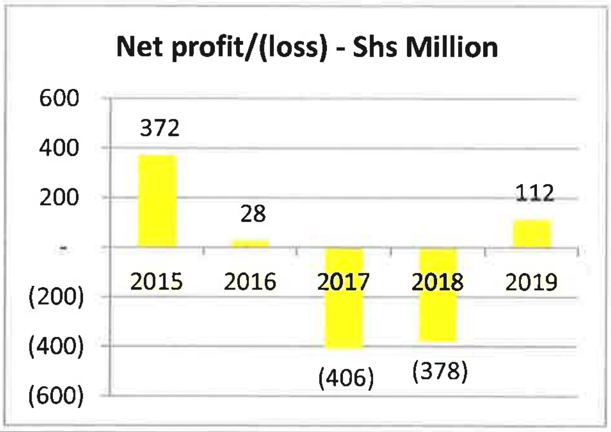
Overall performance (continued)

	2015	2016	2017	2018	2019
PERFORMANCE RATIOS					
Net Interest margin	10.1%	11.3%	7.2%	5.2%	5.0%
Cost to income	68.8%	85.4%	109.0%	89.4%	79.6%
Return on equity	11.9%	0.7%	-11.1%	-10.0%	2.8%
Return on assets	2.1%	0.1%	-2.0%	-1.7%	0.4%
Non-performing loans (NPL) ratio	12.0%	16.8%	20.6%	20.1%	20.1%









Capital and liquidity

The Bank's capital and liquidity ratios are strong with sufficient headroom above the regulatory requirements. The Bank is thus well positioned to support future growth as per the strategy in the medium term and beyond.

	2015	2016	2017	2018	2019
CAPITAL STRENGTH					
Core capital to risk weighted assets (min: 10.5%)	24.5%	23.1%	16.3%	15.7%	14.5%
Total capital to risk weighted assets (min: 14.5%)	24.7%	23.2%	16.5%	15.7%	19.0%
LIQUIDITY RATIOS					
Net loans and advances to deposits	94%	97%	90%	78%	84.5%
Liquidity ratio (min: 20%)	32.2%	25.5%	24.3%	35.4%	42.0%

Potential threats

Description	Example	Mitigation Measures
Credit risk		
Credit risk is the current or prospective risk to earnings and capital arising from an obligor's failure to meet the terms of any contract with the bank or if an obligor otherwise fails to perform as agreed.	Default on credit facilities	The Group has established sound and well-defined policies, procedures and limits for management of credit risk including; • Exposure to individual borrowers • Maximum exposure to related parties • Maximum exposure to individual economic sectors • Acceptable limits on specific products
Cyber security risk		
Cyber risk' means any risk of financial loss, disruption or damage to the reputation of an organization from some sort of failure of its information technology systems.	Cyber security attack	• Cyber Security Policy and framework • Increase awareness and train and retrain staff • monitor anti-virus and anti-malware software • put in place security controls to avert penetration and to • constantly test and monitor.
Information and communication technology risk		
Risk arising from weaknesses in the ICT environment, system availability or data integrity.	Data fraud, phishing and privacy breaches Stringent information protection processes and policies.	The Group has formulated an ICT strategy that aligns with the overall business plan of the bank and ICT assessment plan. Risk measurement and monitoring mechanisms in place include; monitoring firewalls, strong BCP, stringent information protection processes and policies, investigation and reporting of incidents and complaints about ICT services, Pre and post-implementation review of ICT projects.
Compliance & AML risk		
This is risk arising from violations or non-compliance with laws and regulations.	AML violations Failure to comply with new guidelines example Banking Sector Charter requirements.	The Group has put in place adequate internal control measures to address potential money laundering and Terrorist financing risk. Monitoring of the bank's compliance status periodically and reporting to the Board Audit and Risk Committee. Staff training on regular basis in prevention, detection and control of money laundering activities.

Potential threats (continued)

Description	Example	Mitigation Measures
Operational risk		
This is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events.	Process risk People risk Outsourcing and Third party risk	The Group has set internal control measures for management of operational risk including; • Close monitoring of adherence to assigned risk limits or thresholds • Internal Loss Data Collection and Analysis • Appropriate staffing level and training and vetting before onboarding • Regular process review
Strategic risk		
Strategic risk is the current and prospective impact on earnings or capital arising from adverse business decisions, improper implementation of decisions, or lack of responsiveness to industry changes.	Adverse business decisions example loss making initiatives	The Group has a strategic plan in place with medium and long-term priorities in line with corporate mission and goals. Adequate planning of capital and funding needs to support the bank's operations and ability to meet its strategic goals and objectives. Human resources management and development Succession Planning

2020 Focus

The Bank will increase lending to its customers as it deploys the long term funds raised, increase its customer numbers, continued deposits mobilization as well as growing the various streams of non-funded income. Trade Finance continues to be the key driver of the Bank's growth in the medium term as the Bank positions itself as the 'Go To Bank' for Trade Finance solutions. Further, in 2020 the Bank will focus on recovering its non-performing loans and improving its asset quality. Various initiatives will also be implemented to enhance staff motivation and productivity as the Bank moves towards its goal of becoming a tier II bank.

Statement of Corporate Governance

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

This statement sets out the key components of Sidian Bank's Corporate Governance Framework. Corporate Governance is central to the Bank's approach to safeguard shareholders and stakeholders' interest and at the same time enhance shareholder value. The overall control over the activities, affairs, operations, business and property of the Bank is vested in the Bank's Board of Directors ("BOD"). The BOD notes that maintenance and consistent practice and application of good corporate governance practices is key to the long-term success of the Bank.

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

Corporate governance continues to be a key priority of the Board in exercise of its mandate as it accounts and reports to all stakeholders of the Bank about the procedures, systems and controls they have put in place to safeguard their interests in line with the highest standards of corporate governance.

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

Board of Directors

The Board consists of seven members chaired by Dr. James Mworia. It consists of six non-executive directors and one Executive Director who is the Chief Executive Officer. There were no changes in the Directorship of the Company in 2019. The Board collectively pools together vast experience in various relevant fields inter alia, investment management, banking, finance and marketing. With this, it is able to effectively ensure that the Bank establishes and maintains internal controls that drive profitability and sustainable growth.

Authority and Delegation

The Board delegates its authority to Board Committees, which are Board Credit Committee, Board Audit and Risk Committee, Board Asset and Lability Committee and Board Nominations and Governance Committee, which meet quarterly or whenever a need arises. The Board Credit Committee further acts as an operational committee that is vested to review customer credit requests within the board limit. The authority for the day to day running of the Bank is delegated to the Chief Executive Officer, who runs the Bank together with the Executive Management Committee. The Board Charter sets out the Board authority and matters reserved for determination and approval by the Board. The Board Chair plays a crucial role in fostering constructive dialogue between shareholders, the Board and management at the Annual General Meeting and other shareholder meetings.

Corporate Planning

The Board is responsible for formulating the strategic plan of the Bank. The Board has been instrumental in formulating sustainable policies and strategies to ensure that the Bank stays profitable. The Board together with the Senior Management reviews on an annual basis the Bank's strategy where projections and targets are assessed and amended as circumstances dictate.

Board Effectiveness

The Board of Directors comprises of six non-executive Directors and one executive Director, the Chief Executive Officer. This arrangement initiates the significance of impartiality in matters of corporate governance. It also ensures that the Board is free from undue influence on matters affecting the day to day running of the Bank. Generally, the conduct of the Board in particular the non-executive Directors, are regulated by the Bank's Memorandum and Articles of Association as well as a Board Charter, Terms of Reference and Directors' Code of Board Principles and Conduct. Management also ensures that the Board is well informed on the operations of the Bank at all times. The annual Board evaluation exercise for the year 2019 was conducted in February 2020 internally.

Executive Management Committee

The implementation of the Bank's strategic decisions is handled by the Executive Management Committee which is chaired by the Chief Executive Officer. The Committee meets once a month to review the Bank's performance, control overall direction of business and make strategic decisions. The Committee is composed of departmental heads of Business, Human Resources, Finance, Credit, Treasury, Trade Finance, Branch Banking, Legal and Company Secretarial, and Information and Communication Technology (ICT). The Heads of Enterprise Risk and Audit are invited to give an overview.

Board Committees

The Board has established Board committees to assist in discharging its duties and responsibilities. The Board committees have formally determined terms of reference, which define their role, function, reporting procedures and scope of authority. The existing committees are Audit and Risk Committee, Asset and Liability Committee, Credit Committee, and Nominations and Governance Committee. The Board also ensures that effective communication with shareholders is upheld. This is done through holding of the Annual General Meeting and also provision of annual report and financial statements in full compliance with the requirements of the Kenyan Companies Act, 2015 and the International Financial Reporting Standards (IFRSs).

The agenda of each committee is guided by the Board Charter together and the plan set at the beginning of the year.

Board Audit and Risk Committee

This committee consists of non-executive directors who check on the quality of financial reporting, selection of internal and external auditing functions, advise the board on best practices, provide oversight on risk management and compliance with relevant local legislation, regulations and guidelines issued by regulatory bodies together with the Bank's laid down policies and procedures.

The committee further defines the scope of risk management work, ensures that adequate risk policies and strategies are in place to identify, monitor and effectively mitigate the various risk issues the Bank is exposed to in the day to day activities. On a yearly basis, the committee reviews the proposed work plans for the internal audit function. The committee is also responsible for ensuring that the Bank operates within the set risk appetite levels and must ensure that any deviations are corrected within a given time frame. The Chair of this committee is a member of Institute of Certified Public Accountants of Kenya (ICPAK).

Asset and Liability Committee (ALCO)

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

Nominations and Governance Committee

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

Credit Committee

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

Board Meetings

The Board scheduled six board meetings during the year which were inclusive of two Special Board meetings. The average attendance of board meetings is 93%.

Board meeting membership and attendance for the year ended 31 December 2019 is as below;

	January	March	May	August	October	November	Percentage Attendance
Dr. James Mworia	1	1	1	1	1	1	100%
Mary Ann Musangi	1	1	1	-	1	1	83%
Kimanthi Mutua	1	1	1	1	1	1	100%
Tom Kariuki	1	1	-	1	1	1	83%
Catherine Mturi-Wairi	1	1	1	1	1	1	100%
Oscar Kang'oro	1	-	1	1	1	1	83%
Chege Thumbi	1	1	1	1	1	1	100%
Average							93%

Compliance

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

Shareholding structure
The Bank's shareholders at 31 December 2019 are detailed below;

	Shareholders of the Bank	Number of shares	Value of shares Shs '000'	Percentage shareholding
1	Bakki Holdco Limited	3,281,598	1,640,799	80.19%
2	K-Rep Group Limited	501,430	250,715	12.25%
3	KWA Multi-Purpose Co-Op Limited	143,376	71,688	3.50%
4	Centum Investment Company Plc	82,273	41,137	2.01%
5	Kimanthi Mutua	21,040	10,520	0.51%
6	Sarah Godana	15,495	7,747	0.38%
7	Kabiru Kinyanjui	12,222	6,111	0.30%
8	Mwenda Thiribi	10,316	5,158	0.25%
9	Francis Kihiko	8,871	4,436	0.22%
10	Aleke Dondo	6,495	3,247	0.16%
11	Judith Bahemuka	4,995	2,498	0.12%
12	Anthony Wainaina	3,785	1,892	0.09%
13	Francis Munyao Kinyumu	500	250	0.01%
	Total	**4,092,396**	**2,046,198**	**100.00%**

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

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

(i) Designing, implementing and maintaining such internal control as they determine necessary to enable the presentation of financial statements that are free from material misstatement, whether due to fraud or error;

(ii) Selecting suitable accounting policies and then applying them consistently; and

(iii) Making judgements and accounting estimates that are reasonable in the circumstances.

Having made an assessment of the Group's and Company's ability to continue as a going concern, the directors are not aware of any material uncertainties related to events or conditions that may cast doubt upon the Group's and Company's ability to continue as a going concern.

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

Approved by the Board of Directors on 6 March 2020 and signed on its behalf by:

Chege Thumbi	Dr. James Mworia
Chief Executive Officer	Chairman

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF SIDIAN BANK LIMITED

Report on the audit of the financial statements

Opinion

We have audited the accompanying financial statements of Sidian Bank Limited (the "Bank") and its subsidiary (together, the "Group") set out on pages 14 to 92, which comprise the consolidated statement of financial position at 31 December 2019 and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, together with the Bank statement of profit or loss and other comprehensive income, Bank statement of financial position at 31 December 2019, the Bank statement of changes in equity and Bank statement of cash flows for the year then ended, and the notes to the financial statements, including a summary of significant accounting policies.

In our opinion the accompanying financial statements of Sidian Bank Limited give a true and fair view of the financial position of the Group and the Bank at 31 December 2019 and of their financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Kenyan Companies Act, 2015.

Basis for opinion

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

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

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

Other information

The other information comprises the information included in the annual report other than the financial statements and our auditor's report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed on the other information, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF SIDIAN BANK LIMITED (CONTINUED)

Responsibilities of the directors for the financial statements

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

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

Auditor's responsibilities for the audit of the financial statements

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

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

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

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

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

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

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INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF SIDIAN BANK LIMITED (CONTINUED)

Auditor's responsibilities for the audit of the financial statements (continued)

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

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

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

In our opinion the information given in the report of the directors on page 2 is consistent with the financial statements.

PricewaterhouseCoopers LLP

Certified Public Accountants
Nairobi

24th March **2020**

FCPA Michael Mugasa, Practising certificate No. 1478
Signing partner responsible for the independent audit

Consolidated statement of profit or loss and other comprehensive income

	Notes	2019 Shs'000	2018 Shs'000
Interest income	5	2,133,370	2,118,405
Interest expense	6	(1,199,462)	(1,055,421)
Net interest income		933,908	1,062,984
Fee and commission income	7	1,021,017	853,312
Fee and commission expense	7	(1,426)	(2,988)
Net fee and commission income		1,019,591	850,324
Net trading gains	8	393,615	210,070
Credit impairment losses	9	(383,131)	(762,941)
Other operating income	10	16,879	5,848
Net other operating income/(expense)		27,363	(547,023)
Operating expenses	11	(1,881,218)	(1,903,647)
Profit/(loss) before income tax		99,644	(537,362)
Income tax credit	13	12,844	159,479
Profit/(loss) for the year		112,488	(377,883)
Other comprehensive income			
Items that will not be reclassified subsequently to profit or loss:			
Loss on revaluation of freehold land and building	31	(5,000)	-
Deferred income tax on revaluation of freehold land and building	31	250	-
Other comprehensive loss for the year, net of tax		(4,750)	-
Total comprehensive income/(loss)		107,738	(377,883)

Bank statement of profit or loss and other comprehensive income

	Notes	2019 Shs'000	2018 Shs'000
Interest income	5	2,133,370	2,118,405
Interest expense	6	(1,199,462)	(1,055,421)
Net interest income		933,908	1,062,984
Fee and commission income	7	967,283	813,630
Fee and commission expense	7	(704)	(2,587)
Net fee and commission income		966,579	811,043
Net trading gains	8	393,615	210,070
Credit impairment losses	9	(383,131)	(762,941)
Other income	10	16,869	5,848
Net other operating income/(expense)		27,353	(547,023)
Operating expenses	11	(1,863,351)	(1,889,069)
Profit/(loss) before income tax		64,489	(562,065)
Income tax credit	13	24,926	166,668
Profit/(loss) for the year		89,415	(395,397)
Other comprehensive income			
<u>Items that will not be reclassified subsequently to profit or loss:</u>			
Loss on revaluation of freehold land and building	31	(5,000)	-
Deferred income tax on revaluation of freehold land and building	31	250	-
Other comprehensive loss for the year, net of tax		(4,750)	-
Total comprehensive income/(loss)		84,665	(395,397)

Consolidated statement of financial position

Assets	**Notes**	**2019 Shs'000**	**2018 Shs'000**
Cash and balances with Central Bank of Kenya	15	3,306,661	2,140,313
Financial assets at fair value through profit or loss	16	1,252,738	419,294
Deposits with other banks	17	1,743,226	3,986,393
Investment securities at amortised cost	18	2,300,990	3,317,236
Loans and advances to customers	19	14,526,066	13,134,315
Other assets and prepayments	20	1,010,021	936,534
Current income tax	13	7,401	113,250
Property and equipment	21	373,558	433,216
Right of use assets	22	980,416	-
Intangible assets	23	293,682	336,407
Deferred income tax	24	665,310	491,966
Total assets		26,460,069	25,308,924
Liabilities and equity			
Liabilities			
Financial liabilities at fair value through profit or loss	16	51,337	6,397
Deposits from banks	25	745,245	3,523,597
Deposits from customers	26	17,197,726	16,941,908
Other liabilities and accrued expenses	27	336,051	347,264
Borrowings	28	2,882,177	413,450
Lease liabilities	29	1,167,295	-
Total liabilities		22,379,831	21,232,616
Equity			
Share capital	30	2,046,198	2,046,198
Share premium	30	1,246,599	1,246,599
Revaluation reserve	31	50,206	67,376
Retained earnings		737,235	716,135
Total equity		4,080,238	4,076,308
Total liabilities and equity		26,460,069	25,308,924

The financial statements on pages 14 to 92 were approved by the Board of Directors on 6 March 2020 and were signed on its behalf by:

Chege Thumbi
Chief Executive Officer

Dr James Mworia
Chairman

Bank statement of financial position

Assets	Notes	2019 Shs'000	2018 Shs'000
Cash and balances with Central Bank of Kenya	15	3,306,661	2,140,313
Financial assets at fair value through profit or loss	16	1,252,738	419,294
Deposits with other banks	17	1,743,226	3,986,393
Investment securities at amortised cost	18	2,300,990	3,317,236
Investment in subsidiary	35	1,000	1,000
Loans and advances to customers	19	14,526,066	13,134,315
Other assets and prepayments	20	1,007,162	963,597
Current income tax	13	4,566	111,315
Property and equipment	21	373,534	433,176
Right of use assets	22	980,416	-
Intangible assets	23	289,132	331,257
Deferred income tax	24	666,147	491,273
Total assets		26,451,638	25,329,169
Liabilities and equity			
Liabilities			
Financial liabilities at fair value through profit or loss	16	51,337	6,397
Deposits from banks	25	745,245	3,523,597
Deposits from customers	26	17,268,392	17,001,480
Other liabilities and accrued expenses	27	319,209	347,119
Borrowings	28	2,882,177	413,450
Lease liabilities	29	1,167,295	-
Total liabilities		22,433,655	21,292,043
Equity			
Share capital	30	2,046,198	2,046,198
Share premium	30	1,246,599	1,246,599
Revaluation reserve	31	50,206	67,376
Retained earnings		674,980	676,953
Total equity		4,017,983	4,037,126
Total liabilities and equity		26,451,638	25,329,169

The financial statements on pages 14 to 92 were approved by the Board of Directors on 6 March 2020 and were signed on its behalf by:

Chege Thumbi
Chief Executive Officer

Dr. James Mworia
Chairman

Consolidated statement of changes in equity

	Notes	Share capital Shs'000	Share Premium Shs'000	Revaluation reserve Shs'000	Regulatory reserve Shs'000	Retained earnings Shs'000	Total Shs'000
Year ended 31 December 2018							
At start of year		1,470,175	706,082	68,161	11,686	1,212,542	3,468,646
Impact of initial application of IFRS 9		-	-	-	(11,686)	(119,309)	(130,995)
		1,470,175	706,082	68,161	-	1,093,233	3,337,651
Total comprehensive income for the year:							
Loss for the year		-	-	-	-	(377,883)	(377,883)
Transfer of excess depreciation		-	-	(1,121)	-	1,121	-
Deferred tax on transfer		-	-	336	-	(336)	-
Transactions with owners, recorded directly in equity:							
Proceeds from issue of shares	30	576,023	540,517	-	-	-	1,116,540
At end of year		2,046,198	1,246,599	67,376	-	716,135	4,076,308
Year ended 31 December 2019							
At start of year		2,046,198	1,246,599	67,376	-	716,135	4,076,308
Impact of initial application of IFRS 16		-	-	-	-	(100,916)	(100,916)
		2,046,198	1,246,599	67,376	-	615,219	3,975,392
Profit for the year		-	-	-	-	112,488	112,488
Loss on revaluation of building		-	-	(5,000)	-	-	(5,000)
Deferred income tax on revaluation of building				250			250
Total comprehensive income for the year		-	-	(4,750)	-	112,488	107,738
Transfer of excess depreciation		-	-	(1,121)	-	1,121	-
Deferred tax on transfer		-	-	56	-	-	56
Transfer of reserves		-	-	(8,407)	-	8,407	-
Deferred tax on opening revaluation reserves		-	-	(2,948)	-	-	(2,948)
At end of year		2,046,198	1,246,599	50,206	-	737,235	4,080,238

Bank statement of changes in equity

	Notes	Share capital Shs'000	Share Premium Shs'000	Revaluation reserve Shs'000	Regulatory reserve Shs'000	Retained earnings Shs'000	Total Shs'000
Year ended 31 December 2018							
At start of year		1,470,175	706,082	68,161	11,686	1,190,874	3,446,978
Impact of initial application of IFRS 9		-	-	-	(11,686)	(119,309)	(130,995)
		1,470,175	706,082	68,161	-	1,071,565	3,315,983
Total comprehensive income for the year:							
Loss for the year		-	-	-	-	(395,397)	(395,397)
Transfer of excess depreciation		-	-	(1,121)	-	1,121	-
Deferred tax on transfer		-	-	336	-	(336)	-
Transactions with owners, recorded directly in equity							
Proceeds from issue of shares	30	576,023	540,517	-	-	-	1,116,540
At end of year		2,046,198	1,246,599	67,376	-	676,953	4,037,126
Year ended 31 December 2019							
At start of year		2,046,198	1,246,599	67,376	-	676,953	4,037,126
Impact of initial application of IFRS 16		-	-	-	-	(100,916)	(100,916)
		2,046,198	1,246,599	67,376	-	576,037	3,936,210
Profit for the year		-	-	-	-	89,415	89,415
Loss on revaluation of building		-	-	(5,000)	-	-	(5,000)
Deferred income tax on revaluation of building				250			250
Total comprehensive income for the year		-	-	(4,750)	-	89,415	84,665
Transfer of excess depreciation		-	-	(1,121)	-	1,121	-
Deferred tax on transfer		-	-	56	-	-	56
Transfer of reserves		-	-	(8,407)	-	8,407	-
Deferred tax on opening revaluation reserves		-	-	(2,948)	-	-	(2,948)
At end of year		2,046,198	1,246,599	50,206	-	674,980	4,017,983

Consolidated statement of cash flows

	Notes	2019 Shs'000	2018 Shs'000
Cash flows from operating activities			
Cash generated from operations	32(a)	(3,621,273)	2,822,064
Income tax paid	13(b)	(13,987)	(14,298)
Net cash flows from operating activities		(3,635,260)	2,807,766
Cash flows from investing activities			
Purchase of investment securities		(5,310,274)	(3,591,092)
Proceeds from sale of investment securities		5,759,135	2,228,283
Purchase of property and equipment	21	(20,240)	(36,043)
Purchase of intangible assets	23	(34,806)	(119,500)
Proceeds from sale of property and equipment		670	99
Net cash flows from investing activities		394,485	(1,518,253)
Cash flows from financing activities			
Proceeds from borrowings	28	2,691,938	57,890
Repayment of borrowings	28	(315,883)	(116,265)
Principal payments for lease liabilities	29	(262,413)	-
Proceeds from issue of shares	30	-	1,116,540
Net cash flows from financing activities		2,113,641	1,058,165
Net (decrease)/increase in cash and cash equivalents		(1,127,134)	2,347,678
Cash and cash equivalents at start of year	32(b)	6,189,959	3,842,281
Cash and cash equivalents at end of year	32(b)	5,062,825	6,189,959

Bank statement of cash flows

	Notes	2019 Shs'000	2018 Shs'000
Cash flows from operating activities			
Cash generated from operations	32(a)	(3,632,725)	2,810,298
Income tax paid	13(b)	(2,535)	(2,532)
Net cash flows from operating activities		(3,635,260)	2,807,766
Cash flows from investing activities			
Purchase of investment securities		(5,310,274)	(3,591,092)
Proceeds from sale of investment securities		5,759,135	2,228,283
Purchase of property and equipment	21	(20,240)	(36,043)
Purchase of intangible assets	23	(34,806)	(119,500)
Proceeds from sale of property and equipment		670	99
Net cash flows from investing activities		394,485	(1,518,253)
Cash flows from financing activities			
Proceeds from borrowings	28	2,691,938	57,890
Repayment of borrowings	28	(315,883)	(116,265)
Principal payments for lease liabilities	29	(262,414)	-
Proceeds from issue of shares	30	-	1,116,540
Net cash flows from financing activities		2,113,641	1,058,165
Net (decrease)/increase in cash and cash equivalents		(1,127,134)	2,347,678
Cash and cash equivalents at start of year	32(b)	6,189,959	3,842,281
Cash and cash equivalents at end of year	32(b)	5,062,825	6,189,959

Notes

1 Corporate information

Sidian Bank Limited (the "Bank") and its subsidiary Sidian Insurance Agency Limited (the "Subsidiary") are incorporated and domiciled in Kenya and operate in Kenya. The registered address of the Bank and its subsidiary is:

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

The Bank is licensed under the Kenyan Banking Act (Chapter 488).

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

2 Summary of significant accounting policies

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

(a) Basis of preparation

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and interpretations issued by the IFRS Interpretations Committee (IFRS IC) applicable to companies reporting under IFRS. The financial statements comply with IFRS as issued by the International Accounting Standards Board (IASB).

(i) Basis of measurement

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

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

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

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

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

Notes (continued)

2 Summary of significant accounting policies (continued)

(a) Basis of preparation (continued)

(ii) Use of estimates

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

(iii) Changes in accounting policies and disclosures

(a) New and amended standards adopted by the Group

IFRS 16 - Leases

The Group has adopted IFRS 16, Leases, which replaced IAS 17, Leases, and which became effective from 1 January 2019. The Group now recognises lease liabilities relating to leases under which the Group is the lessee that were previously classified as operating leases, other than leases with less than 12 months to run from 1st January 2019 and leases of low value items. Corresponding right-of-use assets have been recognised, measured as if the Group's new accounting policy had been applied since the commencement of each lease but discounted using the lessee's incremental borrowing rate at 1 January 2019. The difference between the lease liabilities and right-of-use assets at 1 January 2019 has been recognised as an adjustment to retained earnings at that date. As permitted by the transition provisions in the new standard, comparative amounts have not been restated.

	2019
	Shs'000
Lease liabilities	1,158,823
Right of use of assets	1,014,656
Deferred tax	43,251
Net adjustment to retained earnings 1 January 2019	100,916

IFRIC 23, 'Uncertainty over income tax treatments'

IFRIC 23 provides a framework to consider, recognise and measure the accounting impact of tax uncertainties. The Interpretation provides specific guidance in several areas where previously IAS 12 was silent. The Interpretation also explains when to reconsider the accounting for a tax uncertainty. Most entities will have developed a model to account for tax uncertainties in the absence of specific guidance in IAS 12. These models might, in some circumstances, be inconsistent with IFRIC 23 and the impact on tax accounting could be material. Management has done an assessment with no significant impact.

Notes (continued)

2 Summary of significant accounting policies (continued)

(a) Basis of preparation (continued)

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

(b)New and revised standards and interpretations that have been issued but are not yet effective

Amendment to IAS 1, 'Presentation of financial statements' and IAS 8, 'Accounting policies, changes in accounting estimates and errors' on the definition of material.These amendments to IAS 1 and IAS 8 and consequential amendments to other IFRSs:

- use a consistent definition of materiality through IFRSs and the Conceptual Framework for Financial Reporting;
- clarify the explanation of the definition of material; and
- incorporate some of the guidance in IAS 1 about immaterial information.

The amended definition is:

"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."

The Group will adopt and implement the standards as at when they become effective.

(b) Consolidation

(i) Subsidiaries

Subsidiaries are all entities (including structured entities) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

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

Acquisition-related costs are expensed as incurred.

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

The Directors do not plan to apply the above standards, until they become effective.

There are no other standards that are not yet effective that would be expected to have a material impact on the entity in the current or future reporting periods and on near future transactions.

Notes (continued)

2 Summary of significant accounting policies (continued)

(a) Consolidation (continued)

(i) Subsidiaries

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

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired is recorded as goodwill. If the total of consideration transferred, non-controlling interest recognised and previously held interest measured is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in the statement of profit or loss.

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

(ii) Changes in ownership interests

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

(iii) Disposal of subsidiaries

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

(c) Foreign currency translation

(i) Functional and presentation currency

The accounting records are maintained in the currency of the primary economic environment in which the Group and Bank operate (the "Functional Currency"). The financial statements are presented in Kenya Shillings, which is the Group's and Bank's functional and presentation currency. The figures shown in the financial statements are stated in Kenya Shillings (Shs), rounded to the nearest thousand.

(ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement, except for differences arising on translation of non-monetary financial assets carried at fair value through other comprehensive income, which are recognised in other comprehensive income.

Notes (continued)

2 Summary of significant accounting policies (continued)

(c) Foreign currency translation (continued)

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

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

(d) Sale and re-purchase agreements

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

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

(e) Financial instruments

Financial assets and liabilities

Measurement methods

Amortised cost and effective interest rate

The amortised cost is the amount at which the financial asset of financial liability is measured at initial recognition minus the principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and, for financial assets, adjusted for any loss allowances.

The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial asset or financial liability to the gross carrying amount of a financial asset (i.e. its amortised cost before any impairment allowance) or to the amortised cost of a financial liability. The calculation does not consider expected credit losses and includes transaction costs, premiums or discounts and fees paid or received that are integral to the effective interest rate, such as origination fees. For purchased or originated credit-impaired financial assets – assets that are credit-impaired at initial recognition, the Group calculates the credit adjusted effective interest rate, which is calculated based on the amortised cost of the financial asset instead of its gross carrying amount and incorporates the impact of expected credit losses in estimated future cash flows.

When the Group revises the estimates of future cash flows, the carrying amount of the respective financial asset or financial liability is adjusted to reflect the new estimate discounted using the original effective interest rate. Any changes are recognised in the profit or loss account.

Interest income and expense

Interest income and interest expense on interest bearing financial instruments is calculated by applying the effective interest rate to the gross carrying amount, except for:

(a) Purchased or originated credit impaired (POCI) financial assets, for which the original credit-adjusted effective interest rate is applied to the amortised cost of the financial asset; and

(b) Financial assets that are not "POCI" but have subsequently become credit-impaired, for which interest revenue is calculated by applying the effective interest rate to their amortised cost (i.e.net of the expected credit loss provision) in subsequent reporting periods.

Notes (continued)

2 Summary of significant accounting policies (continued)

(e) Financial instruments (continued)

Financial assets and liabilities (continued)

Measurement methods (continued)

Initial recognition and measurement

Financial assets and financial liabilities are recognised when the entity becomes a party to the contractual provisions of the instrument. Regular way purchases and sales of financial assets are recognised on trade-date, the date which the Group commits to purchase or sell the asset.

At initial recognition, the Group measures a financial asset or financial liability at its fair value plus or minus, in the case of a financial asset or financial liability not at fair value through the profit or loss, transaction costs that are incremental and directly attributable to the acquisition or issue of the financial asset or financial liability, such fees and commissions. Transaction costs of financial assets and financial liabilities are carried at fair value through profit or loss are expensed in profit or loss. Immediately after the initial recognition, an expected credit loss allowance (ECL) is recognised for the financial assets measured at amortised cost and investments in debt instruments measured at FVOCI, which results in an accounting loss being recognised in profit or loss when an asset is newly originated.

When the fair value of financial assets and liabilities differs from the transaction price on initial recognition, the entity recognises the difference as follows:

(a) When the fair value is evidenced by a quoted price in an active market for an identical asset or liability (i.e. Level 1 input) or based on a valuation technique that uses only data from observable markets, the difference is recognised as a gain or loss.

(b) In all other cases, the difference is deferred and the timing of recognition of deferred day one profit or loss is determined individually. It is either amortised over the life of the instrument, deferred until the instrument's fair value can be determined using market observable inputs, or realised through settlement.

Financial assets

(i) Classification and subsequent measurement

The Group classifies its financial assets in the following measurement categories:

- Fair value through profit or loss (FVTPL)
- Amortised cost.

Debt instruments

Debt instruments are those instruments that meet the definition of a financial liability from the issuer's perspective, such as loans, government and corporate bonds and trade receivables purchased from clients in factoring arrangements without recourse. Classification and subsequent measurement of debt instruments depend on:

(i) the Group's business model for managing the asset; and
(ii) the contractual cash flow characteristics of the financial asset.

Based on these factors, the Group classifies its debt instruments into one of the following two measurement categories:
- Amortised cost: assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest (SPPI), and that are not designated at FVPL, as measured at amortised cost. The carrying amount of these assets are adjusted by any expected credit loss allowance. Interest income from financial assets is included in "interest income" using the effective interest rate method.

Notes (continued)

2 Summary of significant accounting policies (continued)

(e) Financial instruments (continued)

Financial assets and liabilities (continued)

Financial assets (continued)

(i) Classification and subsequent measurement (continued)

Debt instruments (continued)

- Fair value through profit or loss: assets that do not meet the criteria for amortised cost or FVOCI are measured at fair value through profit or loss. A gain or loss on a debt investment that is subsequently measured at fair value through profit or loss and is not part of a hedging relationship is recognised in profit or loss and presented within "Net trading income" in the period in which it arises. Interest income from these financial assets is included in "interest income" using the effective interest rate method.

Business model: The business model reflects how the Group manages the assets in order to generate cash flows. That is, whether the Group's objective is solely to collect the contractual cash flows from the assets or is to collect both the contractual cash flows and cash flows arising from sale of assets. If neither of these is applicable (e.g. financial assets are held for trading purposes), then the financial assets are classified as part of "other" business model and measured at FVPL. Factors considered by the Group in determining the business model for a group of assets include past experience on how cash flows for these assets were collected, how the asset's performance is evaluated and reported by key management personnel, how risks are assessed and managed and how managers are compensated. For example, the liquidity portfolio of assets is held by the Group as part of liquidity management and is generally classified with the hold to collect and sell business model. Securities held for trading are held principally for the purpose of selling in the near term or are part of a portfolio of financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking. These securities are classified in the "other" business model and measured at FVPL.

SPPI: Where the business model is to hold assets to collect contractual cash flows or to collect contractual cash flows and sell, the Group assesses whether the financial instruments' cash flows represents solely payments of principal and interest (the "SPPI test"). In making this assessment, the Group considers whether the contractual cash flows are consistent with a basic lending arrangement i.e. interest includes only consideration for the time value of money, credit risk and a profit margin that is consistent with a basic lending arrangement. Where the contractual terms introduce exposure to risk or volatility that are inconsistent with a basic lending arrangement, the related financial asset is classified and measured at fair value through profit or loss.

Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest.

The Group reclassifies debt investments when and only when its business model for managing those assets changes. The reclassification takes place from the start of the first reporting period following the change. The changes are expected to be very infrequent and none occurred during the year.

(ii) Impairment

The Group assesses on a forward-looking basis the expected credit loss ('ECL') associated with its debt instrument assets carried at amortised cost and with the exposure arising from loan commitments and financial guarantee contracts. The Group recognises a loss allowance for such losses at each reporting date. The measurement of ECL reflects:

- An unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes;
- The time value of money; and
- Reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

Notes (continued)

2 Summary of significant accounting policies (continued)

(e) Financial instruments (continued)

Financial assets and liabilities (continued)

Financial assets (continued)

(iii) Modifications of loans

The Group sometimes renegotiates or otherwise modifies the contractual cash flows of loans and advances to customers. When this happens, the Group assesses whether or not the new terms are substantially different to the original terms. The Group does this by considering, among others, the following factors:

- If the borrower is in financial difficulty, whether the modification merely reduces the contractual cash flows to amounts the borrower is expected to be able to pay.
- Whether any substantial new terms are introduced, such as a profit share/equity based return that substantially affects the risk profile of the loan.
- Significant extension of the loan term when the borrower is not in financial difficulty.
- Significant change is interest rate.
- Change in the currency of the loan.
- Insertion of collateral, other security or credit enhancement that significantly affect the credit risk associated with the loan.

If the terms are substantially different, the Group derecognises the original financial asset and recognises a "new" asset at fair value and recalculates a new effective interest rate for the asset. The date of renegotiation is consequently considered to be the date of initial recognition for impairment calculation purposes, including for the purpose of determining whether a significant increase in credit risk has occurred.

However, the Group also assesses whether the new financial asset recognised is deemed to be credit-impaired at initial recognition, especially in circumstances where the renegotiation was driven by the debtor being unable to make the originally agreed payments. Differences in the carrying amount are also recognised in profit or loss as a gain or loss on derecognition

If the terms are not substantially different, the renegotiation or modification does not result in derecognition, and the Group recalculates the gross carrying amount based on the revised cash flows of the financial asset and recognises a modification gain or loss in profit or loss. The new gross carrying amount is recalculated by discounting the modified cash flows at the original effective interest rate of credit-adjusted effective interest rate for POCI financial assets.

(iv) Derecognition other than on a modification

Financial assets, or a portion thereof, are derecognised when the contractual rights to receive the cash flows from the assets have expired, or when they have been transferred and either (i) the Group transfers substantially all the risks and rewards of ownership, or (ii) the Group neither transfers nor retains substantially all the risks and rewards of ownership and the Group has not retained control.

The Group enters into transactions where it retains the contractual rights to receive cash flows from assets but assumes a contractual obligation to pay those cash flows to other entities and transfers substantially all of the risks and rewards. These transactions are accounted for as "pass through" transfers that result in derecognition if the Group:

(i) Has no obligation to make payments unless it collects equivalent amounts from the assets;
(ii) Is prohibited from selling or pledging the assets; and
(iii) Has an obligation to remit any cash it collects from assets without material delays.

Notes (continued)

2 Summary of significant accounting policies (continued)

(e) Financial instruments (continued)

Financial assets and liabilities (continued)

Financial assets (continued)

(iv) Derecognition other than on a modification (continued)

Collateral (shares and bonds) furnished by the Group under standard repurchase agreements and securities lending and borrowings transactions are not derecognized because the Group retains substantially all the risks and rewards on the basis of predetermined repurchase price, and the criteria for derecognition are therefore not met. This also applies to certain securitisation transactions in which the Group retains a subordinated residual interest.

(ii) Financial Liabilities

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

(i) Classification and subsequent measurement

Financial liabilities are classified as subsequently measured at amortised cost, except for:

- Financial liabilities at fair value through profit or loss such as derivatives, financial liabilities held for trading (e.g. short positions in the trading booking) and other financial liabilities designated as such at initial recognition. Gains or losses on financial liabilities designated at fair value through profit or loss are presented partially in other comprehensive income (the amount of change in the fair values of the financial liability that is attributable to changes in the credit risk of that liability) and partially profit or loss (the remaining amount of change in the fair value of the liability);
- Financial liabilities arising from the transfer of financial assets which did not qualify for derecognition, whereby a financial liability is recognised for the consideration received for the transfer. In subsequent periods, the Group recognises any expense incurred on the financial liability; and
- Financial guarantee contracts and loan commitments.

(ii) Derecognition of financial liabilities

Financial liabilities are derecognised when they are extinguished (i.e. when the obligation specified in the contract is discharged, cancelled or expires).

The exchange between the Group and its original lenders of debt instruments with substantially different terms, as well as substantial modification of the terms of the existing financial liabilities, are accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability. The terms are substantially different if the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective interest rate, is at least 10% different from the discounted present value of the remaining cash flows of the original financial liability. In addition, other qualitative factors, such as the currency that the instrument is denominated in, changes in the type of interest rate, new conversion features attached to the instrument and change in covenants are also taken into consideration. If the exchange of debt instruments or modification of terms is accounted for as an extinguishment, any costs or fees incurred are recognised as part of the gain or loss on the extinguishment. If the exchange of modification is not accounted for as an extinguishment, any costs or fees incurred adjust the carrying amount of the liability and are amortised over the remaining term of the modified liability.

Offsetting of financial instruments

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

Notes (continued)

2 Summary of significant accounting policies (continued)

(f) Financial guarantee contracts and loan commitments

Financial guarantee contracts are contracts that require the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due, in accordance with the terms of the debt instrument. Such financial guarantees are given to banks, financial institutions and others on behalf of customers to secure loans, overdrafts and other banking facilities. Financial guarantee contracts are initially measured at fair value and subsequently measured at the higher of:

- The amount of the loss allowance; and
- The premium received on initial recognition less income recognised in accordance with the principles of IFRS 15.

Loan commitments provided by the Group are measured as the amount of the loss allowance. The Group has not provided any commitment to provide loans at a below-market interest rate, or that can be settled net in cash or by delivering or issuing another financial instrument, other than for staff facilities.

For loan commitments and financial guarantee contracts, the loss allowance is recognised as a provision. However, for contracts that include both a loan and an undrawn commitment and the Group cannot separately identify the expected credit losses on the undrawn commitment component from those on the loan component, the expected credit losses on the undrawn commitment are recognised together with the loss allowance for the loan to the extent that the combined expected credit losses exceed the gross carrying amount of the loan, the expected credit losses are recognised as provision.

(g) Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held at call with banks and other short-term highly liquid investments with original maturities of three months or less. Funds restricted for a period of more than three months on origination and cash reserve deposits with the Central Bank of Kenya are excluded from cash and cash equivalents. Cash and cash equivalents are carried at amortised cost.

(h) Property and equipment

Land and buildings comprise mainly branches and offices. All equipment used by the Group is stated at historical cost less depreciation and at revalued amount for freehold land and buildings. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent expenditures are included in the asset's carrying amount or are recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repair and maintenance costs are charged to profit or loss during the financial period in which they are incurred. depreciation.

Freehold land is not depreciated. Depreciation is calculated on the straight line basis to allocate their cost less their residual values over their estimated useful lives, as follows:

Buildings	40 years
Lease hold improvements	10 years
Furniture, fittings and equipment	8 years
Motor vehicles	4 years
Computer equipment	3 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date. The Group assesses at each reporting date whether there is any indication that any item of property and equipment is impaired. If any such indication exists, the Group estimates the recoverable amount of the relevant assets.

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in 'operating expenses' in profit or loss.

Notes (continued)

2 Summary of significant accounting policies (continued)

(i) Intangible assets – software

Costs associated with maintaining computer software programmes are recognised as an expense as incurred. Development costs that are directly attributable to the design and testing of identifiable and unique software products controlled by the Group are recognised as intangible assets when the following criteria are met:

- it is technically feasible to complete the software product so that it will be available for use;
- management intends to complete the software product and use or sell it;
- there is an ability to use or sell the software product;
- it can be demonstrated how the software product will generate probable future economic benefits;
- adequate technical, financial and other resources to complete the development and to use or sell the software product are available; and
- the expenditure attributable to the software product during its development can be reliably measured

Other development expenditures that do not meet these criteria are recognised as an expense as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period.

Computer software development costs recognised as assets are amortised over their estimated useful lives, which does not exceed three years

Acquired computer software licenses are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised over their estimated useful lives of 5 years. Costs associated with maintaining computer software programmes are recognised as an expense as incurred.

(j) Impairment of non – financial assets

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

(k) Employee benefits

Retirement benefit obligations

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

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

(l) Income tax

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

Notes (continued)

2 Summary of significant accounting policies (continued)

(l) Income tax (continued)

(i) Current income tax

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

(ii) Deferred income tax

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

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current income tax assets against current income tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the same entity or different taxable entities where there is an intention to settle the balances on a net basis.

(m) Dividend payable

Dividends on ordinary shares are charged to equity in the period in which they are declared.

(n) Share capital

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

(o) Fee and commission income

Fees and commissions are generally recognised 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 recognised as an adjustment to the effective interest rate on the loan. Loan syndication fees are recognised as revenue when the syndication has been completed and the Bank has retained no part of the loan package for itself or has retained a part at the same effective interest rate as the other participants. Commission and fees arising from negotiating, or participating in the negotiation of, a transaction for a third party – such as the arrangement of the acquisition of shares or other securities, or the purchase or sale of businesses – are recognised on completion of the underlying transaction. Portfolio and other management advisory and service fees are recognised based on the applicable service contracts, usually on a time-apportionate basis. Performance-linked fees or fee components are recognised when the performance criteria are fulfilled.

(p) Acceptances and letters of credit

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

Notes (continued)

2 Summary of significant accounting policies (continued)

(q) Derivative financial instruments

The Group enters into derivative financial instruments to manage its exposure to foreign currency exchange rate risks. Derivatives solely comprise currency forward exchange contracts.

Derivatives are initially recognised at fair value on the date on which the derivative contract is entered into and are subsequently remeasured at fair value at the end of each reporting period. The resulting gain or loss is recognised in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of recognition of gains or losses in the profit or loss will depend on the nature of the hedge relationship.

All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative.

(r) Accounting for leases

Leases under which the Group is the lessee

On the commencement date of each lease (excluding leases with a term, on commencement, of 12 months or less and leases for which the underlying asset is of low value) the Group recognises a right-of-use asset and a lease liability.

The lease liability is measured at the present value of the lease payments that are not paid on that date. The lease payments include fixed payments, variable payments that depend on an index or a rate, amounts expected to be payable under residual value guarantees, and the exercise price of a purchase option if the group is reasonably certain to exercise that option. The lease payments are discounted at the interest rate implicit in the lease. If that rate cannot be readily determined, the group's incremental borrowing rate is used. For leases that contain non-lease components, the company allocates the consideration payable to the lease and non-lease components based on their relative stand-alone components.

The right-of-use asset is initially measured at cost comprising the initial measurement of the lease liability, any lease payments made on or before the commencement date, any initial direct costs incurred, and an estimate of the costs of restoring the underlying asset to the condition required under the terms of the lease.

Subsequently the lease liability is measured at amortised cost, subject to remeasurement to reflect any reassessment, lease modifications, or revised fixed lease payments.

All right-of-use assets are subsequently measured at cost less accumulated depreciation and any accumulated impairment losses, adjusted for any remeasurement of the lease liabilities. Depreciation is calculated using the straight-line method to write-down the cost of each asset to its residual value over its estimated useful life. If the ownership of the underlying asset is expected to pass to the group at the end of the lease term, the estimated useful life would not exceed the lease term.

For leases with a term, on commencement, of 12 months or less and leases for which the underlying asset if of low value, the total lease payments are recognised in profit or loss on a straight-line basis over the lease period.

The above policy has been applied from 1 January 2019.

Notes (continued)

2 Summary of significant accounting policies (continued)

(r) Accounting for leases (continued)

Leases under which the Group is the lessor

Leases that transfer substantially all the risks and rewards of ownership of the underlying asset to the lessee are classified as finance leases. All other leases are classified as operating leases. Payments received under operating leases are recognised as income in the profit or loss account on a straight-line basis over the lease term.

Accounting policy prior to 1 January 2019

Below is the Bank's policy applied in the previous year on leases. Leases were divided into finance leases and operating leases.

(a) The Group as the lessee

(i) Operating lease

Leases in which a significant portion of the risks and rewards of ownership are retained by another party, the lessor, are classified as operating leases. Payments, including pre-payments, made under operating leases (net of any incentives received from the lessor) are charged to profit or loss on a straight-line basis over the period of the lease.

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

(ii) Finance lease

Leases of assets where the Group has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the lease's commencement at the lower of the fair value of the leased property and the present value of the minimum lease payments. Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. The corresponding rental obligations, net of finance charges, are included in deposits from banks or deposits from customers depending on the counter party. The interest element of the finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

The leases entered into by the Group are primarily operating leases.

(b) The Group as the lessor

When assets are held subject to a finance lease, the present value of the lease payments is recognised as a receivable. Finance income is recognised over the term of the lease using the net investment method (before tax), which reflects a constant periodic rate of return.

(c) Fees paid in connection with arranging leases

The Group makes payments to agents for services in connection with negotiating lease contracts with the Group's lessees. For operating leases, the letting fees are capitalised within the carrying amount of the related asset, and depreciated over the life of the lease.

Notes (continued)

3 Critical accounting estimates and judgements

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities at the date of the financial statements and the income and expenses during the reporting period.

All estimates and assumptions required in conformity with IFRS are best estimates undertaken in accordance with the applicable standard. Estimates and judgements are evaluated on a continuous basis, and are based on past experience and other factors, including expectations with regard to future events.

This note provides an overview of the areas that involve a higher degree of judgment or complexity, and major sources of estimation uncertainty that have a significant risk of resulting in a material adjustment within the next financial year. Detailed information about each of these estimates and judgements is included in the related notes together with information about the basis of calculation for each affected line item in the financial statements.

(i) Measurement of expected credit loss allowance

The measurement of the expected credit loss allowance for financial assets measured at amortised cost and FVOCI is an area that requires the use of complex models and significant assumptions about future economic conditions and credit behaviour (e.g. the likelihood of customers defaulting and the resulting losses).

A number of significant judgements are also required in applying the accounting requirement for measuring ECL, such as:

- Determining criteria for significant increase in credit risk;
- Choosing the appropriate models and assumptions for the measurement of ECL;
- Establishing the number and relative weightings of forward-looking scenarios for each type of product/market and the associated ECL;
- Establishing groups of similar financial assets for the purposes of measuring ECL;
- Determining the relevant period of exposure to credit risk when measuring ECL for credit cards and revolving credit facilities; and
- Determining the appropriate business models and assessing the “solely payments of principal and interest (SPPI)” requirements for financial assets.

(ii) Fair value of financial instruments

The fair value of financial instruments where no active market exists or where quoted prices are not otherwise available are determined by using valuation techniques. In these cases, the fair values are estimated from observable data in respect of similar financial instruments or using models. Where market observable inputs are not available, they are estimated based on appropriate assumptions. Where valuation techniques (for example, models) are used to determine fair values, they are calibrated and periodically reviewed by qualified management personnel independent of the area that created them to ensure that outputs reflect actual data and comparative market prices. To the extent practical, models use only observable data; however, areas such as credit risk (both own credit risk and counterparty risk), volatilities and correlations require the directors to make estimates. At 31 December 2018 there were no financial instruments measured at fair value using valuation techniques and level 3 inputs other than as described in 4(d) below.

Notes (continued)

3 Critical accounting estimates and judgements (continued)

(iii) Impairment of non-financial assets

The Group assesses whether there are any indicators of impairment for all non-financial assets at each reporting date. Non-financial assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable.

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

(iv) Income taxes

The Group is subject to income taxes in various jurisdictions. Significant judgment is required in determining the Group's provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group 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.

4 Financial risk management

This section provides an overview of the Group's approach to risk management and a description of the nature and extend of risks. Risk is an integral part of the banking business and the Group aims to deliver superior shareholder value by achieving an appropriate trade-off between risk and returns. The Group incurs its major risk exposure from extending credit to customers through lending operations. In addition to credit risk, the Group is also exposed to other risks such as liquidity and market risk among other risks that are inherent in the product range, sector concentration and geographical coverage of the Group.

Risk Management Structure

Key roles and responsibilities regarding risk management are summarized below –

Level	Role
Board of Directors	Approving risk management policies, setting risk appetite while ensuring that the executive management focuses on managing risks.
Board Audit and Risk Committee	Assessment, management and mitigation of risk in the Group. It is accountable to the Board of directors.
Board ALCO Committee	Assessment, management and mitigation of liquidity, capital and market risks in the Group. It is accountable to the Board of directors.
Management ALCO Committee	Recommends to Board ALCO committee on assessment, management and mitigation of liquidity, capital and market risks in the Group. It implements Board ALCO committee decisions.
Internal Audit Department	Independently reviews the risks on a periodic basis and reports to the Board Audit and Risk Committee.
Enterprise Risk Management (ERM) Department	Carries out risk management under policies approved by the board. The responsibility of identifying, evaluating and hedging risks lies here with close corporation with operating units.

Notes (continued)

4 Financial risk management (continued)

Risk Management Framework

This encompasses practices relating to the identification, analysis, evaluation, treatment, mitigation and monitoring of risks.

The Group's risk management framework is based on a clear understanding of various risks, disciplined risk assessment and measurement procedures and continuous monitoring. The policies and procedures established for this purpose are continuously benchmarked with the industry best practices.

Taking risk is core to the Group's business and the operational risks are an inevitable consequence of being in business. The Group's aim is therefore to achieve an appropriate balance between risk and return, and minimize potential adverse effects on its financial performance and this involves:

- *Risk identification, analysis and evaluation* – includes periodic assessment of the business environment, incident analysis and analysis of bank's performance relative to set objectives. Risk analysis is carried out using scenario bases assessments to determine the likelihood of occurrence and potential impact of risk.

- *Risk treatment* – implementing measures to alleviate the impact of the identified risk. These measures include avoiding the risk, transferring risk to another entity, reducing level of risk or accepting the risk.

- *Risk mitigation and monitoring* – mitigation measures are put in place and agreed upon by the business teams. The indicators and levels of risks are measured continuously.

- *Risk reporting and disclosures* – The Group uses a risk dashboard to track external and internal indicators of each risk. The analysis and impact of risks is periodically presented and discussed at the board level.

a) Credit risk

Credit risk is the risk of suffering financial loss, should any of the Group's customers, clients or market counterparties fail to fulfil their contractual obligations. Credit risk arises mainly from loans and advances, credit cards, and loan commitments arising from such lending activities, but can also arise from credit enhancement provided, financial guarantees, letters of credit, endorsements and acceptances.

The Group is also exposed to other credit risks arising from investments in debt securities and other exposures arising from its trading activities ('trading exposures'), including non-equity trading portfolio assets, derivatives and settlement balances with market counterparties and reverse repurchase loans.

Credit risk is the single most significant risk for the Group's business; the directors therefore carefully manage the exposure to credit risk. The credit risk management and controls are centralized in a credit risk management team, which reports to the Board of Directors and head of each business unit regularly.

The Group measures, monitors and manages credit risk for each borrower and also at the portfolio level. The Group has a standardised credit approval process, which includes a well-established procedure of comprehensive credit appraisal and rating. The Group has developed internal credit rating methodologies for rating obligors as well as for products and facilities. The credit risk attached to every borrower is reviewed at least annually and for higher risk credits and large exposures at shorter intervals.

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

Notes (continued)

4 Financial risk management (continued)

a) Credit risk (continued)

The Group structures the level of credit risk it undertakes by placing limits on amounts of risk accepted in relation to one borrower or a group of borrowers. Such risks are monitored on a continuous basis and are subject to annual or more frequent review. Limits on the level of credit risk by product, industry sector and by region are approved quarterly by the Board of Directors.

Exposure to credit risk is managed through regular analysis of the ability of borrowers and potential borrowers to meet interest and capital repayment obligations and by changing limits where appropriate. Exposure to credit risk is also managed in part by obtaining collateral and corporate guarantees. Credit risks are spread over a diversity of microfinance, personal and commercial customers. The exposure to any one borrower is further restricted by sub-limits covering exposures recognized and not recognized in the statement of financial position.

(i) Credit risk measurement

Loans and advances (including loan commitments and guarantees)

The estimation of credit exposure is complex and requires the use of models, as the value of a product varies with changes in market variables, expected cash flows and the passage of time. The assessment of credit risk of a portfolio of assets entails further estimations as to the likelihood of defaults occurring, of the associated loss ratios and of default correlations between counterparties.

The Group has developed models to support the quantification of the credit risk. These rating and scoring models are in use for all key credit portfolios and form the basis for measuring default risks. In measuring credit risk of loans and advances at a counterparty level, the Group considers three components: (i) the 'Probability of Default' (PD) by the client or counterparty on its contractual obligations; (ii) current exposures to the counterparty and its likely future development, from which the Group derive the 'Exposure at Default' (EAD); and (iii) the likely recovery ratio on the defaulted obligations (the 'Loss Given Default') (LGD). The models are reviewed regularly to monitor their robustness relative to actual performance and amended as necessary to optimise their effectiveness.

Credit risk grading

The Group uses internal credit risk gradings that reflect its assessment of the probability of defaults of individual counterparties. The Group uses internal rating models tailored to the various categories of counterparty. Borrower and loan specific information collected at the time of application (such as disposable income, the level of collateral for retail exposures, and turnover and industry type for wholesale exposures) is fed into this rating model. This is supplemented with external data such as credit bureau scoring information on individual borrowers. In addition, the models enable expert judgment from the credit officers to be fed into the final internal credit rating for each exposure. This allows for the considerations which may not be captured as part of the other data input into the model.

The credit grades are calibrated such that the risk of default increases exponentially at each higher risk grade. For example, this means that the difference in the PD between A and A- rating grade is lower than the difference in the PD between a B and B- rating grade.

The following are additional considerations for other types of portfolio held by the Group:

Debt Securities and Placements with Banks
For debt securities and placements with banks, external rating agency credit grades will be used. These published grades will be continuously monitored and updated. The PDs associated with each grade will be determined based on realised default rates over the prior 12 months, as published by the rating agency.

The Group has not yet established internal models for measurement of expected credit loss (ECL) on non-loan financial instruments such as investment securities, interbank balances and other financial assets. However, at 31 December 2019, the Group estimated the ECL for these financial assets using external data as proxy and concluded on the ECL to be recognised on these instruments.

Notes (continued)

4 Financial risk management (continued)

a) Credit risk (continued)

(ii) Expected credit loss measurement

The Group applies 'three-stage' model for impairment based on changes in credit quality since initial recognition as summarised below:

- A financial instrument that is not credit-impaired on initial recognition is classified in 'Stage 1' and has its credit risk continuously monitored by the bank.
- If a significant increase in credit risk ('SICR') since initial recognition is identified, the financial instrument is moved to 'Stage 2' but is not yet deemed to be credit-impaired.
- Financial instruments in Stage 1 have their ECL measured at an amount equal to the portion of lifetime expected credit losses that result from default events possible within the next 12 months. Instruments in Stages 2 or 3 have their ECL measured based on expected credit losses on a lifetime basis.
- A pervasive concept in measuring ECL in accordance with IFRS 9 is that it should consider forward looking information.
- Purchased or originated credit-impaired financial assets are those financial assets that are credit impaired on initial recognition. Their ECL is always measured on a lifetime basis (Stage 3).

The key judgements and assumptions adopted by the Group in addressing the requirement of the standard are as follows;

(a) Significant Increase in credit risk (SICR)

The Group's decision on whether expected credit losses are based on 12-month expected credit losses or lifetime expected credit losses depends on whether there has been a significant increase in credit risk since initial recognition. An assessment of whether credit risk has increased significantly is made at each reporting date.

The Group considers a financial instruments to have experienced a significant increase in credit risk when one or more of the following quantitative, qualitative or backstop criteria have been met:

Quantitative criteria

The quantitative criteria is based on relative and not absolute changes in credit quality driven by ratings and days past due.

The Group considers that financial instruments for which default patterns are not concentrated at a specific point during the expected life of the financial instrument, changes in the risk of a default occurring over the next 12 months may be a reasonable approximation of the changes in the lifetime risk of a default occurring and could be used to determine whether credit risk has increased significantly since initial recognition.

The Group considers if there has been an increase in the customer's rating, the facility is deemed to have a significant increase in credit risk. The standard also sets out a rebuttable presumption that the credit risk on a financial asset has increased significantly since initial recognition when contractual payments are more than 30 days past due. This 30 days past due simplification permits the use of delinquency or past due status to identify a significant increase in credit risk. In adherence to the standard, the Group shall at every reporting period assesses the loan portfolio individually for possible breach of the 30 days past due SICR criterion. Where there is a breach and the loan has not been transferred to stage 2, the Group shall rebut the 30 days rebuttable presumption based on availability of supportable and reasonable information to justify that credit quality has not deteriorated significantly since initial recognition.

Notes (continued)

4 Financial risk management (continued)

a) Credit risk (continued)

(ii) Expected credit loss measurement (continued)

(a) Significant Increase in credit risk (SICR) (continued)

Quantitative Criteria (continued)

The Group's quantitative credit grading, as compared to CBK's prudential guidelines, into five prudential guidelines categories as follows:

IFRS 9 credit staging	CBK PG/04 Guidelines	Days past due
1	Normal	Up to date and in line with contractual agreements or within 30 days' arrears
2	Watch	31 to 90 days overdue
3	Substandard	91 to 180 days overdue
	Doubtful	181 – 365 days overdue
	Loss	Over 365 overdue

Qualitative Criteria

In addition to the above, the Group considers other qualitative factors in determining the classification above, and may accelerate the classification of credit facilities where deemed appropriate. They include but not limited to the following:

1. Significant changes in the terms of the same instrument if it were issued at the reporting date that indicate a change in credit risk since initial recognition, e.g. increase in credit spread; more stringent covenants; increased amounts of collateral or guarantees; or higher income coverage.

2. Significant changes in external market indicators of credit risk for the same financial instrument (or similar instrument of the borrower), e.g. other market information related to the borrower, such as changes in the price of a borrower's debt and equity instruments; or external credit rating (actual or expected).

3. Actual or expected adverse changes in business, financial or economic conditions significantly affecting borrower's ability to meet its debt obligations

4. Significant changes in the value of collateral which are expected to reduce the borrower's economic incentive to pay or otherwise affect the probability of default.

5. Expected changes in the loan documentation (e.g. breach of contract leading to covenant waivers or amendments, interest payment holidays, interest rate step-ups, requiring additional collateral or guarantees).

6. Significant changes in the expected performance and behavior of the borrower, including changes in the payment status of borrowers in the group (e.g. increase in delayed contractual payments or number of credit card borrowers expected to approach or exceed their credit limit or who are expected to be paying the minimum monthly amount).

Backstop

A backstop is applied and the financial instrument is considered to have experienced a significant increase in credit risk if the borrower is more than 30 days past due on its contractual payments.

Notes (continued)

4 Financial risk management (continued)

a) Credit risk (continued)

(ii) Expected credit loss measurement (continued)

(b) Definition of default and credit-impaired assets

The Group defines a financial instrument as in default, which is fully aligned with the definition of credit-impaired, when it meets one or more of the following criteria:

Qualitative criteria
The borrower meets unlikeliness to pay criteria, which indicates the borrower is in significant financial difficulty. These are instances where:

- The borrower is in long-term forbearance;
- The borrower is deceased;
- The borrower is insolvent or becoming probable that the borrower will enter bankruptcy;
- The borrower is in breach of financial covenants;
- An active market for that financial asset has disappeared because of financial difficulties;
- Concessions have been made by the lender relating to the borrower's financial difficulty;
- Financial assets are purchased or originated at a deep discount that reflects the incurred credit losses.

Quantitative criteria
The Group considers a facility that is more than 90 days past due.

The above criteria have been applied to all financial instruments held by the Group and are consistent with the definition of default used for internal credit risk management purposes. The default definition has been applied consistently to model the Probability of Default (PD), Exposure at Default (EAD) and Loss Given Default (LGD) throughout the Group's expected loss calculations.

An instrument is considered to no longer be in default (i.e. to have cured) when it no longer meets any of the default criteria for a consecutive period of six months. This period of six months has been determined based on an analysis which considers the likelihood of a financial instrument returning to default status after cure using different possible cure definitions.

c) Measuring expected credit loss – inputs, assumptions and estimation techniques

The expected credit loss (ECL) is measured on either a 12-month or lifetime basis depending on whether a significant increase in credit risk has occurred since initial recognition or whether an asset is considered to be credit impaired. Expected credit losses are the discounted product of the Probability of Default (PD), Exposure at Default (EAD), and Loss Given Default (LGD), defined as follows;

- The PD represents the likelihood of a borrower defaulting on its financial obligation, either over the next 12 months (12M PD), or over the remaining lifetime (Lifetime PD) of the obligation.
- EAD is based on the amounts the Group expects to be owed at the time of default, over the next 12 months (12M EAD) or over the remaining lifetime (Lifetime EAD).
- LGD represents the Group's expectations of the extent of loss on a defaulted exposure. LGD varies by type of counterparty, type of seniority of claim and availability of collateral or other credit support. LGD is calculated on a 12-month or lifetime basis, where 12 month LGD is the percentage of loss expected to be made if the default occurs over the next 12 months and lifetime LGD is the percentage of loss expected to be made if the default occurs over the remaining expected lifetime of the loan.

The ECL is determined by projecting the PD, LGD and EAD for each future month and for each individual exposure or collective segment. These three components are multiplied together and adjusted for the likelihood of survival (i.e. the exposure has not prepaid or defaulted in an earlier month). The discount rate used in the ECL calculation is the original effective interest rate or an approximation thereof.

Notes (continued)

4 Financial risk management (continued)

a) Credit risk (continued)

(ii) Expected credit loss measurement (continued)

c) Measuring expected credit loss – inputs, assumptions and estimation techniques (continued)

The lifetime PD is developed by applying a maturity profile to the current 12 month PD. The maturity profile looks at how defaults develop on a portfolio from the point of initial recognition throughout the lifetime of the loans. The maturity profile is based on historical observed data and is assumed to be the same across all assets within a portfolio and a credit grade. This is supported by a historical analysis.

The 12-month and lifetime EADs are determined based on the expected payment profile, which varies by product type:

- For amortising products or bullet repayment loans, this is based on the contractual repayments owed by the borrower over a 12-month or lifetime basis. This will also be adjusted for any expected overpayments made by the borrower. Early repayments/refinance assumptions are also incorporated.
- For revolving products, the exposure at default is predicted by taking the current drawn-down balance and adding a "credit conversion factor" which allows for the expected drawdown of the remaining limit by the time of default. These assumptions vary by product type and current limit utilisation band, based on analysis of the Group's recent default data.

The 12-month and lifetime LGDs are determined based on the factors which impact the recoverable amount post default. These vary by product type:

- For secured products, this is primarily based on collateral type and projected collateral values, historical discounts to market/book values due to forced sales, time to repossession and recovery costs observed.
- For unsecured products, LGDs are typically set at product level due to the limited differentiation in recoveries achieved across different borrowers. These LGDs are influenced by collection strategies, including contracted debt sales and prices.

Forward-looking economic information is also included in determining the 12-month and lifetime PD, EAD and LGD. These assumptions vary by product type.

The assumptions underlying the ECL calculation – such as how the maturity profile of the PDs and how collateral values change etc. – are monitored and reviewed on a quarterly basis.

d) Forward-looking information incorporated in the ECL models

The assessment of both SICR and the calculation of ECL incorporate forward-looking information. The Group has performed historical analysis and identified the key economic variables impacting credit risk and expected credit losses for each portfolio. These economic variables and their associated impact on PD, EAD and LGD vary by financial instrument.

Forecasts of the base economic scenario and the possible scenarios along with scenario weightings are prepared by an expert economic team. The impact of these economic variables on the PD, EAD and LGD is determined by performing statistical regression analysis to understand the impact changes in these variables have had historically on default rates and on the components of LGD and EAD.

As with any economic forecasts, the projections and likelihoods of occurrence are subject to a high degree of inherent uncertainty and therefore the actual outcomes may be significantly different to those projected. The Group considers these forecasts to represent its best estimate of the possible outcomes and has analysed the non-linearities and asymmetries within the Group's different portfolios to establish that the chosen scenarios are appropriately representative of the range of possible outcomes.

Notes (continued)

4 Financial risk management (continued)

a) Credit risk (continued)

(ii) Expected credit loss measurement (continued)

d) Forward-looking information incorporated in the ECL models (continued)

Economic variable assumptions

The most significant assumptions affecting the ECL allowance are as follows. The scenarios "base", "upside" and "downside" were used for all portfolios.

	All segments		
	Base	**Upside**	**Downside**
USD Exchange rate	100.4	96.7	104.0
Nominal GDP	5.90%	5.7%	6.1%
Interest rates (lending rates)	13.30%	13.1%	13.5%
Inflation	6.50%	6.3%	6.7%

The weightings assigned to each economic scenario at 1 January 2019 and 31 December 2019 were as follows:

	Base	**Upside**	**Downside**
Weightings	50%	30%	20%

Other forward-looking considerations not otherwise incorporated within the above scenarios, such as the impact of any regulatory, legislative or political changes, have been considered, but are not deemed to have a material impact on therefore no adjustment has been made to the ECL for such factors. This is reviewed and monitored for appropriateness on a quarterly basis.

Sensitivity analysis

Set out below are the changes to the ECL at 31 December 2019 that would result from reasonably possible changes in the Group's probability weightings from actual assumptions used in the Group's economic variable assumptions:

Impact of 10% increase/decrease in base case probability weighting

	Base	**Downside**	**Upside**	**ECL Change'000**
Weightings (+10%)	60%	25%	15%	32,692
Weightings (-10%)	40%	35%	25%	- 32,692

e) Grouping of instruments for losses measured on a collective basis

For expected credit losses provisions modelled on a collective basis, a grouping of exposures is performed on the basis of shared risk characteristics, such that risk exposures within a group are homogenous. In performing this grouping, there must be sufficient information for the group to be statistically credible. Where sufficient information is not available internally, the Group has considered benchmarking internal/external supplementary data to use for modelling purposes.

Notes (continued)

4 Financial risk management (continued)

a) Credit risk (continued)

e) Credit risk exposure

Maximum exposure to credit risk before collateral held

Group	**Notes**	**2019 Shs'000**	**%**	**2018 Shs'000**	**%**
Items recognised in the statement of financial position:					
Balances with Central Bank of Kenya	15	2,436,549	6.7	1,407,645	3.6
Financial assets at fair value through profit or loss	16	1,252,738	3.4	419,294	1.1
Deposits with other banks	17	1,756,164	4.8	3,986,393	10.2
Investments at amortised cost	18	2,300,990	6.3	3,317,236	8.5
Loans and advances to customers	19	16,000,406	43.9	13,134,315	33.6
Other assets	20	852,367	2.3	936,534	2.5
		24,599,214	67.4	23,201,417	59.5
Items not recognised in the statement of financial position:					
Letters of credit	34	811,811	2.2	1,306,939	3.3
Acceptances and Guarantees	34	11,087,585	30.4	14,528,418	37.2
		36,498,610	100	39,036,774	100

Bank	**Notes**	**2019 Shs'000**	**%**	**2018 Shs'000**	**%**
Items recognised in the statement of financial position:					
Balances with Central Bank of Kenya	15	2,436,549	6.7	1,407,645	3.6
Financial assets at fair value through profit or loss	16	1,252,738	3.4	419,294	1.1
Placements with other banks	17	1,756,164	4.8	3,986,393	10.2
Investments at amortised cost	18	2,300,990	6.3	3,317,236	8.5
Loans and advances to customers	19	16,000,406	43.9	13,134,315	33.6
Other assets	20	849,408	2.3	963,597	2.5
		24,596,255	67.4	23,228,480	59.5
Items not recognised in the statement of financial position:					
Letters of credit	34	811,811	2.2	1,306,939	3.3
Acceptances and Guarantees	34	11,087,585	30.4	14,528,418	37.2
		36,495,651	100	39,063,837	100

The above table represents a worst case scenario of credit risk exposure to the Bank at 31 December 2019 and 31 December 2018 without taking account of any collateral held or other credit enhancement attached. For assets recognised in the statement of financial position, the exposures set out above are based on carrying amounts as reported in the statement of financial position before adjusting for expected credit loss.

Loans and advances to customers are secured by collateral in the form of charges over cash, land and building and/or plant and machinery or corporate guarantees. Management is confident in its ability to continue to control and sustain minimal exposure of credit risk to the Bank resulting from both its loans and advances portfolio and debt securities.

Notes (continued)

4 Financial risk management (continued)

a) Credit risk (continued)

e) Credit risk exposure (continued)

Maximum exposure to credit risk before collateral held

Loans and advances (continued)

The breakdown of loans and advances is summarised below:

Group and Bank	**2019**			
	Stage 1 12 month ECL Shs' 000	**Stage 2 Lifetime ECL Shs' 000**	**Stage 3 Lifetime ECL Shs' 000**	**Total Shs' 000**
Individually impaired / non performing facilities				
Grade 3: Substandard	-	-	398,825	398,825
Grade 4: Doubtful	-	-	695,432	695,432
Grade 5: Loss	-	-	2,163,770	2,163,770
Gross amount	**-**	**-**	**3,258,027**	**3,258,027**
Credit impairment losses	-	-	996,921	996,921
Carrying amount	**-**	**-**	**2,261,106**	**2,261,106**
Collectively impaired				
Grade 1: Normal	12,040,716	-	-	12,040,716
Grade 2: Watch	-	701,663	-	701,663
Gross amount	**12,040,716**	**701,663**	**-**	**12,742,379**
Credit impairment losses	412,042	65,377	-	477,419
Carrying amount	**11,628,674**	**636,286**	**-**	**12,264,960**
Total carrying amount	**11,628,674**	**636,286**	**2,261,106**	**14,526,066**

Notes (continued)

4 Financial risk management (continued)

a) Credit risk (continued)

e) Credit risk exposure (continued)

Maximum exposure to credit risk before collateral held

Loans and advances (continued)

The breakdown of loans and advances is summarised below:

Group and Bank	2018			
	Stage 1 12 month ECL Shs' 000	Stage 2 Lifetime ECL Shs' 000	Stage 3 Lifetime ECL Shs' 000	Total Shs' 000
Individually impaired / non performing facilities				
Grade 3: Substandard	-	-	563,464	563,464
Grade 4: Doubtful	-	-	2,149,901	2,149,901
Grade 5: Loss	-	-	228,353	228,353
Gross amount	**-**	**-**	**2,941,718**	**2,941,718**
Credit impairment losses	-	-	1,037,383	1,037,383
Carrying amount	**-**	**-**	**1,904,335**	**1,904,335**
Collectively impaired				
Grade 1: Normal	11,254,310	-	-	11,254,310
Grade 2: Watch	-	386,937	-	386,937
Gross amount	**11,254,310**	**386,937**	**-**	**11,641,247**
Credit impairment losses	363,983	47,284	-	411,267
Carrying amount	**10,890,327**	**339,653**	**-**	**11,229,980**
Total carrying amount	**10,890,327**	**339,653**	**1,904,335**	**13,134,315**

Notes (continued)

4 Financial risk management (continued)

a) Credit risk (continued)

e) Credit risk exposure (continued)

Maximum exposure to credit risk before collateral held (continued)

Other financial assets – financial instruments subject to impairment

The other financial assets mainly relate to government securities and balances held with Central Bank and other financial institutions that are highly rated and therefore considered low risk. None of these were past due or impaired except for a balance of Shs 303,440,000 (2018: Shs 303,440,000) within other assets as disclosed in Note 20. The summarized information on other financial instrument is tabulated below:

Group	Balance at 31 December 2019 Shs '000	Stage	ECL Shs '000	Balance at 31 December 2018 Shs '000	Stage	ECL Shs '000
Balances with Central bank	2,436,549	1	-	1,407,645	1	-
Deposits with other banks	1,743,226	1	12,938	3,986,393	1	63,252
Investment securities	2,300,990	1	-	3,317,236	1	-
Other receivables	771,104	1	301,755	610,935	1	204,832
	7,251,869		314,693	9,322,209		268,084

Bank	Balance at 31 December 2019 Shs '000	Stage	ECL Shs '000	Balance at 31 December 2018 Shs '000	Stage	ECL Shs '000
Balances with Central bank	2,436,549	1	-	1,407,645	1	-
Deposits with other banks	1,743,226	1	12,938	3,986,393	1	63,252
Investment securities	2,300,990	1	-	3,317,236	1	-
Other receivables	772,496	1	301,755	642,231	1	204,832
	7,253,261		314,693	9,353,505		268,084

Other financial assets – financial instruments not subject to impairment

	Group and Bank 2019 Shs '000	2018 Shs '000
Financial assets at fair value through profit or loss	1,252,738	419,294

Notes (continued)

4 Financial risk management (continued)

a) Credit risk (continued)

f) Collateral and other credit enhancements

The Group uses a range of policies and practices to mitigate credit risk. The most traditional of these is the taking of security for funds advanced, which is common practice. The acceptability of collateral for credit risk mitigation is guided by the Group's procedures and policies. The main types of collateral taken are:

Type of lending	Common collateral type
Mortgage lending	First ranking legal charge over the property financed.
Commercial loans	Debentures over the Bank's assets, cash cover in cash margin account, first ranking legal charge over both commercial and residential properties, directors' personal guarantees and Bank guarantees.
Personal loans	Checkoffs and cash backed collateral
Asset finance	Secured by motor vehicles and chattel registrations
Other loans and advances	Debentures over the Bank's assets, cash cover in cash margin account, first ranking legal charge over both commercial and residential properties, directors' personal guarantees and Bank guarantees.

Collateral held as security for financial assets other than loans and advances depends on the nature of the instrument. Longer-term finance and lending to corporate entities are generally secured; revolving individual credit facilities are generally unsecured. In addition, in order to minimise the credit loss the Bank will seek additional collateral from the counterparty as soon as impairment indicators are identified for the relevant individual loans and advances. The Group's policies regarding obtaining collateral have not significantly changed during the reporting period and there has been no significant change in the overall quality of the collateral held by the Group since the period.

Valuation of collateral
The Group has a panel of valuers who undertake valuation of property and other assets to be used as Collateral. The valuers in the panel are qualified professional valuers with adequate experience in the field of property and machinery valuation. Valuation of collateral are performed between 3 to 5 year intervals.

Financial effect of collateral
At 31 December 2019, 92% (2018: 96%) of the impaired loans (net of suspended interest) were covered by collateral.

The Group closely monitors collateral held for financial assets considered to be credit impaired, as it becomes more likely that the Group will take possession of collateral to mitigate potential credit losses. Financial assets that are credit-impaired and related collateral held in order to mitigate potential losses are shown below:

		Group and Bank
	2019	**2018**
	Shs'000	**Shs'000**
Individually assessed impaired loans and advances:		
Micro loans	546,531	472,362
SME loans	2,711,496	2,469,356
	3,258,027	2,941,718
Fair value of collateral held	3,012,942	2,823,105

Notes (continued)

4 Financial risk management (continued)

a) Credit risk (continued)

f) Collateral and other credit enhancements (continued)

Lending limits

The Group maintains strict control limits on net open derivative positions (that is, the difference between purchase and sale contracts) by both amount and term. The amount subject to credit risk is limited to expected future net cash inflows of instruments, which in relation to derivatives are only a fraction of the contract, or notional values used to express the volume of instruments outstanding. This credit risk exposure is managed as part of the overall lending limits with customers, together with potential exposures from market movements. Collateral or other security is not always obtained for credit risk exposures on these instruments, except where the Group requires margin deposits from counterparties.

Settlement risk arises in any situation where a payment in cash, securities or equities is made in the expectation of a corresponding receipt in cash, securities or equities. Daily settlement limits are established for each counterparty to cover the aggregate of all settlement risk arising from the Bank's market transactions on any single day.

Master netting arrangements

The Group further restricts its exposure to credit losses by entering into master netting arrangements with counterparties with which it undertakes a significant volume of transactions. Master netting arrangements do not generally result in an offset of assets and liabilities of the statement of financial position, as transactions are either usually settled on a gross basis or under most netting agreements the right of set off is triggered only on default. However, the credit risk associated with favourable contracts is reduced by a master netting arrangement to the extent that if a default occurs, all amounts with the counterparty are terminated and settled on a net basis. The Group's overall exposure to credit risk on derivative instruments subject to master netting arrangements can change substantially within a short period, as it is affected by each transaction subject to the arrangement.

Financial covenants (for credit related commitments and loan books)

The primary purpose of these instruments is to ensure that funds are available to a customer as required. Guarantees and standby letters of credit carry the same credit risk as loans. Documentary and commercial letters of credit – which are written undertakings by the Group on behalf of a customer authorising a third party to draw drafts on the Group up to a stipulated amount under specific terms and conditions – are collateralised by the underlying shipments of goods to which they relate and therefore carry less risk than a direct loan. Commitments to extend credit represent unused portions of authorisations to extend credit in the form of loans, guarantees or letters of credit. With respect to credit risk on commitments to extend credit, the Group is potentially exposed to loss in an amount equal to the total unused commitments. However, the likely amount of loss is less than the total unused commitments, as most commitments to extend credit are contingent upon customers maintaining specific credit standards (often referred to as financial covenants).

The Group monitors the term to maturity of credit commitments because longer-term commitments generally have a greater degree of credit risk than shorter-term commitments.

Notes (continued)

4 Financial risk management (continued)

(a) Credit risk (continued)

f) Impairment and provisioning policies

The loss allowance recognised in the period is impacted by a variety of factors as follows:

- Transfers between Stage 1 and Stage 2 or 3 due to financial instruments experiencing significant increases (or decreases) of credit risk or becoming credit impaired in the period, and the consequent "step up" or "step down" between 12-month and lifetime ECL;
- Additional allowance for new financial instruments recognised during the period, as well as releases for financial instruments de-recognised in the period;
- Impact on the measurement of ECL due to changes in PDs, EADs and LGDs in the period, arising from regular refreshing of inputs to models;
- Impacts on the measurement of ECL due to changes made to models and assumptions;
- Discount unwind within ECL due to the passage of time, as ECL is measured on a present value basis;
- Foreign exchange retranslations for assets denominated in foreign currencies and other movements; and
- Financial assets derecognised during the period and write-offs of allowances related to assets that were written off during the period.

The following tables explain the changes in the loss allowance in the year due to these factors:

Group and Bank	**Stage 1 12-month ECL Shs '000**	**Stage 2 Lifetime ECL Shs '000**	**Stage 3 Lifetime ECL Shs '000**	**Total Shs '000**
At 1 January 2019	534,578	47,284	866,788	1,448,650
Net staging transfers	3,707	642	2,474	6,824
New financial assets originated or purchased	140,645	41,395	127,650	309,690
Net charge to profit or loss in the year	144,352	42,037	130,124	316,513
Other movements with no P&L impact:				
Financial assets derecognised	(145,608)	(5,877)	(93,362)	(244,847)
Write-offs	-	-	(45,976)	(45,976)
At 31 December 2019	533,322	83,444	857,574	1,474,340

Group and Bank	**Stage 1 12-month ECL Shs '000**	**Stage 2 Lifetime ECL Shs '000**	**Stage 3 Lifetime ECL Shs '000**	**Total Shs '000**
At 31 December 2017	52,388	5,132	969,098	1,026,618
Changes on application of IFRS 9	73,743	104,499	(984)	177,258
Loss allowance at 1 January 2018	126,131	109,631	968,114	1,203,876
Net staging transfers	225,167	(76,464)	(148,702)	-
New financial assets originated or purchased	188,535	21,876	168,104	378,515
Net charge to profit or loss in the year	539,833	55,043	987,516	1,582,391
Other movements with no P&L impact:				
Financial assets derecognised	(5,254)	(7,759)	(27,098)	(40,111)
Write-offs	-	-	(93,630)	(93,630)
At 31 December 2018	534,578	47,284	866,788	1,448,650

Notes (continued)

4 Financial risk management (continued)

(a) Credit risk (continued)

f) Impairment and provisioning policies (continued)

The following table below shows the movement in gross carrying amount of loans and advances to help explain the changes in the loss allowance for the same portfolio:

Group and Bank	Stage 1 12-month ECL Shs '000	Stage 2 Lifetime ECL Shs '000	Stage 3 Lifetime ECL Shs '000	Total Shs '000
At 1 January 2019	11,254,309	386,938	2,941,718	14,582,965
Net staging transfers	236,658	1,639	278,089	516,386
Financial assets derecognised	(5,593,810)	(314,352)	(656,108)	(6,564,270)
New financial assets originated	6,913,855	361,393	350,049	7,625,297
Write-offs	-	-	(159,972)	(159,972)
At December 2019	12,811,012	435,618	2,753,776	16,000,406

Group and Bank	Stage 1 12-month ECL Shs '000	Stage 2 Lifetime ECL Shs '000	Stage 3 Lifetime ECL Shs '000	Total Shs '000
Gross carrying amount at 31 December 2017	8,962,462	877,919	2,595,562	12,435,943
Changes on initial application of IFRS 9	-	-	-	-
Gross carrying amount at 1 January 2018	8,962,462	877,919	2,595,562	12,435,943
Net staging transfers	259,887	(541,658)	281,771	-
Financial assets derecognised	(3,814,667)	(78,479)	(161,016)	(4,054,162)
New financial assets originated	5,846,626	129,156	579,375	6,555,157
Write-offs	-	-	(353,973)	(353,973)
At December 2018	11,254,309	386,938	2,941,718	14,582,965

Notes (continued)

4 Financial risk management (continued)

a) Credit risk (continued)

(g) Concentrations of risks of financial assets with credit exposure

To avoid excessive concentration in any one of several industrial sectors and, by extension, the overall safety of the Group and Bank, the lending portfolio is monitored and managed at all times. Equally, care is taken to avoid over-exposure to any one borrower. There are restrictions to the maximum exposure permitted with respect to any one name based on capital and these restrictions which are strictly adhered to, are laid down by regulation. Any changes made to the portfolio management plan are subject to the approval of the Board of Directors. The economic sector risk concentrations within the customer loans and advances portfolios at the end of the year were as follows:

	Group and Bank	
	2019	**2018**
	%	**%**
Agriculture	1.4	1.6
Manufacturing	0.4	0.4
Building and construction	5.6	2.1
Mining and Quarrying	0.1	0.0
Energy and water	1.4	1.6
Trade	42.3	38.6
Tourism, restaurant and Hotels	0.9	1.0
Transport and Communication	9.8	8.6
Real Estate	11.5	15.6
Financial Services	5.7	6.4
Personal Household	20.9	24.1
	100.0	100.0

Write-off policy

The Group writes off financial assets, in whole or in part, when it has exhausted all practical recovery efforts and has concluded there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include (i) ceasing enforcement activity and (ii) where the group's recovery methods foreclosing on collateral and the value of the collateral is such that there is no reasonable expectations of recovering in full

The Group may write-off financial assets that are still subject to enforcement activity. The outstanding contractual amounts of such assets written-off during the year was Shs 160 million (2018: Shs 354 million). The Group still seeks to recover amounts it is legally owed in full, but which have been partially written off due to no reasonable expectation of recovering in full.

Modification of financial assets

The Group sometimes modifies the terms of loans provided to customers due to commercial renegotiations, or for distressed loans, with a view to maximising recovery.

Such restructuring activities include extended repayment term arrangements, payment holidays and payment forgiveness. Restructuring policies and practices are based on indicators or criteria which, in the judgement of management, indicate that payment will most likely continue. These policies are kept under continuous review. Restructuring is most commonly applied to term loans.

The risk of default of such assets after modification is assessed at the reporting date and compared with the risk under the original terms at initial recognition, when the modification is not substantial and so does not result in derecognition of the original asset. The Group monitors the subsequent performance of modified assets. The Group may determine that the credit risk has significantly improved after restructuring, so that the assets are moved from Stage 3 or Stage 2 (Lifetime ECL) to Stage 1 (12-month ECL). This is only the case for assets which have performed in accordance with the new terms for six consecutive months or more. The gross carrying amount of such assets at 31 December 2019 was Shs 843 million (2018: Shs 1,147 million).

Notes (continued)

The Group continues to monitor if there is a subsequent significant increase in credit risk in relation to such assets through the use of specific models for modified assets.

4 Financial risk management (continued)

b) Liquidity risk

Liquidity risk is the risk that the Group is unable to meet its obligations when they fall due as a result of customer deposits being withdrawn, cash requirements from contractual commitments, or other cash outflows, such as debt maturities or margin calls for derivatives. Such outflows would deplete available cash resources for client lending, trading activities and investments. In extreme circumstances, lack of liquidity could result in reductions in the statement of financial position and sales of assets, or potentially an inability to fulfil lending commitments. The risk that the Bank will be unable to do so is inherent in all banking operations and can be affected by a range of institution specific and market-wide events including, but not limited to, credit events, merger and acquisition activity, systemic shocks and natural disasters.

Liquidity risk management process

The Group's liquidity management process, as carried out within the Group and monitored by a separate team in the Group's Treasury, includes:

- Day-to-day funding, managed by monitoring future cash flows to ensure that requirements can be met. This includes replenishment of funds as they mature or are borrowed by customers. The Bank maintains an active presence in global money markets to enable this to happen;
- Maintaining a portfolio of highly marketable assets that can easily be liquidated as protection against any unforeseen interruption to cash flow;
- Monitoring the liquidity ratios of the statement of financial position against internal and regulatory requirements; and
- Managing the concentration and profile of debt maturities.

The Management Asset and Liability Committee's (ALCO) role in liquidity is to manage the day to day treasury operations, ascertain adequacy of funds to meet the bank's obligations, advises on pricing of assets and liabilities, prepares cash flow projections to ensure the bank's liquidity is within set limits by CBK, monitors maturities of assets and liabilities and finally advises on placements and liquidations as appropriate. The Group also ensures the CBK cash and liquidity ratios are maintained.

The tables below represents cash flows payable by the Group under non-derivative financial liabilities by remaining periods to maturity at the reporting date.

Notes (continued)

4 Financial risk management (continued)

b) Liquidity risk (continued)

Group

Expected maturity dates	On demand Shs'000	1 - 3 months Shs'000	3 – 12 months Shs'000	1 - 5 years Shs'000	Over 5 years Shs'000	Total Shs'000
2019						
Financial assets						
Cash and balances with Central Bank of Kenya	3,306,661	-	-	-	-	3,306,661
Deposits with other banks	1,453,670	223,401	66,155	-	-	1,743,226
Investment securities	-	298,798	244,349	-	1,757,843	2,300,990
Financial assets at FVPL	-	934,544	-	-	-	934,544
Loans and advances to customers	-	2,151,029	1,246,368	9,151,604	1,977,065	14,526,066
Other assets	1,010,021	-	-	-	-	1,010,021
Total financial assets	5,770,352	3,607,772	1,556,872	9,151,604	3,734,908	23,821,508
Financial liabilities						
Deposits due to banks	-	745,245	-	-	-	745,245
Deposits from customers	6,411,319	9,602,136	1,075,399	108,391	481	17,197,726
Other liabilities and accrued expenses	336,051	-	-	-	-	336,051
Borrowings	-	-	287,090	1,256,114	1,338,973	2,882,177
Total financial liabilities	6,747,370	10,347,381	1,362,489	1,364,505	1,339,454	21,161,199
Liquidity gap	(977,018)	(6,739,609)	194,383	7,787,099	2,395,454	2,660,309
Financial guarantees	-	3,292,449	5,709,022	2,834,785	63,140	11,899,396
Foreign currency swaps	-	14,487	252,372	-	-	266,858

Notes (continued)

4 Financial risk management (continued)

b) Liquidity risk (continued)

Group

Expected maturity dates	**On demand Shs'000**	**1 - 3 months Shs'000**	**3 – 12 months Shs'000**	**1 - 5 years Shs'000**	**Over 5 years Shs'000**	**Total Shs'000**
2018						
Financial assets						
Cash and balances with Central Bank of Kenya	2,140,313	-	-	-	-	2,140,313
Deposits with other banks	1,660,820	2,274,218	51,355	-	-	3,986,393
Investment securities	-	1,767,025	-	-	1,550,211	3,317,236
Financial assets at FVPL	-	312,715	-	-	-	312,715
Loans and advances to customers	747,338	898,724	1,140,925	8,304,832	2,042,496	13,134,315
Other assets	936,534	-	-	-	-	936,534
Total financial assets	5,485,005	5,252,682	1,192,280	8,304,832	3,592,707	23,827,506
Financial liabilities						
Deposits due to banks	6,248	3,465,748	51,601	-	-	3,523,597
Deposits from customers	6,215,325	9,567,135	1,146,444	12,545	459	16,941,908
Other liabilities and accrued expenses	347,264	-	-	-	-	347,264
Borrowings	-	-	127,460	285,990	-	413,450
Total financial liabilities	6,568,837	13,032,883	1,325,505	298,535	459	21,226,219
Liquidity gap	(1,083,832)	(7,780,201)	(133,225)	8,006,297	3,592,248	2,601,287
Financial guarantees	-	4,027,235	7,200,678	4,597,444	10,000	15,835,357
Foreign currency swaps	-	65,157	35,024	-	-	100,182

Notes (continued)

4 Financial risk management (continued)

b) Liquidity risk (continued)

Bank

Expected maturity dates	On demand Shs'000	1 - 3 months Shs'000	3 – 12 months Shs'000	1 - 5 years Shs'000	Over 5 years Shs'000	Total Shs'000
2019						
Financial assets						
Cash and balances with Central Bank of Kenya	3,306,661	-	-	-	-	3,306,661
Deposits with other banks	1,453,670	223,401	66,155	-	-	1,743,226
Investment securities	-	298,798	244,349	-	1,757,843	2,300,990
Financial assets at FVPL	-	934,544	-	-	-	934,544
Loans and advances to customers	-	2,151,029	1,246,368	9,151,604	1,977,065	14,526,066
Other assets	1,007,162	-	-	-	-	1,007,162
Total financial assets	5,767,493	3,607,772	1,556,872	9,151,604	3,734,908	23,818,649
Financial liabilities						
Deposits due to banks	-	745,245	-	-	-	745,245
Deposits from customers	6,481,985	9,602,136	1,075,399	108,391	481	17,268,392
Other liabilities and accrued expenses	319,209	-	-	-	-	319,209
Borrowings	-	-	287,090	1,256,114	1,338,973	2,882,177
Total financial liabilities	6,801,194	10,347,381	1,362,489	1,364,505	1,339,454	21,215,023
Liquidity gap	(1,033,701)	(6,739,609)	194,383	7,787,099	2,395,454	2,603,626
Financial guarantees	-	3,292,449	5,709,022	2,834,785	63,140	11,899,396
Foreign currency swaps	-	14,487	252,372	-	-	266,858

Notes (continued)

4 Financial risk management (continued)

b) Liquidity risk (continued)

Bank

Expected maturity dates	On demand Shs'000	1 - 3 months Shs'000	3 – 12 months Shs'000	1 - 5 years Shs'000	Over 5 years Shs'000	Total Shs'000
2018						
Financial assets						
Cash and balances with Central Bank of Kenya	2,140,313	-	-	-	-	2,140,313
Deposits with other banks	1,660,820	2,274,218	51,355	-	-	3,986,393
Investments	-	1,767,025	-	-	1,550,211	3,317,236
Financial assets at FVPL	-	312,715	-	-	-	312,715
Loans and advances to customers	747,338	898,724	1,140,925	8,304,832	2,042,496	13,134,315
Other assets	963,597	-	-	-	-	963,597
Total financial assets	5,512,068	5,252,682	1,192,280	8,304,832	3,592,707	23,854,569
Financial liabilities						
Deposits due to banks	6,248	3,465,748	51,601	-	-	3,523,597
Deposits from customers	6,274,897	9,567,135	1,146,444	12,545	459	17,001,480
Other liabilities and accrued expenses	347,119	-	-	-	-	347,119
Borrowings	-	-	127,460	285,990	-	413,450
Total financial liabilities	6,628,264	13,032,883	1,325,505	298,535	459	21,285,646
Liquidity gap	(1,116,196)	(7,780,201)	(133,225)	8,006,297	3,592,248	2,568,923
Financial guarantees	-	4,027,235	7,200,678	4,597,444	10,000	15,835,357
Foreign currency swaps	-	65,157	35,024	-	-	100,182

Notes (continued)

4 Financial risk management (continued)

c) Market risk

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

Market risk is the risk that movements in market risk factors, including foreign exchange rates and interest rates will reduce the Group's income or capital. A principal part of the Group's management of market risk is to monitor the sensitivity of projected net interest income under varying interest rate scenarios (simulation modelling) and the sensitivity of future earnings and capital to varying foreign exchange rates. The Group aims, through its management of market risk, to mitigate the impact of prospective interest rate movements and foreign exchange fluctuations which could reduce future earnings and capital. The Group monitors foreign exposure positions, ensures there is adequate foreign currency to meet obligations as well as takes corrective action if the exposure exceeds the set limits.

For simulation modelling, the Group uses a combination of scenarios relevant to local businesses and local markets. These scenarios are used to illustrate the effect on the Bank's earnings and capital. The overall responsibility for managing market risk rests with the Board Asset and Liability Committee (ALCO). The ERM department is responsible for the development of detailed risk management policies subject to review and approval by ALCO.

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

i) Foreign exchange risk

The Group takes on exposure to the effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. The Board sets limits on the level of exposure by currency and in aggregate for both overnight and intra-day positions, which are monitored daily.

The table below summarises the Group's exposure to foreign exchange risk at 31 December 2019. Included in the table are the Group's financial instruments at carrying amounts, categorised by currency.

Notes (continued)

4 Financial risk management (continued)

c) Market risk (continued)

i) Foreign exchange risk (continued)

Group

	USD Shs'000	EURO Shs'000	GBP Shs'000	Other Shs'000	Total Shs'000
At 31 December 2019					
Financial assets					
Cash and balances with CBK	1,732,733	73,689	12,246	207	1,818,875
Deposits with other banks	1,439,836	234,313	2,599	70,281	1,747,029
Loans and advances	1,414,133	23,736	-	-	1,437,869
	4,586,702	331,738	14,845	70,488	5,003,773
Financial liabilities					
Customers deposits	813,411	98,543	714	-	912,668
Borrowings	1,004,170	-	-	-	1,004,170
	1,817,581	98,543	714	-	1,916,838
Net exposure	2,769,121	233,195	14,131	70,488	3,086,935
At 31 December 2018					
Financial assets					
Cash and balances with CBK	56,091	41,634	8,238	189	106,153
Deposits with other banks	3,179,230	674,191	184,729	4,285	4,042,435
Loans and advances	923,773	27,999	-	-	951,772
	4,159,095	743,824	192,967	4,474	5,100,360
Financial liabilities					
Customers deposits	1,493,520	180,007	1,146	281	1,674,954
Borrowings	204,099	-	-	-	204,099
	1,697,619	180,007	1,146	281	1,879,053
Net exposure	2,461,475	563,747	191,822	4,193	3,221,307

Notes (continued)

4 Financial risk management (continued)

c) Market risk (continued)

i) Foreign exchange risk (continued)

Bank

	USD Shs'000	EURO Shs'000	GBP Shs'000	Other Shs'000	Total Shs'000
At 31 December 2019					
Financial assets					
Cash and balances with CBK	1,732,733	73,689	12,246	207	1,818,875
Deposits with other banks	1,439,836	234,313	2,599	70,281	1,747,029
Loans and advances	1,414,133	23,736		-	1,437,869
	4,586,702	331,738	14,845	70,488	5,003,773
Financial liabilities					
Customers deposits	813,411	98,543	714	-	912,668
Borrowings	1,004,170	-	-	-	1,004,170
	1,817,581	98,543	714	-	1,916,838
Net exposure	2,769,121	233,195	14,131	70,488	3,086,935
At 31 December 2018					
Financial assets					
Cash and balances with CBK	56,091	41,634	8,238	189	106,153
Deposits with other banks	3,179,230	674,191	184,730	4,285	4,042,435
Loans and advances	923,773	27,999	-	-	951,772
	4,159,094	743,824	192,968	4,474	5,100,360
Financial liabilities					
Customers deposits	1,493,520	180,007	1,146	281	1,674,954
Borrowings	204,099	-	-	-	204,099
	1,697,619	180,007	1,146	281	1,879,053
Net exposure	2,461,475	563,817	191,822	4,193	3,221,307

Notes (continued)

4 Financial risk management (continued)

c) Market risk (continued)

i) Foreign exchange risk (continued)

The following table presents sensitivities of profit or loss and equity to reasonably possible changes in exchange rates applied at the end of the reporting period relative to functional currency of the Group, with all other variables held constant:

	Group and Bank	
	2019	2018
Shs/ US dollar	Shs'000	Shs'000
Effect on profit before income tax of a +/-5% change in exchange rates	138,456	123,074
Shs / Euro		
Effect on profit before income tax of a +/-5% change in exchange rates	11,660	28,191

ii) Interest rate risk

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

These measures minimize the Group's exposure to interest rate risk.

Changes in the market interest rates affect the interest income or expenses of variable interest financial instruments:

- Changes in market interest rates only affect interest income or expenses in relation to financial instruments with fixed interest rates if these are recognized at their fair value.
- The projections make other assumptions including that all positions run to maturity.

Sensitivity analysis

The following table presents the sensitivities of the assumed changes in interest rates on the Group's profit before income tax and for the year and equity.

	Group and Bank	
	2019	2018
	Shs'000	Shs'000
Effect on profit before income tax of a +/-2% change in interest rates	106,350	181,957
Effect on profit before income tax (%)	+/- 107%	+/- 34%

Notes (continued)

4 Financial risk management (continued)

c) Market risk (continued)

ii) Interest rate risk (continued)

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

Group 2019	Up to 1 month Shs'000	1-3 months Shs'000	3-12 months Shs'000	1-5 Years Shs'000	Over 5 years Shs'000	Non-interest bearing Shs'000	Carrying amount Shs'000
Financial assets:							
Cash and balances with the Central Bank of Kenya	-	-	-	-	-	3,306,661	3,306,661
Deposits with other banks	223,401	-	66,155	-	-	1,453,670	1,743,226
Investment securities	298,798	-	244,349	-	1,757,843	-	2,300,990
Loans advances to customers	1,059,337	1,091,692	1,246,368	9,151,604	1,977,065	-	14,526,066
	1,581,536	1,091,692	1,556,872	9,151,604	3,734,908	4,760,331	21,876,943
Financial liabilities:							
Deposits due to banks	745,245	-	-	-	-	-	745,245
Deposits from customers	6,309,179	3,271,420	1,075,399	108,391	481	6,432,856	17,197,726
Borrowings	-	-	287,090	1,256,114	1,338,973	-	2,882,177
	7,054,424	3,271,420	1,362,489	1,364,505	1,339,454	6,432,856	20,825,148
Total interest repricing gap	(5,472,888)	(2,179,728)	194,383	7,787,099	2,395,454	(1,672,525)	1,051,795

Notes (continued)

4 Financial risk management (continued)

c) Market risk (continued)

iii) Interest rate risk (continued)

Group 2018	**Up to 1 month Shs'000**	**1-3 months Shs'000**	**3-12 months Shs'000**	**1-5 Years Shs'000**	**Over 5 years Shs'000**	**Non-interest bearing Shs'000**	**Carrying amount Shs'000**
Financial assets:							
Cash and balances with the Central Bank of Kenya	-	-	-	-	-	2,140,313	2,140,313
Deposits with other banks	1,856,777	354,188	51,355	-	-	1,724,073	3,986,393
Investments securities	295,905	1,471,119	-	-	1,550,212	-	3,317,236
Loans advances to customers	747,338	898,724	1,140,925	8,304,832	2,042,496	-	13,134,315
	2,900,020	2,724,031	1,192,280	8,304,832	3,592,708	3,864,386	22,578,257
Financial liabilities:							
Deposits due to banks	3,099,854	365,894	51,601	-	-	6,248	3,523,597
Deposits from customers	7,269,873	2,303,563	1,146,444	12,545	459	6,209,024	16,941,908
Borrowings	-	-	127,460	285,990	-	-	413,450
	10,369,727	2,669,457	1,325,505	298,535	459	6,215,272	20,878,955
Total interest repricing gap	(7,469,707)	54,574	(133,225)	8,006,297	3,592,249	(2,350,886)	1,699,302

Notes (continued)

4 Financial risk management (continued)

c) Market risk (continued)

iv) Interest rate risk (continued)

Bank 2019	Up to 1 month Shs'000	1-3 months Shs'000	3-12 months Shs'000	1-5 Years Shs'000	Over 5 years Shs'000	Non-interest bearing Shs'000	Carrying amount Shs'000
Financial assets:							
Cash and balances with the Central Bank of Kenya	-	-	-	-	-	3,306,661	3,306,661
Deposits with other banks	223,401	-	66,155	-		1,453,670	1,743,226
Investments securities	298,798	-	244,349	-	1,757,843	-	2,300,990
Loans advances to customers	1,059,337	1,091,692	1,246,368	9,151,604	1,977,065	-	14,526,066
	1,581,536	1,091,692	1,556,872	9,151,604	3,734,908	4,760,331	21,876,943
Financial liabilities:							
Deposits due to banks	745,245	-	-	-	-	-	745,245
Deposits from customers	6,309,179	3,271,420	1,075,399	108,391	481	6,503,522	17,268,392
Borrowings	-	-	287,090	1,256,114	1,338,973	-	2,882,177
	7,054,424	3,271,420	1,362,489	1,364,505	1,339,454	6,503,522	20,895,814
Total interest repricing gap	(5,472,888)	(2,179,728)	194,383	7,787,099	2,395,454	(1,743,191)	981,129

Notes (continued)

4 Financial risk management (continued)

c) Market risk (continued)

v) Interest rate risk (continued)

Bank 2018	Up to 1 month Shs'000	1-3 months Shs'000	3-12 months Shs'000	1-5 Years Shs'000	Over 5 years Shs'000	Non-interest bearing Shs'000	Carrying amount Shs'000
Financial assets:							
Cash and balances with the Central Bank of Kenya	-	-	-	-	-	2,140,313	2,140,313
Deposits with other banks	1,856,777	354,188	51,355	-	-	1,724,073	3,986,393
Investments securities	295,905	1,471,119	-	-	1,550,212	-	3,317,236
Loans advances to customers	747,338	838,724	1,140,925	8,304,832	2,042,496	-	13,134,315
	2,900,020	2,724,031	1,192,280	8,304,832	3,592,708	3,864,386	22,578,257
Financial liabilities:							
Deposits due to banks	3,099,854	335,894	51,601	-	-	6,248	3,523,597
Deposits from customers	7,269,872	2,333,563	1,146,444	12,545	459	6,268,597	17,001,480
Borrowings	-	-	127,460	285,990	-	-	413,450
	10,369,726	2,669,457	1,325,505	298,535	459	6,274,845	20,938,527
Total interest repricing gap	(7,469,526)	54,574	(133,225)	8,006,297	3,592,249	(2,410,459)	1,639,730

Notes (continued)

4 Financial risk management (continued)

d) Fair value of financial assets and liabilities

The Group's and Bank's fair value of the government securities at amortised cost listed at NSE at 31 December 2019 is estimated at Shs 2,276,187,000 (2018: Shs 3,042,614,000) compared to their carrying value of Shs 2,300,990,000 (2018: Shs 3,317,236,000). The Held for Trading investment securities are carried at fair value in the Bank's books. The fair values of the Bank's other financial assets and liabilities approximate the respective carrying amounts, due to the generally short periods to contractual repricing or maturity dates as set out above. Fair values are based on discounted cash flows using a discount rate based upon the borrowing rate that directors expect would be available to the Bank at the balance sheet date.

Fair value estimation

The table below analyses financial instruments carried at fair value by valuation method. The different levels are defined as follows:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1).
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2).
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

	Level 1	Level 2	Level 3	Totals
Group and Bank				
At 31 December 2019	**Shs'000**	**Shs'000**	**Shs'000**	**Shs'000**
Financial assets at fair value through profit or loss	934,543	-	-	934,543
Freehold land and buildings	-	-	130,000	130,000
	934,543		130,000	1,064,543
At 31 December 2018				
Financial assets at fair value through profit or loss	312,715	-	-	312,715
Freehold land and buildings	-	-	138,000	138,000
	312,715	-	138,000	450,715

e) Management of capital

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

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

Notes (continued)

4 Financial risk management (continued)

e) Management of capital (continued)

The Bank's Management ALCO reviews the bank's capital structure on an on-going basis. As part of this review, the Committee considers the cost of capital and the risks associated with each class of capital. Based on recommendations of the Committee to the Board ALCO committee, the bank will balance its overall capital structure.

The Bank has 3 main capital objectives:

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

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

The Central Bank of Kenya requires a bank to maintain at all times:

- A minimum level of core capital of Shs 1 billion
- A core capital of not less than 8.0% (2018: 8.0%) of total deposit liabilities
- A core capital of not less than 10.5% (2018: 10.5%) of risk weighted assets plus risk weighted assets not recognized in the statement of financial position.
- A total capital of not less than 14.5% (2018:14.5%) of risk-weighted assets plus risk-weighted items not recognized in the statement of financial position.

The Bank maintains a ratio of total regulatory capital to its risk-weighted assets above a minimum level prescribed by with the Central Bank which takes into account the risk profile of the Bank.

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

Tier 1 capital (core capital): Share capital, share premium, plus retained earnings.

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

Assets are weighted according to broad categories of notional credit risk, being assigned a risk weighted according to the amount of capital deemed to be necessary to support them. Five categories of risk weights (0%, 20%, 50%, 70% and 100%) are applied.

Notes (continued)

4 Financial risk management (continued)

e) Management of capital (continued)

	2019 Shs'000	2018 Shs'000
Tier 1 capital		
Share capital	2,046,198	2,046,198
Share premium	1,246,599	1,246,599
Retained earnings	957,978	1,030,700
Less: Deferred tax asset	(269,369)	(94,299)
	3,981,406	4,229,198
Tier 2 capital		
Revaluation reserve	12,552	16,844
Subordinated debt	1,216,200	-
Total regulatory capital	5,210,158	4,246,042
Risk weighted assets	27,479,534	27,021,094
Core capital/ total deposits liabilities (Minimum: 8.0%)	23.0%	24.9%
Core capital/total risk weighted assets (Minimum: 10.5%)	14.5%	15.7%
Total capital/ total risk weighted assets (Minimum: 14.5%)	19.0%	15.7%

The Bank was compliant with the capital adequacy ratios throughout the year. The Bank received long term funding of USD 12 million from IFU in March 2019 which forms part of Tier 2 capital during the year.

The decrease of the Tier 1 qualifying capital in the year is mainly due to the impact of initial application of IFRS 16 which was however countered by the contribution of the current year profit. The non-qualifying deferred tax asset further decreased the Tier 1 capital. The increase of the risk-weighted assets reflects the expansion of the bank's loan book in 2019.

5 Interest income

	Group and Bank 2019 Shs'000	2018 Shs'000
Loans and advances to customers	1,768,893	1,703,292
Financial assets at amortised cost	305,339	355,128
Deposits with other banks	59,138	59,985
	2,133,370	2,118,405
Portfolio analysis		
Interest on financial assets held at amortised cost	2,133,370	2,118,405

Notes (continued)

6 Interest expense

	Group and Bank 2019 Shs'000	2018 Shs'000
Deposits from customers	838,283	729,208
Deposits from banks	108,487	280,623
Borrowings	137,114	45,590
Interest expense on lease liabilities	115,578	-
	1,199,462	1,055,421

7 Net fee and commission income

	Group 2019 Shs'000	2018 Shs'000	Bank 2019 Shs'000	2018 Shs'000
Ledger fees and commissions	54,273	52,300	54,285	52,300
Credit fees and commissions	482,096	336,739	482,096	336,739
Transaction based fees income	430,902	424,587	430,902	424,591
Insurance premium commissions	53,746	39,686	-	-
Fee and commission income	1,021,017	853,312	967,283	813,630
Fee and commission expense	(1,426)	(2,988)	(704)	(2,587)
Net fee and commission income	1,019,591	850,324	966,579	811,043

8 Trading income

	Group and Bank 2019 Shs'000	2018 Shs'000
Net foreign exchange gains	265,243	196,592
Net gains on sale of financial assets at fair value through profit or loss	162,039	10,074
Fair value (loss)/income on financial assets at fair value through profit or loss	(33,667)	3,404
	393,615	210,070

Trading income arose from trading in foreign currency transactions, translation of foreign currency assets and liabilities to Kenya Shillings at year-end and trading of financial assets held for trading (at fair value through profit financial assets or loss).

Notes (continued)

9 Credit impairment losses

	Group and Bank	
	2019	2018
Statement of profit or loss:	Shs'000	Shs'000
Charge for the year:		
- Loans and advances to customers (Note 19)	356,258	573,718
- Deposits with other banks (Note 17)	(50,314)	53,375
- Other assets and prepayments (Note 20)	96,923	153,787
Credits due to recoveries	(19,736)	(17,939)
	383,131	762,941

10 Other income

	Group		Bank	
	2019	2018	2019	2018
	Shs'000	Shs'000	Shs'000	Shs'000
Gain on disposal of property and equipment	664	4	664	4
Sundry income	3,667	5,844	3,657	5,844
Discount on early settlement of borrowings	12,548	-	12,548	-
	16,879	5,848	16,869	5,848

11 Operating expenses

Operating expenses include the following:

	Group		Bank	
	2019	2018	2019	2018
	Shs'000	Shs'000	Shs'000	Shs'000
Employee benefits (Note 12)	837,545	803,825	824,932	793,317
Directors' remuneration (Note 35)	63,435	60,873	63,435	60,873
Auditor's remuneration	10,263	11,407	9,639	11,010
Depreciation of property and equipment (Note 21)	74,892	100,015	74,876	99,964
Depreciation of right of use asset (Note 22)	189,548	-	189,548	-
Amortisation of intangible assets (Note 23)	104,114	79,259	103,514	78,659
Expenses relating to low value assets	42,712	-	42,712	-
Other operating expenses	558,709	848,268	554,695	845,246
	1,881,218	1,903,647	1,863,351	1,889,069

Notes (continued)

12 Employee benefits

	Group 2019 Shs'000	Group 2018 Shs'000	Bank 2019 Shs'000	Bank 2018 Shs'000
Salaries and allowances	690,110	658,464	679,928	649,146
Retirement benefit costs:				
- Defined contribution benefits scheme	42,234	41,310	41,474	40,799
- National Social Security Fund	1,099	1,089	1,087	1,077
Staff medical expenses	57,795	54,018	57,109	53,438
Staff welfare and training expenses	46,307	48,944	45,334	48,857
	837,545	803,825	824,932	793,317

The average number of employees during the year, by category were:	Group 2019	Group 2018	Bank 2019	Bank 2018
Management	101	100	100	99
Supervisory	186	81	183	80
Clerical	158	247	157	244
	445	428	440	423

13 Income tax

a) Income statement

	Group 2019 Shs'000	Group 2018 Shs'000	Bank 2019 Shs'000	Bank 2018 Shs'000
Current income tax	(119,891)	(7,505)	(109,339)	(145)
Deferred income tax credit (Note 24)	132,735	166,984	134,265	166,813
	12,844	159,479	24,926	166,668

Reconciliation of tax expense to tax based on the profit/(loss) before income tax:

	Group 2019	Group 2018	Bank 2019	Bank 2018
Profit/(loss) before income tax	99,644	(537,362)	64,489	(562,065)
Tax at the applicable rate of 30% (2018: 30%)	29,893	(161,209)	19,347	(168,620)
Tax effect of expenses not deductible for tax	(17,049)	1,730	5,579	1,952
Tax credit for the year	12,844	159,479	24,926	166,668

Notes (continued)

13 Income tax (continued)

b) Statement of financial position	Group 2019 Shs'000	Group 2018 Shs'000	Bank 2019 Shs'000	Bank 2018 Shs'000
At start of year	113,250	106,431	111,315	108,903
Prior year under provision of current income tax	55	25	55	25
Income tax expense for the year	(119,891)	(7,505)	(109,339)	(145)
Payments during the year	13,987	14,298	2,535	2,532
At end of year	7,401	113,250	4,566	111,315

14 Earnings per share

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

	2019	2018
Profit/(loss) for purposes of basic and diluted earnings per share (in Shs'000)	112,488	(377,883)
Weighted average number of ordinary shares for purposes of basic and diluted earnings per share (in thousands)	4,902	3,393
Earnings per share - basic and diluted (Shs)	22.9	(111.4)

There were no potentially dilutive shares outstanding at 31 December 2019 and 31 December 2018. Therefore, diluted earnings per share is the same as the basic earnings per share.

15 Cash and balances with Central Bank of Kenya

	Group and Bank 2019 Shs '000	Group and Bank 2018 Shs '000
Cash in hand	870,112	732,668
Balances with Central Bank of Kenya (CBK)		
• Cash reserve ratio balance	898,677	890,410
• Other current accounts	1,537,872	517,235
	2,436,549	1,407,645
	3,306,661	2,140,313

Cash balances with the Central Bank of Kenya do not earn interest. They are available for use by the Bank and are not pledged as security. The cash reserve ratio with Central Bank of Kenya (CBK) is based on the value of deposits as adjusted for CBK requirements. At 31 December 2019, the cash reserve ratio requirement was 5.25% of eligible deposits (2018: 5.25%). The Bank is free to deviate from the 5.25% requirement on any given day, but not to fall below 3%, provided that the overall average for the month will be at least 5.25%.

Notes (continued)

16 Financial assets and liabilities at fair value through profit or loss

	Group and Bank	
	2019	**2018**
Financial assets held for trading	**Shs'000**	**Shs'000**
Government treasury bonds at fair value through profit or loss	934,543	312,715
Derivative financial instruments	318,195	106,579
	1,252,738	419,294
Financial liabilities held for trading		
Derivative financial instruments	51,337	6,397

Derivatives financial instruments

The Bank trades in currency exchange forward contracts and currency swap contracts. The contracts are marked to market on daily basis.

Forward currency exchange contracts are agreements to buy or sell a specified quantity of foreign currency, usually on a specified future date at an agreed rate. A currency swap generally involves the exchange, or notional exchange, of equivalent amounts of two currencies and a commitment to exchange interest periodically until the principal amounts are re-exchanged on a future date. As compensation for assuming the option risk, the option writer generally receives premium at the start of the option period.

The notional amounts are the respective gross amounts underlying the contract at the reporting date.

	Group and Bank		
2019	**Notional amount**	**Assets**	**Liabilities**
	Shs'000	**Shs'000**	**Shs'000**
Currency exchange forward contracts	12,568,872	312,820	51,327
Currency swap contracts	360,100	5,375	10
	12,928,972	318,195	51,337
2018			
Currency exchange forward contracts	2,858,708	41,648	1,102
Currency swap contracts	3,823,823	64,931	5,296
	6,682,531	106,579	6,397

All the derivative financial instrument contracts were maturing within 30 to 180 days after the year end.

Notes (continued)

17 Deposits with other banks

	Group and Bank	
	2019	**2018**
	Shs '000	**Shs '000**
Maturing within 90 days of the reporting date:		
Due from local banks	239,921	2,525,567
Due from foreign banks	1,516,243	1,524,078
	1,756,164	4,049,645
Provision for expected credit losses	(12,938)	(63,252)
	1,743,226	3,986,393

The weighted average effective interest rate for deposits due from banking institutions at 31 December 2019 was 0.05% (2018: 2.6%).

The movement in the provision for expected credit losses for deposits with other banks is as follows:

	Group and Bank	
	2019	**2018**
	Shs '000	**Shs '000**
At start of year	63,252	-
Changes on initial application of IFRS 9	-	9,877
(Credit)/charge to profit or loss during the year	(50,314)	53,375
At end of year	12,938	63,252

18 Investment securities

	Group and Bank	
	2019	**2018**
Investment securities at amortised cost	**Shs'000**	**Shs'000**
Treasury bills and bonds:		
- Maturing within one year	543,147	1,768,893
- Maturing after 1 year	1,757,843	1,548,343
	2,300,990	3,317,236

The weighted average effective interest rate for treasury investments at 31 December 2019 was 11.7% (2018: 10.9%).

At 31 December 2019, the Bank had pledged treasury bonds amounting to Shs. 286 million (2018: Shs. 256 million) to EADB as collateral for borrowings.

Notes (continued)

19 Loans and advances to customers

	Group and Bank	
	2019	**2018**
	Shs'000	**Shs'000**
Term loans	14,809,106	13,211,772
Overdrafts	1,166,339	1,368,628
Credit cards	24,961	2,565
Gross loans and advances	16,000,406	14,582,965
Provisions for expected credit losses	(1,474,340)	(1,448,650)
	14,526,066	13,134,315
Analysis of gross loans and advances by maturity		
Maturing within one year	3,398,452	2,957,583
Between two and three years	8,076,531	6,333,377
Over three years	4,525,423	5,292,005
	16,000,406	14,582,965
The movement in the provision for expected credit losses for loans and advances to customers is as follows:		
At start of year	1,448,650	1,026,618
Charge to profit or loss	356,258	573,718
Charge to opening retained earnings on adoption of IFRS 9	-	177,258
Write - offs during the year	(330,568)	(328,944)
At end of year	1,474,340	1,448,650

The aggregate amount of non-performing advances was Shs 3,258,027,000 (2018: Shs 2,941,718,000) against which provisions of Shs 1,320,018,000 (2018: Shs 866,787,000) have been made leaving a net balance of Shs 1,938,008,000 (2018: Shs 2,074,931,000) which is included in the statement of financial position in the loans and advances line item. The collateral held against these loans includes mortgages, motor vehicles, land and building, chattels, share certificates among other assets. Loans and advances to customers are measured at amortised cost.

The weighted average effective interest rate on loans and advances at 31 December 2019 was 12.5% (2018: 11.2%).

Additional disclosures on impairments and provisions for credit losses are set out under Note 4 (a).

Notes (continued)

20 Other assets and prepayments

	Group		Bank	
	2019	**2018**	**2019**	**2018**
	Shs'000	**Shs'000**	**Shs'000**	**Shs'000**
Items in the course of collection	75,611	51,841	75,611	51,840
Due from subsidiary company	-	-	1,391	31,296
Prepaid staff loan benefits	192,179	228,925	192,179	228,925
Other receivables and prepayments	1,043,986	860,600	1,039,736	856,368
Provision for expected credit losses	(301,755)	(204,832)	(301,755)	(204,832)
	1,010,021	936,534	1,007,162	963,597

The movement in the provision for expected credit losses on other receivables is as follows:

	Group and Bank	
	2019	**2018**
	Shs '000	**Shs '000**
At start of year	204,832	51,045
Charged to profit or loss	96,923	153,787
At end of year	301,755	204,832

Notes (continued)

21 Property and equipment

Group	Freehold land and buildings Shs'000	Furniture and fittings Shs'000	Motor vehicles Shs'000	Office equipment & computers Shs'000	Leasehold improvements Shs'000	Total Shs'000
Year ended 31 December 2019						
Cost or valuation						
At start of year	150,000	148,669	16,044	597,914	623,045	1,535,672
Additions	-	410	-	19,520	310	20,240
Disposals	-	(1,210)	-	(22,283)	-	(23,493)
Revaluation loss	(20,000)	-	-	-	-	(20,000)
At end of year	130,000	147,869	16,044	595,151	623,355	1,512,419
Depreciation						
At start of year	12,000	89,667	9,406	563,817	427,566	1,102,456
Charge for the year	3,000	10,594	2,488	31,404	27,406	74,892
Disposals	-	(1,204)	-	(22,283)	-	(23,487)
Revaluation	(15,000)	-	-	-	-	(15,000)
At end of year	-	99,057	11,894	572,938	454,972	1,138,861
Net carrying amount						
At end of year	130,000	48,812	4,150	22,213	168,383	373,558
Year ended 31 December 2018						
Cost or valuation						
At start of year	150,000	142,574	16,044	590,195	601,018	1,499,831
Additions	-	6,116	-	7,900	22,027	36,043
Disposals	-	(100)	-	(102)	-	(202)
Transfers	-	70		(79)	-	-
At end of year	150,000	148,669	16,044	597,914	623,045	1,535,672
Depreciation						
At start of year	9,000	79,389	6,918	515,476	391,765	1,002,548
Charge for the year	3,000	10,204	2,488	48,522	35,801	100,015
Disposals	-	(5)	-	(102)	-	(107)
Transfers	-	79	-	(79)	-	-
At end of year	12,000	89,667	9,406	563,817	427,566	1,102,456
Net carrying amount						
At end of year	138,000	59,002	6,638	34,097	195,479	433,216

Notes (continued)

21 Property and equipment (continued)

Bank	Freehold land and buildings Shs'000	Furniture and fittings Shs'000	Motor vehicles Shs'000	Office equipment & computers Shs'000	Leasehold improvements Shs'000	Total Shs'000
Year ended 31 December 2019						
Cost or valuation						
At start of year	150,000	148,617	16,044	597,637	623,045	1,535,343
Additions	-	410	-	19,520	310	20,240
Disposals	-	(1,210)	-	(22,283)	-	(23,493)
Revaluation	(20,000)	-	-	-	-	(20,000)
At end of year	130,000	147,817	16,044	594,874	623,355	1,512,090
Depreciation						
At start of year	12,000	89,647	9,406	563,548	427,566	1,102,167
Charge for the year	3,000	10,589	2,488	31,393	27,406	74,876
Disposals	-	(1,204)	-	(22,283)	-	(23,487)
Revaluation	(15,000)	-	-	-	-	(15,000)
At end of year	-	99,032	11,894	572,658	454,972	1,138,556
Net carrying amount						
At end of year	130,000	48,785	4,150	22,216	168,383	373,534
Year ended 31 December 2018						
Cost or valuation						
At start of year	150,000	142,522	16,044	589,918	601,018	1,499,502
Additions	-	6,116	-	7,900	22,027	36,043
Disposals	-	(100)	-	(102)	-	(202)
Transfers	-	79	-	(79)	-	-
At end of year	150,000	148,617	16,044	597,637	623,045	1,535,343
Depreciation						
At start of year	9,000	79,374	6,918	515,253	391,765	1,002,310
Charge for the year	3,000	10,199	2,488	48,476	35,801	99,964
Disposals	-	(5)	-	(102)	-	(107)
Transfers	-	79	-	(79)	-	-
At end of year	12,000	89,647	9,406	563,548	427,566	1,102,167
Net carrying amount						
At end of year	138,000	58,970	6,638	34,089	195,479	433,176

Notes (continued)

21 Property and equipment (continued)

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

	Group and Bank	
	2019	2018
	Shs'000	Shs'000
Cost	77,151	77,151
Accumulated depreciation	(37,282)	(35,403)
At end of year	39,869	41,748

Valuation of freehold land and building is undertaken by an independent valuer on a current open market value basis and the revaluation is carried out every 5 years.

22 Right of use assets

	Group and Bank
	2019
	Shs'000
At start of year	-
Impact of initial application of IFRS 16	1,014,656
Additions	155,308
Amortisation to profit or loss	(189,548)
At end of year	980,416

The Bank leases office buildings and a go down, in the normal course of business. The leases for buildings and a go down are typically for a period of between 4 and 6 years, with an option to renewal at the end of the term. None of these leases contains any restrictions or covenants other than the protective rights of the lessor or carries a residual value guarantee.

Notes (continued)

23 Intangible assets

Computer software	Group 2019 Shs'000	Group 2018 Shs'000	Bank 2019 Shs'000	Bank 2018 Shs'000
Cost				
At start of year	713,026	593,526	707,026	587,526
Additions	34,806	118,046	34,806	118,046
Transfers from WIP	26,583	1,454	26,583	1,454
At end of year	774,415	713,026	768,415	707,026
Amortisation				
At start of year	376,619	297,360	375,769	297,110
Charge for the year	104,114	79,259	103,514	78,659
At end of year	480,733	376,619	479,283	375,769
Net carrying amount				
At end of year	293,682	336,407	289,132	331,257

24 Deferred income tax

Deferred income tax is calculated using the enacted income tax rate of 30% (2018: 30%). The gross movement on the deferred income tax account is as follows:

	Group 2019 Shs'000	Group 2018 Shs'000	Bank 2019 Shs'000	Bank 2018 Shs'000
At start of year	491,966	268,841	491,273	268,319
Impact of initial application of IFRS 9	-	56,141	-	56,141
Impact of initial application of IFRS 16	43,251	-	43,251	-
Credit to profit or loss (Note 13)	132,735	166,984	134,265	166,813
Charge to equity	(2,642)	-	(2,642)	-
At end of year	665,310	491,966	666,147	491,273

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

Group	1 January 2019	Equity	Profit or loss	31 December 2019
Year ended 31 December 2019	**Shs '000**	**Shs '000**	**Shs '000**	**Shs '000**
Property and equipment	(36,467)	-	21,888	(14,579)
Other temporary differences	(393,736)	-	(203,573)	(597,309)
Tax losses carried forward	(61,763)	-	61,763	-
Right-of-use assets/liabilities	-	(43,251)	(12,813)	(56,064)
Revaluation reserve	-	2,642	-	2,642
Net deferred income tax asset	(491,966)	(40,609)	(132,735)	(665,310)

Notes (continued)

24 Deferred income tax (continued)

Group	**1 January 2018**	**Equity**	**Profit or loss**	**31 December 2018**
Year ended 31 December 2018	**Shs '000**	**Shs '000**	**Shs '000**	**Shs '000**
Property and equipment	(52,081)	-	15,614	(36,467)
Other temporary differences	(174,532)	(56,141)	(163,063)	(393,736)
Tax losses carried forward	(42,227)	-	(19,536)	(61,763)
Net deferred income tax asset	(268,840)	(56,141)	(166,985)	(491,966)

Bank	**1 January 2019**	**Equity**	**Profit or loss**	**31 December 2019**
Year ended 31 December 2019	**Shs '000**	**Shs '000**	**Shs '000**	**Shs '000**
Property and equipment	(35,774)	-	20,321	(15,453)
Other temporary differences	(393,736)	-	(203,536)	(597,272)
Tax losses carried forward	(61,763)	-	61,763	-
Right-of-use assets/liabilities	-	(43,251)	(12,813)	(56,064)
Revaluation reserve	-	2,642	-	2,642
Net deferred income tax asset	(491,273)	(40,609)	(134,265)	(666,147)

	1 January 2018	**Equity**	**Profit or loss**	**31 December 2018**
Year ended 31 December 2018	**Shs '000**	**Shs '000**	**Shs '000**	**Shs '000**
Property and equipment	(51,560)	-	15,786	(35,774)
Other temporary differences	(174,532)	(56,141)	(163,063)	(393,736)
Tax losses carried forward	(42,227)	-	(19,536)	(61,763)
Net deferred income tax asset	(268,319)	(56,141)	(166,813)	(491,273)

Notes (continued)

25 Deposit from banks

	Group and Bank 2019 Shs'000	2018 Shs'000
Due to local banks	745,245	3,523,597

The deposits due to banking institutions relate to overnight borrowings from other commercial banks. The weighted average interest rate on the deposits for the year ended 31 December 2019 was 6.71% (2018: 10.3%).

26 Deposits from customers

	Group		Bank	
Group	**2019 Shs'000**	**2018 Shs'000**	**2019 Shs'000**	**2018 Shs'000**
Call and fixed deposits	8,046,195	8,037,534	8,046,195	8,039,580
Current and demand accounts	6,454,679	6,211,071	6,525,345	6,268,597
Savings accounts	2,696,852	2,693,303	2,696,852	2,693,303
	17,197,726	16,941,908	17,268,392	17,001,480
Analysis of deposits from customers by maturity:				
Payable within one year	17,088,854	16,928,904	17,159,520	16,988,476
Between one year and three years	108,872	13,004	108,872	13,004
	17,197,726	16,941,908	17,268,392	17,001,480

Included in 'deposits from customers' were deposits of Shs 2,051,249,000 (2018: Shs 2,548,431,000) that have been pledged to the Bank by customers as securities for loans and advances as well as for guarantees.

The weighted average effective interest rate on interest bearing deposits from customers for the year ended 31 December 2019 was 8.6% (2018: 8.9%).

27 Other liabilities and accrued expenses

	Group		Bank	
	2019 Shs'000	**2018 Shs'000**	**2019 Shs'000**	**2018 Shs'000**
Items in the course of collection	20,100	25,919	20,100	25,919
Due to subsidiary	-	-	-	7,157
Other payables and accrued expenses	315,951	321,345	299,109	314,043
	336,051	347,264	319,209	347,119

Notes (continued)

28 Borrowings

	Group and Bank	
	2019	**2018**
Terms loans:	**Shs'000**	**Shs'000**
Oiko Credit Ecumenical Development Co-operative Society U.A	376,681	151,407
Pamiga Finance SA	-	204,099
East Africa Development Bank (EADB)	227,465	57,944
The Investment Fund for Developing Countries (IFU)	1,273,861	-
The Netherlands Development Finance Company (FMO)	1,004,170	-
	2,882,177	413,450

The borrowings are repayable as follows:

Within one year	287,090	127,460
Between one year to five years	1,256,114	285,990
Above five years	1,338,973	-
	2,882,177	413,450

The movement in borrowings is as summarised below:

At start of year	413,450	434,340
Additions during the year	2,691,938	57,890
Repayments during the year	(315,883)	(116,265)
Accrued interest payable	84,906	40,585
Foreign exchange loss/(gain)	7,766	(3,100)
At end of year	2,882,177	413,450

The weighted average effective interest rate on the borrowings at 31 December 2019 was 9.13% for LCY loans and 6.96% for FCY loans (2018: 11.9% for LCY and 4.25% for FCY).

The EADB loan of KES 227.9 million (Euro 2 million) with a tenure of 8 years was fully disbursed in April 2019 at a fixed interest rate of 8.5 % p.a. The interest is repayable semi-annually and the first principal instalment is payable in March 2020.The loan would be paid in 14 equal semi-annual instalments of Euro 142,857 after 12 months grace period from the date of first drawdown. The loan is secured by treasury bonds (Note 18).

The IFU convertible loan of USD 12 million with a tenure of 6 years was received on 22 March 2019 at an interest rate of 5.25% plus six-month LIBOR rate p.a. The loan has a 1-year grace period for payment of interest and an option to convert the outstanding loan into ordinary shares within 3 years of the first draw down. This qualifies as tier II capital being a subordinated loan.

Notes (continued)

28 Borrowings (Continued)

The FMO loan of USD 20 million with a tenure of 5 years is being issued in 2 tranches of USD 10 million each. The first tranche of USD 10 million was received on 1 December 2019 at an interest rate of 4.25% plus six-month LIBOR rate p.a. The first principal instalment is payable in November 2020 after a grace period of 1 year over a period of 4 years. Interest is repayable semi-annually.

The second tranche of the Oiko Credit loan of Shs 300 million with a tenure of 4 years was received on 3 September 2019 under the same terms as the first tranche. It is at an interest rate based on the 182 days Treasury bills rate plus a margin of 1.60%, subject to a minimum rate of 10% p.a. The first principal instalment is payable in December 2020 over a period of 4 years. Interest is repayable semi-annually.

The Bank repaid the outstanding loan to Pamiga in June 2019.

The Bank was in breach of the borrowing covenants with Oiko Credit, FMO and EADB in relation to credit quality at the year end. None of the lenders have recalled or varied their lending terms after the year end.

The fair value of borrowings approximates their carrying amount.

29 Lease liabilities

	Group and Bank 2019 Shs'000
Expected to be settled within 12 months after the year end	173,082
Expected to be settled more than 12 months after the year end	994,213
	1,167,295

The total cash outflow for leases in the year was:

Payments of principal portion of the lease liability	262,413
Interest paid on lease liabilities	115,578
	377,991

At start of year	1,158,823
Additions	155,307
Interest on lease liabilities	115,578
Lease payments	(262,413)
At end of year	1,167,295

Notes (continued)

30 Share capital

	2019 Shs'000	2018 Shs'000
Authorised share capital:		
At 1 January	2,500,000	2,000,000
Additions during the year	-	500,000
At 31 December	2,500,000	2,500,000

Issued share capital:

	Number of shares	Share capital Shs'000	Share premium Shs'000
At 1 January 2018	2,940,350	1,470,175	706,082
Issue of shares	1,152,046	576,023	540,517
At 31 December 2018, 1 January 2019 and 31 December 2019	4,092,396	2,046,198	1,246,599

At 31 December 2019 the authorised share capital comprised 5,000,000 ordinary shares of Shs.500 each (2018: 5,000,000 ordinary shares of Shs 500 each. All issued shares are fully paid.

31 Revaluation reserve

The revaluation reserve is used to record changes in the fair value of land and buildings, net of deferred income tax.

	2019 Shs'000	2018 Shs'000
At start of year	67,376	68,161
Loss on revaluation of freehold land and building	(5,000)	-
Deferred tax on revaluation of freehold land and building	250	-
Transfer of excess depreciation	(1,121)	(1,121)
Deferred tax on transfer of excess depreciation	56	336
Deferred tax on opening revaluation reserves	(2,948)	-
Transfer to retained earnings	(8,407)	-
At end of year	50,206	67,376

Notes (continued)

32 a) Cash generated from operations

Reconciliation of profit/(loss) before income tax to cash generated from operations:

Group	**2019 Shs'000**	**2018 Shs'000**
Profit/(loss) before income tax	99,644	(537,362)
Adjustments for:		
Depreciation of property and equipment (Note 21)	74,892	100,015
Amortisation of right of use of asset (Note 22)	189,548	-
Amortisation of intangible assets (Note 23)	104,114	79,259
Interest on borrowings (Note 28)	126,125	40,585
Foreign exchange loss/(gain) on borrowing (Note 28)	7,766	(3,100)
Interest income on investments securities at amortised cost	(58,076)	(355,128)
Interest income on investment securities at FVTPL	(30,035)	(9,312)
Revaluation loss/(gain) of investment securities at FVTPL	33,667	(3,404)
Gain on disposal of property and equipment	(664)	(4)
Provision on initial application of IFRS 9	-	53,375
Operating profit before changes in operating assets and liabilities	546,981	(635,075)
Changes in operating assets and liabilities:		
- Loans and advances to customers	(1,394,342)	(1,902,248)
- Other assets and prepayments	(285,104)	(87,354)
- Deposits from customers	255,818	4,214,083
- Balances due to banking institutions	(2,778,352)	1,144,184
- Other liabilities and accrued expenses	33,726	88,474
Cash generated from operations	(3,621,273)	2,822,064

Bank	**2019 Shs'000**	**2018 Shs'000**
Profit/(loss) before income tax	64,489	(562,065)
Adjustments for:		
Depreciation on property and equipment (Note 21)	74,876	99,964
Amortisation on right of use of asset (Note 22)	189,548	
Amortisation of intangible assets (Note 23)	103,514	78,659
Interest on borrowings (Note 28)	126,125	40,585
Foreign exchange loss/(gain) on borrowing (Note 28)	7,766	(3,100)
Interest income on investment securities at amortised cost	(58,076)	(355,128)
Interest income on investment securities at FVTPL	(30,035)	(9,311)
Revaluation loss/(gain)of investment securities at FVTPL	33,667	(3,404)
Gain on disposal of property and equipment	(664)	(4)
Provision on initial application of IFRS 9	-	53,375
Operating profit before changes in operating assets and liabilities	511,210	(660,429)
Changes in operating assets and liabilities:		
- Loans and advances to customers	(1,394,342)	(1,902,248)
- Other assets and prepayments	(255,182)	(85,159)
- Deposits from customers	266,912	4,240,689
- Balances due to banking institutions	(2,778,352)	1,144,184
- Other liabilities and accrued expenses	17,029	73,261
Cash generated from operations	(3,632,725)	2,810,298

Notes (continued)

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

	Group and Bank	
	2019	2018
	Shs'000	Shs'000
Cash in hand (Note 15)	870,112	732,668
Balances with Central Bank of Kenya (Note 15)	2,436,549	1,407,645
Deposits with other banks (Note 17)	1,756,164	4,049,646
	5,062,825	6,189,959

For purposes of the statement of cash flows, cash and cash equivalents comprise balances with less than 91 days maturity from the date of acquisition, including: cash and balances with Central Banks, treasury bills and bonds and amounts due from other banks.

33 Contingent liabilities

The Group is a defendant in various legal suits. In the opinion of the Directors, after taking appropriate legal advice, the outcome of such suits are unlikely to result in any significant loss. The legal suits include claims for general and specific damages and suits challenging the bank's actions on customers' accounts.

	Group and Bank	
	2019	2018
	Shs'000	Shs'000
Pending claims under litigation	33,397	4,009

34 Off balance sheet items

In the ordinary course of business, the Group conducts business involving letters of credit, performance bonds and guarantees. Guarantee and performance bonds are issued by the Bank, on behalf of customers, to guarantee performance by a customer to third parties. Letters of credit commit the Bank to make payment to third parties, on production of documents, which are subsequently reimbursed by customers. The Bank holds cash collateral to the extent of the guarantee that is realised in the events of default by customers.

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

	Group and Bank	
	2019	2018
	Shs'000	Shs'000
Acceptances and letters of credit	811,811	1,306,939
Guarantees	11,087,585	14,528,418
	11,899,396	15,835,357

Notes (continued)

34 Off balance sheet items (Continued)

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

Letters of credit commit the Bank 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 Bank expects most acceptances to be presented and reimbursement by the customer is almost immediate.

The provision for expected credit losses on loans and advances includes an amount of Shs 211,176,000 relating to off balance credit facilities.

35 Related party transactions

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

The Bank's immediate parent company is Bakki Holdco Limited, which is a wholly owned subsidiary of Centum Investment Company Plc, both incorporated in Kenya. There are other companies which are related to the Bank through common shareholdings or common directorships.

The Bank has a wholly owned subsidiary, Sidian Insurance Agency limited that commenced operations in August 2015.

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

Included in loans and advances to customers and deposits from customer at 31 December 2019 and 31 December 2018 were the following related party balances:

	Group and Bank	
i) Loans and advances to related parties	**2019**	**2018**
	Shs'000	**Shs'000**
a) Staff loans		
At start of year	373,915	432,309
Advanced during the year	139,404	124,048
Interest charged	68,633	70,763
Repayments	(83,672)	(253,205)
At end of year	498,280	373,915

Notes (continued)

35 Related party transactions (continued)

i) Loans and advances to related parties (continued)

b) Key management staff

	Group and Bank	
	2019	**2018**
	Shs'000	**Shs'000**
At start of year	106,763	64,116
Advances during the year	9,670	74,200
Interest charged	7,549	8,299
Repayments	(20,812)	(39,852)
At end of year	103,170	106,763

The loans to key management are personal loans, car loans and mortgages. All the loans are charged at an interest rate of 6%. Personal and car loans have a maximum period of 5 years and are secured by property and cars respectively. Mortgages have a maximum of 25 years.

c) Other advances

Year ended 31 December 2019			Group and Bank		
	At 1 Jan Shs '000	**Advances Shs '000**	**Interest Shs '000**	**Repayment Shs '000**	**At 31 December Shs '000**
KWA Multipurpose Co-operative Society	2,822	-	151	(1,584)	1.389
Directors and their associates	30,294	-	1,715	(15,300)	16,709
Kings Beverages Limited	8,141	-	1,958	(10,099)	-
Zohari Leasing Limited	-	104,687	3,403	(6,318)	101,772
	41,257	104,687	7,227	(33,301)	119,870
Year ended 31 December 2018					
KWA Multipurpose Co-operative Society	10,897	-	1,195	(9,270)	2,822
Directors and their associates	38,986	-	5,259	(13,951)	30,294
Kings Beverages Limited	15,966	-	2,033	(9,858)	8,141
	65,849	-	8,487	(33,079)	41,257

Loan and advances to staff members are at an average interest rate of 6 percent whereas other advances are at commercial rates. The loans are running for an average period of 12 years (2018: 12 years).

Notes (continued)

35 Related party transactions (continued)

ii) Deposits from related parties

	Group and Bank 2019 Shs'000	2018 Shs'000
Ace Nairobi One Limited	57,896	113,355
Almasi Beverages Limited	-	978,668
Athena Properties Limited	361	990
Centum Investment Company Plc	406,128	500,304
Greenblade Growers Limited	4,055	169
King Beverage Limited	-	71
Kisii Bottlers Limited	-	322
K-Rep Development Agency	1,027	1,358
KWA Multipurpose Society	1,157	935
KWA Multipurpose Limited	153	61
Longhorn Publishers Limited	324	9,078
Makao Mashinani Limited	2,217	2,529
Mount Kenya Bottlers Limited	-	528,887
Nabo Capital Limited	3,354	2,807
Rift Valley Bottlers Limited	-	173
Rasimu Limited	1	4
Tribus TSG Limited	130,443	6,311
Two Rivers Development Limited	5,080	1,009
Two Rivers Lifestyle Centre Limited	-	341
Two Rivers Property Owners Company Limited	2,700	7,363
Two Rivers Theme Park Ltd	272	2,797
Two Rivers Water & Sanitation Company Limited	333	736
Uhuru heights Limited	14,257	4,270
Vipingo Development Limited	29,098	92,036
Zohari Leasing Limited	11,830	17,193
	670,686	2,271,767

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

iii) Other transactions with related parties

The Group and Bank paid rental expenses to related parties as per below :

	Group and Bank 2019 Shs'000	2018 Shs'000
K-Rep Group Limited	20,387	18,595
Two Rivers Lifestyle Centre Limited	10,739	10,085
	31,126	28,680

Notes (continued)

35 Related party transactions (continued)

K-Rep Development Agency, Makao Mashinani and K-Rep Fedha Limited are related to the Bank by virtue of the significant influence and control exercised by their common holding company, K-Rep Group Limited. On the other hand, KWA Multipurpose Co-operative Society and Centum Investment Company Plc are shareholders of the Bank. The rest of the entities disclosed above are Centum affiliated companies.

iii) Key management remuneration

	Group and Bank	
	2019	2018
	Shs'000	Shs'000
Short term benefits	139,480	134,226
Post-employment benefits	14,402	8,395
	153,882	142,621

iv) Directors' remuneration

Executive director remuneration	49,022	48,167
Fees	14,413	12,706
	63,435	60,873

36 Future rental commitments under operating leases

Non-cancellable operating lease rentals are payable as follows:

	Group and Bank	
	2019	2018
	Shs'000	Shs'000
Less than one year	21,946	188,846
Between one and five years	346,716	584,254
More than five years	120,700	5,149
	489,362	778,249

The Group has entered into commercial property leases for its office spaces. These non-cancellable leases have remaining terms of between 3 and 6 years. All leases include a clause to enable upward revision of the rental charge on an annual basis according to prevailing market conditions.

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