FAMILY BANK LIMITED

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019

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DIRECTORS

Non-Executive

Dr. Wilfred D. Kiboro - Chairman
Mr. Titus K. Muya
Dr. Ruth Waweru
Mr. Lazarus Muema
Mr. Lerionka S. Tiampati
Mr. Francis Gitau Mungai

Executive

Rebecca Mbithi- Managing Director and CEO – appointed on 1 March 2019.

COMPANY SECRETARY
Mr. Eric K. Murai
Certified Public Secretary (Kenya)
8th Floor, Family Bank Towers,
Muindi Mbingu Street
P.O. Box 74145 - 00200, Nairobi
Tel: 254-2-318173/318940/2/7/0720 098 300
Fax: 254-2-318174
Email: info@familybank.co.ke
Website: www.familybank.co.ke ma

REGISTERED OFFICE
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Email: info@familybank.co.ke
Website: www.familybank.co.ke

AUDITOR
PricewaterhouseCoopers LLP
Certified Public Accountants
PwC Tower, Waiyaki Way/Chiromo Road, Westlands
P.O. Box 43963-00100
Nairobi, Kenya

LEGAL ADVISERS
Mboya Wangong'u & Waiyaki Advocates
Lex Chamber, Maji Mazuri Road
Off James Gichuru Road
Nairobi

CORRESPONDENT BANKS

Deutsche Bank AG London
6 Bishopsgate
London
EC2P 2AT
United Kingdom

DZ Bank AG
60265 Frankfurt am Main

Deutsche Bank Trust Company Americas
P O Box 318, Church Street Station
New York, New York 10008 – 0318

National Bank of Canada
P. O. Box 600 rue de la Gauchetière Ouest
Montréal, Québec, Canada

BOARD COMMITTEES

Credit Committee
Mr. Francis Mungai - Chairman
Mr. Titus K. Muya
Dr. Wilfred D. Kiboro
Ms. Rebecca Mbithi

Audit Committee
Mr. Lazarus Muema - Chairman
Dr. Ruth Waweru
Mr. Lerionka S. Tiampati

Risk Management and Compliance Committee
Mr. Lazarus Muema - Chairman
Dr. Ruth Waweru
Mr. Lerionka S. Tiampati

Human Resource Committee
Dr. Ruth Waweru - Chairman
Mr. Titus K. Muya
Dr. Wilfred D. Kiboro
Mr. Francis Mungai
Ms. Rebecca Mbithi

Strategy Committee
Dr. Ruth Waweru - Chairman
Mr. Titus K. Muya
Mr. Lerionka S. Tiampati
Dr. Wilfred D. Kiboro
Ms. Rebecca Mbithi

Nomination Committee
Dr. Ruth Waweru - Chairman
Dr. Wilfred D Kiboro
Mr. Titus K. Muya

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

PRINCIPAL ACTIVITIES

The Group provides an extensive range of banking, financial and related services and is licensed under the Banking Act. The principal activity of the subsidiary is to provide bancassurance services through insurance agency services.

BUSINESS REVIEW

The Group recorded a significantly improved performance from a comprehensive income of Sh 244m in 2018 to Sh1.03B in 2019. The Business model review and process refinement undertaken in the last two years is now generating the envisaged efficiencies and business growth. This is evidenced by the 7% reduction in interest expenses following repayments of borrowings and a 7% revenue growth while our deposits and loans and advances to customers registered a 15% and 20% growth respectively.

The following is the summary of the results for the year ended 31 December 2019:

	Group		Bank	
	2019	**2018**	**2019**	**2018**
	Sh'000	**Sh'000**	**Sh'000**	**Sh'000**
Profit before taxation	1,422,829	434,933	1,352,237	419,880
Taxation	(472,993)	(190,716)	(456,282)	(185,034)
Profit for the year	949,836	244,216	895,955	234,846
Other Comprehensive income (net of tax)	85,800	-	85,800	-
Total comprehensive income	1,035,636	244,216	981,755	234,846

DIVIDEND

The directors have resolved to recommend to the shareholders at the forthcoming Annual General Meeting payment of a dividend of Ksh 0.24 per share in respect of the year ended 31 December 2019 (2018: Nil).

DIRECTORS

The Directors who held office at the date of this report are set out on page 1.

EVENTS SUBSEQUENT TO THE END OF THE REPORTING PERIOD

There were no material subsequent events after the reporting date requiring disclosure in these financial statements as at the date of the financial statement approval.

STATEMENT AS TO DISCLOSURE TO THE GROUP'S AUDITOR

With respect to each director at the time this report was approved:

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

(ii) the director has taken all the steps that the director ought to have 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 continue in office in accordance with the Group'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.

By order of the Board

SECRETARY

20 March 2020

The Kenyan Companies Act 2015 requires the directors to prepare financial statements for each financial year which give a true and fair view of the financial position of the Group and Company at the end of the financial year and its financial performance for the year then ended. The directors are responsible for ensuring that the Group and Company keeps proper accounting records that are sufficient to show and explain the transactions of the Group and Company; disclose with reasonable accuracy at any time the financial position of the Group and Company; and that enables them to prepare financial statements of the Group and Company that comply with prescribed financial reporting standards and the requirements of the Kenyan Companies Act 2015. They are also responsible for safeguarding the assets of the Group and 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 internal control as they determine necessary to enable the preparation of financial statements that are free from material misstatements, whether due to fraud or error;

ii. selecting suitable accounting policies and then apply them consistently; and

iii. making judgments 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 responsibility.

Approved by the board of directors on 20 March 2020 and signed on its behalf by:

Director

Director

Independent auditor's report to the shareholders of Family Bank Limited

Report on the audit of the financial statements

Our opinion

We have audited the accompanying financial statements of Family Bank Limited (the "Bank" or "Company") and its subsidiary (together, the "Group") set out on pages 10 to 86, which comprise the consolidated statement of financial position at 31 December 2019 and the consolidated statements of comprehensive income, changes in equity and cash flows for the year then ended, together with the Bank statement of financial position at 31 December 2019 and the Bank statements of comprehensive income, changes in equity and 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 Family 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' Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements that are relevant to our audit of the financial statements in Kenya, and we have fulfilled our ethical responsibilities in accordance with these requirements and the IESBA Code.

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

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

With effect from 11 December 2019, PricewaterhouseCoopers, a partnership carrying on business under registration number BN.287839 was converted to PricewaterhouseCoopers LLP (LLP-2Y1AB7), a limited liability partnership under the Limited Liability Partnerships Act, 2011.

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Independent auditor's report to the shareholders of Family Bank Limited (continued)

Key audit matters (continued)

Key audit matter	How our audit addressed the key audit matter
Expected credit losses on loans and advances at amortised cost Loans and advances to customers comprise a significant portion of the Group's total assets. The estimation of expected credit losses (ECL) on loans and advances requires management judgment in the assumptions that are applied in the models used to calculate ECL. The policies for estimating ECL are explained in notes 3 (a) of the financial statements. The key areas where significant judgement has been exercised and therefore, an increased level of audit focus applied, include: • the assumptions applied in deriving the probabilities of default (PDs), loss given default (LGD) and exposures at default (EAD) for the various segments; • the judgments made to determine the staging of facilities in line with IFRS 9. In particular, the identification of *Significant Increase in Credit Risk ("SICR")* and *Default* requires consideration of quantitative and qualitative criteria. This is a key area of judgement as this determines whether a 12-month or lifetime PD is used. Specific assumptions have been applied by management in determining the staging, PD and LGD for certain segments of the loan book; and • the relevance of forward-looking information used in the models; Due to the significant impact of management judgments applied in calculating the ECL, we designated this as a key audit matter in our audit.	Our audit procedures focused on the significant areas of judgement and estimations that could result in material misstatements in the financial statements. These procedures included: • We reviewed the Group's methodology for determining ECL, including enhancements in the year, and evaluated this against the requirements of IFRS 9; • We tested how the Group extracts 'days past due (DPD)' applied in classifying the loan book into the three stages required by IFRS 9. For a sample of loans, we recalculated the DPD applied in the model and agreed these to the DPD as per the Group's IT system and the respective customer files; • We reviewed judgments applied in the staging of loans and advances; • We obtained an understanding of the basis used to determine the probabilities of default. We tested the completeness and accuracy of the historical data used in derivation of PDs and LGDs, and re-calculated the same on a sample basis; • For LGD, we tested the assumptions on the timing of the cash flows based on empirical evidence. In addition, for secured facilities, we agreed the collateral values used in the ECL model to external valuer reports; • We tested, on a sample basis, the reasonableness of EAD for both on and off-balance sheet exposures; • For forward-looking assumptions used in the ECL calculations, we corroborated the assumptions using publicly available information; • We reviewed and assessed whether the disclosures in the financial statements on the key judgements and assumptions were adequate.

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Independent auditor's report to the shareholders of Family Bank Limited (continued)

Other information

The other information comprises Corporate information, Directors' report and the Statement of Directors' responsibilities which we obtained prior to the date of this auditor's report, and the rest of the other information in the Annual Report which are expected to be made available to us after that date, but does not include 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 and will not express any form of assurance conclusion thereon.

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

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

When we read the rest of the other information in the Annual Report and we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

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 judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

Independent auditor's report to the shareholders of Family Bank Limited (continued)

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

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the Group's financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

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

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

From the matters communicated with the directors, we determine those matters that were of most significance in the audit of the Group's financial statements of the current period and are therefore the key audit matters.

We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

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

In our opinion the information given in the Directors' Report on pages 3 and 4 is consistent with the financial statements.

PricewaterhouseCoopers LLP

Certified Public Accountants
Nairobi

26 **March 2020**

CPA Kang'e Saiti, Practising certificate No. 1652
Signing partner responsible for the independent audit

Statement of comprehensive income

	Notes	Group 2019 Sh'000	Group 2018 Sh'000	Bank 2019 Sh'000	Bank 2018 Sh'000
Interest income	6	7,680,242	7,056,590	7,680,242	7,056,590
Interest expense	7	(2,127,862)	(2,283,914)	(2,138,785)	(2,289,719)
Net interest income		**5,552,380**	**4,772,676**	**5,541,457**	**4,766,871**
Foreign exchange gains		390,760	337,456	390,760	337,456
Fee and commission income	8(a)	2,067,517	2,038,214	2,067,517	2,038,214
Other income	8(b)	343,305	123,302	228,032	59,021
Operating income		**8,353,962**	**7,271,648**	**8,227,766**	**7,201,562**
Operating expenses	9	(5,648,224)	(5,632,443)	(5,592,620)	(5,577,409)
Credit impairment losses	16 (b)	(1,282,909)	(1,204,273)	(1,282,909)	(1,204,273)
Profit before taxation		**1,422,829**	**434,932**	**1,352,237**	**419,880**
Income tax expense	11	(472,993)	(190,716)	(456,282)	(185,034)
Profit for the year		**949,836**	**244,216**	**895,955**	**234,846**
Gain on revaluation of properties (net of tax)		85,800	-	85,800	-
Total other comprehensive income		85,800	-	85,800	-
Total comprehensive income for the year		1,035,636	244,216	981,755	234,846
Earnings per share (basic and diluted) (Shs)	12	0.80	0.20	0.76	0.19

Statement of financial position

	Notes	Group 2019 Sh'000	Group 2018 Sh'000	Bank 2019 Sh'000	Bank 2018 Sh'000
ASSETS					
Cash and balances with Central Bank of Kenya	13	6,961,324	6,281,701	6,961,324	6,281,701
Balances due from banking institutions	14(a)	2,779,374	1,222,738	2,779,374	1,222,738
Government securities amortised cost	15	8,187,378	6,946,277	8,187,378	6,946,277
Government securities FVPL	15	1,662,515	-	1,662,515	-
Corporate bonds at amortised cost	17	399,847	392,772	399,847	392,772
Other investments	19	1,385,077	1,730,698	1,385,077	1,730,698
Loans and advances to customers	16	50,594,439	44,113,093	50,594,439	44,113,093
Right of use of assets	33	1,520,371	-	1,520,371	-
Other assets	18	1,362,923	1,607,838	1,342,492	1,567,670
Investment in subsidiary	20	-	-	1,000	1,000
Investment properties	21	23,400	18,200	23,400	18,200
Property and equipment	22	2,509,996	2,841,773	2,507,573	2,837,332
Intangible assets	23	486,843	597,692	467,573	575,323
Prepaid operating leases	24	139,220	143,885	139,220	143,885
Current income tax		19,423	587,095	-	551,846
Deferred income tax	29	885,542	527,303	885,542	527,303
TOTAL ASSETS		**78,917,672**	**67,011,065**	**78,857,125**	**66,909,838**
LIABILITIES AND SHAREHOLDERS' FUNDS					
LIABILITIES					
Customer deposits	25	58,054,485	48,483,189	58,275,571	48,558,691
Balances due to banking institutions	14(b)	56,906	247,051	56,906	247,051
Borrowings	26	3,954,679	4,903,207	3,954,679	4,903,207
Provisions	27(a)	424,606	349,615	424,606	349,615
Other liabilities	27(b)	1,879,687	1,446,678	1,807,698	1,424,826
Lease Liability	33	1,569,539	-	1,569,539	-
Provision for restoration costs	33	69,828	-	69,828	-
Deferred income tax		1,421	535	-	-
Current income tax		290,095	-	290,095	-
TOTAL LIABILITIES		**66,301,246**	**55,430,275**	**66,448,922**	**55,483,390**
SHAREHOLDERS' FUNDS					
Share capital	30	1,287,108	1,287,108	1,287,108	1,287,108
Share premium	30	5,874,662	5,874,662	5,874,662	5,874,662
Revaluation surplus		278,424	192,624	278,424	192,624
Retained earnings		5,176,233	4,226,396	4,968,009	4,072,054
TOTAL SHAREHOLDERS' FUNDS		**12,616,426**	**11,580,790**	**12,408,203**	**11,426,448**
TOTAL LIABILITIES AND SHAREHOLDERS' FUNDS		**78,917,672**	**67,011,065**	**78,857,125**	**66,909,838**

The financial statements on pages 10 to 86 were approved for issue by the board of directors on 20 March 2020 and were signed on its behalf by:

Director

Managing Director &CEO

Consolidated statement of changes in equity

	Note	Share capital Sh'000	Share premium Sh'000	Revaluation surplus Sh'000	Fair value reserves Sh'000	Retained earnings Sh'000	Statutory reserve Sh'000	Total Sh'000
Year ended 31 December 2018								
At start of year	12	1,287,108	5,874,662	192,624	-	3,982,180	-	11,336,574
Comprehensive income								
Profit for the year		-	-	-	-	244,216	-	244,216
At 31 December 2018	**12**	**1,287,108**	**5,874,662**	**192,624**	**-**	**4,226,396**	**-**	**11,580,790**
Year ended 31 December 2019								
At start of year	12	1,287,108	5,874,662	192,624	-	4,226,396	-	11,580,790
Comprehensive income		-	-	-	-	949,836	-	949,836
Profit for the year								
		-	-	-	-		-	
Other comprehensive income								
Revaluation gain on land and buildings		-	-	85,800	-	-	-	85,800
At 31 December 2019	**12**	**1,287,108**	**5,874,662**	**278,424**	**-**	**5,176,232**	**-**	**12,616,426**

Bank statement of changes in equity

	Note	Share capital Sh'000	Share premium Sh'000	Revaluation surplus Sh'000	Fair value reserves Sh'000	Retained earnings Sh'000	Statutory reserve Sh'000	Total Sh'000
Year ended 31 December 2018								
At start of year	12	1,287,108	5,874,662	192,624	-	3,837,208	-	11,191,602
Comprehensive income								
Profit for the year		-	-	-	-	234,846	-	234,846
At 31 December 2018	**12**	**1,287,108**	**5,874,662**	**192,624**	**-**	**4,072,054**	**-**	**11,426,448**
Year ended 31 December 2019								
At start of year	12	1,287,108	5,874,662	192,624	-	4,072,054	-	11,426,448
Comprehensive income								
Profit for the year		-	-	-	-	895,955	-	895,955
Other comprehensive income		-	-	-	-		-	
Revaluation of land and buildings		-	-	85,800	-	-	-	85,800
At 31 December 2019	**12**	**1,287,108**	**5,874,662**	**278,424**	**-**	**4,968,009**	**-**	**12,408,203**

Statement of cash flows

	Note	Group 2019 Sh'000	Group 2018 Sh'000	Bank 2019 Sh'000	Bank 2018 Sh'000
Cash flows from operating activities					
Net cash generated from operations	31(a)	3,269,676	2,376,371	3,261321	2,372,973
Taxation paid		(11,977)	(12,707)	(3620)	(6,093)
Cash generated from operating activities		3,257,699	2,363,664	3,257,701	2,366,880
Cash flows from investing activities					
Purchase of property and equipment	22	(98,892)	(28,412)	(98,892)	(28,412)
Purchase of intangible assets	23	(39,291)	(19,679)	(39,291)	(19,679)
Net cash used in investing activities		(138,183)	(48,091)	(138,183)	(48,091)
Cash flows from financing activities					
Borrowings received	26	-	2,211	-	2,211
Repayment of borrowings	26	(1,072,579)	(3,623,759)	(1,072,579)	(3,623,759)
Payments of lease liability	33	(399,784)	-	(399,784)	-
Net cash generated from financing activities		(1,472,363)	(3,621,548)	(1,472,363)	(3,621,548)
Net increase in cash and cash equivalents during the period		1,647,154	(1,305,975)	1,647,154	(1,302,759)
Cash and cash equivalents at year start		4,470,048	5,776,023	4,470,048	5,772,807
Cash and cash equivalents at end year	31(b)	6,117,201	4,470,048	6,117,201	4,470,048

Notes

1. General information

Family Bank Limited and its subsidiary Family Insurance Agency Limited are both incorporated in Kenya under the Companies Act and is domiciled in Kenya.

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

2. Significant accounting policies

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

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 uses market observable data as far as possible. If the fair value of an asset or a liability is not directly observable, it is estimated by the Group 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. 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 and assumptions. It also requires the directors to exercise judgment in the process of applying the Group's accounting policies. The areas involving a higher degree of judgment or complexity, or where assumptions and estimates are significant to the financial statements, are disclosed in note 3.

(iii) Changes in accounting policies and disclosures

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

a) *Standards, amendments and interpretations to existing standards that have been adopted as from 1 January 2019 by the Group*

IFRS 16: *'Leases'*

The following standards and interpretations have been applied for the first time for the financial year commencing on or after 1 January 2019:

Number	Effective date	Executive summary
IFRS 16 – Leases	Annual periods beginning on or after 1 January 2019 – earlier application permitted if IFRS 15 is also applied. (published January 2016)	This standard replaces the current guidance in IAS 17 and is a far-reaching change in accounting by lessees in particular. Under IAS 17, lessees were required to make a distinction between a finance lease (on balance sheet) and an operating lease (off balance sheet). IFRS 16 now requires lessees to recognise a lease liability reflecting future lease payments and a 'right-of-use asset' for virtually all lease contracts. The IASB has included an optional exemption for certain short-term leases and leases of low-value assets; however, this exemption can only be applied by lessees. For lessors, the accounting stays almost the same. However, as the IASB has updated the guidance on the definition of a lease (as well as the guidance on the combination and separation of contracts), lessors will also be affected by the new standard. At the very least, the new accounting model for lessees is expected to impact negotiations between lessors and lessees.

Notes (continued)

2. Significant accounting policies (continued)

a) Basis of preparation (continued)

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

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

a) *Standards, amendments and interpretations to existing standards that have been adopted as from 1 January 2019 by the Group (continued)*

IFRS 16: *'Leases' (continued)*

Number	Effective date	Executive summary
IFRS 16 – Leases (continued)	Annual periods beginning on or after 1 January 2019 – earlier application permitted if IFRS 15 is also applied. (published January 2016)	Under IFRS 16, a contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. IFRS 16 supersedes IAS 17, 'Leases', IFRIC 4, 'Determining whether an Arrangement contains a Lease', SIC 15, 'Operating Leases – Incentives' and SIC 27, 'Evaluating the Substance of Transactions Involving the Legal Form of a Lease'. The impact of adoption of the standard is disclosed under note 33. The accounting policy under note 2(t) have also been updated.

b) *Standards have been issued but do not have a material impact on the Group*

Amendments to IFRS 9 – 'Financial instruments' on prepayment features with negative compensation and modification of financial liabilities.	Annual periods beginning on or after 1 January 2019	The narrow-scope amendment covers two issues: • The amendments allow entities to measure particular prepayable financial assets with so-called negative compensation at amortised cost or at fair value through other comprehensive income if a specified condition is met—instead of at fair value through profit or loss. It is likely to have the biggest impact on banks and other financial services entities. • How to account for the modification of a financial liability. The amendment confirms that most such modifications will result in immediate recognition of a gain or loss. This is a change from common practice under IAS 39 today and will affect all kinds of entities that have renegotiated borrowings.

Notes (continued)

2. Significant accounting policies (continued)

a) Basis of preparation

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

a) Standards, amendments and interpretations to existing standards that have been adopted as from 1 January 2019 by the Group (continued)

b) Standards have been issued but do not have a material impact on the Group (continued)

Number	Effective date	Executive summary
Amendments to IAS 19, 'Employee benefits' on plan amendment, curtailment or settlement.	Annual periods on or after 1 January 2019 (issued February 2018)	These amendments require an entity to: • Use updated assumptions to determine current service cost and net interest for the remainder of the period after a plan amendment, curtailment or settlement; and • Recognise in profit or loss as part of past service cost, or a gain or loss on settlement, any reduction in a surplus (recognised or unrecognised). This reflects the substance of the transaction, because a surplus that has been used to settle an obligation or provide additional benefits is recovered. The impact on the asset ceiling is recognised in other comprehensive income, and it is not reclassified to profit or loss. The impact of the amendments is to confirm that these effects are not offset.
Annual improvements cycle 2015-2017	Annual periods beginning on or after 1 January 2019 (published December 2017)	These amendments include minor changes to: • IFRS 3, 'Business combination' - a company remeasures its previously held interest in a joint operation when it obtains control of the business. • IFRS 11,'Joint arrangements', - a company does not remeasure its previously held interest in a joint operation when it obtains joint control of the business. • IAS 12,' Income taxes' - The amendment clarified that the income tax consequences of dividends on financial instruments classified as equity should be recognised according to where the past transactions or events that generated distributable profits were recognised. • IAS 23,' Borrowing costs' - a company treats as part of general borrowings any borrowing originally made to develop an asset when the asset is ready for its intended use or sale.

Notes (continued)

2. Significant accounting policies (continued)

a) Basis of preparation (continued)

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

a) Standards, amendments and interpretations to existing standards that have been adopted as from 1 January 2019 by the Group (continued)

b) Standards have been issued but do not have a material impact on the Group (continued)

Number	Effective date	Executive summary
IFRIC 23, 'Uncertainty over income tax treatments'	Annual periods beginning on or after 1 January 2019 Published 7 June 2017)	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 should assess the existing models against the specific guidance in the Interpretation and consider the impact on income tax accounting.

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

Number	Effective date	Executive summary
Amendment to IAS 1, 'Presentation of financial statements' and IAS 8, 'Accounting policies, changes in accounting estimates and errors' on the definition of material.	Annual periods beginning on or after 1 January 2020.	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."*

Notes (continued)

2. Significant accounting policies (continued)

a) Basis of preparation (continued)

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

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

Number	Effective date	Executive summary
Amendments to IFRS 9, Financial Instruments, IAS 39, Financial Instruments: Recognition and Measurement and IFRS 7, Financial Instruments: Disclosure – Interest rate benchmark reform	Annual periods beginning on or after 1 January 2020 (early adoption is permitted) (Published September 2019)	These amendments provide certain reliefs in connection with interest rate benchmark reform (IBOR). The reliefs relate to hedge accounting and have the effect that IBOR should not generally cause hedge accounting to terminate. However, any hedge ineffectiveness should continue to be recorded in the income statement.

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

(b) Consolidation

The consolidated financial statements incorporate the financial statements of the Bank and an entity controlled by the Bank. Control is achieved when the Bank:

- has power over the investee
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns

The Bank reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

When the Bank has less than a majority of the voting rights of an investee, it has power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally.

The Bank considers all relevant facts and circumstances in assessing whether or not the company's voting rights in an investee are sufficient to give it power over the investee, including:

- the size of the Bank's holding of voting rights relative to the size and dispersion of holdings of the other vote holders;
- potential voting rights held by the Bank, other vote holders or other parties;
- rights arising from other contractual arrangements; and
- any additional facts and circumstances that indicate that the Bank has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous shareholder's meetings.

Consolidation of a subsidiary begins when the company obtains control over the subsidiary and ceases when the company loses control of the subsidiary.

Notes (continued)

2. Significant accounting policies (continued)

b) Consolidation (continued)

Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the statement of comprehensive income from the date the company gains control until the date when the company ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income are attributed to the owners of the company and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of the company and to the non-controlling interest even if this results in the non-controlling interests having a deficit balance.

When necessary, adjustments are made to the financial statements for subsidiaries to bring their accounting policies into line with the Group's accounting policies.

All intragroup assets and liabilities, equity, income, expenses and cash flows relating to the transactions between the members of the Group are eliminated in full on consolidation.

Changes in the Group's ownership interests in existing subsidiaries

Changes in the Group's ownership interests in subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's interest and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the company.

When the Group loses control of a subsidiary, a gain or loss is recognised in profit or loss and is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interest. All amounts previously recognised in other comprehensive income in relation to the subsidiary are accounted for as if the Group had directly disposed of the related assets or liabilities of the subsidiary (i.e. reclassified to profit or loss or transferred to another category of equity as specified/permitted by applicable IFRSs). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under IFRS 9: Financial Instruments: Recognition and Measurement, when applicable, the cost on initial recognition of an investment in an associate or a joint venture.

Refer to note 36 of the financial statements for description of Basis of non- consolidation of an entity under the Group's control.

c) Investment in subsidiary

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

d) Interest income and expense recognition

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.

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.

Notes (continued)

2. Significant accounting policies (continued)

e) Fee and commission income

Fee and commission revenue, including transactional fees, account servicing fees, investment management fees and sales commissions are recognised as the performance obligations under the related services' contracts are met. 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 appraisal fees are recognised as revenue when the appraisal 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.

f) Foreign currency translation

(i) Functional and presentation currency

The Group's consolidated financial statements are presented in Kenya Shillings, which is also the Group's Functional and Presentation currency. For each entity in the Group, the Group determines the functional currency and items included in the financial statements of each entity are measured using that Functional currency.

Transactions and balances

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

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

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

The Group does not have a foreign operation.

g) Financial assets and liabilities

The Group adopted IFRS 9 on 1 January 2018. The objective of IFRS 9 was to establish principles that will present relevant and useful information to users of financial statements in relation to:
i) Classification of financial instruments;
ii) Initial and subsequent measurement of financial instruments;
iii) Modification and derecognition of financial instruments; and
iv) Impairment of financial assets.

The Group determines the appropriate classification of its financial assets at initial recognition. It recognises a financial asset in its statement of financial position when it becomes party to the contractual provisions of the instrument.

The Group classifies its financial assets into the following categories:
- financial assets at fair value through profit or loss *("FVTPL")*;
- financial assets measured at *amortised cost;* and
- financial assets at fair value through other comprehensive income *("FVTOCI")*;

Notes (continued)

2. Significant accounting policies (continued)

g) Financial assets and liabilities (continued)

Financial assets (except those carried at fair value through profit or loss) are initially recognised in the financial statements at fair value plus transaction costs. Loans and receivables and investments held at amortised cost are carried at amortised cost using the effective interest *rate ("EIR")* method.

Financial assets at fair value through other comprehensive income and financial assets at fair value through profit or loss are carried at fair value. Gains and losses arising from changes in the fair value of 'financial assets at fair value through profit or loss' are included in profit and loss in the period in which they arise. Gains and losses arising from changes in the fair value of assets at fair value through other comprehensive income are recognised in other comprehensive income and cumulated in a separate reserve in equity until the financial asset is derecognised or impaired, at which time the cumulative gain or loss previously recognised in equity is recognised in profit and loss for debt instruments or recycled through retained earnings for equity instruments.

i) Financial assets

Recognition and Subsequent measurement

a) Debt instruments

At initial recognition, the Group measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at fair value through profit or loss are expensed in profit or loss.

Except for the Group's financial assets that are designated at initial recognition as at fair value through profit or loss, the Group's financial asset is classified on the basis of both;

- the Group's business model for managing the financial assets; and
- the contractual cash flow characteristics of the financial asset.

Based on these factors, the Group classifies its debt instruments into one of the following three 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, are measured at amortised cost. The carrying amounts of these assets are adjusted by any expected credit loss allowances. Interest income from financial assets is included in "interest income" using the effective interest rate method.

- Fair value through other comprehensive income (FVOCI): Financial assets that are held for collection of contractual cash flows and for selling, where the assets' cash flows represent SPPI and that are not designated at FVPL, are measured through other comprehensive income (FVOCI). Movements in the carrying amount are taken through OCI, except for the recognition of impairment gains or losses and interest revenue and foreign exchange gains and losses on the instrument's amortised cost which are recognised in profit or loss. When the financial asset is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from equity to profit or loss and recognised in "Net gains on disposal of financial instruments". Interest income from the instruments is included in "interest income" using the effective interest rate.

- Fair value through the 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 in the period in which it arises. Interest income and credit related income from these financial assets is included in "interest income" using the effective interest rate method.

Notes (continued)

2. Significant accounting policies (continued)

g) Financial assets and liabilities (continued)

Financial Assets (continued)

ii) Recognition and subsequent measurement

Group's 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.

Contractual characteristics of a financial asset / 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.

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 FVOCI and with the exposure arising from loan commitments and financial guarantee contracts. The Bank 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.
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(ii) Modification of loans

The Group may sometimes renegotiate or otherwise modify the contractual cash flows of loans 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.

Notes (continued)

2. Significant accounting policies (continued)

g) Financial assets and liabilities (continued)

Financial Assets (continued)

(ii) Modification of loans (continued)

- 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. Accordingly, the date of the modification is treated as the date of initial recognition of that financial asset when applying the impairment requirements to the modified financial asset. This typically means measuring the loss allowance at an amount equal to 12-month expected credit losses until the criteria for the recognition of lifetime expected credit losses is met.

However, in some unusual circumstances following a modification that results in derecognition of the original financial asset, there may be evidence that the modified financial asset is credit-impaired at initial recognition, and thus, the financial asset is recognised as an originated credit-impaired financial asset. This might occur, for example, in a situation in which there was a substantial modification of a distressed asset that resulted in the derecognition of the original financial asset. In such a case, it may be possible for the modification to result in a new financial asset which is credit- impaired at initial recognition. Differences in the carrying amount are 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, 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.

iii) 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.

Noted (continued)

2. Significant accounting policies (continued)

g) Financial assets and liabilities (continued)

Financial Assets (continued)

(iii) **Derecognition other than on a modification(continued)**

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.

Collateral (shares and bonds) furnished by the Group under standard repurchase agreements and securities lending and borrowings transactions are not derecognised 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.

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

(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).

(iii) 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 jt 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.

Notes (continued)

2. Significant accounting policies (continued)

h) Financial liabilities (continued)

(iii) Financial guarantee contracts and loan commitments (continued)

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.

i) Borrowings

Borrowings are recognised initially at fair value, generally being their issue proceeds, net of directly attributable transaction costs incurred. Borrowings are subsequently measured at amortised cost and interest is recognised using the effective interest method.

Borrowing costs that relate to qualifying assets, that is, assets that necessarily take a substantial period of time to get ready for their intended use or sale and which are not measured at fair value, are capitalised. All other borrowing costs are recognised in profit or loss. Borrowing costs consist of interest and other costs that an entity incurred in connection with the borrowing of funds

j) Offsetting financial instruments

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

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

k) Property and equipment

Property and equipment are stated at cost (or as professionally revalued from time to time as in the case of buildings) less accumulated depreciation and any accumulated impairment losses.

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

The Group's policy is to professionally revalue freehold land and buildings at least once every five years. The last valuation was done on 31 December 2019. The valuation considered the highest and best use of the property. The basis of valuation for freehold land and buildings is open market value.

Notes (continued)

2. Summary of significant accounting policies (continued)

(k) Property and equipment (continued)

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

Buildings	2.50%
Fixtures, fittings and equipment	12.50%
ATM Machines	16.70%
Motor vehicles	20%
Computers	20%

Freehold land is not depreciated.

The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period with the effect of any changes in estimate accounted for on a prospective basis.

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

(l) Intangible assets

Intangible assets comprise acquired computer software license costs which are recognised on the basis of expenditure incurred to acquire and bring the specific software to use. These costs are amortised over estimated useful lives of three to ten years.

Costs that are directly associated with the production of identifiable and unique software products controlled by the Group, and that will probably generate economic benefits exceeding costs beyond one year, are recognised as intangible assets. During development of these software products, direct costs such as the software development employee costs and an appropriate portion of relevant overheads are recorded as work in progress and amortised from the point at which the asset is ready for use.

Computer software development costs recognised as assets are amortised over an estimated useful life of three to eight years. Costs associated with the maintenance of computer software are expensed as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period.

(m) Impairment of tangible and intangible assets

At the end of each reporting period, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of fair value less costs to sell and value in use. 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 for which the estimates of future cash flows have not been adjusted. If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount.

Notes (continued)

2. Significant accounting policies (continued)

(m) Impairment of tangible and intangible assets (continued)

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

(n) Investment properties

Investment properties comprise land and buildings and parts of buildings held to earn rentals and/or for capital appreciation. Investment properties are measured initially at cost including transaction costs. Subsequent to initial recognition, investment properties are measured at fair value. The fair value determined annually by external independent valuers. Fair value is based on active market prices as adjusted, if necessary, for any difference in the nature, condition or location of the specific asset.

Investment properties are not subject to depreciation. Gains and losses arising from changes in the fair value of investment property are included in profit or loss in the year in which they arise.

Investment property is derecognised upon disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from the disposal. Any gain or loss arising on derecognition of the property (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the period in which the property is derecognised.

(o) Non-current assets held for sale

The Group classifies a non-current asset as held for sale if, and only if, its carrying amount will be recovered principally through a sale transaction rather than through continuing use. Non-current assets held for sale are measured at the lower of their carrying amounts and fair values less estimated selling costs at end of reporting period date.

Impairment loss arising from any subsequent write-down of the carrying amount of an asset identified for sale to fair value less costs to make the sale is charged to profit or loss in the year in which the loss is identified.

(p) Income tax

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

Current income tax

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

Deferred income tax

Deferred income tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences.

Deferred income tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences are utilised.

Notes (continued)

2. Significant accounting policies (continued)

(p) Income tax (continued)

Deferred income tax (continued)

Such deferred tax assets and liabilities are not recognised if the temporary difference arises from good will. the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit. The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

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

Current and deferred income tax for the year

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

(q) Provisions

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

(r) Contingent liabilities

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

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

(s) Statutory reserve

Further to the credit loss allowances computed in line with international financial reporting standards, the Central Banks have, in their prudential guidelines, specified certain minimum loan loss provisions to be held against various categories of loans and advances. Where credit loss allowances computed in line with the Central Bank regulations exceed those computed on the same loan balances under International financial reporting standards, the excess is recognised as a regulatory loss reserve and is accounted for as an appropriation of retained earnings. The statutory loan loss reserve is non-distributable.

Notes (continued)

2. Significant accounting policies (continued)

(t) Leasing

Accounting policy for leases until 31 December 2018

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

The Group as lessor

Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease.

The Group as lessee

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

The accounting policy for leases applied after 1 January 2019 is included under note 33

(u) Cash and cash equivalents

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

(v) Employee benefit costs

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

The Group and its employees also contribute to the statutory National Social Security Fund (NSSF). This is a defined contribution scheme registered under the National Social Security Fund Act. The obligations under the scheme are limited to specific contributions legislated from time to time.

The Group's contributions in respect of retirement benefit costs are charged to the profit and loss in the period to which they relate. Employee entitlement to leave not taken is charged to profit or loss as it accrues.

(w) Sale and repurchase agreements

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

(x) Operating segments

Operating segments are reported in a manner consistent with the internal reporting provided to the Chief Operating Decision Maker (Managing Director and CEO). Management then allocates resources to and assesses the performance of the operating segments of the Group.

- Segment result is segment revenue less segment expenses.
- Segment revenue is the revenue that is directly attributable to a segment plus the relevant portion of the Group's revenue that can be allocated to the segment on a reasonable basis.
- Segment expenses are expenses resulting from the operating activities of a segment plus the relevant portion of an expense that can be allocated to the segment on a reasonable basis.

Segment assets and liabilities comprise those operating assets and liabilities that are directly attributable to the segment or can be allocated to the segment on a reasonable basis.

Notes (continued)

2. Significant accounting policies (continued)

(x) Operating segments (continued)

Capital expenditure represents the total cost incurred during the year to acquire segment assets (property, plant and equipment) that are expected to be used during more than one year.

(y) Comparatives

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

3 Critical accounting estimates and judgement

The preparation of financial statements requires the use of accounting estimates which, by definition, will seldom equal the actual results. The directors also need to exercise judgment in applying the Group's accounting policies.

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.

(a) Measurement of the 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.

(b) Adoption of IFRS 16

Critical judgements required in the application of IFRS 16 may include, among others, the following:

- Identifying whether a contract (or part of a contract) includes a lease;
- Determining whether it is reasonably certain that an extension or termination option will be exercised;

Notes (continued)

3 Critical accounting estimates and judgement (continued)

(b) Adoption of IFRS 16 (continued)

- Classification of lease agreements (when the entity is a lessor);
- Determination of whether variable payments are in-substance fixed;
- Establishing whether there are multiple leases in an arrangement;
- Determining the stand-alone selling prices of lease and non-lease components

Key sources of estimation uncertainty in the application of IFRS 16 may include, among others, the following:
- Estimation of the lease term;
- Determination of the appropriate rate to discount the lease payments; and
- Assessment of whether a right of use asset is impaired.

4 Financial risk management

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

The most important type of risks to which the Group are exposed to are financial risks which include:
a) Credit risk
b) Liquidity risk
c) Market risk

Risk management framework

The Board of Directors has overall responsibility for the establishment and oversight of the Group's risk management framework. The Board has established a risk management committee comprising of two non-executive directors to assist in the discharge of this responsibility. The Board has also established the Group Asset and Liability Committee (ALCO), Credit Committee and Risk and Compliance Committee, which are responsible for developing and monitoring risk management policies in their specified areas. With the exception of the ALCO which is a Management Committee, these committees comprise of both non-executive and executive members and report regularly to the Board of Directors on their activities.

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

Financial Risk Management disclosures

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

Notes (continued)

4 Financial risk management (continued)

4.1 Credit risk

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

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

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

Management of credit risk

The Board of Directors has delegated responsibility for the oversight of credit risk to its credit committee comprising of three non-executive directors and two executive directors. The implementation of the credit risk policies and monitoring of the credit portfolio to ensure that risks are managed within acceptable standards is the responsibility of the credit committee comprising of executive management.

The committee assisted by the credit department is responsible for the management of the Group's credit risk including:

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

Notes (continued)

4. Financial risk management objectives and policies (continued)

4.1 Credit risk (continued)

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

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

The Group assesses the probability of default of individual borrowers using internal rating methods tailored to the various categories of the borrower. In assessing the credit quality of the customer, the Group takes into account the customers financial position, past experience and other industry specific factors. The credit risk measurements are embedded in the Group's daily operational management and closely aligned to the Central Bank of Kenya loan classifications. The impairment allowances on loans and advances computed through the Group's internal measures and the Central Bank of Kenya prudential guidelines are contrasted with the measurement of impairment under the IFRS 9.

4.1.1Loans and advances

The Group align the classification criteria for assets that are past due or impaired in line with regulatory guidelines. In the determination of the classification of accounts, performance is the primary consideration. The classification of an account reflects a judgment about risks of default and loss associated with the credit facility. The classification process establishes a consistent approach to problem recognition, problem labeling, remedial action and the initiation of credit write-offs.

The key judgments and assumptions adopted by the Group in addressing the requirements of the standard are discussed below:

(i) Significant Increase in credit risk (SICR)

The Group's decision on whether to recognize 12-month 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 performed at each reporting date.

When making the assessment, the Group uses the change in the risk of a default occurring over the expected life of the financial instrument instead of the change in the amount of expected credit losses. This forms the basis of stage 1, 2 and 3 classification and subsequent migration.

The Group applies qualitative and quantitative criteria for stage classification and for its forward and backward credit risk migration.

<u>Quantitative Criteria</u>

The quantitative criteria is based on relative and not absolute changes in credit quality driven by counterparty 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

Notes (continued)

4. Financial risk management objectives and policies (continued)

4.1 Credit risk (continued)

4.1.1 Loans and advances (continued)

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

Quantitative Criteria (continued)

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 appropriateness of using changes in the risk of a default occurring over the next 12 months to determine whether lifetime expected credit losses should be recognised depends on the specific facts and circumstances. Risk of default occurring over the next 12 months is not a suitable basis for determining whether credit risk has increased on a financial instrument with a maturity of more than 12 months when:

1. the financial instruments only have significant payment obligations beyond the next 12 months;
2. changes in relevant macroeconomic or other credit-related factors occur that are not adequately reflected in the risk of a default occurring in the next 12 months; or
3. changes in credit-related factors only have an impact on the credit risk of the financial instrument (or have a more pronounced effect) beyond 12 months

The Group's quantitative credit grading, as compared to CBK's prudential guidelines credit grading is as per the table below:

IFRS 9 credit staging / grading	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:

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.: credit spread; credit default swap prices; length of time or the extent to which the fair value of a financial asset has been less than its amortized cost; 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. Changes in the Group's credit management approach in relation to the financial instrument (e.g. based on emerging indicators of changes in the credit risk of the financial instrument, the Group's credit risk

Notes (continued)

4. Financial risk management objectives and policies (continued)

4.1 Credit risk (continued)

4.1.1 Loans and advances (continued)

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

Qualitative Criteria (continued)

management practice is expected to become more active or focused on managing the instrument, including the instrument becoming more closely monitored or controlled, or the bank specifically intervening with the borrower).

4. Actual or expected adverse changes in business, financial or economic conditions significantly affecting borrower's ability to meet its debt obligations (e.g. increase in interest rates or unemployment rates); operating results of the borrower e.g. declining revenues or margins, increasing operating risks, working capital deficiencies, decreasing asset quality, increased balance sheet leverage, liquidity, management problems or changes in the scope of business or organisational structure (such as the discontinuance of a segment of the business) that results in a significant change in the borrower's ability to meet its debt obligations; or regulatory, economic, or technological environment of the borrower that results in a significant change in the borrower's ability to meet its debt obligations (e.g. a decline in the demand for the borrower's sales product because of a shift in technology).
5. Significant changes in the value of collateral or in the quality of third-party guarantees or credit enhancements, which are expected to reduce the borrower's economic incentive to pay or otherwise affect the probability of default; or quality of a guarantee provided by a shareholder (or an individual's parents) if the shareholder (or parents) have an incentive and financial ability to prevent default by capital or cash infusion.
6. 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).
7. 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).

(ii) 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

Notes (continued)

4. Financial risk management objectives and policies (continued)

4.1 Credit risk (continued)

4.1.1 Loans and advances (continued)

Qualitative criteria (continued)

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.

90-day rebuttable presumption

The Group assumes a rebuttable presumption that a default does not occur later than when a financial asset is 90 days past due unless the Group has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

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

"ECL" is defined as the amount on a probability-weighted basis as the difference between the cash flows that are due to the Group in accordance with the contractual terms of a financial instrument and the cash flows that the bank expects to receive.

ECL is formula driven, i.e. ECL= PD x LGD x EAD (discounted using the EIR)

ECLs 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 (12-month 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.

The lifetime PD is developed by applying a maturity profile to the current 12M 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:

Notes (continued)

4. Financial risk management objectives and policies (continued)

4.1 Credit risk (continued)

4.1.1 Loans and advances (continued)

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

- 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 the industry segmentation.

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 an annual basis.

Forward-looking information incorporated in the ECL models

The assessment of SICR and the calculation of ECL both 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 industry/portfolio segmentation.

Forecasts of the base economic scenario and the possible bearing and bullish 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 an 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.

The key macro-economic factors that were evaluated by the Group and deemed to be most correlated to the historical and forecasted default statistics include interest and foreign exchange rates, Inflation, GDP growth and population statistics.

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 annually.

Notes (continued)

4. Financial risk management objectives and policies (continued)

4.1 Credit risk (continued)

4.1.1 Loans and advances (continued)

Grouping of instruments for losses measured on a collective basis

For expected credit loss 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. In concluding on how to group its exposures, the Group considered its approach to credit risk management and how aspects such as regulatory compliance and internal concentration limits are managed. As such, the Group grouped its loans and advances at amortised cost based on industries such as Manufacturing, Individuals, Finance and Insurance, Building and construction among others.

There were no exposures deemed to be individually significant to merit individual assessment, other than those in Stage 3. The appropriateness of groupings is monitored and reviewed on a periodic basis.

Write-off policy

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

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

Loans and advances at amortised cost less than 30 days past due date are not considered to have experienced SICR, unless other information is available to indicate the contrary. The breakdown of loans and advances based on their staging is summarised below:

Group and Bank		**2019**			**2018**
	Stage 1 12-month ECL	**Stage 2 Lifetime ECL**	**Stage 3 Lifetime ECL**	**Total**	
Amortised cost	**Sh'000**	**Sh'000**	**Sh'000**	**Sh'000**	**Sh'000**
Individually impaired / non-performing facilities					
Substandard	-	-	849,291	849,291	902,710
Doubtful	-	-	5,204,130	5,204,130	5,423,703
Loss	-	-	1,073,799	1,073,799	808,909
Gross amount	**-**	**-**	**7,127,220**	**7,127,220**	**7,135,322**
Provision for expected credit losses	-	-	(2,677,764)	(2,677,764)	(1,902,708)
Carrying amount	**-**	**-**	**4,449,456**	**4,449,456**	**5,232,614**
Collectively impaired					
Normal	43,456,018	-	-	43,456,018	37,519,796
Watch	-	3,611,423	-	3,611,423	1,960,361
Gross amount	**43,456,018**	**3,611,423**	**-**	**47,067,441**	**39,480,157**
Provision for expected credit losses	(519,787)	(402,671)	-	(922,458)	(599,678)
Carrying amount	**42,936,231**	**3,208,752**	**-**	**46,144,983**	**38,880,479**
Total carrying amount	**42,936,231**	**3,208,752**	**4,449,456**	**50,594,439**	**44,113,093**

Notes (continued)

4. Financial risk management objectives and policies (continued)

4.1 Credit risk (continued)

4.1.1 Loans and advances (continued)

Risk limit control and mitigation policies

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 revolving basis and are subject to annual or more frequent review.

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

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

The primary purpose of acceptances, letters of credit and guarantees is to ensure funds are available to a customer as required. Guarantees and standby letters of credit carry the same risk as loans. Documentary and commercial letters of credit which are written undertakings by the 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 goods to which they relate and therefore carry less risk than a direct loan.

Commitments to extend credit represent unused portions of authorisation to extend credit in the form of loans, guarantees or letters of credit. With respect to credit risk on commitments to extend credit, the 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.

The Group has no significant concentration of credit risk, with exposure spread over a diversity of personal and commercial customers.

Portfolio management is an integral part of the credit risk management process that enables the Group and Company to limit concentrations, reduce volatility, increase liquidity and achieve optimum earnings. The responsibility for portfolio management lies primarily with business units, with oversight and review by credit risk management while the Board Credit Committee is responsible for credit approvals. The Group's portfolio management plan entails:

- The setting up of portfolio targets and concentrations.
- Establishing target market risk acceptance criteria and key success factors. These are subject to regular review to ensure their continued appropriateness.
- Monitoring the portfolio risk profile, risk-adjusted returns, risk concentrations, economic market and competitive data.
- Identifying and analysing trends and concentrations that could affect the risk and performance of the portfolio.
- Stress testing of the portfolio for the purpose of measuring potential losses.

Notes (continued)

4. Financial risk management objectives and policies (continued)

4.1 Credit risk (continued)

4.1.1 Loans and advances (continued)

Maximum exposure to credit risk before collateral held

	Group and Bank			
	2019		**2018**	
	Sh'000	**%**	**Sh'000**	**%**
Credit exposures				
On – balance sheet items				
Balances with Central Bank of Kenya	3,566,591	5	2,787,340	5
Balances due from other banking institutions	2,779,374	4	1,222,738	2
Government securities	9,849,893	13	6,946,277	11
Loans and advances to customers	50,594,439	68	44,113,093	72
Corporate bonds	399,847	1	392,772	-
Other investments	1,385,077	3	1,730,698	3
Other assets	201,936	-	344,459	-
	68,777,158	94	57,537,377	93
Off-balance sheet items				
Guarantees and letters of credit	5,615,640	7	4,114,358	7
	74,392,797	100	61,651,735	100

The table represents the worst-case scenario of credit exposure for 31 December 2019 and 31 December 2018, without taking into account any collateral held or other credit enhancements attached. For on-balance sheet assets, the exposures, set out above are based on net carrying amount as reported on the statement of financial position.

Loans and advances to customers comprise of 68% (2018 - 72 %) of the total maximum exposure.

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

Notes (continued)

4 Financial risk management (continued)

4.1 Credit risk (continued)

4.1.1 Loans and advances (continued)

Loans and advances at amortised cost less than 30 days past due date are not considered to have experienced SICR, unless other information is available to indicate the contrary. The breakdown of loans and advances based on their staging is summarised below:

Group and Bank		2019			2018
	Stage 1 12-month ECL Shs' 000	Stage 2 Lifetime ECL Shs' 000	Stage 3 Lifetime ECL Shs' 000	Total Shs' 000	 Shs' 000
Amortised cost					
Individually impaired / non-performing facilities					
Substandard	-	-	849,291	849,291	902,710
Doubtful	-	-	5,204,130	5,204,130	5,423,703
Loss	-	-	1,073,799	1,073,799	808,909
Gross amount	-	-	**7,127,220**	**7,127,220**	**7,135,322**
Provision for expected credit losses	-	-	(2,677,764)	(2,677,764)	(1,902,708)
Carrying amount	-	-	**4,449,456**	**4,449,456**	**5,232,614**
Collectively impaired					
Normal	43,456,018	-	-	43,456,101	37,519,796
Watch	-	3,611,423	-	3,611,423	1,960,361
Gross amount	43,456,018	3,611,423	-	**47,067,524**	**39,480,157**
Provision for expected credit losses	(519,787)	(402,671)	-	(922,539)	(599,678)
Carrying amount	**42,936,231**	**3,208,752**	-	**46,144,985**	**38,880,479**
Total carrying amount	**42,936,231**	**3,208,752**	**4,449,456**	**50,594,439**	**44,113,093**

Notes (continued)

4 Financial risk management (continued)

4.1 Credit risk (continued)

4.1.1 Loans and advances (continued)

Collateral management

The Bank 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 Bank's procedures and policies. The main types of collateral taken are:

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

Valuation of collateral

The Bank 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 reports on properties are valid for 5 years after which the property and equipment is revalued.

Financial effect of collateral

As at 31 December 2019, 70% (2018: 70%) of the outstanding loan balances were covered by collateral.

Financial instruments subject to offsetting, enforceable master netting arrangements or similar agreements

The Bank holds financial instruments, financial collateral and cash collateral against its loans and advances measured at amortised cost. The Bank is entitled to offset these through enforceable master netting arrangements or similar agreements, in case of default. As at 31 December 2019, no financial assets or financial liabilities had been offset and presented net on the statement of financial position. Cash collateral held as at 31 December 2019 was Shs 555,237,988 (2018: Shs 477,267,608) and this has been included in 'Other liabilities'. No collateral had been pledged for deposits held.

4.1.2 Other non-loan financial assets

ECL on non-loan financial assets such as government securities, other investments at amortised cost and at FVOCI and other financial assets is not measured using the general model. Instead, the Group:

- uses external credit ratings as proxies to infer approximate PDs;
- assumes 100% LGDs
- assigns equal 'loss' and 'no loss' scenarios based on expert judgment;
- EADs are estimated based on the expected maturities of the instruments, most of which are less than 12 months.

Notes (continued)

4. Financial risk management objectives and policies (continued)

4.1 Credit risk (continued)

4.1.3 Concentration of risk

Details of significant concentrations of the Group's assets (before impairment), liabilities and off-balance sheet items by industry groups are as detailed below:

i) Advances to customers- Group and Bank

	2019		2018	
	Sh'000	%	Sh'000	%
Manufacturing	258,752	0.5	270,981	0.6
Wholesale and retail	22,692,727	42.2	17,386,801	37.3
Transport and communication	3,319,443	6.2	3,858,445	8.3
Agriculture	3,086,734	5.7	2,669,826	5.7
Business services	386,120	0.7	404,454	0.9
Building and construction	3,307,121	6.2	3,373,979	7.2
Other	20,664,642	38.5	18,650,996	40.0
	53,715,539	100	46,615,482	100
ii) Customer deposits				
Central and local Government	40,969	0.1	29,620	0.1
Co-operative societies	394,613	0.7	343,101	0.7
Insurance companies	266,988	0.5	222,436	0.5
Private enterprises & individuals	57,220,864	98.6	47,769,261	98.5
Non-profit institutions	131,051	0.2	118,771	0.2
	58,054,485	100	48,483,189	100
iii) Off balance sheet items				
Letters of credit and guarantees	5,615,640	100	4,114,358	100
	5,615,640	100	4,114,358	100

Notes (continued)

4. Financial risk management objectives and policies (continued)

4.2 Liquidity risk

4.2.1 Management of liquidity risk

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

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

Liquidity risk is addressed through the following measures:

- The treasury department monitors liquidity ratios on a daily basis against internal and regulatory requirements.
- Day to day funding is managed by monitoring future cash flows to ensure that requirements can be met. This includes replenishment of funds as they mature or are borrowed by customers.

The Group invests in short term liquid instruments which can easily be sold in the market when the need arises

- The Group enters into lending contracts subject to availability of funds.
- The Group has an aggressive strategy aimed at increasing the customer deposit base.
- The Group borrows from the market through interbank transactions with other banks and the Central Bank of Kenya for short term liquidity requirements.
- Investments in property and equipment are properly budgeted for and done when the group has sufficient cash flows.

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

Exposure to liquidity risk

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

The Central Bank of Kenya minimum liquidity ratio is 20%. Details of the reported Group ratio of net liquid assets to deposits from customers at the reporting date and during the reporting period were as follows:

	2019	2018
At 31 December	33.1%	30.7%
Average for the year	32.6%	33.0%
Maximum for the year	36.6%	36.9%
Minimum for the year	30.7%	29.9%

Notes (continued)

4. Financial risk management objectives and policies (continued)

4.2 Liquidity risk (continued)

4.2.2 (a) Liquidity risk based on undiscounted cash flows- Group

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

31-Dec-19	Up to 1 month Sh'000	1 – 3 months Sh'000	4 – 12 months Sh'000	1 – 5 years Sh'000	Over 5 years Sh'000	Total Sh'000
Financial assets						
Cash-in hand	3,394,733	-	-	-	-	3,394,733
Balances with CBK	3,566,591	-	-	-	-	3,566,591
Balances due from banks	2,779,374	-	-	-	-	2,779,374
Government securities	1,650,000	2,136,772	946,410	3,848,279	1,690,000	10,271,461
Loans and advances	4,245,287.	2,339,509	4,834,787	29,964,121	14,310,212	55,693,916
Corporate bonds	-	-	-	399,847	-	399,847
Other investments	-	1,385,077	-	-	-	1,385,077
Other assets	222,363	-	-	-	-	222,363
Total financial assets	**15,858,349**	**5,861,358**	**5,781,196**	**34,212,247**	**16,000,212**	**77,713,362**
Financial liabilities						
Balances due to banks	56,906	-	-	-	-	56,906
Customer deposits	34,653,912	7,110,628	17,110,844	63,851	-	58,939,235
Borrowings	-	-	2,339,698	2,361,451	-	4,701,149
Other liabilities	157,635	-	-.	-	-	157,635
Total financial liabilities	34,868,453	7,110,628	19,450,542	2,425,302	-	63,854,925
Net liquidity gap	**(19,010,107)**	**(1,249,270)**	**(13,669,345)**	**31,786,945**	**16,000,212**	**13,858,437**

Notes (continued)

4. Financial risk management objectives and policies (continued)

4.2 Liquidity risk (continued)

4.2.2 (b) Liquidity risk based on undiscounted cash flows- Bank (continued)

31-Dec-19	Up to 1 month Sh'000	1 – 3 months Sh'000	4 – 12 months Sh'000	1 – 5 years Sh'000	Over 5 years Sh'000	Total Sh'000
Financial assets						
Cash-in hand	3,394,733	-	-	-	-	3,394,733
Balances with CBK	3,566,591	-	-	-	-	3,566,591
Balances due from banks	2,779,374	-	-	-	-	2,779,374
Government securities	1,650,000	2,136,772	946,410	3,848,279	1,690,000	10,271,461
Loans and advances	4,245,287	2,339,509	4,834,787	29,964,121	14,310,212	55,693,916
Corporate bonds	-	-	-	399,847	-	399,847
Other investments	-	1,385,077	-	-	-	1,385,077
Other assets	201,936	-	-	-	-	201,936
Total financial assets	**15,837,921**	**5,861,358**	**5,781,197**	**34,212,247**	**16,000,212**	**77,692,935**
Financial liabilities						
Balances due to banks	56,906	-	-	-	-	56,906
Customer deposits	34,653,912	7,110,628	17,110,844	63,851	-	58,939,235
Borrowings	-	-	2,339,698	2,361,451	-	4,701,149
Other liabilities	85,650	-	-	-	-	85,650
Total financial liabilities	**34,796,468**	**7,110,628**	**19,450,542**	2,425,302	-	**63,782,940**
Net liquidity gap	**(18,958,547)**	**(1,249,270)**	**(13,669,345)**	**31,786,945**	**16,000,212**	**13,909,995**

Notes (continued)

4. Financial risk management objectives and policies (continued)

4.2 Liquidity risk (continued)

4.2.2 (c) Liquidity risk based on undiscounted cash flows- Group

31-Dec-18	Up to 1 month Sh'000	1 – 3 months Sh'000	4 – 12 months Sh'000	1 – 5 years Sh'000	Over 5 years Sh'000	Total Sh'000
Financial assets						
Cash-in hand	3,494,361	-	-	-	-	3,494,361
Balances with CBK	2,787,339	-	-	-	-	2,787,339
Balances due from banks	1,222,738	-	-	-	-	1,222,738
Government securities	11,192	2,011,384	73,216	685,945	4,219,652	7,001,389
Loans and advances	3,176,611	2,006,005	4,480,231	28,988,138	10,473,212	49,124,197
Corporate bonds	-	-	-	460,322	-	460,322
Other investments	-	1,755,232	-	-	-	1,755,232
Other assets	344,459	-	-	-	-	344,459
Total financial assets	**11,036,700**	**5,772,621**	**4,553,447**	**30,134,405**	**14,692,864**	**66,190,037**
Financial liabilities						
Balances due to banks	247,051	-	-	-	-	247,051
Customer deposits	31,395,666	5,227,401	12,370,530	45,373	-	49,038,970
Borrowings	-	-	3,526,693	-	2,361,451	5,888,144
Other liabilities	329,144	-	-	-	-	329,144
Total financial liabilities	**31,971,861**	**5,227,401**	**15,897,223**	**45,373**	**2,361,451**	**55,503,309**
Net liquidity gap	**(20,935,161)**	**545,220**	**(11,343,776)**	**30,089,032**	**12,331,413**	**10,686,728**

Notes (continued)

4. Financial risk management objectives and policies (continued)

4.2 Liquidity risk (continued)

4.2.2 (c) Liquidity risk based on undiscounted cash flows- Bank (continued)

31-Dec-18	Up to 1 month Sh'000	1 – 3 months Sh'000	4 – 12 months Sh'000	1 – 5 years Sh'000	Over 5 years Sh'000	Total Sh'000
Financial assets						
Cash-in hand	3,494,361	-	-	-	-	3,494,361
Balances with CBK	2,787,339	-	-	-	-	2,787,339
Balances due from banks	1,222,738	-	-	-	-	1,222,738
Government securities	11,192	2,011,384	73,216	685,945	4,219,652	7,001,389
Loans and advances	3,176,611	2,006,005	4,480,231	28,988,138	10,473,212	49,124,197
Corporate bonds	-	-	-	460,322	-	460,322
Other investments	-	1,755,232	-	-	-	1,755,232
Other assets	344,459	-	-	-	-	344,459
Total financial assets	**11,036,700**	**5,772,621**	**4,553,447**	**30,134,405**	**14,692,864**	**66,190,037**
Financial liabilities						
Balances due to banks	247,051	-	-	-	-	247,051
Customer deposits	31,522,372	5,227,401	12,370,530	45,373	-	49,165,676
Borrowings	-	-	3,526,693	-	2,361,451	5,888,144
Other liabilities	307,321	-	-	-	-	307,321
Total financial liabilities	**32,076,744**	**5,227,401**	**15,897,223**	**45,373**	**2,361,451**	**55,608,192**
Net liquidity gap	**(21,040,044)**	**545,220**	**(11,343,776)**	**30,089,032**	**12,331,413**	**10,581,845**

Notes (continued)

4. Financial risk management objectives and policies (continued)

4.2 Liquidity risk (continued)

c) Liquidity risk based on undiscounted cash flows- Group and Bank (continued)

The following table shows commitments/guarantees and operating lease commitments that are expected to have cash outflows in future from the Group as at 31 December 2019.

	2019 Sh'000	2018 Sh'000
(a) Letters of credit, guarantees, acceptances	5,615,640	4,114,358
(b) Operating lease arrangements	1,569,539	5,011,974
(c) Committed and undrawn facilities	2,488,635	2,018,181
	9,673,814	11,144,513

(d) Market risk

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

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

Management of market risks

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

i) Interest rate risk

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

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

Notes (continued)

(d) Market risk (continued)

(i) Interest rate risk Group (continued)

31-Dec-19	Up to 1 month Sh'000	1 – 3 months Sh'000	4 – 12 months Sh'000	1-5 years Sh'000	Over 5 years Sh'000	Non-interest bearing Sh'000	Total Sh'000
Financial assets							
Cash in hand	-	-	-	-	-	3,394,733	3,394,733
Balances with CBK	-	-	-	-	-	3,566,591	3,566,591
Balances due from banks	-	1,589,117	-	-	-	1,190,257	2,779,374
Government securities	1,650,000	2,136,772	946,410	3,426,711	1,690,000		9,849,893
Loans and advances	50,594,439	-	-	-	-	-	50,594,439
Corporate bonds	-	-	-	399,847	-	-	399,847
Other financial assets	-	-	1,385,077	-	-	201,936	1,587,013
	52,244,439	**3,725,889**	**2,331,487**	**3,826,558**	**1,690,000**	**8,353,516**	**72,171,891**
Balances due to banks	56,906	-	-	-	-	-	56,906
Customer deposits	7,110,628		10,289,558	63,851	-	34,635,331	52,099,368
Borrowings	-	-	1,899,536	2,055,106	-	-	3,954,642
Other financial Liabilities	-	-	158,714	-	-	-	158,714
	7,167,534	**-**	**12,347,808**	**2,118,957**	**-**	**34,635,331**	**56,269,630**
Interest sensitivity gap	**45,076,905**	**3,725,889**	**(10,016,321)**	**1,707,601**	**1,690,000**	**(26,281,814)**	**15,902,261**

Notes (continued)

(d) Market risk (continued)

(i) Interest rate risk Group (continued)

31-Dec-18	**Up to 1 month Sh'000**	**1 – 3 months Sh'000**	**4 – 12 months Sh'000**	**1-5 years Sh'000**	**Over 5 years Sh'000**	**Non-interest bearing Sh'000**	**Total Sh'000**
Financial assets							
Cash in hand	-	-	-	-	-	3,394,733	3,394,733
Balances with CBK	-	-	-	-	-	3,566,591	3,566,591
Balances due from banks	-	1,589,117	-	-	-	1,190,257	2,779,374
Government securities	20,039	2,083,523	884,215	5,159,601	1,690,000	-	9,837,378
Loans and advances	50,594,439	-	-	-	-	-	50,594,439
Corporate bonds	-	-	-	399,847	-	-	399,847
Other financial assets	-	-	1,385,077	-	-	296,863	1,681,940
	50,614,478	**3,672,640**	**2,269,292**	**5,559,448**	**1,690,000**	**8,448,444**	**72,254,302**
Financial liabilities							
Balances due to banks	56,906	-	-	-	-	-	56,906
Customer deposits	13,075,013	-	10,289,558	54,583	-	34,635,331	58,054,485
Borrowings	-	-	1,899,536	-	2,055,106	-	3,954,642
Other financial Liabilities	-	-	158,714	-	-	-	158,714
	13,131,919	**-**	**12,347,808**	**54,583**	**2,055,106**	**34,635,331**	**62,224,747**
Interest sensitivity gap	**37,482,559**	**3,672,640**	**(10,078,516)**	**5,504,865**	**(365,1060**	**(26,186,887)**	**10,029,555**

Notes (continued)

(d) Market risk (continued)

(i) Interest rate risk Bank (continued)

31-Dec-19	Up to 1 month Sh'000	1 – 3 months Sh'000	4 – 12 months Sh'000	1-5 years Sh'000	Over 5 years Sh'000	Non-interest bearing Sh'000	Total Sh'000
Financial assets							
Cash in hand						3,394,733	3,394,733
Balances with CBK	-	-	-	-	-	3,566,591	3,566,591
Balances due from banks	-	1,589,117	-	-	-	1,190,257	2,779,374
Government securities	1,650,000	2,136,772	946,410	3,426,711	1,690,000		9,849,893
Loans and advances	50,594,439					-	50,594,439
Corporate bonds		-	-	399,847	-	-	399,847
Other financial assets	-	-	1,385,077		-	201,936	1,587,013
	-	-		-	-		
	52,244,439	**3,725,889**	**2,331,487**	**3,826,558**	**1,690,000**	**8,353,516**	**72,171,890**
Balances due to banks	56,906	-	-	-	-	-	**56,906**
Customer deposits	7,110,628		10,289,558	63,851	-	34,635,331	**52,099,368**
Borrowings	-	-	1,899,536	2,055,106	-	-	**3,954,642**
Other financial Liabilities	-	-	86,728	-	-	-	**86,728**
	7,167,534	**-**	**12,275,822**	**2,118,957**	**-**	**34,635,331**	**56,197,644**
Interest sensitivity gap	**45,076,905**	**3,725,889**	**(9,944,335)**	**1,707,601**	**1,690,000**	**(26,281,814)**	**15,974,245**

Notes (continued)

(d) Market risk (continued)

(i) Interest rate risk Bank (continued)

31-Dec-18	**Up to 1 month Sh'000**	**1 – 3 months Sh'000**	**4 – 12 months Sh'000**	**1-5 years Sh'000**	**Over 5 years Sh'000**	**Non-interest bearing Sh'000**	**Total Sh'000**
Financial assets							
Cash in hand	-	-	-	-	-	3,494,361	3,494,361
Balances with CBK	-	-	-	-	-	2,787,339	2,787,339
Balances due from banks	-	859,843	-	-	-	362,895	1,222,738
Government securities	11,192	2,011,384	73,216	664,852	4,185,632	-	6,946,276
Loans and advances	44,113,093	-	-	-	-	-	44,113,093
Corporate bonds			-	392,772	-	-	392,772
Other financial assets	-	-	1,733,563	-	-	344,459	2,078,022
	44,124,285	**2,871,227**	**1,806,779**	**1,057,624**	**4,185,632**	**6,989,054**	**61,034,601**
Financial liabilities							
Balances due to banks	247,051	-	-	-	-	-	247,051
Customer deposits	5,227,401	-	7,532,402	45,373	-	31,395,666	44,200,841
Borrowings	-	-	2,862,082	-	2,041,126	-	4,903,207
Other financial Liabilities	-	-	307,321	-	-	-	307,321
	5,474,452	**-**	**10,701,805**	**45,373**	**2,041,126**	**31,395,666**	**49,658,422**
Interest sensitivity gap	**38,649,833**	**2,871,227**	**(8,895,026)**	**1,012,251**	**2,144,506**	**(24,406,612)**	**11,376,179**

Notes (continued)

4 Financial risk management (continued)

(d) Market risk (continued)

(ii) Currency 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 total for both overnight and intra-day positions which are monitored daily.

As at 31 December 2019	USD Sh'000	GBP Sh'000	EURO Sh'000	Total Sh'000
Financial assets				
Deposits and balances due from banking institutions	1,311,838	10,027	31,375	1,353,240
Financial liabilities				
Borrowings	-	-	(56,906)	(56,906)
Sensitivity gap	**1,311,838**	**10,027**	**(25,531)**	**1,296,334**
As at 31 December 2018				
Financial assets				
Deposits and balances due from banking institutions	270,621	156,894	98,133	525,648
Financial liabilities				
Borrowings	-	(130,371)	(116,680)	247,051
Sensitivity gap	**270,621**	**26,523**	**(18,547)**	**278,597**

Market Risks - Sensitivity Analysis

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. Stress tests provide an indication of the potential size of losses that could arise in extreme conditions.

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.

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 Group's earnings and capital.

Notes (continued)

4 Financial risk management (continued)

(d)Market risk (continued)

(iii) Interest Rate Risks – increase/decrease of 10% in net interest margin

The Interest Rate Risks sensitivity analysis is based on the following assumptions.

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

Assuming no management actions, a 10% appreciation in interest rates would increase net interest income by Sh 555,237,988 (2018 – Sh 477,267,608), while a 10% depreciation in interest rated would decrease net interest income by Sh 555,237,988 (2018 – Sh 477,267,608).

Foreign Exchange Risks – Appreciation/Depreciation of Kshs against other currencies by 10%

The Foreign Exchange Risks sensitivity analysis is based on the following assumptions:

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

Assuming no management actions, a 10% parallel appreciation in all foreign currencies would increase earnings by Sh 39,075,975 (2018 - Sh 33,745,556), while a 10% parallel appreciation in all foreign currencies would decrease net interest income by Sh 39,075,975 (2018 - Sh 33,745,556).

(e) Fair Value of financial assets and liabilities

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

-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.

Notes (continued)

4 Financial risk management (continued)

(b) Fair value of financial assets and liabilities (continued) - Group

At 31 December 2019	Level 1 Shs'000	Level 2 Shs'000	Level 3 Shs'000	Fair value Shs'000	Carrying value Shs'000
Assets					
Cash and balances with CBK	6,961,324	-	-	6,961,324	6,961,324
Balances due from banking institutions	-	-	2,779,374	2,779,374	2,779,374
Loans and advances to customers	-	-	50,594,439	50,594,439	50,594,439
Government securities at amortised cost	5,755,199	-	1,652,729	7,407,928	8,187,378
Other investment	-	-	1,385,077	1,385,077	1,385,077
Other financial assets	-	-	289,284	289,284	289,284
	12,716,523	**-**	**56,700,903**	**69,417,426**	**70,196,876**
Liabilities					
Deposits from customers	-	-	58,054,485	58,054,485	58,054,485
Borrowings	-	-	3,571,251	3,571,251	3,954,679
Other financial liabilities	-	-	1,038,981	1,038,981	1,038,981
	-	**-**	**62,664,717**	**62,664,717**	**63,048,145**

At 31 December 2018	Level 1 Shs'000	Level 2 Shs'000	Level 3 Shs'000	Fair value Shs'000	Carrying value Shs'000
Assets					
Cash and balances with CBK	6,281,701	-	-	6,281,701	6,281,701
Balances due from banking institutions	-	-	1,222,738	1,222,738	1,222,738
Loans and advances to customers	-	-	44,113,093	44,113,093	44,113,093
Government securities at amortised cost	4,013,678	-	104,113	4,117,791	6,946,277
Other investment	-	-	1,738,742	-	1,738,698
Other financial assets	-	-	344,459	344,459	344,459
	10,295,379	**-**	**47,523,145**	**56,079,782**	**60,646,966**
Liabilities					
Deposits from customers	-	-	48,558,691	48,558,691	48,483,189
Borrowings	-	-	3,571,251	3,571,251	4,903,207
Other financial liabilities			329,144	329,144	329,144
	-	**-**	**52,459,086**	**52,459,086**	**53,715,540**

The fair values of the other financial assets and liabilities held by the Group approximate the respective carrying amounts, due to the generally short periods to contractual re-pricing or maturity dates as set out in the previous maturity analysis.

Notes (continued)

4 Financial risk management (continued)

(b) Fair value of financial assets and liabilities (continued) - Bank

At 31 December 2019	**Level 1 Shs'000**	**Level 2 Shs'000**	**Level 3 Shs'000**	**Fair value Shs'000**	**Carrying value Shs'000**
Assets					
Cash and balances with CBK	6,961,324	-	-	6,961,324	6,961,324
Balances due from banking institutions	-	-	2,779,374	2,779,374	2,779,374
Loans and advances to customers	-	-	50,594,439	50,594,439	50,594,439
Government securities at amortised cost	5,755,199	-	1,652,729	1,652,729	8,187,378
Other investment	-	-	1,385,077	1,385,077	1,385,077
Other financial assets	-	-	289,284	289,284	289,284
	12,716,523	**-**	**55,315,826**	**62,277,150**	**70,196,876**
Liabilities					
Deposits from customers	-	-	58,275,571	58,275,571	58,275,571
Borrowings	-	-	3,571,251	3,571,251	3,954,679
Other financial liabilities	-	-	966,996	966,996	966,996
	-	**-**	**62,813,818**	**62,813,818**	**63,197,246**

At 31 December 2018	**Level 1 Shs'000**	**Level 2 Shs'000**	**Level 3 Shs'000**	**Fair Value Shs'000**	**Carrying value Shs'000**
Assets					
Cash and balances with CBK	6,281,701	-	-	6,281,701	6,281,701
Balances due from banking institutions	-	-	1,222,738	1,222,738	1,222,738
Loans and advances to customers	-	-	44,113,093	44,113,093	44,113,093
Government securities at amortised cost	4,013,678		104,113	4,117,791	6,946,277
Other investment	-	-	1,738,742	1,738,742	1,733,563
Other financial assets			344,459	344,459	344,459
	10,295,379	**-**	**47,523,145**	**57,818,524**	**60,641,831**
Liabilities					
Deposits from customers	-	-	48,558,691	48,558,691	48,558,691
Borrowings	-	-	3,571,251	3,571,251	4,903,207
Other financial liabilities	-	-	685,781	685,781	685,781
	-	**-**	**52,815,723**	**52,815,723**	**54,147,679**

Notes (continued)

5 Capital Management

(a) Regulatory capital

The Group's objectives when managing capital are:

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

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

a) Hold the minimum level of regulatory capital of Shs 1 billion.
b) Maintain a ratio of total regulatory capital; to risk weighted assets plus risk weighted off balance assets at above the required minimum of 10.5%;
c) Maintain a core capital of not less than 8 % of total deposit liabilities
d) Maintain total capital of not less than 14.5% of risk weighted assets plus risk weighted off balance sheet items.

The Insurance Regulatory Authority requires Family Insurance Agency to maintain a minimum level of regulatory capital of Shs 1,000,000. The agency has complied with the capital requirement.

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

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

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

- Tier 1 capital, which includes ordinary share capital, non-cumulative irredeemable non-convertible preference shares, disclosed reserves such as share premiums, retained earnings, and 50% un-audited after tax profit less investment in subsidiaries conducting banking business, investments in equity of other institutions, intangible assets (excluding computer software) and goodwill.

- Tier 2 capital, which includes 25% revaluation surplus which have received prior CBK approval, subordinated debt, hybrid capital instruments or any other capital instruments approved by CBK

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

Total	**2,088,406**	**2,066,956**
Total regulatory capital	**14,218,185**	**13,300,780**
Risk-weighted assets	**70,978,185**	**65,186,401**
Capital ratios		
Total regulatory capital expressed as a percentage of total risk-weighted assets (CBK minimum 14.5 %)	18.69%	20.33%
Total tier 1 capital expressed as a percentage of risk-weighted assets (CBK minimum 10.5%)	15.84%	17.23%

Notes (continued)

5 Capital management (continued)

The Bank's regulatory capital position at 31 December 2019 was as follows:

	2019 Sh'000	2018 Sh'000
Tier 1 capital		
Share capital	1,287,108	1,287,108
Share premium	5,874,662	5,874,661
Retained earnings	4,968,009	4,072,054
Total Tier 1 capital	**12,129,779**	**11,233,823**
Tier 2 capital		
Revaluation reserves (25%)	69,606	48,156
Term subordinated debt	2,018,800	2,018,800
General loan loss provision (statutory reserve)		
Total Tier 2 capital	**2,088,406**	**2,066,956**
Total regulatory capital	**14,218,185**	**13,300,779**
Risk-weighted assets	**70,978,185**	**66,909,838**
Capital ratios		
Total regulatory capital expressed as a percentage of total risk-weighted assets (CBK minimum 14.5%)	18.69%	19.88%
Total tier 1 capital expressed as a percentage of risk-weighted assets (CBK minimum 10.5%)	15.84%	16.79%

	Group		Bank	
	2019 Sh'000	2018 Sh'000	2019 Sh'000	2018 Sh'000
6 Interest income				
Interest on loans and advances	6,630,106	6,101,256	6,630,106	6,101,256
Interest on bank placements	180,012	84,848	180,012	84,848
Interest on amortised cost assets:				
- government securities	817,790	772,110	817,790	772,110
- corporate bonds and commercial paper	52,334	98,376	52,334	98,376
	7,680,242	**7,056,590**	**7,680,242**	**7,056,590**
7 Interest expense				
Interest on customer deposits	1,640,403	1,508,297	1,651,326	1,514,102
Interest on balances due to banks	11,840	26,058	11,840	26,058
Interest on borrowings	475,619	749,559	475,619	749,559
	2,127,862	**2,283,914**	**2,138,785**	**2,289,719**

Notes (continued)

8 Fees, commission and other income	Group 2019 Sh'000	Group 2018 Sh'000	Bank 2019 Sh'000	Bank 2018 Sh'000
(a) Fee and commission income				
Transaction related fees	1,740,962	1,705,062	1,740,962	1,705,062
Salary advances related fees	130,224	125,800	130,224	125,800
Ledger related fees and commissions	196,331	207,352	196,331	207,352
	2,067,517	**2,038,214**	**2,067,517**	**2,038,213**
(b) Other income				
Brokerage commissions	115,273	64,282		
Other incomes	228,032	59,021	228,032	59,021
	343,305	**123,303**	**228,032**	**59,021**

9 Operating expenses

	Group 2019 Sh'000	Group 2018 Sh'000	Bank 2019 Sh'000	Bank 2018 Sh'000
Staff costs (Note 10)	2,029,861	1,860,030	1,989,360	1,814,095
Directors' emoluments - Fees	90,490	66,490	85,000	63,670
- Other	10,416	7,545	10,416	7,545
Depreciation – property and equipment (note 22)	544,241	636,986	542,223	634,705
Amortisation of intangible assets (note 23)	119,295	126,825	116,196	124,896
Contribution to Deposit Protection Fund	73,363	70,990	73,363	70,990
Auditors' remuneration	17,743	14,819	17,162	14,173
Amortisation of prepaid operating lease	4,665	4,850	4,665	4,850
Marketing expenses	112,376	116,638	112,182	116,623
Occupancy expenses	1,167,506	1,036,120	1,166,757	1,035,293
Other operating expenses	1,478,268	1,691,150	1,475,296	1,690,569
	5,648,224	**5,632,443**	**5,592,620**	**5,577,409**

10 Staff costs

Salaries and wages	1,731,402	1,571,489	1,696,575	1,531,295
Training, recruitment and staff welfare costs	54,790	57,523	54,790	57,764
Contributions to defined contribution pension scheme	104,093	101,972	102,796	100,365
Medical expenses	128,744	134,237	124,805	130,199
Leave pay provision movement	7,747	(8,179)	7,400	(8,422)
NSSF contributions	3,085	2,988	2,994	2,894
	2,029,861	**1,860,030**	**1,989,360**	**1,814,095**

Notes (continued)

11 income tax

	Group 2019 Sh'000	Group 2018 Sh'000	Bank 2019 Sh'000	Bank 2018 Sh'000
Taxation				
a) Taxation charge				
Current tax based on the taxable profit at 30% (2018: 30%)	725,903	214,022	712,576	209,259
Deferred tax credit (note 29)	(255,408)	(23,840)	(256,295)	(24,225)
Under provision of current tax in prior years	132,214	534	129,717	895
Overprovision of deferred tax in prior years	(129,716)	-	(129,716)	(895)
Total charge	472,993	190,716	456,282	185,034
b) Reconciliation of accounting profit to tax charge				
Profit /(loss) before taxation	1,422,829	434,932	1,352,237	419,880
Tax calculated at a tax rate of 30% (2018: 30%)	426,849	130,480	405,671	125,964
Tax effect of expenses not deductible for tax purposes	(53,356)	(37,211)	(45,000)	(36,674)
Tax effect of income not taxable	97,002	96,913	95,610	95,744
Under provision of current tax in prior years	132,214	534	129,717	895
Overprovision of deferred tax in prior years	(129,716)	-	(129,716)	(895)
	472,993	190,716	456,282	185,034

12 Earnings per share – Group & Bank

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

	Group 2019	Group 2018	Bank 2019	Bank 2018
Total comprehensive income (Sh'000)	1,035,636	244,216	981,756	234,846
Weighted average number of shares during the year (000)	1,287,108	1,287,108	1,287,108	1,287,108
Earnings per share: Basic and diluted (Sh)	0.80	0.20	0.76	0.19

There were no potential dilutive shares outstanding at 31 December 2019.

13 Cash and cash balances with Central Bank of Kenya

	2019 Sh'000	2018 Sh'000
Cash in hand	3,566,591	3,494,361
Balances with Central Bank of Kenya - cash ratio & other balances	3,394,733	2,787,340
	6,961,324	6,281,701

Notes (continued)

13 Cash and cash balances with Central Bank of Kenya (continued)

The cash ratio reserve is based on the value of customer deposits as adjusted by the Central Bank of Kenya requirements. As at 31 December 2019, the cash ratio reserve requirement was 5.25% (2018 – 5.25%) of all customer deposits held by the Bank. These funds are not available to finance the Bank's day to day operations.

14 Balances due from banking institutions

	2019	2018
	Sh'000	Sh'000
a) Balances due from banking institutions maturing within 90 days:		
Overnight lending and placement with other banks	1,589,117	863,059
Balances due from local banking institutions	1,319	1,319
Balances due from foreign banking institutions	1,188,938	358,360
	2,779,374	**1,222,738**
b) Balances due to banking institutions maturing within 90 days:		
Balances with local banking institutions	56,906	247,051

Deposits with/from local banks as at 31 December 2019 represent overnight lending.

The effective interest rate on deposits due from local banking institutions at 31 December 2019 was 8.5% (2018 –4.55 %).

The effective interest rate on deposits due to local banking institutions at 31 December 2019 was 4.62% (2018 –2.77 %).

15 Government securities

	Group		Bank	
	2019	2018	2019	2018
	Sh'000	Sh'000	Sh'000	Sh'000
Treasury bonds – at amortised cost	6,222,919	4,988,617	6,222,919	4,988,617
Treasury bills at amortised cost	1,964,459	1,957,660	1,964,459	1,957,660
Treasury bonds at fair value through profit and loss	1,662,515	-	1,662,515	-
	9,849,893	**6,946,277**	**9,849,893**	**6,946,277**
The maturity profile of government securities is as follows:				
Maturing within one year	1,964,459	2,061,773	1,964,459	2,061,773
Maturing between 2 to 5 years	-	-	-	-
Maturing after 5 years	7,885,434	4,884,504	7,885,434	4,884,504
	9,849,893	**6,946,277**	**9,849,893**	**6,946,277**

The weighted average effective interest rate on treasury bonds at 31 December 2019 was 9.89 %, (2018 -9.257 %). The weighted average effective interest rate on treasury bills was 9.49% (2018-10.43 %).

As of 31 December 2019, no treasury bonds were pledged as collateral under repurchase agreements with the Central Bank of Kenya, (2018: Nil)

Notes (continued)

16 Loans and advances to customers- Group & Bank

(a) Net carrying value of loans

	Group and Bank 2019 Sh'000	2018 Sh'000
Term Loans	51,571,160	44,211,340
Overdrafts	2,099,426	2,370,287
Credit Cards	44,942	33,855
Total	53,715,528	46,615,482
Impairment for expected credit losses	(3,121,089)	(2,502,389)
Net loans and advances at amortised cost	**50,594,439**	**44,113,093**

b) Analysis of gross loans and advances by maturity

Maturing:		
Within one year	11,687,631	10,971,565
One year to three years	13,577,784	12,564,052
Over three years	28,450,124	23,079,865
	53,715,539	**46,615,482**

	Group and Bank 2019 Shs 000	2018 Shs 000
Credit impairment charges		
Stage 1	(3,878)	(115,776)
Stage 2	177,416	40,543
Stage 3	374,702	2,529,184
Write back / recoveries	(1,831,149)	(1,249,678)
	(1,282,909)	**(1,204,273)**

Significant changes in the gross carrying amounts of loans and advances to customers that contributed to movements in loss allowances were new loans advanced in the year, as well as write off of impaired loans.

The table below shows the movement in gross loans and advances between the various credit quality stages in the year.

Notes (continued)

16 Loans and advances to customers- Group & Bank (continued)

b) Analysis of gross loans and advances by maturity

The table below shows the movement in gross loans and advances between the various credit quality stages in the year.

	12-month ECL SHS 000	Lifetime ECL SHS 000	Lifetime ECL SHS 000	Total SHS 000
Loans and advances to customers at amortised cost				
Gross carrying amount as at 01 January 2019	37,519,798	1,960,361	7,135,323	46,615,482
Changes in the gross carrying amount				
Transfer to stage 1	733,004	(421,893)	(311,111)	-
Transfer to stage 2	(1,982,918)	2,378,686	(395,768)	-
Transfer to stage 3	(1,218,654)	(424,712)	1,643,366	-
Net new financial assets originated or purchased	24,813,308	1,418,678	426,467	26,658,453
Financial assets that have been derecognized	(12,000,137)	(795,309)	(663,100)	(13,458,546)
Write-offs	-	-	(205,029)	(205,029)
Foreign exchange and other changes	(4,887,505)	(504,388)	(502,928)	(5,894,821)
Gross carrying amount as at 31 December 2019	**42,976,896**	**3,611,423**	**7,127,220**	**53,715,539**

c) Impairment of financial assets

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 recritical 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;
- 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.

Notes (continued)

16 Loans and advances to customers- Group & Bank (continued)

The following tables provide details of the changes in the loss allowance in the year due to these factors: 2019

Group and Bank	**Stage 1**	**Stage 2**	**Stage 3**	
Loss allowance on Loans and advances to customers at amortised cost	**12-month ECL**	**Lifetime ECL**	**Lifetime ECL**	**Total**
	Sh'000	**Sh'000**	**Sh'000**	**Sh'000**
At start of year	418,311	181,371	1,902,708	**2,502,390**
Changes in the loss allowance				
Transfer to stage 1	125,047	(55,635)	(69,412)	-
Transfer to stage 2	(6,311)	156,756	(150,445)	-
Transfer to stage 3	(13,388)	(57,236)	70,624	-
New financial assets originated or purchased	319,606	182,222	212,194	714,022
Financial assets that have been derecognised	(127,307)	(38,252)	(146,923)	(312,483)
Changes in models/risk parameters	(90,821)	77,331	314,236	300,747
Foreign exchange and other movements	(104,992)	(43,885)	149,233	356
Total charge	520,145	402,672	2,282,215	3,205,031
Write-offs			(83,943)	(83,943)
At 31 December 2019	**520,145**	**402,672**	**2,198,272**	**3,121,089**

The following tables provide details of the changes in the loss allowance in the year due to these factors: 2018

Group and Bank	**Stage 1**	**Stage 2**	**Stage 3**	
Loss allowance on Loans and advances to customers at amortised cost	**12-month ECL**	**Lifetime ECL**	**Lifetime ECL**	**Total**
	Shs 000	**Shs 000**	**Shs 000**	**Shs 000**
At start of year	44,402	54,306	2,358,817	2,457,525
Impact of initial application of IFRS 9	489,740	87,722	-	577,462
	534,142	142,028	2,358,817	3,034,987
Changes in the loss allowance				
Transfer to stage 1	139,452	(54,095)	(85,357)	-
Transfer to stage 2	(10,805)	52,999	(42,194)	-
Transfer to stage 3	(319,189)	(452,300)	771,489	-
New financial assets originated or purchased	100,075	431,045	327,058	858,178
Changes in models/risk parameters	(15,851)	9,499	148,504	142,152
Foreign exchange and other movements	(9,458)	53,396	160,005	203,943
Total charge	(115,776)	40,543	1,279,505	1,204,272
Write-offs	(55)	(1,201)	(1,735,614)	(1,736,870)
At 31 December 2018	**418,311**	**181,371**	**1,902,708**	**2,502,390**

Notes (continued)

16 Loans and advances to customers- Group & Bank (continued)

The weighted average effective interest rate on advances to customers at 31 December 2019 was 12.19% (2018 – 12.19 %). Included in gross advances of Sh 53,715,528,000 (2018: Sh 46,521,203,000) are loans and advances amounting to Sh 7,127,221,000 (2018: Sh 7,135,321,000) which have been classified as non-performing (impaired).

The related party transactions and balances are covered under Note 35 and concentration of advances to customers is covered under Note 4.

17 Corporate bonds at amortised: Group & Bank

	2019 Sh'000	2018 Sh'000
At amortised cost:		
Centum Limited	407,364	407,364
ECL on amortised cost bonds	(7,517)	(14,592)
	399,847	**392,772**
The maturity profile of corporate bonds is as follows:		
Within 1 year	-	-
Maturing 1 to 5 years	399,847	392,772
Maturing after 5 years	-	-
	399,847	**392,772**

The weighted average effective interest rate on corporate bonds as at 31 December 2019 was 13% (2018 – 13.00 %). The Britam Holdings corporate bond was redeemed during the year.

18 Other assets

	Group		Bank	
	2019 Sh'000	2018 Sh'000	2019 Sh'000	2018 Sh'000
Un-cleared items in the course of collection	174,016	221,613	174,016	221,613
Prepayments	149,624	152,771	149,624	152,771
Deposits for services	115,267	117,932	115,267	117,932
Discount on subordinated bond	27,920	122,846	27,920	122,846
Others	896,096	992,676	875,665	952,508
	1,362,923	**1,607,838**	**1,342,492**	**1,567,670**

All other assets are current.

19 Other investments -Alpha Africa investments Limited

	Bank and Group	
	2019 Sh'000	2018 Sh'000
Principal balance	1,559,288	1,907,773
Accrued interest	4,789	4,789
Provision for expected loss	(179,000)	(181,864)
	1,385,077	**1,730,698**

Notes (continued)

20 Investment in subsidiary

	No of shares	Holding	2018 Sh'000	2019 Sh'000
Family Insurance Agency Limited	1,000	100%	1,000	1,000

The subsidiary is a wholly owned Limited Liability Company incorporated and domiciled in Kenya. The company was previous named Dhamana Insurance Agency Limited and was incorporated on 22 May 2015. The company received its licence to operate Insurance Agency/brokerage business on 30 December 2010 and started trading in 2010. Subsequently, the subsidiary acquired Family Insurance Brokers Limited on 31 July 2015 and changed its name to Family Insurance Agency Limited.

The principal activity of the company is that of an insurance agency business.

Investment in subsidiary is non-current.

21 Investment properties - Group & Bank

For the year ended 31 December 2019

	2019 Sh '000	2018 Sh '000
At start and end of year	18,200	18,200
Fair value gains	5,200	-
At end of year	**23,400**	**18,200**

Investment property relates to Leasehold land valued at Shs 23,400,000 (acquired at a cost Shs 3,170,000) as part of the Group's expansion plans for national customer promotion raffle in 2015. Part of the land at value of Shs 7,200,000 was given out in the "Kunacha Mili na Acre," promotion to the various winners

Amounts recognised in statement of profit or loss:

Fair value gains	5,200	-

The fair valuation basis takes into account the normal lease structure for similar pieces of land.

The table below analyses the non-financial assets carried at fair value, by valuation method. The different levels have been 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 immediately (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 Kshs. '000	Level 2 Kshs '000	Level 3 Kshs. '000	Total Kshs. '000
At 31 December 2019				
Investment properties	-	-	23,400	23,400
At 31 December 2018				
Investment properties	-	-	18,200	18,200

Valuation technique used to derive level 3 fair values

Level 3 fair value of land has been derived using the sales comparison approach. Sales prices of comparable land in close proximity are adjusted for differences in key attributes such as property size and location.

Notes (continued)

22 Property and Equipment- Group

Cost/ Valuation	Freehold Land Sh'000	Buildings Sh'000	Leasehold improvements Sh'000	Computer Sh'000	Motor vehicles Sh'000	Fixtures, fittings and equipment Sh'000	Total Sh'000
Year ended 31 December 2018							
At 1 January 2018	569,001	443,948	2,990,212	2,144,228	116,820	1,364,310	7,628,519
Additions	-	-	13,351	10,721	-	4,340	28,412
Disposals	-	-	(266,043)	-	-	-	(266,043)
At 31 December 2018	569,001	443,948	2,737,520	2,154,949	116,820	1,368,650	7,390,888
Depreciation							
At 1 January 2018	-	54323	1,604,970	1,632,453	74,398	639,787	4,005,931
Charge for the year	-	11,099	268,479	205,214	18,910	133,284	636,986
Disposal	-	-	-93,802		-	-	-93,802
At 31 December 2018	-	65,422	1,779,647	1,837,667	93,308	773,071	4,549,115
Net Book Value							
At 31 December 2018	569,001	378,526	957,873	317,282	23,512	595,579	2,841,773
Year ended 31 December 2019							
At 1 January 2019	569,001	443,948	2,737,520	2,154,949	116,820	1,368,650	7,390,888
Additions	-	-	47,282	26,819	-	24,791	98,892
Gain on revaluation	20,999	16,052	-	-	-	-	37,051
At 31 December 2019	590,000	460,000	2,784,802	2,181,768	116,820	1,393,441	7,526,831
Depreciation							
At 1 January 2019	-	65,422	1,779,647	1,837,667	93,308	773,071	4,549,115
Charge for the year	-	11,099	234,388	155,182	16,051	127,521	544,241
Gain on revaluation	-	(76,521)	-	-	-	-	(76,521)
At 31 December 2019	-	-	2,014,035	1,992,849	109,359	900,592	5,016,835
Net book value							
At 31 December 2019	590,000	460,000	770,767	188,919	7,461	492,849	2,509,996

Notes (continued)

22 Property and Equipment- Bank

Cost/ Valuation	Freehold land Sh'000	Buildings Sh'000	Leasehold improvements Sh'000	Computer Sh'000	Motor vehicles Sh'000	Fixtures, fittings and Equipment Sh'000	Total Sh'000
Year ended 31 December 2018							
At 1 January 2018	569,001	443,948	2,986,327	2,139,295	117,024	1,359,092	7,614,687
Additions	-	-	13,351	10,723	-	4,340	28,414
Disposal	-	-	-265,897	-	-	-	-265,897
At 31 December 2018	569,001	443,948	2,733,781	2,150,018	117,024	1,363,432	7,377,204
Comprising:							
At cost	499,913	32,288	2,733,781	2,150,018	117,024	1,363,432	6,896,456
At valuation	69,088	411,660	-	-	-	-	480,748
At 31 December 2018	569,001	443,948	2,733,781	2,150,018	117,024	1,363,432	7,377,204
Depreciation							
At 1 January 2018	-	54,323	1,604,605	1,629,719	71,489	638,751	3,998,887
Charge for the year	-	11,099	267,992	204,350	18,108	133,156	634,705
Disposal	-	-	(93,720)	-	-	-	(93,720)
At 31 December 2018	-	65,422	1,778,877	1,834,069	89,597	771,907	4,539,872
Net book value							
At 31 December 2018	569,001	378,526	954,904	315,949	27,427	591,525	2,837,332
Year ended 31 December 2019							
At 1 January 2019	569,001	443,948	2,733,781	2,150,018	117,024	1,363,432	7,377,204
Additions	-	-	47,282	26,819	-	24,791	98,892
Gain on revaluation	20,999	16,052	-	-	-	-	37,051
At 31 December 2019	590,000	460,000	2,781,063	2,176,837	117,024	1,388,223	7,513,147
Comprising:							
At cost	499,913	32,288	2,781,063	2,176,837	117,024	1,388,223	6,995,348
At valuation	90,087	427,712	-	-		-	517,799
At 31 December 2019	590,000	460,000	2,781,063	2,176,837	117,024	1,388,223	7,513,147
Depreciation							
At 1 January 2019	-	65,422	1,778,877	1,834,069	89,597	771,907	4,539,872
Charge for the year	-	11,099	234,388	154,580	15,248	126,908	542,223
Gain in revaluation	-	(76,521)	-	-	-	-	(76,521)
At 31 December 2019	-	-	2,013,265	1,988,649	104,845	898,815	5,005,574
Net book value							
At 31 December 2019	590,000	460,000	767,798	188,188	12,179	489,408	2,507,573

The land and buildings were re-valued as at 31 December 2019 by Amazon Valuers Limited, Registered Valuers who are independent of the Group. Valuations for the properties were made on the basis of the open market value.

In accordance with IFRS 13, the fair value ranking of the freehold land and buildings is at Level 3 as the fair value measurement is derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly as prices or indirectly as derived from prices.

Notes (continued)

23 Intangible assets – Computer software

	Group		Bank	
	2019 Sh'000	2018 Sh'000	2019 Sh'000	2018 Sh'000
Cost				
At 1 January	1,281,669	1,244,032	1,254,014	1,235,313
Additions	39,291	19,678	39,291	19,679
WIP	185,148	233,952	185,148	215,015
At 31 December	1,506,108	1,497,662	1,478,453	1,470,007
Amortisation				
At 1 January	899,970	773,145	894,684	769,787
Charge for the year	119,295	126,825	116,196	124,897
At 31 December	1,019,265	899,970	1,010,880	894,684
Net book value				
At 31 December	486,843	597,692	467,573	575,323

24 Prepaid Operating Lease Rentals

	2019 Sh'000	2018 Sh'000
Leasehold land:		
Cost		
At 1 January and 31 December	180,335	180,335
Amortisation		
At 1 January	36,450	31,599
Charge for the year	4,665	4,851
At 31 December	41,115	36,450
Net book value		
At 31 December	139,220	143,885

25 Customer deposits

	Group		Bank	
	2019 Sh'000	2018 Sh'000	2019 Sh'000	2018 Sh'000
Customer deposits				
Current and demand accounts	34,635,331	31,393,508	34,652,969	31,395,562
Savings accounts	3,538,458	3,127,000	3,538,459	3,127,000
Fixed deposit accounts	19,880,696	13,962,681	20,084,143	14,036,129
	58,054,485	48,483,189	58,275,571	48,558,691

Notes (continued)

25 Customer deposits (continued)

Maturity analysis of customer deposits	Group 2018 Sh'000	2019 Sh'000	Bank 2019 Sh'000	2018 Sh'000
Repayable:				
On demand	34,635,331	31,393,508	34,652,969	31,395,562
Within one year	23,363,628	17,050,894	23,567,076	17,124,238
1-5 years	55,526	38,787	55,526	38,891
	58,054,485	48,483,189	58,275,571	48,558,691

The Weighted average effective interest rate on interest bearing customer deposits at 31 December 2019 was 8.49% (2018 – 8.49 % The related party transactions and balances are covered under note 35 and concentration of customers' deposits is covered under note 4.

26 Borrowings – Group & Bank

	2019 Sh'000	2018 Sh'000
a) Analysis		
European Investment Bank (EIB)	1,550,171	2,340,088
OIKO Credit	338,538	507,978
Waste Finish Ink	10,864	10,864
Water Credit Alternative Channels	-	3,152
	1,899,573	2,862,082
Subordinated Bond	2,071,394	2,070,653
Unamortised origination fees	(16,288)	(29,528)
	3,954,679	4,903,207
b) Movement:		
At beginning of the year	4,903,207	8,362,528
Received in the year	-	2,211
Accrued interest	124,051	162,227
Repaid in the year	(1,072,579)	(3,623,759)
At end of the year	3,954,679	4,903,207

EIB loan is a long term, unsecured floating rate and fixed rate facility which is denominated in EURO, USD and Shs. The EURO and USD loans are repayable within 5 years while the Shs loans are repayable within 7 years. The interest rate charged for a non-Shs tranche is based on margin of 1.85%. The loan is a long-term facility payable in 6.5 years. The interest rate charged is 9.78% p.a. The loan repayments are due on the 10 of July and 10 of January of every year. The repayments of the principal commenced 10 July 2016.

For the Shs Tranche a margin per annum fixed for the life of the relevant tranche, equal to 1.85% plus a currency risk premium determined in accordance with the following table is charged.

Notes (continued)

26 Borrowings – Group & Bank (continued)

Tenor of the Tranche (years)	Currency risk premium p.a
4 years	5.50%
5 years	6.00%
6 years	6.50%
7 years	7.00%

The Oiko loan is credit from OIKO Credit to make investment capital credit available on appropriate terms to projects promoting the self-reliance of the poor.

The interest charged is 10 % (2018: 10.10%) on a reducing balance basis as is will be repaid in 6 annual instalments of Shs 166,666,667.

Waste Finish Ink Loan is a fund delegated to Family Bank Limited by Finish Ink for the funding of various sanitation projects in Kenya. Family Bank Limited does not pay any interest on these funds. Expenses incurred in respect to this fund are offset off the fund amount.

The Water Credit Alternative Channels loan is a fund delegated to Family Bank Limited by Water.org for the funding of various sanitation projects in Kenya. Family Bank Limited does not pay any interest on these funds. Expenses incurred in respect to this fund are offset off the fund amount.

In 2015, Family Bank issued a multicurrency medium term note and listed it on the Nairobi Securities Exchange, Fixed Income Segment on 26 October 2015. The par value accepted by the Bank from investors was Shs 2 billion while the amount received was Shs 1.895 billion. The fixed rate portion was issued at a discount of Shs 122 million. The term of the bond is 5.5 years. The interest rates for the three categories available to the investors were; -

- Fixed rate bond 13.75%
- Mixed rate bond 14%
- Floating rate bond. Referenced 182-day Treasury bill rate subject to a floor of 12.5% and a cap of 17.5%

The effective interest rates for the various loans are as follows:

	2019	2018
	%	%
EIB	9	9
OIKO Credit	10.4	10.4
Corporate Bond	15	15

The Bank remains compliant to the agreed conditional waivers granted by EIB after the difficult macro-economic environment experienced in 2017.

Notes (continued)

27 Provisions and Other Liabilities

	Group 2019 Sh'000	Group 2018 Sh'000	Bank 2019 Sh'000	Bank 2018 Sh'000
(a) Provisions and accruals				
Provisions and accruals	383,118	315,527	383,118	315,527
Leave pay accrual	41,488	34,088	41,488	34,088
	424,606	349,615	424,606	349,615
(b) Other liabilities				
Cheques for collection	85,650	111,294	85,650	111,294
Advance loan processioning fee	786,656	427,017	786,656	427,017
Accounts payable	72,362	100,076	72,362	100,076
Revenue collected on behalf of revenue authorities	284,797	95,921	284,797	95,951
Other payables	650,221	712,369	578,232	690,488
	1,879,686	1,446,677	1,807,698	1,424,826

Other liabilities are current.

28 Dividends

Proposed dividends

The directors do not recommend payment of dividends for the year ended 31 December 2019 (2018: Nil).

29 Deferred income tax

Deferred income tax is calculated using the enacted income tax rate of 30% (2018 - 30%). The movements in the deferred income tax account were as follows:

Group	2019 Sh'000	2018 Sh'000
At start of year	535	324,880
Impact on adoption of IFRS 9	-	178,583
Profit or loss credit	102,831	503,996
Charge to other comprehensive income	27,772	-
Overprovision in prior year	(129,716)	-
At end of year	**1,421**	**535**

Bank	2019 Sh'000	2018 Sh'000
At start of year	527,303	324,880
Impact on adoption of IFRS 9	-	178,583
Credit to profit or loss	256,295	23,840
Charge to other comprehensive income	(27,772)	-
Overprovision in prior year	129,716	-
At end of year	**885,542**	**527,303**

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

Notes (continued)

29 Deferred income tax (continued)

2019 Group	At start of year Sh'000	Over-provision in prior year Sh'000	Adjusted opening balance Sh'000	Credited / (debited) to profit or loss Sh'000	Credited to OCI Sh'000	At end of year Sh'000
Provisions	273,161	129,716	402,877	340,375	-	743,252
Other temporary differences	163,124	-	163,124	129,275	-	292,399
Revaluation surplus	91,018	-	91,018	(214,242)	(27,772)	(150,996)
	527,303	**129,716**	**657,019**	**255,408**	**(27,772)**	**884,655**
Bank						
Provisions	273,084	129,716	402,800	340,271	-	743,071
Other temporary differences	163,736	-	163,736	130,266	-	294,002
Revaluation surplus	90,483	-	90,483	(214,241)	(27,772)	(151,530)
	527,303	**129,716**	**657,019**	**256,295**	**(27,772)**	**885,542**

30 Share Capital and reserves

(a)Share capital

	2019 Sh'000	2018 Sh'000
Authorised:		
1,500,000,000 ordinary shares of Sh 1 each	1,500,000	1,500,000
1,287,107,542 ordinary shares of Sh 1 each	1,287,108	1,287,108

Movement in issued and fully paid shares

	Number of shares	Share capital Sh '000	Share premium Sh '000	Total Sh'000
At 1 January 2018	1,287,107,542	1,287,108	5,874,662	7,161,770
At 31 December 2018	1,287,107,542	1,287,108	5,874,662	7,161,770
At 1 January 2019	1,287,107,542	1,287,108	5,874,662	7,161,770
At 31 December 2019	1,287,107,542	1,287,108	5,874,662	7,161,770

There was no change in the share capital for the year ended 31 December 2019

Notes (continued)

30 Share Capital and reserves (continued)

(b) Nature and purposes of reserves

30.1 Revaluation surplus

This represents solely the revaluation of building and freehold land net of deferred income tax and is non-distributable.

30.2 Statutory reserve

The reserve represents an appropriation from retained earnings to comply with the Prudential guidelines of the Central Bank of Kenya on loan loss provisions. The balance represents excess of impairment provisions determined in accordance with the Prudential guidelines over the impairment provisions recognised in accordance with the International Financial Reporting Standards. The reserve is non- distributable.

30.3 Fair value reserve

The fair value reserve comprises of the cumulative net change in the fair value of available for sale financial assets until the investment is derecognised or impaired. The reserve is non-distributable.

31 Notes to the statement of cash flows

(a) Reconciliation of profit before taxation to cash flow from operations

	Group		Bank	
	2019	**2018**	**2019**	**2018**
	Sh '000	**Sh '000**	**Sh '000**	**Sh '000**
Profit /(loss) before taxation	1,422,829	434,932	1,352,237	419,880
Adjustments for:				
Depreciation of property and equipment (note 22)	544,241	636,986	542,223	634,705
Amortisation of intangible assets (note 23)	119,295	126,825	116,196	124,896
Amortisation of leasehold land (note 24)	4,665	4,850	4,665	4,850
Gain on trading of securities	(136,103)	-	(136,103)	-
Interest expense on borrowings (note 26)	124,051	162,227	124,051	162,227
Finance charge on leases	167,457	-	167,457	-
Depreciation on right of use asset	518,780	-	518,780	-
Changes in working capital items:				
Cash ratio balance	(779,252)	(628,063)	(779,252)	(628,063)
Loans and advances to customers	(6,481,346)	(641,239)	(6,481,346)	(641,239)
Other assets	596,454	(378,229)	568,361	(355,038)
Customer deposits	9,571,296	1,121,059	9,716,880	1,133,583
Provisions and Other liabilities	508,000	340,989	457,863	321,138
Government securities – amortised cost	(1,241,101)	746,127	(1,241,101)	746,127
Government securities – FVPL	(1,662,515)	-	(1,662,515)	-
Corporate bonds	(7,075)	449,907	(7,075)	449,907
Cash generated from operations	3,269,676	2,376,371	3,261,321	2,372,973

Notes (continued)

31 Notes to the statement of cash flows (continued)

b) Analysis of the balances of cash and cash equivalents as shown in the statement of financial position and notes

	Group		Bank	
	2019	2018	2019	2018
	Sh '000	Sh '000	Sh '000	Sh '000
Balances with Central Bank of Kenya - Cash	3,394,733	3,494,361	3,394,733	3,494,361
Balances with other banking institutions	2,779,374	1,222,738	2,779,374	1,222,738
Balances due to other banking institutions	(56,906)	(247,051)	(56,906)	(247,051)
	6,117,201	4,470,048	6,117,201	4,470,048

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

32 Operating segments

For management purposes, the Bank is organised into two main operating segments based on products and services as follows:

i) Retail Banking: Includes loans deposits and other transactions and balances with retail customers;

ii) Wholesale Banking: Includes loans deposits and other transactions and balances with corporate and institutional customers.

Management monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on operating profit or loss. Income taxes are managed on a Group basis and are not allocated to operating segments.

The Group's segment operations are all financial with a majority of revenues deriving from interest. The management relies primarily on net interest revenue to assess the performance of the segment. Interest income is reported net as management primarily relies on net interest revenue as a performance measure, not gross income and expenses. No revenue from transactions with a single external customer or counterparty amounted to 10% or more of the Bank's total revenue in 2019 or 2018.

The following table presents income and profit and certain asset and liability information regarding the Group's operating segments,

Notes (continued)

32 Operating segments (continued)

Profit or loss for the year ended 31 December 2019

	Wholesale banking Sh'000	Retail banking Sh'000	Unallocated Sh'000	Total Sh'000
Interest income	3,072,097	4,608,145	-	7,680,242
Interest expense	(851,145)	(1,276,717)	-	(2,127,862)
Net interest income	2,220,952	3,331,428	-	5,552,380
Other income	1,074,524	1,611,786	115,272	2,801,582
Operating income	**3,295,476**	**4,943,214**	**115,272**	**8,353,962**
Depreciation and amortisation	(217,567)	(326,350)	(4,989)	(548,906)
Operating expenses	(2,019,485)	(3,029,216)	(50,614)	(5,099,317)
Impairment charge on loans and advances	(513,164)	(769,745)	-	(1,282,909)
Share of profit subsidiary	-	-	70,592	70,592
Profit before tax	**545,240**	**817,920**	**59,669**	**1,422,829**
Tax expense	(182,511)	(273,770)	(16,713)	(472,993)
Other income OCI	34,320	51,480	-	85,800
Profit after tax	**397,070**	**595,610**	**42,956**	**1,035,636**

Profit or loss for the year ended 31 December 2018

	Wholesale banking Sh'000	Retail banking Sh'000	Unallocated Sh'000	Total Sh'000
Interest income	2,822,636	4,233,954	-	7,056,590
Interest expense	(913,581)	(1,370,333)	-	(2,283,914)
Net interest income	1,909,055	2,863,583	-	4,772,676
Other income	973,876	1,460,815	64,281	2,498,972
Operating income	2,882,931	4,324,398	64,281	7,271,648
Depreciation and amortisation	(303,840)	(455,761)	(4,109)	(763,710)
Operating expenses	(1,884,414)	(2,947,771)	(50,962)	(4,883,147)
Impairment charge on loans and advances	(481,709)	(722,564)	-	(1,204,273)
Share of profit subsidiary	-	-	14,414	14,414
Profit before tax	212,968	198,302	23,664	434,932
Tax expense	(74,014)	(111,020)	(5,682)	(190,716)
Loss after tax	138,954	87,282	17,942	244,216

Notes (continued)

32 Operating segments (continued)

Statement of financial position as at 31 December 2019

	Wholesale banking Sh' 000	Retail banking Sh' 000	Unallocated Sh' 000	Total Sh' 000
Assets	31,454,016	47,181,026	-	78,635,043
Segment assets	-	-	282,630	282,630
Un-allocated assets	-	-	-	-
Total assets	**31,454,016**	**47,181,026**	**282,630**	**78,917,672**
Liabilities and equity:	31,623,815	47,435,727	-	79,059,542
Segment liabilities	-	-		(141,870)
Un-allocated liabilities			(141,870)	
Inter-segment lending	(83,289)	(124,934)	208,222	
Total liabilities and equity	**31,540,526**	**47,310,794**	**66,353**	**78,917,672**
Other disclosures	-	-	-	-
Capital expenditure	**54,783**	**82,174**	-	**136,957**

Statement of financial position as at 31 December 2018

	Wholesale banking Sh' 000	Retail banking Sh' 000	Unallocated Sh' 000	Total Sh' 000
Assets				
Segment assets	26,712,067	40,121,273	-	66,833,340
Un-allocated assets	-	-	177,725	177,725
Total assets	26,712,067	40,121,273	177,725	67,011,065
Liabilities and equity:				
Segment liabilities	40,181,493	26,882,136	-	67,063,629
Un-allocated liabilities	-	-	(52,564)	(52,564)
Inter-segment lending	(61,737)	(92,605)	154,342	-
Total liabilities and equity	40,119,756	26,789,531	101,778	67,011,065
Other disclosures				
Capital expenditure	28,855	19,236	-	48,091

Notes (continued)

33 Leases

The Company has adopted IFRS 16 Leases retrospectively from 1January 2019 but has not restated comparatives for the 2018 reporting period, as permitted under the specific transition provisions in the standard. The reclassifications and the adjustments arising from the new leasing rules are therefore recognised in the opening balance sheet on 1 January 2019.

On adoption of IFRS 16, the Company recognised lease liabilities in relation to leases which had previously been classified as 'operating leases' under the principles of IAS 17 Leases. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as of 1 January 2019. The weighted average lessee's incremental borrowing rate applied to the lease liabilities on 1 January 2019 was 9.51%.

For leases previously classified as finance leases the entity recognised the carrying amount of the lease asset and lease liability immediately before transition as the carrying amount of the right of use asset and the lease liability at the date of initial application. The measurement principles of IFRS 16 are only applied after that date.

Practical expedients applied

In applying IFRS 16 for the first time, the group has used the following practical expedients permitted by the standard

- applying a single discount rate to a portfolio of leases with reasonably similar characteristics
- relying on previous assessments on whether leases are onerous as an alternative to performing an impairment review – there were no onerous contracts as at 1 January 2019
- accounting for operating leases with a remaining lease term of less than 12 months as at 1 January 2019 as short-term leases
- excluding initial direct costs for the measurement of the right-of-use asset at the date of initial application, and

using hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

The Company has also elected not to reassess whether a contract is or contains a lease at the date of initial application. Instead, for contracts entered into before the transition date, the Company relied on its assessment made applying IAS 17 and Interpretation 4 *Determining whether an Arrangement contains a Lease.*

Measurement of lease liabilities

	Shs'000
Operating lease commitments disclosed as at 31 December 2018	5,011,975
Discounted using the lessee's incremental borrowing rate of at the date of initial Application	1,934,324
Add: finance lease liabilities recognised as at 31 December 2018	-
(Less): short-term leases not recognised as a liability	-
(Less): low-value leases not recognised as a liability	-
Lease liability recognised as at 1 January 2019	1,934,324

Measurement of right of use assets

Right-of use assets were measured at the amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the balance sheet as at 31 December 2018.

Notes (Continued)

33 Leases (continued)

Measurement or right of use assets continued

(i) Amounts recognised in the balance sheet
The balance sheet shows the following amounts relating to leases

	1 Jan 2019 Shs' 000	31 Dec 2019 Shs' 000
Right of use assets		
Buildings	1,969,324	1,520,371
Lease liabilities		
Current	377,334	378,080
Non-current	1,591,990	1,191,459
	1,969,324	1,569,539

There were no additions to the right of use assets in the year.

(ii) Amounts recognised in the statement of profit or loss

The statement of profit or loss shows the following amounts relating to leases:

Depreciation charge of right-of-use assets	
Buildings	518,780
Interest expense (included in Operating and other administrative expenses)	167,457
Expense relating to short-term leases (included in administrative expenses)	-
The total cash outflow for leases in 2019 was Shs. 399 million	399,784

(iii) The Company's leasing activities and how these are accounted for

Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants other than the security interests in the leased assets that are held by the lessor. Leased assets may not be used as security for borrowing purposes.

(iv) The Company's leasing activities and how these are accounted for (continued)

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- Fixed payments (including in-substance fixed payments), less any lease incentives receivable
- the exercise price of a purchase option if the group is reasonably certain to exercise that option, and
- payments of penalties for terminating the lease, if the lease term reflects the Company exercising that option.

Lease payments to be made under reasonably certain extension options are also included in the measurement of the liability.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be readily determined, which is generally the case for leases in the Company, the lessee's incremental borrowing rate is used, being the rate that the individual lessee would have to pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar terms, security and conditions

Notes (continued)

33 Leases (continued)

(v) The Company's leasing activities and how these are accounted for (continued)

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- Fixed payments (including in-substance fixed payments), less any lease incentives receivable
- the exercise price of a purchase option if the group is reasonably certain to exercise that option, and
- payments of penalties for terminating the lease, if the lease term reflects the Company exercising that option.

Lease payments to be made under reasonably certain extension options are also included in the measurement of the liability.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be readily determined, which is generally the case for leases in the Company, the lessee's incremental borrowing rate is used, being the rate that the individual lessee would have to pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar terms, security and conditions

To determine the incremental borrowing rate, the Company:

- where possible, uses recent third-party financing received by the individual lessee as a starting point, adjusted to reflect changes in financing conditions since third party financing was received
- uses a build-up approach that starts with a risk-free interest rate adjusted for credit risk for leases held by the Company, which does not have recent third-party financing, and
- makes adjustments specific to the lease, eg term, country, currency and security.

Lease payments are allocated between principal and finance cost. 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.

Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liability
- any lease payments made at or before the commencement date less any lease incentives received
- any initial direct costs, and
- restoration costs.

Right-of-use assets are generally depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. If the Company is reasonably certain to exercise a purchase option, the right-of-use asset is depreciated over the underlying asset's useful life.

Payments associated with short-term leases of equipment and vehicles and all leases of low-value assets are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less

(vi) The Company's leasing activities and how these are accounted for (continued)

Extension and termination options

Extension and termination options are included in a number of property and equipment leases across the group. These are used to maximise operational flexibility in terms of managing the assets used in the group's operations. The majority of extension and termination options held are exercisable only by the group and not by the respective lessor.

Notes (continued)

33 Leases (continued)

Leases under which the Company 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 recognized as income in the profit and loss account on a straight-line basis over the lease term. The Company has not entered into any finance leases.

34 Contingencies and commitments including off balance sheet items

a) Contingent liabilities

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

	2019 Sh'000	2018 Sh'000
Guarantees	5,141,962	3,970,214
Letters of credit	473,677	144,145
	5,615,639	4,114,359
Litigations against the Group	267,877	187,121

Nature of contingent liabilities:

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

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

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

Concentrations of contingent liabilities are covered under note 4.

Litigations against the Group

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

b) Commitments to extend credit

	2019 Sh'000	2018 Sh'000
Undrawn formal stand-by facilities, credit lines and other commitments to lend	2,488,635	2,018,181

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

Notes (continued)

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

c) Capital commitments

	2019 Sh'000	2018 Sh'000
Authorised and contracted for	232,943	243,122
Authorised but not contracted for	121,084	-

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 operational decisions.

Placings are made in the Group by directors, their associates and companies associated to directors. Advances to customers at 31 December 2018 include advances and loans to companies associated with the directors.

	Group 2019 Sh '000	Group 2018 Sh '000	Bank 2019 Sh '000	Bank 2018 Sh '000
(a) Loans and advances				
At 1 January	3,590,559	3,269,083	3,590,559	3,269,083
Additions	1,151,624	1,057,789	1,151,624	1,057,789
Interest charged	291,408	278,872	291,408	278,872
Repayments	(1,524,125)	(1,015,185)	(1,524,125)	(1,015,185)
At 31 December 2018	**3,509,466**	**3,590,559**	**3,509,466**	**3,590,559**

As at 31 December 2019 loans and advances to staff amounted to Sh 1,184,169 (2018 – Sh 1,145,484,922). The loans and advances to related parties are performing and adequately secured.

	Directors Sh '000	Companies associated to directors Sh '000	Total Sh '000
(b) Deposits – Group and bank			
At 1 January 2018	417,921	806,687	1,224,608
Withdrawals	(13,038)	(799,281)	(812,319)
At 31 December 2018	404,883	7,406	412,289
At 1 January 2019	404,883	7,406	412,289
Withdrawals	(394,936)	(1,896)	(396,832)
At 31 December 2019	9,947	5,510	15,457

Notes (continued)

35 Related party transactions (continued)

Key management compensation

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

Short term benefits	**2019**	**2018**
Salaries and other benefits	110,464	99,027
Director emoluments	31,991	44,651
	142,455	143,678

36 Family Bank Foundation

The Bank has control over The Family Group Foundation ("the Foundation") as per the provisions of IFRS 10 Consolidated Financial Statements. Control in this case is achieved through the Bank's contributions to the Foundation which indicate power over the Foundation and its ability to influence the Foundation's activities, as well as the reputational dividend from the Foundation's name.

The Foundation is registered in Kenya and its principal activity is to provide financial support in the education of needy students in Kenya. Its registered office is Daykio Plaza, Ngong Road, Nairobi.

Except for Kshs 39.9m (2018: Kshs 42m) contributions by the Bank to the Foundation which have been included as expenses in Note 8 of the financial statements, other intercompany transactions and interactions between the Foundation and the Bank were immaterial. These financial statements are not consolidated as a result.

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