2018

ANNUAL REPORT

Persistence and Determination

Credit Bank

My Friend, My Bank

Be Different when it comes to Investment

Our **Investment Policy** enables you to build a fund over a period of time to meet future financial needs while giving you the benefit of a life policy and a return on your savings.

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My Section Title Is Very Long

01

Notice of Annual General Meeting

The Companies Act, 2015
No. 23/90

NOTICE IS HEREBY GIVEN THAT THE THIRTY THIRD (33RD) ANNUAL GENERAL MEETING OF CREDIT BANK PLC WILL BE HELD AT CATHOLIC UNIVERSITY OF EASTERN AFRICA, NAIROBI ON THURSDAY, 27TH JUNE 2019 AT 10.00 AM.

Agenda

Ordinary Business

1 To read the notice convening the meeting and confirm the presence of a quorum.
2 To receive and adopt the audited Financial Statements for the year ended 31 December 2018 together with the Directors' and Auditors' Reports thereon.
3 To declare a dividend of Kshs 3.00 per share in respect of the financial year ended 31 December 2018 as recommended by the Directors.
4 To re-elect Directors in accordance with the Articles of Association:-
   i) Mr Simeon Nyachae, retires from office by rotation and, being eligible, offers himself for re-election;
   ii) Mr Ketan Devram Morjaria retires from office by rotation and, being eligible, offers himself for re-election;
   iii) Mr James Stanley Mathenge retires from office by rotation and, being eligible, offers himself for re-election.
5 To approve the Directors' remuneration for the financial year 2019.
6 To authorise the directors to fix the Auditors' remuneration.
7 To re-appoint the Auditors, PricewaterhouseCoopers who have indicated their willingness to continue in office in accordance with Section 719 (2) of the Companies Act, 2015 and subject to approval by Central Bank of Kenya.

Special Business

8 **INCREASE OF NOMINAL SHARE CAPITAL**
To consider and, if though fit, to pass the following Special Resolutions:-

a) Increase of nominal share capital

THAT the Nominal Share Capital of the Company be increased from Shs 5,000,000,000 divided into 50,000,000 ordinary shares of Shs 100 each to Shs 7,500,000,000 divided into 75,000,000 ordinary shares of Shs 100 each by the creation of an additional 25,000,000 new ordinary shares of Shs 100 each, such new shares to rank *pari passu* in all respects with the existing ordinary shares in the capital of the Company.

b) Amendment to the Articles of Association of the Bank

THAT Article 5 of the Company's Articles of Association be amended as follows:

5. The share capital of the Company is Kenya Shillings Seven billion five hundred million (Kshs. 7,500,000,000/=) divided into Seventy Five million (75,000,000) shares of Kenya Shillings One Hundred (Kshs. 100/=) each, with power for the company to increase or reduce such capital and divide any shares in its capital for the time being into several classes and to attach thereto several classes and to attach thereto respectively any preferential, deferred, qualified or other rights, privileges, restrictions or conditions and to issue all or any part of such original, increased or reduced capital with or subject to such preferential, deferred, qualified or other rights, privileges, restrictions or conditions.

9 **BONUS ISSUE**

To consider and if thought fit to pass the following resolution as an Ordinary Resolution:

"That in accordance with the Company's Articles of Association and upon the recommendation of the Board, it is desirable to capitalise the sum of KShs 200,535,425 being part of the sum standing to the credit of the retained profit account as at 31 December 2018 and accordingly that such sum be capitalised and that the Board of Directors be and is hereby authorised and directed to appropriate the said sum to the holders of the ordinary shares registered as at 31 December 2018 in the proportion in which such sum would have been divided amongst them had the sum been applied or been applicable in paying dividends and to apply such sum on their behalf in paying up to in full at par 2,005,354 unissued ordinary shares of Kshs 100 each of the Company to be allotted and distributed, credited as fully paid up, to and amongst such holders in proportion of 1 (one) share for every 12 (twelve) shares held by them respectively such fully paid shares to rank *pari passu*, in all respects with the existing issued ordinary shares and that the shares so distributed shall be treated for all purposes as an increase of the amount of the capital of the Company held by each such Shareholder and not as income, and that the Directors be and are hereby authorised to attend to all matters required to give effect to this resolution with full power to make such provision for sale of fractions or otherwise as they think fit."

10 **RIGHTS ISSUE**

Upon the recommendation of the Board of Directors to consider and, if thought fit, approve the following ordinary resolution:-

That in accordance with Section 329 of the Companies Act, 2015 the directors be authorised and directed to offer a maximum of 14,438,550 new ordinary shares in the capital of the company at an offer price of Kshs 140/- per share to shareholders in the Company's record as at 31st December 2018 by way of a rights issue of 3 (three) new share for every 5 (five) ordinary shares held and such authority to expire, unless renewed, varied or revoked by the Company, after six months from the date of approval of the rights issue and further to deal with fractions in such manner as they think fit and to effect all acts and things required to give effect to this resolution, subject to the provisions of the Companies Act, 2015 and Articles of Association of the Company.

By Order Of The Board

Dcdm Registrars.

DCDM Registrars
Company Secretaries
4th June 2019

Note:

1. In accordance with Section 298(1) of the Companies Act, 2015, a member entitled to attend and vote at the above meeting is entitled to appoint a proxy to attend and vote on his behalf. A proxy need not be a member.
2. A form of proxy may be obtained from the Bank's website, www.creditbank.co.ke or the Bank's head office, Mercantile House, Koinange Street, Nairobi and should be completed and returned to the Secretary, to arrive not later than 48 hours before the meeting or any adjournment thereof.
3 The Audited Accounts and Financial Statements for the year ended 31 December 2018 may be viewed at the Bank's website, www.creditbank.co.ke or a printed copy be obtained from the Bank's Head Office, Mercantile House, Koinange Street, Nairobi.

02

Board of Directors

Mrs. Betty C. M. Korir
Chief Executive Officer

Hon. Simeon Nyachae, EGH
Chairman

Mrs. Grace Nyachae
Director

Moses M. Mwendwa
Director

Ketan Morjaria
Director

Jay Karia
Director

Robinson Gachogu
Director

Dr. James Mathenge
Director

Robert Ndung'u
Company Secretary

We Continue to Build on a **Strong Foundation**

The impact of sound corporate governance has transformed Credit Bank.

We were recognised as the Best Commercial Bank Governance Team by CFI.co. This builds trust and a solid value system that the Bank's stakeholders have come to depend on. We are indeed your **Sound Financial Partner**.

Credit Bank
My Friend, My Bank

03 Chairman's Report

Dear Shareholders,
Karibu rafiki. Yes, that's who you are to us.

It is with great pleasure that I welcome you to our 33rd Annual General Meeting. On behalf of the Board and Management of Credit Bank Plc, I express much gratitude to you, our shareholders, for taking your time to be here. It is another great year in which we celebrate a strong performance.

The Economic and Regulatory Environment

At the global level, Real GDP slowed to record a decelerated growth of 3.6% from 3.8%. Kenya is estimated to have grown by 6.3% in 2018, up from 4.9% in 2017. This growth was mainly attributable to agriculture supported by sufficient rains countrywide. Inflation slowed down to 4.7% compared to 8% in the previous year. As at June 2018, public debt stood at KES 4.5 trillion out of which 43.4% is local debt. Public expenditure is expected to grow by 17.8% to KES 3 trillion.

To stimulate growth, the Central Bank of Kenya reduced the interest rate to 9% in July 2018, which was at 9.5% from March 2018 and at 10% before that. The capping of interest rates still impacts financing to the private sector negatively with small and medium enterprises taking the hardest hit. The Finance Act 2018 removed the floor that mandated lenders to pay at least 70% of the Central Bank rate on savings accounts thus minimizing the incentive to save and further affecting the profitability of smaller banks.

Our Financial Performance

As a financial institution, we were able to capitalize on our strengths as an SME bank and despite the challenges in the economic environment, I am happy to report that our performance continues to exhibit remarkable growth. The Profit before Tax for the Group grew by 85.41% to KES 343 Million from Kes 185 Million in 2017. We attribute this performance largely to our focus on the SME market with products curated for the sector. During the period in review, shareholders' funds also grew by 8% from KES 2.67 billion to KES 2.88 billion.

Strategic Overview

One of our strategic objectives is to grow our balance sheet to over KES 50 billion and achieve a Tier II status by 2023. We have put in place strategic initiatives built around matching customer needs with innovative and sustainable financial solutions, moving away from traditional approaches, in order to achieve this objective. We have received recognition for being the best bank in customer service in our category, enforcing our continued ability to provide our customers with an enriched, all-round customer-centric experience.

Trade Finance solutions, for example, are part of the solutions we provide that are tailored for businesses especially in the SME sector. This is a strong growth area that has diversified our income sources and we will continue to align ourselves to this segment of the market.

To guarantee stability in the long term, good corporate governance practices remain central to all our activities and ensures all stakeholders' needs are well protected.

Credit Bank's Outlook

Increased capital is at the core of our growth strategy and the board and management will continue capital raising efforts from various sources. This will improve our liquidity and sustainably lower our funding costs. This decision has been carefully deliberated upon by the Board and Management and though it may result in dilution in the short term, strengthening the capital base will prove to be of immense value in the long term.

The bank's growth story continues in 2019 as revenues grow from strength to strength on the back of the implementation of key strategies. As evidenced by the economic survey, the backbone of our economy is agriculture and our solutions continue to expand to leverage the agricultural sector's value chains.

Technology also plays a critical role in providing innovative solutions and increasing our channels of service delivery to our customers. The world has moved to electronic and mobile solutions with Kenya leading in mobile money transfer innovations. The customer of today expects to be able to do more on the go and the bank must therefore innovate in line with technological advances. In recognition of this, the Board and the management have committed to dedicate more resources to these innovations which will also attract a new and younger customer base with an increased lifetime value. You can expect new innovations and more versatile platforms from the Bank in 2019.

The Board expresses its continued confidence in our Chief Executive Officer, Mrs. Betty Korir as she continues to steer the Bank, through her leadership, to unprecedented heights. Her stewardship, as one of the few female CEOs in the industry, is one of foresight, good governance and innovation. Her support team is equally able and they provide the synergy needed to grow the bank. I also express my gratitude to the Board of Directors for their support, commitment and expertise.

Dear shareholders, as I come to the end of my speech, I would like to express my immense gratitude to you for being part of our success story. Our promise to you is persistent growth through innovative financial solutions that impact the economy hence making you a part of our country's overall success story.

Hon. Simeon Nyachae.
Chairman.

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CEO's Report

Ladies and Gentlemen,
Welcome to Credit Bank PLC's Annual General Meeting.

Thank you for taking your time to join us on this occasion and it is my pleasure to be here with you. It is indeed a joyous occasion as we celebrate 2018's impressive accomplishments.

We are pleased to report that the bank has maintained a momentum of growth and continues to report profits. This was possible through a combination of various new strategies and repositioning the Bank to offer tailor-made financial solutions in varied sectors. The Bank has continued to defend its position as the go-to SME bank with a heavy focus on Trade Finance business in this country. We take pride in supporting the growth journey of our customers, ensuring that they remain relevant and competitive in their areas of business.

2018 was an exemplary year with commendable achievements for Credit Bank. I take this opportunity to highlight some of these achievements to you.

Financial Highlights

The Finance Act of 2018 did not repeal the interest cap as widely expected and hence lending to the private-sector continued its fall to close at 2.4 % in 2018. In addition, the International Financial Reporting Standards (IFRS) 9 came into effect during the same period requiring financial institutions to compute and recognize not only incurred credit losses but also credit losses anticipated or expected to occur in future. While this was meant to improve resilience to losses caused by loan defaults, it still had a huge negative and immediate impact on our loan book.

Despite these challenges, The Group managed to grow its books and report profits of KES 343 million before tax as mentioned in the Chairman's report. Other highlights include;

- Customer deposits grew by 20.19% to KES 13.1 billion up from KES 10.9 billion
- Net loan book grew by 34.47% to KES 13.03 billion up from KES 9.69 billion
- Investments in GOK treasury bonds grew by 2.2% to KES 2.31 billion from KES 2.26 billion
- Net interest income increased by 32.18% to KES 1.29 billion up from KES 976 million
- Non-funded income increased by 37.8% to KES 784 million up from KES 569 million

2018 Achievements

In 2018, we focused on new strategic partnerships to grow the business, some of which include:

- Kenya Power & Lighting Company – Energy Sector
- Medical Credit Finance – Medical Sector
- Meru Dairy Cooperative Union – Agricultural Sector
- Kenya National Chamber of Commerce (KNCCI) – Trade Sector

Our goodwill, efficient processes and personalised financial solutions made us the preferred bank to most of these players. We have managed to harness great value in these key sectors of the economy while gaining numerous referrals from our satisfied customers.

Credit Bank continues to receive accolades for our concerted efforts in the SME sector. Last year, we were recognized by Think Business Awards as the Most Affordable Bank to SMEs. Further, we were 2nd runners up Best Bank in SME Banking as we also bagged the Best Recovery Bank. This year, the Bank was also recognised as the Best Bank in Tier III, 2nd runners up Best Bank in SME Banking and 2nd runners up in Sustainable Corporate Social Responsibility.

Excellent customer service remains at the heart of all we do, ensuring that our customers enjoy the best experience through all our delivery channels. For this the bank was awarded the Best Bank in Tier III for offering The Best Customer Service in the Country. This stands as a testament of our dedicated focus on customer service and that the customer's need are a top priority of all our staff. In addition to this, we embarked on a journey to ISO 9001: 2015 certification with an aim to standardize and re-engineer all our processes thereby benchmarking with international best practices for exceptional service delivery.

Whereas tier III banks generally face a perception challenge in the market, Credit Bank received a boost by winning an international recognition from CFI.Co as having the Best Commercial Bank Governance Team in Kenya. This vote of confidence was a proud moment which goes a long way to reassure all stakeholders of good governance and oversight by our Board of Directors.

Today's victories soon become yesterday's glories and therefore our determination goes beyond what we have achieved so far. As we look to achieve a Tier II status in four years' time with a balance sheet of KES 50 billion, we will not rest. Our achievements in 2018 are but a benchmark for what we must achieve in 2019.

2019 Expectations

To achieve even greater success, we must switch gears and expand our horizons. The country is now enjoying a fairly stable political environment occasioned by the recent handshake between the two major political camps. Kenya has also been enjoying significant goodwill from the world's economic giants and even hosted the United Nations Conference on Trade and Development's Africa Ecommerce week in December 2018, barely two years after hosting their annual conference. This is expected to improve the business environment in 2019.

Our top strategies will include expanding our customer base in agribusiness financing, a focus on young professionals and deepening our wallet share among existing clients. Our Trade Finance solutions to SMEs, that have been a trendsetter for other banks, will continue being part of our core service.

Other initiatives for the year 2019 include:

- An upgraded Mobile Banking platform that will enable us to capture a larger segment of the market by delivering novel financial solutions to customers such as mobile lending, insurance and trade finance services at the palm of their hands.
- Tapping into ecommerce through enhanced security features for our visa cards to allow customers make online transactions safely.
- Strategic partnerships designed to provide faster more efficient solutions for diaspora remittances
- Enhanced customer service through a 247 customer experience and operations centre
- Venturing into Project Financing through strategic partnerships in green energy
- Capital raising ventures through strategic Partnerships

These initiatives will propel us to achieve our growth objectives.

I would like to recognize my executive committee and staff for their great passion and dedication. The Bank has indeed grown to new levels of success and I further challenge us to scale higher. Persistence and determination will forge new victories each year.

To the Board of Directors, thank you for the unwavering support and insights you have continued to offer.

To all the shareholders, I would like to assure you that the Bank is on a growth trajectory that is guaranteed to offer you good returns for your investment. The years ahead can only be better and I am honoured to be part of this great institution. Thank you all.

Betty Korir
Chief Executive Officer

05

Management Team

Eric Maina Nyachae
Executive Officer, Business and Strategy

Mrs. Betty C. M. Korir
Chief Executive Officer

Jackson Njenga
Chief Manager, Risk and Compliance

Daniel Lesirma
Head of Finance

Pamela Mutembei
Head of Business & Marketing

Isaac Nduvi
Head of Bancassurance & Digital Business

Charles Kibara
Chief Manager Operations & Branches

Azmina Mulji
Head of Human Resource & Administration

John Mwika
Head of Treasury, Custody & Advisory services

Francis Ngaruiya
Head of Legal

John Gichuki
Head of Trade Finance

Zadock Ogambi
Head of Credit

Renson Okusimba
Head of Audit

Francis Wamahiu
Head of ICT

06

Activities

Customer Service Award

In a survey by KBA, with over 6,000 respondents, we were ranked the Best Bank in our Category (and 3rd overall). The survey, done in Q4 of 2018, identifies banks that offer the Best Customer Service. This news was met by excitement galore as it clearly confirms that size doesn't matter in delivery of excellent service!

Sustainable Finance Award

Our Contribution to Sustainable Finance in Kenya, was recently recognised by Kenya Association of Manufacturers (KAM), during the Energy Management Awards.

This recognition is a testament to our mission; ensuring social-economic impact through provision of financial solutions.

Tree Planting Day

Credit Bank joined African Guarantee Fund in October of 2018 in planting 10,000 trees at Kereita Forest. This being one of our CSR activities, is in line with the government's plan seeking to increase our national forest cover, enhance environmental sustainability and improve livelihoods.

Impacting Future Generations

We hosted students from St. George's Girls High School for a job shadow day in celebration of Global Money Week. Global Money Week is an annual financial awareness campaign held in March to inspire children and young people to learn about money matters, livelihoods and entrepreneurship.

The students had a chance to interact with staff from different departments; Customer Service, Marketing, Business Development, Human Resource, Treasury, ICT, Credit as well as the top management team. They were especially glad to meet and learn from the CEO, Ms Betty Korir, who is one of the few Women CEOs in the banking sector.

Eldoret Branch Opening

We relocated our Eldoret Branch to KVDA Plaza along Oloo Street, Eldoret. The branch opening ceremony was led by our CEO, Mrs Betty Korir, together with Uasin Gishu County Governor, Hon. Jackson Mandago, as the guest of honour. The move to KVDA Plaza provides a central and accessible location to our existing customers as well as potential customers. The Governor welcomed the move noting that it would be a boost to SMEs across the region.

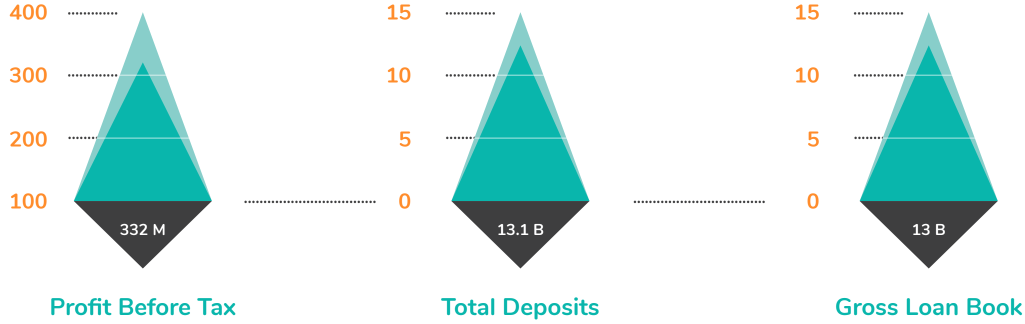
Project Konnect

Early in the year we joined forces with Eclectics International to open a world of new possibilities in mobile banking.

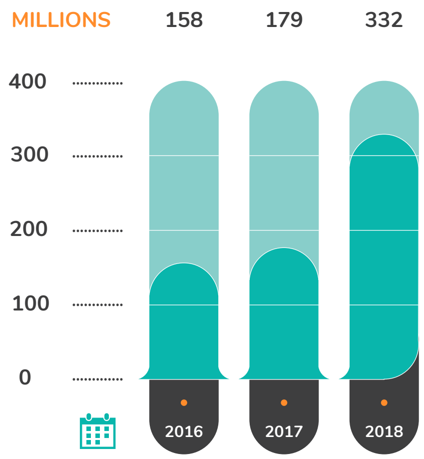
Our state-of-the-art platform empowers the consumer by putting financial soutions at the palm of their hands. Our value proposition includes lending capabilities.

Download the app to discover more.

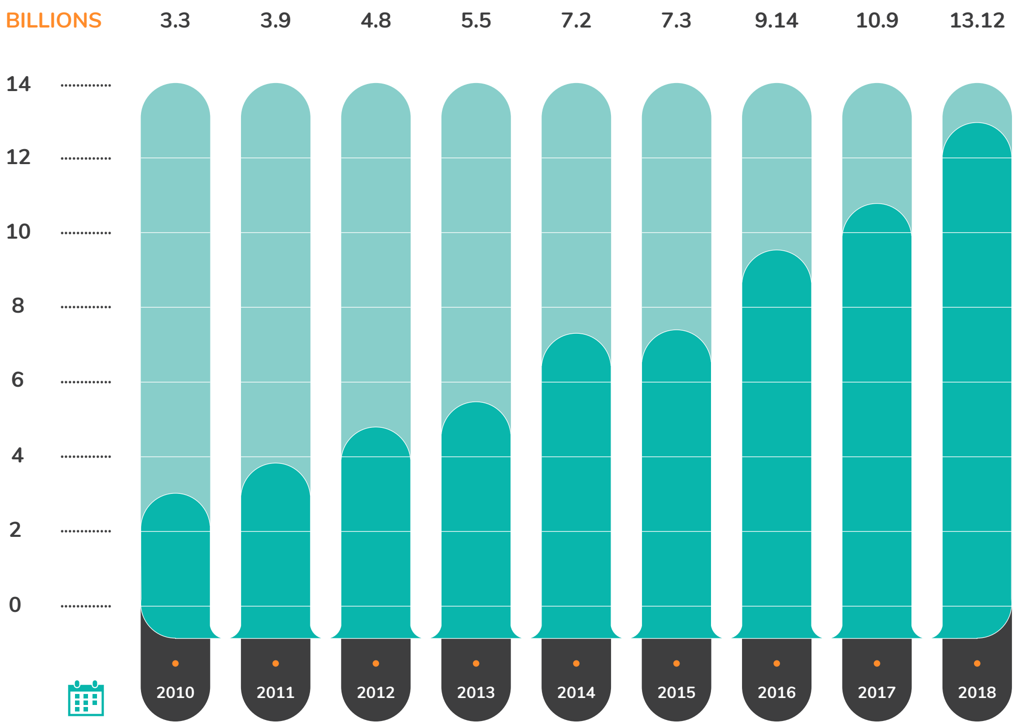
06. Financial Highlights



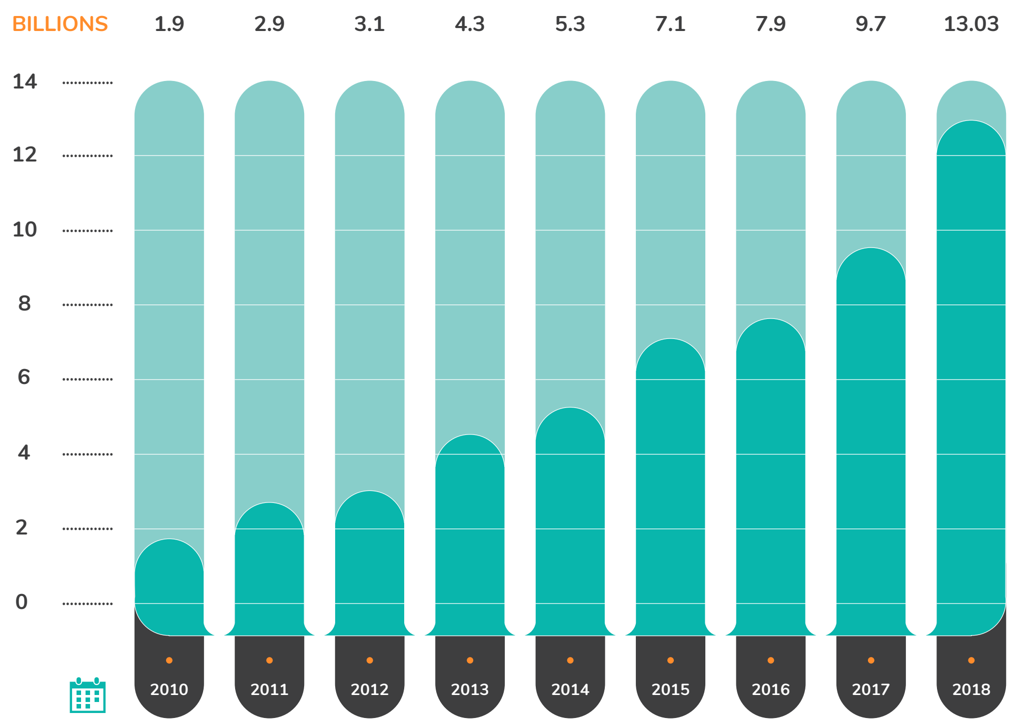
Profit Before Tax



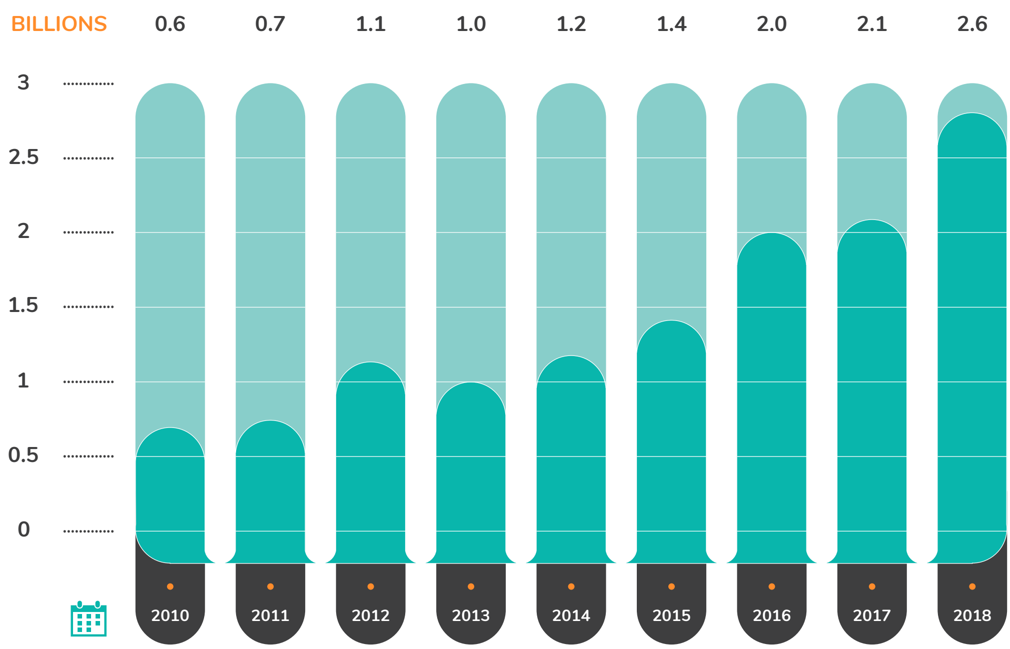
Deposits



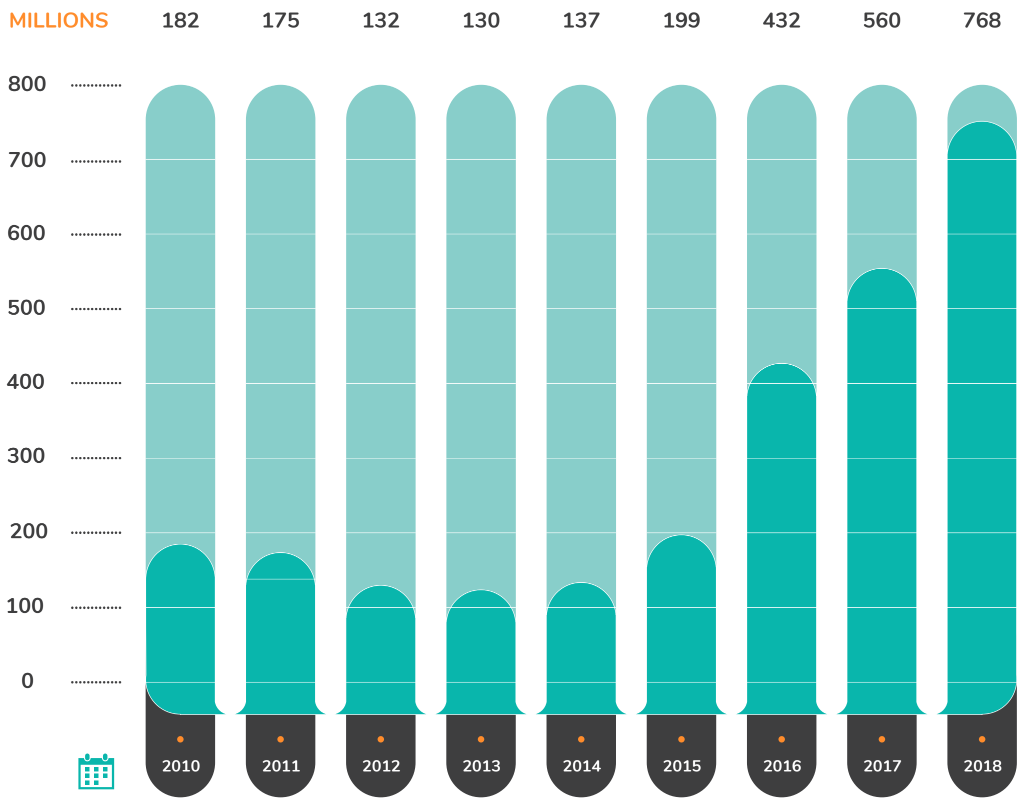
Gross Loan Book



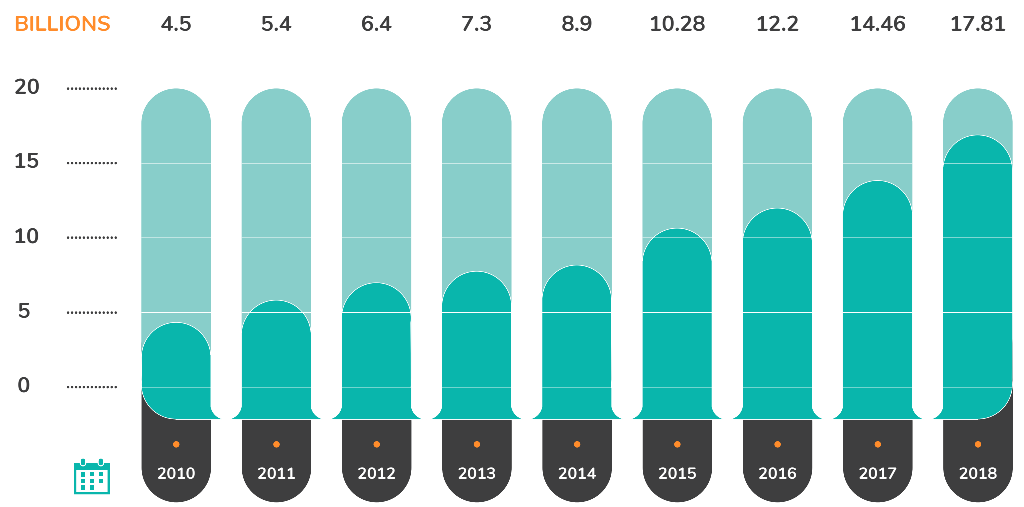
Total Income



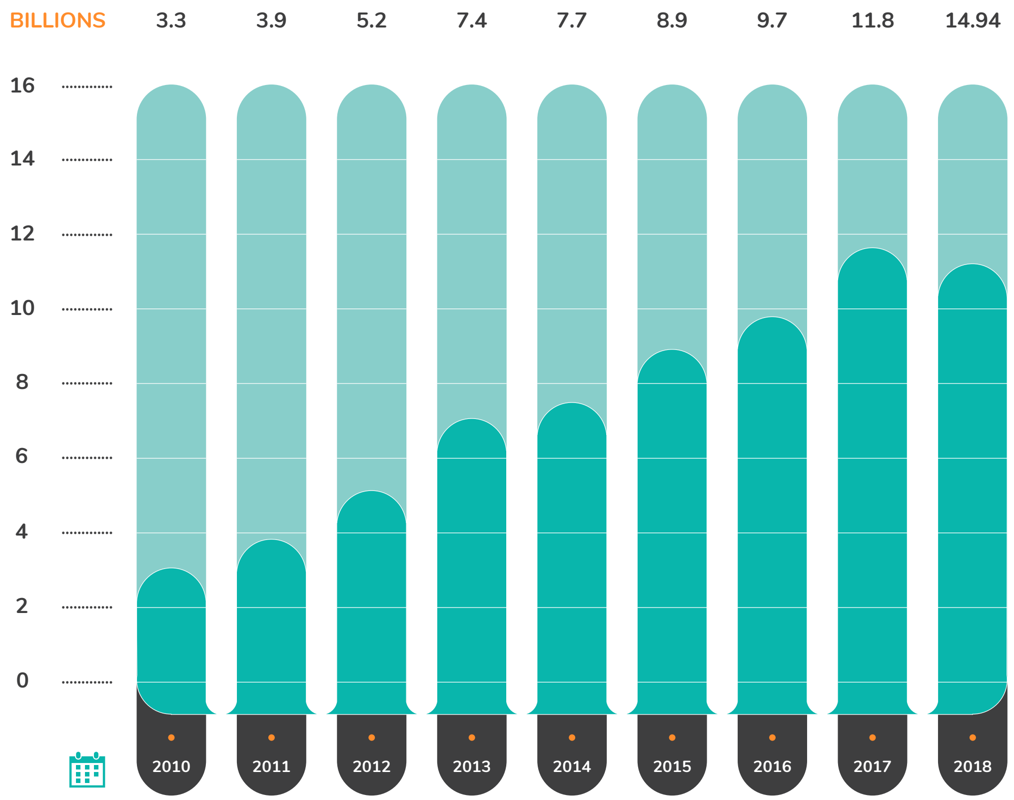
Non Funded Income - Ksh Mn



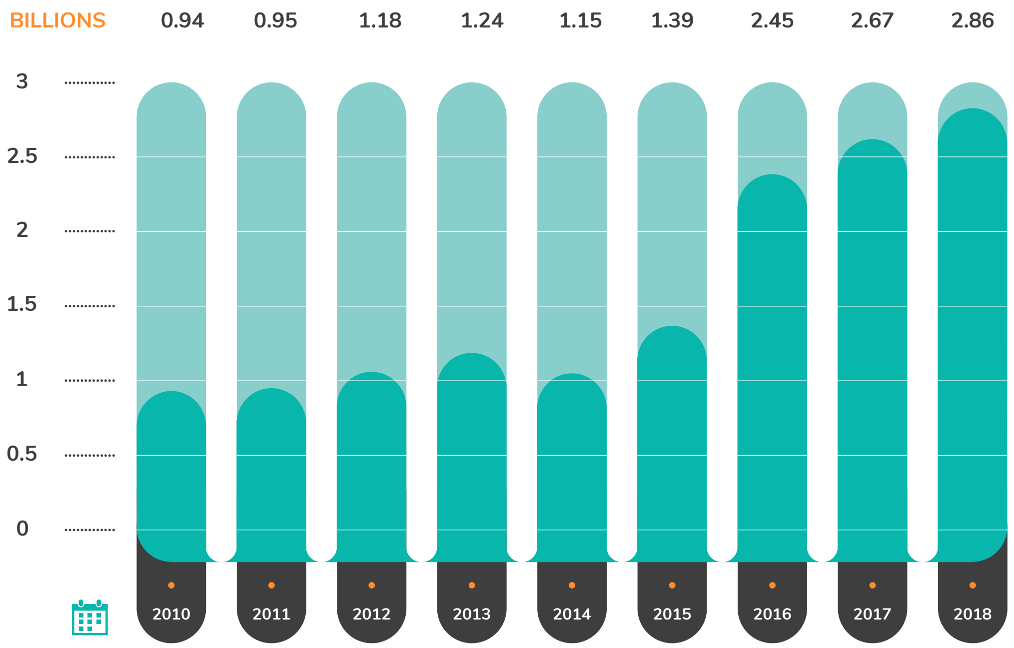
Total Assets



Total Liabilities



Share Holders Funds



07

Directors' Report

The directors submit their report together with the audited financial statements for the year ended 31 December 2018.

Principal Activities

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

Recommended Dividend

The profit for the year of Shs 248,537,000 (2017: Shs 134,080,000) has been added to retained earnings. The directors recommend payment of a dividend of Kshs 3.00 per share amounting to Shs 72,310,200 (2017: Kes 1.09 Per share amounting to 26,060,000)

Business Review

The Group is engaged in the business of banking, bancassurance and provision of related services. The Bank is licensed under the Banking Act.

The bank operated in an environment where interest capping law implemented in September 2016 suppressed the net interest margin. However focus to non-funded business mitigated the reduction of net interest margin amid stiff competition. Other drivers leading to the growth included deliberate cost management strategies, increased use of digital channels and innovative products and services tailor made for various customers. There was heavy investment in technology as key enabler for effective and efficient customer service. The Bank upgraded its core banking software to accommodate higher business volumes and new innovative products and grant higher scalable capacity to onboard other systems relevant to offering and support excellent customer service.

The Group also operated in an environment with increased competition from innovations and inventions in financial technological development companies that have aggressively edged the Banking space and disrupting the traditional banking. The Bank however take up this challenge positively through strategic partnership with the telecommunication companies to afford convencience to customers leading to financial inclusion which is working well for the bank.

Regulatory requirements has also increased the cost of compliance coupled with cyber crime risk both local and internationally.

During the year, the Group's balance sheet grew by 23% from 2017 mainly on account of growth in net loan book of 34%, deposits growth of 20% and shareholders' funds of 9%. The Group maintained a return on asset of 2% (2017:1%), improved the return of equity to 10% (2017: 7%) and the cost to income ratio of 79% (2017: 86%).

Directors

The directors who held office during the year and to the date of this report were:

Hon. Simeon Nyachae	(Chairman)
Mrs Betty Korir	(Chief Executive Officer)
Mrs. Grace Nyachae	
Ketan D. Morjaria	
Moses M. Mwendwa	
Jay Karia	
Robinson N. Gachogu	
Dr. Margaret Chemengich	(Resigned in September 2018)
Dr James S Mathenge	

Statement as to Disclosure to the Company's Auditor

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

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

(b) 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 Company's auditor is aware of that information.

Terms of Appointment of Auditors

PricewaterhouseCoopers continues in office in accordance with the company's Articles of Association and Section 719 of the Companies Act, 2018. The directors monitor the effectiveness, objectivity and independence of the auditor. The directors also approve the annual audit engagement contract which sets out the terms of the auditor's appointment and the related fees.

By Order of the Board
CPS Robert Ndungu (DCDM Registrars)

Secretary
27th March 2019

08

Statement of Corporate Governance

The Board of Directors of Credit Bank PLC (or the "Board") is committed to ensuring compliance with all guidelines on corporate governance issued by the Centre for Corporate Governance and the Central Bank of Kenya ("CBK").

The Bank conducts business ensuring compliance with the code of conduct for Directors and senior management as per the CBK prudential guidelines, best practice and professional ethics.

The Bank has a Board Charter which outlines the principal role of the Board, the demarcation of the roles, functions, responsibilities and powers of the Board, various Board committees of the Bank and matters reserved for final decision-making or pre-approval by the Board; and the policies and practices of the Board in conducting its business.

Shareholders

The shareholders appoint the Directors of the Bank and hold the Board accountable and responsible for efficient and effective governance of the Bank. It is also their role to appoint the statutory auditors of the Bank.

Board Evaluation

Evaluation of the directors of the Board and the Board committees was done during the year and found to be effective. The Board is fully aware of the latest developments in the regulatory environment, risk management and market conditions. The directors maintained excellent communication amongst themselves and with the senior management.

Attendance of Board meetings during the year is summarised below:

Name	20 Mar 2018	27 Jun 2018	04 Oct 2018	05 Dec 2018
Hon. Simeon Nyachae	P	AP	AP	AP
Betty Korir	P	P	P	P
Grace Nyachae	P	AP	P	P
Ketan D. Morjaria	P	P	P	P
Moses M. Mwendwa	P	P	P	P
Jay Karia	P	P	P	P
Robinson N. Gachogu	P	P	P	P
Margaret Chemengich	P	P	P	N/A
James S Mathenge	P	P	P	P

P = Present, A = Absent, AP=Apology

Board of Directors

The Board consists of Chief Executive Officer and eight non-executive directors as listed on page 1 of the annual report. The directors have diverse professional and business background and experience, and have provided valuable stewardship for the Bank. The Board meets at quarterly intervals in the year or as and when need arises. During the year, the Board held four meetings.

To ensure that the Board remains efficient and effective while discharging its responsibilities, annual Board assessment and peer review on performance is undertaken.

The Board has delegated the authority of day to day management to the Chief Executive Officer but retains the overall responsibility for financial and operating decisions as indicated in the 'Statement of directors responsibilities'. The Board has access to the Company Secretary who attends Board meetings on a regular basis and has set up various sub Board committees which operate in accordance with clearly set terms of reference. These sub committees report to the Board on periodic intervals and on circulation basis. They include the Board Credit Committee, the Board Audit Committee, the Board Risk Committee, the Board Executive Committee and Board Nominations & Remuneration Committee. All Board committees consist of at least two non-executive directors one of whom is the Chair.

Board Credit Committee

The Board Credit Committee reviews and oversees the overall lending of the Bank by ensuring compliance to Bank's lending policy guidelines and limit structures. The committee also ensures adequate credit impairment provisions are held in line with the CBK prudential guidelines and oversees reviews of overall lending policies and limit structures of the Bank.

Board Audit Committee

The role of the Board Audit Committee is to enhance effectiveness of internal and external audit functions, monitoring management's compliance with relevant legislations and regulatory requirements. It also monitors the effectiveness and compliance of the Bank's approved policies and procedures with the objective of strengthening the management information systems and internal controls. The committee meets at quarterly intervals.

Board Risk Committee

The committee is responsible for devising policies and procedures for identification, measurement, monitoring and control of all risk categories. The committee ensures that the Bank has clear, comprehensive and well-documented policies and procedure guidelines relating to all areas of operation and the relevant staff fully understand those policies. The committee identifies, analyses and evaluates risks, formulates appropriate responses, ensures tracking and reporting of risks to provide assurance regarding the achievement of objectives within the risk levels accepted by the Board. The committee meets at quarterly intervals.

Board Executive Committee

The Board Executive Committee has an oversight role on Management committees over execution of Board's policy directives and strategy. The Committee reviews and monitors progress on the bank's strategic plans, operational initiatives, marketing and Business development as approved by the Board and ensures that the Bank adheres to CBK prudential guidelines on capital adequacy, liquidity and market risk management.

Board Nominations & Remuneration Committee

The Board Nominations & Remuneration committee responsible for all aspects of appointment of the Bank's directors and Senior Management. It also oversees the compensation system's design and operation on behalf of the Board of Directors. The committee is constituted to enable it exercise competent and independent judgment on compensation policies and practices with majority of its members being independent non-executive directors with substantial knowledge about compensation arrangements. The Committee strategizes on the Bank's human resources development and optimisation in line with the Board's objectives and human capital management.

For effective delegation, the Chief Executive Officer has also set up various committees made up of senior officers of the Bank entrusted with different responsibilities which operate within prescribed terms of reference duly approved by the Board. These committees include Management Executive Committee (EXCO), Assets & Liabilities Committee (ALCO), Management Credit Committee, Procurement Committee, IT Steering Committee, Risk Management Committee and Product Development Committee. Open and clear communication channels between management and the Board is maintained through the office of the Chief Executive Officer.

The Bank fully complies with the Banking Act, CBK's prudential guidelines and the Kenyan Companies Act. The Bank ensures that the shareholders and other stakeholders are fully informed of the Bank's performance and activities by distributing its annual report and financial statements and also publishing quarterly reports and notices in the national dailies.

Moses M. Mwendwa
Director
27th March 2019

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Statement of Directors' Responsibilities

The Kenyan Companies Act, 2015 requires the directors to prepare financial statements for each financial year that give a true and fair view of the financial position of the Group and of the Bank as at the end of the financial year and of their profit or loss for that year. It also requires the directors to ensure that the Bank keeps proper accounting records that: (a) show and explain the transactions of the Bank; (b) disclose, with reasonable accuracy, the financial position of the Bank; and (c) enable the directors to ensure that every financial statement required to be prepared complies with the requirements of the Companies Act, 2015.

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 accounting estimates and judgements that are reasonable in the circumstances

Having made an assessment of the Group'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 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 27th March 2019 and signed on its behalf by:

Moses M. Mwendwa
Chairman

Betty Korir
Chief Executive Officer

Report of the Independent Auditor to the Shareholders of Credit Bank PLC

Report on the Audit of the Group and Bank Financial Statements

Opinion

We have audited the accompanying financial statements of Credit Bank PLC (the "Bank") and its subsidiary (together, the "Group") set out on pages 30 to 105 which comprise the consolidated statement of financial position at 31 December 2018 and the consolidated statements of profit or loss, other comprehensive income, changes in equity and cash flows for the year then ended, together with the separate statement of financial position of the Bank at 31 December 2018 and the statements of profit or loss, other comprehensive income, changes in equity and cash flows for the Bank for the year then ended, and the notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Group and the Bank at 31 December 2018 and of their financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards and the Kenyan Companies Act 2015.

Basis for Opinion

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

Other Information

The other information comprises the Statement of Corporate Governance, the 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.

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Partners: E Kerich B Kimacia M Mugasa A Murage F Muriu P Ngahu R Njoroge S O Nobert's B Okundi K Saiti

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

Report of the Independent Auditor to the Shareholders of Credit Bank PLC (Continued)

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

Report on Other Matters Prescribed by the Kenyan Companies Act, 2015

In our opinion the information given in the report of the directors on pages 20 and 21 is consistent with the financial statements.

The engagement partner responsible for the audit resulting in this independent auditor's report is CPA Bernice Kimacia – Practising Certificate No. 1457.

PricewaterhouseCoopers

Certified Public Accountants
Nairobi
29th March 2019
CPA Bernice Kimacia, Practising certificate No. 1457
Signing Partner Responsible for the Independent Audit

Committed To Excellence

The Best Bank in Tier III

Best Bank in SME Banking

Best Bank in Sustainable Corporate Social Responsibility

FINANCIAL STATEMENTS

Persistence and Determination

Consolidated Statement of Comprehensive Income

	Notes	2018 Shs'000	2017 Shs'000
Interest income	5	2,192,898	1,715,489
Interest expense	6	(898,051)	(739,499)
Net interest income		1,294,847	975,990
Fee and commission income		205,186	241,671
Fee and commission expense		(2,494)	(2,580)
Net fee and commission income		202,692	239,091
Foreign exchange income		83,486	58,428
Other income	7	171,997	88,840
Credit impairment losses	8	(154,175)	(136,272)
		101,308	10,996
Net operating income		1,598,847	1,226,077
Employee benefits	9	(575,449)	(470,607)
Other operating expenses	10	(518,089)	(415,280)
Directors' expenses		(52,607)	(50,620)
Depreciation of property and equipment	18	(59,579)	(58,335)
Amortisation of intangible assets	19	(50,182)	(46,017)
Operating expenses		(1,255,906)	(1,040,859)
Profit before income tax		342,941	185,218
Income tax expense	11	(94,404)	(51,138)
Profit for the year		248,537	134,080

Consolidated Statement of Other Comprehensive Income	Notes	2018 Shs'000	2017 Shs'000
Profit for the year		248,537	134,080
Items that may be subsequently reclassified to profit or loss			
Net fair value movements on FVOCI financial assets, net of tax	28	14,963	3,302
Total comprehensive profit for the year		263,500	137,382

Bank Statement of Comprehensive Income

	Notes	2018 Shs'000	2017 Shs'000
Interest income	5	2,192,898	1,715,489
Interest expense	6	(899,434)	(740,194)
Net interest income		1,293,464	975,295
Fee and commission income		189,058	230,630
Fee and commission expense		(2,494)	(2,580)
Net fee and commission income		186,564	228,050
Foreign exchange income		83,486	58,428
Other income	7	171,997	88,840
Credit impairment losses	8	(154,175)	(136,272)
		101,308	10,996
Net operating income		1,581,336	1,214,341
Employee benefits	9	(569,692)	(466,189)
Other operating expenses	10	(517,184)	(414,240)
Directors' expenses		(52,607)	(50,620)
Depreciation of property and equipment	18	(59,567)	(58,323)
Amortisation of intangible assets	19	(50,078)	(45,913)
Operating expenses		(1,249,128)	(1,035,285)
Profit before income tax		332,208	179,056
Income tax expense	10	(91,174)	(49,210)
Profit for the year		241,034	129,846

Bank Statement of Other Comprehensive Income	Notes	2018 Shs'000	2017 Shs'000
Profit for the year		241,034	129,846
Items that may be subsequently reclassified to profit or loss			
Net fair value movements on FVOCI financial assets, net of tax	28	14,963	3,302
Total comprehensive profit for the year		255,997	133,148

Consolidated Statement of Financial Position	Notes	2018 Shs'000	2017 Shs'000
Assets			
Cash and balances with Central Bank of Kenya	13	1,359,780	995,565
Financial assets held at FVOCI	14	806,405	503,680
Financial assets held-to-maturity	15	1,512,143	1,763,334
Deposits and balances due from banking institutions	16	195,648	637,705
Loans and advances to customers	17	13,031,248	9,698,546
Other assets and prepaid expenses	18	346,978	318,692
Property and equipment	20	270,844	291,203
Intangible assets	21	170,357	187,202
Deferred income tax	19	132,625	114,750
Total assets		17,826,028	14,510,677
Liabilities			
Deposits and balances due to banking institutions	23	1,273,732	544,887
Customer deposits	24	13,117,881	10,939,796
Other liabilities	25	514,987	352,349
Current income tax		39,726	59
Total liabilities		14,946,326	11,837,091
Shareholders' Equity			
Share capital	26	2,406,425	2,390,786
Share premium	26	75,715	88,705
Regulatory reserve	27	92,040	49,541
Retained earnings		295,403	149,398
Fair value reserve	28	10,119	(4,844)
Shareholders' equity		2,879,702	2,673,586
Total equity and liabilities		17,826,028	14,510,677

The financial statements on pages 30 to 105 were approved for issue by the Board of Directors on 27th March 2019 and signed on its behalf by:

Moses M. Mwendwa
Director

Dr. James Stanley Mathenge
Director

Betty Korir
Chief Executive Officer

CPS Robert Ndungu (DCDM Registrars)
Secretary

Bank Statement of Financial Position

	Notes	2018 Shs'000	2017 Shs'000
Assets			
Cash and balances with Central Bank of Kenya	13	1,333,102	969,177
Financial assets held at FVOCI	14	806,405	503,680
Financial assets held-to-maturity	15	1,512,143	1,763,334
Deposits and balances due from banking institutions	16	195,648	637,705
Loans and advances to customers	17	13,031,248	9,698,546
Other assets and prepaid expenses	18	274,977	298,738
Property and equipment	20	270,744	291,186
Intangible assets	21	170,208	186,949
Deferred income tax	19	132,367	114,759
Investment in Subsidiary	22	1,000	1,000
Total assets		17,727,842	14,465,074
Liabilities			
Deposits and balances due to banking institutions	23	1,273,732	544,887
Customer deposits	24	13,117,881	10,939,796
Other liabilities	25	433,388	314,533
Current income tax		39,816	785
Total liabilities		14,864,817	11,800,001
Shareholders' Equity			
Share capital	26	2,406,425	2,390,786
Share premium	26	75,715	88,705
Regulatory reserve	27	92,040	49,541
Retained earnings		278,726	140,885
Fair value reserve	28	10,119	(4,844)
Shareholders' equity		2,863,025	2,665,073
Total equity and liabilities		17,727,842	14,465,074

The financial statements on pages 30 to 105 were approved for issue by the Board of Directors on 27th March 2019 and signed on its behalf by:

Moses M. Mwendwa
Director

Dr. James Stanley Mathenge
Director

Betty Korir
Chief Executive Officer

CPS Robert Ndungu (DCDM Registrars)
Secretary

Consolidated Statement of Changes in Equity

	Notes	Share capital Shs'000	Share Premium	Retained earnings/ (accumulated losses) Shs'000	Regulatory reserve Shs'000	Fair value reserve Shs'000	Total Shs'000
At 1 January 2017		1,949,163	457,977	20,362	44,497	(8,146)	2,463,853
Total comprehensive income for the year							
Profit for the year		-	-	134,080	-	-	134,080
Fair value movement on available for sale assets		-	-	-	-	3,302	3,302
Total comprehensive income for the year		-	-	134,080	-	3,302	137,382
Transfer from retained earnings	27	-	-	(5,044)	5,044	-	-
Transactions with owners							
Additional share capital	26	51,718	20,633	-	-	-	72,351
Issue of bonus shares	26	389,905	(389,905)	-	-	-	-
At 31 December 2017		2,390,786	88,705	149,398	49,541	(4,844)	2,673,586
At 1 January 2018		2,390,786	88,705	149,398	49,541	(4,844)	2,673,586
Changes on initial application of IFRS 9 net of tax		-	-	(60,033)	-	-	(60,033)
Total comprehensive income for the year							
Profit for the year		-	-	248,537	-	-	248,537
Fair value movement on available for sale assets		-	-	-	-	14,963	14,963
Total comprehensive income for the year		-	-	248,537	-	14,963	263,500
Transfer from retained earnings	27	-	-	(42,499)	42,499	-	-
Transactions with owners							
Issue of share capital	27	15,639	7,808	-	-	-	23,447
Share issue costs		-	(20,798)	-	-	-	(20,798)
At 31 December 2018		2,406,425	75,715	295,403	92,040	10,119	2,879,702

Bank Statement of Changes in Equity	Notes	Share capital Shs'000	Share Premium	Retained earnings/ (accumulated losses) Shs'000	Regulatory reserve Shs'000	Fair value reserve Shs'000	Total Shs'000
At 1 January 2017		1,949,163	457,977	16,083	44,497	(8,146)	2,459,574
Total comprehensive income for the year							
Profit for the year		-	-	129,846	-	-	129,846
Fair value movement on available for sale assets		-	-	-	-	3,302	3,302
Total comprehensive income for the year		-	-	129,846	-	3,302	133,148
Transfer from retained earnings	26	-	-	(5,044)	5,044	-	-
Transactions with owners							
Additional share capital	25	51,718	20,633	-	-	-	72,351
Issue of Bonus Shares	25	389,905	(389,905)	-	-	-	-
At 31 December 2017		2,390,786	88,705	140,885	49,541	(4,844)	2,665,073
At 1 January 2018		2,390,786	88,705	140,885	49,541	(4,844)	2,665,073
Changes on initial application of IFRS 9 net of tax		-	-	(60,033)	-	-	(60,033)
Total comprehensive income for the year							
Profit for the year		-	-	241,034	-	-	241,034
Fair value movement on available for sale assets		-	-	-	-	14,963	14,963
Total comprehensive income for the year		-	-	241,034	-	14,963	255,997
Transfer from retained earnings	26	-	-	(42,499)	42,499	-	-
Transactions with owners							
Issue of share capital	25	15,639	7,808	-	-	-	23,447
Share issue costs		-	(20,798)	-	-	-	(20,798)
At 31 December 2018		2,406,425	75,715	278,726	92,040	10,119	2,863,025

Consolidated Statement of Cash Flows

	Notes	2018 Shs'000	2017 Shs'000
Cash flows from operating activities			
Interest receipts		1,892,762	1,534,012
Net fees and commissions receipts		504,211	421,263
Interest paid		(899,434)	(740,194)
Foreign exchange income		83,486	58,428
Recoveries on loans previously written off		24,756	19,478
Payments to employees and suppliers		(1,069,374)	(934,623)
Income tax paid		(46,574)	(68,941)
Other income received		171,711	69,362
Cash flows from operating activities before changes in operating assets and liabilities		661,544	358,785
Changes in operating assets and liabilities:			
- gross loans and advances to customers		(3,704,247)	(2,226,778)
- other assets and prepaid expenses		(28,029)	(21,457)
- Central Bank of Kenya cash reserve requirement	31	(105,347)	(92,309)
- deposits and balances due to banking institutions		728,888	229,582
- customer deposits		2,178,086	1,804,495
- other liabilities		162,768	57,098
Net cash generated from operating activities		(106,337)	109,416
Cash flows from investing activities			
Net proceeds from financial assets held-to-maturity		249,638	(147,183)
Net proceeds from/(purchase of) financial assets available-for-sale		(302,725)	228,763
Purchase of property and equipment	20	(39,281)	(44,431)
Proceeds from disposal of property and equipment		286	-
Purchase of intangible assets	21	(35,732)	(100,180)
Net cash used in investing activities		(127,814)	(63,031)
Cash flows from financing activities			
Proceeds from issue of shares	25	2,650	72,351
Net cash flows from issue of shares		2,650	72,351
Net (decrease)/increase in cash and cash equivalents		(231,501)	118,736
Cash and cash equivalents at start of year		1,245,768	1,127,032
Cash and cash equivalents at end of year	31	1,014,267	1,245,768

Bank Statement of Cash Flows

	Notes	2018 Shs'000	2017 Shs'000
Cash flows from operating activities			
Interest receipts		1,891,379	1,533,317
Net fees and commissions receipts		488,083	410,222
Interest paid		(899,434)	(740,194)
Foreign exchange income		83,486	58,428
Recoveries on loans previously written off		24,756	19,478
Payments to employees and suppliers		(1,062,767)	(929,167)
Income tax paid		(44,024)	(64,968)
Other income received		171,711	69,362
Cash flows from operating activities before changes in operating assets and liabilities		653,190	356,478
Changes in operating assets and liabilities:			
- gross loans and advances to customers		(3,704,247)	(2,226,778)
- other assets and prepaid expenses	31	(23,761)	(26,788)
- Central Bank of Kenya cash reserve requirement		(105,347)	(92,309)
- deposits and balances due to banking institutions		728,888	229,582
- customer deposits		2,178,085	1,804,495
- other liabilities		118,855	49,606
Net cash generated from operating activities		230,499	94,286
Cash flows from investing activities			
Net proceeds from financial assets held-to-maturity		249,638	(147,183)
Net proceeds from/ (purchase of) financial assets available-for-sale		(302,725)	228,763
Purchase of property and equipment	20	(39,187)	(44,431)
Proceeds from disposal of property and equipment		286	-
Purchase of intangible assets	21	(35,638)	(100,180)
Net cash used in investing activities		(119,429)	(63,031)
Cash flows from financing activities			
Proceeds from issue of shares	26	2,650	72,351
Net cash flows from issue of shares		2,650	72,351
Net(decrease)/ increase in cash and cash equivalents		(231,790)	103,607
Cash and cash equivalents at start of year		1,219,380	1,115,773
Cash and cash equivalents at end of year	31	987,590	1,219,380

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Notes to the Financial Statements

1. General Information

Credit Bank PLC (the "Bank") is incorporated and domiciled in Kenya as a limited liability company. The address of its registered office is:

Plot L.R No 209/427
Ground Floor, Mercantile House
Koinange Street
P.O. Box 61064-00200
Nairobi

2. Summary of Significant Accounting Policies

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

2.1 Basis of Preparation

The 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).

a) Basis of Measurement

The financial statements have been prepared on a historical cost basis except for financial assets held at fair value through other comprehensive income.

b) Use of estimates

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

c) Changes in Accounting Policies and Disclosures

(a) New and Amended Standards Adopted by the Bank

The following standards and amendments have been applied by the Group for the first time for the financial year beginning 1 January 2018:

IFRS 9 - Financial Instruments

The Group has adopted IFRS 9 as issued by the IASB in July 2014 with a date of transition of 1 January 2018, which resulted in changes in accounting policies and adjustments to the amounts previously recognised in the financial statements. The Group did not early adopt any of IFRS 9 in previous periods. As permitted by the transitional provisions of IFRS 9, the Group elected not to restate comparative figures. Any adjustments to the carrying amounts of financial assets and financial liabilities at the date of transition were recognised in the opening retained earnings and other reserves of the current period.

Consequently, for notes disclosures, the consequential amendments to IFRS 7 disclosures have also only been applied to the current period. The comparative period notes disclosures repeat those disclosures made in the year.

The adoption of IFRS 9 has resulted in changes in our accounting policies for recognition, classification and measurement of financial assets and financial liabilities and impairment of financial assets. IFRS 9 also significantly amends other standards dealing with financial instruments as IFRS 7 'Financial Instruments: Disclosures'

Set out below are disclosures relating to the impact of the adoption of IFRS 9 on the Group. Further details of the specific IFRS 9 accounting policies applied in the current period (as well as the previous IAS 39 accounting policies applied in the comparative period) are described in more detail in note 2.4.

A. *Classification and Measurement of Financial Instruments*

The following table shows the original measurement categories in accordance with IAS 39 at 31 December 2017 and the new measurement categories under IFRS 9 for the Group's financial assets and financial liabilities as at 1 January 2018.

Group	Original classification under IAS 39	New classification under IFRS 9	Original carrying amount under IAS 39 Shs' 000	New carrying amount under IFRS 9 Shs' 000
Financial assets				
Cash and balances due to financial institutions	Loans and receivables	Amortised cost	1,633,270	1,633,215
Investment securities:				
- Investment securities held at fair value through OCI	AFS	FVOCI	503,680	503,680
- Investment securities held to maturity (amortised cost)	HTM	Amortised cost	1,763,334	1,761,624
Loans and advances from customers	Loans and receivables	Amortised cost	9,698,546	9,619,549
Total financial assets			13,598,830	13,518,123
Financial liabilities				
Customers deposits	Other liabilities	Amortised cost	10,939,786	10,939,786
Other liabilities (financial)	Other liabilities	Amortised cost	544,887	544,887
Total financial liabilities			11,484,673	11,484,673

The following table shows the original measurement categories in accordance with IAS 39 and the new measurement categories under IFRS 9 for the Bank's financial assets and financial liabilities as at 1 January 2018.

Bank	Original classification under IAS 39	New classification under IFRS 9	Original carrying amount under IAS 39 Shs' 000	New carrying amount under IFRS 9 Shs' 000
Financial assets				
Cash and balances due to financial institutions	Loans and receivables	Amortised cost	1,606,882	1,606,827
Investment securities:				
- Investment securities held at fair value through OCI	AFS	FVOCI	503,680	503,680
- Investment securities held to maturity (amortised cost)	HTM	Amortised cost	1,763,334	1,761,624
Loans and advances from customers	Loans and receivables	Amortised cost	9,698,546	9,614,549
Total financial assets			13,598,830	13,486,680
Financial liabilities				
Customers deposits	Other liabilities	Amortised cost	10,939,786	10,939,786
Other liabilities (financial)	Other liabilities	Amortised cost	544,887	544,887
Total financial liabilities			11,484,673	11,484,673

B. *Reconciliation of Statement of Financial Position Balances from IAS 39 To IFRS 9*

The Group performed a detailed analysis of its business models for managing financial assets as well as their cash flow characteristics. Based on this analysis, the following classifications resulted:

Loans and receivables and Held to Maturity financial investments (held at amortised cost under IAS 39) were classified as Financial assets at amortised cost (under IFRS 9);

Loan notes at fair value, derivative assets and other financial investments (held at FVTPL under IAS 39 were classified as Financial assets at FVTPL (under IFRS 9); and

Financial investments held as available for sale (under IAS 39) were classified as Financial Assets at FVOCI (under IFRS 9).

The following table shows the original measurement categories in accordance with IAS 39 and the new measurement categories under IFRS 9 for the Group's financial assets and financial liabilities on 1 January 2018. Remeasurement adjustments arising upon the application of IFRS 9 principles are also presented in the reconciliation.

2. Summary of Significant Accounting Policies (Continued)
2.1 Basis of Preparation (Continued)
c) Changes in Accounting Policies and Disclosures (Continued)
(a) New and Amended Standards Adopted by the Bank (Continued)

B. Reconciliation of Statement of Financial Position Balances from IAS 39 To IFRS 9 (Continued)

Group	IAS 39 carrying amount 31 December 2017 Shs' 000	Reclassifications Shs' 000	Remeasurements Shs' 000	IFRS 9 carrying amount 1 January 2018 Shs' 000
Financial assets				
Amortised cost:				
Cash and balances due from financial institutions				
Opening balance as per IAS 39 and closing balance as per IFRS 9	1,633,270	-	(55)	1,633,215
Investment securities at amortised cost				
Opening balance as per IAS 39	-			
Additions: From financial assets held to maturity (IAS 39)		1,763,334	(1,710)	1,761,624
Remeasurement: ECL allowance				
Investment securities held to maturity				
Opening balance as per IAS 39	1,763,334			
Subtraction: To amortised cost (IFRS 9)		(1,763,334)	-	-
Loans and advances from customers				
Opening balance as per IAS 39	9,698,546			
Remeasurement: ECL allowance		-	(83,997)	9,614,549
Total financial assets measured at amortised cost	13,095,150		(85,762)	13,009,388

B. Reconciliation of Statement of Financial Position Balances from IAS 39 To IFRS 9 (Continued)

Group	IAS 39 carrying amount 31 December 2017 Shs' 000	Reclassifications Shs' 000	Remeasurements Shs' 000	IFRS 9 carrying amount 1 January 2018 Shs' 000
Financial assets				
Fair value through other comprehensive income (FVOCI):				
Investment securities – FVOCI (debt, unit trusts and other investments)				
Opening balance as per IAS 39	-			
Additions: From Available for sale (IAS 39)		503,680	-	503,680
Available for sale investment securities				
Opening balance as per IAS 39	503,680			
Subtraction: To FVOCI (IFRS 9)		(503,680)	-	-
Total financial assets measured at FVOCI	503,680	-	-	503,680

2. Summary of Significant Accounting Policies (Continued)
2.1 Basis of Preparation (Continued)
c) Changes in Accounting Policies and Disclosures (Continued)
(a) New and Amended Standards Adopted by the Bank (Continued)

B. Reconciliation of Statement of Financial Position Balances from IAS 39 To IFRS 9 (Continued)

Bank	IAS 39 carrying amount 31 December 2017 Shs' 000	Reclassifications Shs' 000	Remeasurements Shs' 000	IFRS 9 carrying amount 1 January 2018 Shs' 000
Amortised cost:				
Cash and balances due from financial institutions				
Opening balance as per IAS 39 and closing balance as per IFRS 9	1,608,882	-	(55)	1,608,827
Investment securities at amortised cost				
Opening balance as per IAS 39	-			
Additions: From financial assets held to maturity (IAS 39)		1,763,334		
Remeasurement: ECL allowance			(1,710)	
Closing balance as per IFRS 9				1,761,624
Investment securities held to maturity				
Opening balance as per IAS 39	1,763,334			
Subtraction: To amortised cost (IFRS 9)		(1,763,334)	-	-
Closing balance as per IFRS 9				-
Loans and advances from customers				
Opening balance as per IAS 39	9,698,546	-		
Remeasurement: ECL allowance			(83,997)	
Closing balance as per IFRS 9				9,614,549
Total financial assets measured at amortised cost	13,070,762	-	(85,762)	12,985,000

B. Reconciliation of Statement of Financial Position Balances from IAS 39 To IFRS 9 (Continued)

Group	IAS 39 carrying amount 31 December 2017 Shs' 000	Reclassifications Shs' 000	Remeasurements Shs' 000	IFRS 9 carrying amount 1 January 2018 Shs' 000
Financial assets				
Fair value through other comprehensive income (FVOCI):				
Investment securities – FVOCI (debt, unit trusts and other investments)				
Opening balance as per IAS 39	-			
Additions: From available for sale (IAS 39)		503,680		
Remeasurement: ECL allowance			-	
Closing balance as per IFRS 9				503,680
Available for sale investment securities				
Opening balance as per IAS 39	503,680			
Subtraction: To FVOCI (IFRS 9)		(503,680)	-	
Closing balance as per IFRS 9				-
Total financial assets measured at FVOCI	503,680	-	-	503,680

C. *Reconciliation of Impairment Allowance Balances from IAS 39 to IFRS 9*

The total re-measurement loss for the Group as at 1 January 2018 was Shs 85,762,000 (Bank: Shs 85,762,000).

The tables below provide detailed reconciliations between the prior period's closing impairment allowances measured in accordance with IAS 39 incurred loss model and to the new impairment allowance measured in accordance with the IFRS 9 expected credit loss model at 1 January 2018.

Group	Loan loss allowance under IAS 39 Shs' 000	Reclassifications Shs' 000	Remeasurements Shs' 000	Loan loss allowance under IFRS 9 Shs' 000
Measurement category				
Loans and receivables (IAS 39)/ Financial assets at amortised cost (IFRS 9)				
Cash and balances with financial institutions	-	-	55	55
Loans and advances to customers	388,943	-	78,848	467,791
Other assets				
Held to maturity investments (IAS 39) / Financial assets at amortised cost (IFRS 9)				
Investment securities at amortised cost	-	-	1,710	1,710
Available for Sale investments (IAS 39) / Financial assets at FVOCI (IFRS 9)				
Investment securities at amortised cost	-	-	-	-
Financial guarantees				
Financial guarantee contracts	-	-	5,149	5,149
Total	388,943	-	85,762	474,705

C. Reconciliation of Impairment Allowance Balances from IAS 39 to IFRS 9 (Continued)

Bank	Loan loss allowance under IAS 39 Shs' 000	Reclassifications Shs' 000	Remeasurements Shs' 000	Loan loss allowance under IFRS 9 Shs' 000
Measurement category				
Loans and receivables (IAS 39)/ Financial assets at amortised cost (IFRS 9)				
Cash and balances with financial institutions	-	-	55	55
Loans and advances to customers	388,943	-	78,848	467,791
Held to maturity investments (IAS 39) / Financial assets at amortised cost (IFRS 9)				
Investment securities at amortised cost	-	-	1,710	1,710
Available for Sale investments (IAS 39)/Financial assets at FVOCI (IFRS 9)				
Investment securities at amortised cost	-	-	-	-
Financial guarantees				
Financial guarantee contracts	-	-	5,149	5,149
Total	388,943	-	85,762	474,705

IFRS 15 Revenue from Contracts with Customers

This standard became effective on 1 January 2018 and replaced the existing revenue standards and their related interpretations. The standard set out the requirements for recognising revenue that applies to all contracts with customers (except for contracts that are within the scope of the standards on leases, insurance contracts or financial instruments). The core principle of the standard is that revenue recognised reflects the consideration to which the company expects to be entitled in exchange for the transfer of promised goods or services to the customer. The standard incorporates a five step analysis to determine the amount and timing of revenue recognition. The standard however does not apply to revenue associated with financial instruments, and therefore does not impact the majority of the group's revenue streams. The group identified and reviewed the contracts with customers that are within the scope of this standard and concluded that the adoption of IFRS 15 did not materially impact the group's revenue recognition models and there were no material transition adjustments required.

(b) New and Revised Standards and Interpretations that have been Issued but are not yet Effective

The Group has not applied any new or revised standards and interpretations that have been published but are not yet effective for the year beginning 1 January 2018, and the directors do not plan to apply any of them until they become effective. The group's assessment of the impact of these new standards and interpretations is as follows:

IFRS 16 Leases

The standard replaces IAS 17 and its related interpretations (SIC 15, and 27, and IFRIC 4). IFRS 16 eliminates the classification of leases as either operating leases or finance leases for a lessee . The model reflects that, at the start of a lease, the lessee obtains the right to use an asset for a period of time and has an obligation to pay for that right. The lessee is not required to recognise assets and liabilities for short-term leases (less than 12 months), and leases for which the underlying asset is of low value (such as laptops and office furniture). A lessee measures lease liabilities at the present value of future lease payments. A lessee measures lease assets, initially at the same amount as lease liabilities, and also includes costs directly related to entering into the lease. Lease assets are amortised in a similar way to other assets such as property, plant and equipment. If lease payments are made over time, a company also recognises a financial liability representing its obligation to make future lease payments. One of the implications of the new standard is that there will be a change to key financial ratios derived from a lessee's assets and liabilities (for example, leverage and performance ratios). The new standard is effective for annual periods beginning on or after 1 January 2019.

The standard will affect primarily the accounting for the group's operating leases. As at the reporting date, the group has non-cancellable operating lease commitments of Kshs 86 million, see note 29. The group has no short-term and low value leases. However, the group has not yet assessed what other adjustments, if any, are necessary for example because of the change in the definition of the lease term and the different treatment of variable lease payments and of extension and termination options. It is therefore not yet possible to estimate the amount of right-of-use assets and lease liabilities that will have to be recognised on adoption of the new standard and how this may affect the group's profit or loss and classification of cash flows going forward.

There are no other standards or interpretations that are not yet effective that would be expected to have a material impact on the group financial statements.

d) Consolidation

The consolidated financial statements incorporate the financial statements of Credit Bank Plc and its subsidiary; My friend Insurance Agency. The financial statements have been made up to 31 December 2018.

i) Subsidiaries

Subsidiaries are all entities over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases

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

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

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

The excess of the consideration transferred the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired is recorded as goodwill. If the total of consideration transferred, non-controlling interest recognised and previously held interest measured is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in the statement of profit or loss. Inter-company transactions, balances and unrealised gains and losses on transactions between Group companies are eliminated. When necessary, amounts reported by subsidiaries have been adjusted to conform to the Group's accounting policies.

ii) Changes in Ownership Interests in Subsidiaries Without Change of Control

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

iii) Disposal of Subsidiaries

When the Group ceases to have control, any retained interest in the entity is re-measured to its fair value at the date when control is lost, with the change in carrying amount recognised in profit or loss.

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

e) Foreign Currency Translation

i) Functional and Presentation Currency

Items included in the Bank's financial statements are measured using the currency of the primary economic environment in which the Bank operates (the "Functional Currency"). The financial statements are presented in Kenya shillings (Shs), which is the Bank's presentation currency.

ii) Transactions and Balances

Foreign currency transactions are translated into the Functional Currency using the exchange rates prevailing at the dates of the transactions. Monetary items denominated in foreign currency are translated with the closing rate as at the reporting date. If several exchange rates are available, the forward rate is used at which the future cash flows represented by the transaction or balance could have been settled if those cash flows had occurred. Non-monetary items measured at historical cost denominated in a foreign currency are translated with the exchange rate as at the date of initial recognition; non-monetary items in a foreign currency that are measured at fair value are translated using the exchange rates at the date when the fair value was determined.

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

Changes in the fair value of monetary assets denominated in foreign currency classified as at-fair-value are analysed between translation differences resulting from changes in the amortised cost of the security and other changes in the carrying amount of the security. Translation differences related to changes in the amortised cost are recognised in profit or loss, and other changes in the carrying amount, are recognised in other comprehensive income.

f) Sales and Repurchase Agreements

Securities sold subject to repurchase agreements ('repos') are reclassified in the financial statements as pledged assets when the transferee has the right by contract or custom to sell or repledge the collateral; the counterparty liability is included in deposits from banks or deposits from customers, as appropriate. Securities purchased under agreements to resell ('reverse repos') are recorded as loans and advances to other banks or customers, as appropriate. The difference between sale and repurchase price is treated as interest and accrued over the life of the agreements using the effective interest method. Securities lent to counterparties are also retained in the financial statements.

g) Financial Assets and Liabilities

The Group's accounting treatment for Financial Instruments - financial assets and financial liabilities - is in accordance with IFRS 9. The adoption of IFRS 9 on 1 January 2018 has resulted in changes in our accounting policies for recognition, classification and measurement of:

- i. Financial assets
- ii. Financial liabilities
- iii. Determination of fair value
- iv. De-recognition
- v. Classification of financial instruments
- vi. Impairment of financial instruments
- vii. Disclosures

The Group classifies and presents its financial instruments in the financial statements as defined in IFRS 9 on the basis of:

- The business model adopted
- Contractual cash flow characteristics

Financial Assets

Management determines the appropriate classification of its financial assets at initial recognition. The Group 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:

i) Financial Assets at Fair Value Through Profit or Loss

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

ii) Financial Assets Measured at Amortised Cost

The Group classifies financial assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest (SPPI), and that are not designated at FVPL, as measured at amortised cost. The carrying amount of these assets are adjusted by any expected credit loss allowance. Interest income from financial assets is included in "interest and similar income" using the effective interest rate method.

The effective interest rate is the rate that exactly discounts the estimated future cash payments or receipts (excluding future credit losses) through the expected life of the financial instrument or a shorter period, if appropriate, to the net carrying amount of the financial instrument.

iii) Financial Assets at Fair Value Through Other Comprehensive Income

Financial assets that are held for collection of contractual cash flows and for selling the assets, where the assets' cash flows represent solely payments of principal and interest, 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, interest revenue and foreign exchange gains and losses on 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 investment income" using the effective interest rate method.

Groups 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/PPI: 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.

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.

Recognition and Subsequent Measurement

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

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

Determination of Fair Value

For all other financial instruments, fair value is determined using valuation techniques. In these techniques, fair values are estimated from observable data in respect of similar financial instruments, using models to estimate the present value of expected future cash flows or other valuation techniques, using inputs (for example, LIBOR yield curve, FX rates, volatilities and counterparty spreads) existing at the reporting dates.

The Group uses widely recognised valuation models for determining fair values of non-standardised financial instruments of lower complexity, such as options or interest rate and currency swaps. For these financial instruments, inputs into models are generally market-observable.

For more complex instruments, the Group uses internally developed models, which are usually based on valuation methods and techniques generally recognised as standard within the industry. Valuation models such as present value techniques are used primarily to value derivatives transacted in the over-the-counter market, unlisted debt securities (including those with embedded derivatives) and other debt instruments for which markets were or have become illiquid. Some of the inputs to these models may not be market observable and are therefore estimated based on assumptions. The impact on net profit of financial instrument valuations reflecting non-market observable inputs (level 3 valuations) is disclosed in Note 4.

The Group uses its own credit risk spreads in determining the current value for its derivative liabilities and all other liabilities for which it has elected the fair value option. When the Group's credit spreads widen, the Group recognises a gain on these liabilities because the value of the liabilities has decreased. When the Group's credit spreads narrow, the Group recognises a loss on these liabilities because the value of the liabilities has increased.

The output of a model is always an estimate or approximation of a value that cannot be determined with certainty, and valuation techniques employed may not fully reflect all factors relevant to the positions the Group holds. Valuations are therefore adjusted, where appropriate, to allow for additional factors including model risks, liquidity risk and counterparty credit risk. Based on the established fair value model governance policies, related controls and procedures applied, the directors believe that these valuation adjustments are necessary and appropriate to fairly state the values of financial instruments carried at fair value. Price data and parameters used in the measurement procedures applied are generally reviewed carefully and adjusted, if necessary – particularly in view of the current market developments.

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

The fair values of contingent liabilities and irrevocable loan commitments correspond to their carrying amounts.

Derecognition

- ### Modifications Leading to Derecognition

Where the renegotiation or modification of the contractual cash flows of a financial asset lead to the derecognition of the existing financial asset in accordance with IFRS 9 the modified asset is considered a 'new' financial asset for the purposes of IFRS 9.

Accordingly, the date of the modification should be 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 should be 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.

- ### Modifications not Leading to Derecognition

If the contractual cash flows on a financial asset have been renegotiated or modified and the financial asset is not derecognised, the Group assesses whether there has been a significant increase in the credit risk of the financial instrument by comparing:

- the risk of a default occurring at the reporting date (based on the modified contractual terms); and
- the risk of a default occurring at initial recognition (based on the original, unmodified contractual terms).

When assessing whether there have been significant increases in credit risk since initial recognition the Group uses all reasonable and supportable information that is available without undue cost or effort. This includes historical and forward-looking information and an assessment of the credit risk over the expected life of the financial asset, which includes information about the circumstances that led to the modification.

If the contractual cash flows on a financial asset have been renegotiated or otherwise modified, but the financial asset is not derecognized, that financial asset is not automatically considered to have lower credit risk. Evidence that the criteria for the recognition of lifetime expected credit losses are no longer met may include a history of up to date and timely payment performance against the modified contractual terms. Typically, a customer would need to demonstrate consistently good payment behaviour over a period of time before the credit risk is considered to have decreased. For example, a history of missed or incomplete payments would not typically be erased by simply making one payment on time following a modification of the contractual terms.

When the Group transfers a financial asset but neither retains nor transfers substantially all of the risks and rewards of ownership of a financial asset, and retains control of that asset, the Group continues to recognise the asset to the extent of its continuing involvement. A corresponding liability is also recognized in accordance with and measured so that the net carrying amount of the asset and the liability is:

The amortised cost of the rights and obligations retained, if the asset is measured at amortized cost; or the fair value of the rights and obligations retained (if the asset is measured at fair value).

Disclosures

The disclosure requirements of IFRS 7- Financial Instruments: Disclosures, after consequential amendments arising from IFRS 9, are applicable.

For purposes of reporting, the group will disclose impairment movements based on:

- On-Balance Sheet Assets and
- Off-Balance Sheet Assets

Classification of Financial Instruments

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

<table>
<tr><th colspan="2">Category (as defined by IFRS 9)</th><th colspan="2">Class (as determined by the Bank)</th><th>Subclasses</th></tr>
<tr><td rowspan="16">Financial Assets</td><td rowspan="3">Financial assets at fair value through other comprehensive income</td><td rowspan="3">Financial Assets Available for sale</td><td>Debt securities</td><td rowspan="3"></td></tr>
<tr><td>Derivatives – non-hedging</td></tr>
<tr><td>Equity securities</td></tr>
<tr><td rowspan="9">Measured at Amortised Cost</td><td colspan="2">Loans and advances to banks</td><td></td></tr>
<tr><td rowspan="6">Loans and advances to customers</td><td rowspan="3">Loans to individuals (retail)</td><td>Overdrafts</td></tr>
<tr><td>Term loans</td></tr>
<tr><td>Personal Loans</td></tr>
<tr><td rowspan="3">Loans to corporate entities</td><td>Overdrafts</td></tr>
<tr><td>Term loans</td></tr>
<tr><td>SMEs</td></tr>
<tr><td rowspan="2">Investment securities - debt instruments</td><td rowspan="2">Debt securities</td><td>Others</td></tr>
<tr><td>Listed</td></tr>
<tr><td rowspan="4">Financial liabilities at amortised cost</td><td colspan="2">Deposits from banks</td><td rowspan="4"></td></tr>
<tr><td rowspan="3">Deposits from customers</td><td>Retail customers</td></tr>
<tr><td>Mid - corporate</td></tr>
<tr><td>SMEs</td></tr>
<tr><td rowspan="2">Off- balance sheet financial Instruments</td><td colspan="3">Loan commitments</td><td></td></tr>
<tr><td colspan="2">Guarantees, acceptances and other financial facilities</td><td colspan="2"></td></tr>
</table>

Impairment of Financial Assets

The Group's impairment approach, is based on expected credit losses and the Group uses the general approach in determining the impairment of financial assets. Therefore, it is not necessary for a loss event to have occurred before credit losses are recognised; instead, a loss allowance is always recognized for expected credit losses and is re-measured at each reporting date for changes in those expected credit losses.

Determining whether an expected credit loss should be based on 12-month expected credit losses or lifetime expected credit losses depends on whether there has been a significant increase in credit risk ("SICR") of the financial asset since initial recognition.

The Group recognises loss allowances for Expected Credit Losses ("ECL") on the following financial instruments that are not measured at FVTPL:

- Financial assets that are debt instruments
- Loan and advances to customers
- Financial guarantee contracts issued
- Loan and advances to Banks
- Loan commitments issued.

The Group assesses on a forward-looking basis the expected credit losses ('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 Group recognises a loss allowance for such losses at each reporting date. The measurement of ECL reflects:

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

The estimation of credit exposure for risk management purposes is complex and requires the use of models, as the exposure varies with i) changes in market conditions, ii) expected cash flows and iii) the passage of time.

The assessment of credit risk of a portfolio of assets entails further estimations as to the likelihood of defaults occurring, of the associated loss ratios and of default correlations between counterparties. The Group measures credit risk using Probability of Default ("PD"), Exposure at Default ("EAD") and Loss Given Default ("LGD").

h) Comparative Accounting Policies for Financial Assets and Liabilities Measured Under IAS 39

Financial Assets and Liabilities

Financial Assets

(i) Recognition

The Bank initially recognises loans and advances on the date that they are originated. Other financial assets are initially recognised on the trade date, i.e. the date at which the Bank becomes a party to the contractual provisions of the instrument.

Assets at fair value through profit or loss are those that are classified as either held-for-trading or those that are specifically designated as such.

(ii) Initial Measurement

The classification of financial instruments at initial recognition depends on the purpose and the management's intention for which the financial instruments were acquired and their characteristics. All financial instruments are measured initially at their fair value plus transaction costs, except in the case of financial assets and financial liabilities recorded at fair value through profit or loss.

(iii) Subsequent Measurement

Held-to-Maturity Investments

Held-to-maturity investments are non-derivative assets with fixed or determinable payments and fixed maturity that the Bank has the positive intent and ability to hold to maturity, and which are not designated at fair value through profit or loss or available-for-sale or do not meet the definition of loans and receivables.

Any sale or reclassification of a significant amount of held-to-maturity investments not close to their maturity would result in the reclassification of all held-to-maturity investments as available-for-sale.

Available-for-Sale (AFS) Investments

AFS instruments are non-derivative assets that are either designated as AFS or are not classified as loans and receivables or financial assets at fair value through profit or loss.

AFS financial assets include both debt and equity instruments and are stated at fair value at the end of each reporting period. Subsequent changes in the carrying amount of AFS monetary financial assets relating to changes in foreign currency rates, interest income calculated using the effective interest method and dividends on AFS equity investments are recognised in profit or loss. Other changes in the carrying amount of AFS financial assets are recognised in other comprehensive income and accumulated under the heading of investments revaluation reserve. Where the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously accumulated in the investments revaluation reserve is reclassified to profit or loss. The Bank has not designated any loans or receivables as available for sale.

Fair Value Through Profit or Loss

Assets at fair value through profit or loss are those that are classified as either held-for-trading or those which are specifically designated as such. During the year, there were no securities recorded at fair value through profit or loss.

Loans and Receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and that the group does not intend to sell immediately or in the near term. Loans and receivables are subsequently measured at their amortised cost using the effective interest method less allowance for impairment, except when the group chooses to carry the loans and receivables at fair value through profit or loss. The losses arising from the impairment are recognised in profit or loss.

Effective Interest Method

The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the debt instrument, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

(iv) Derecognition

The Bank derecognises a financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) when:

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

Securities purchased from the Central Banks of Kenya under agreement to resell (reverse repos), are disclosed as treasury bills as they are held to maturity after which they are repurchased and are not negotiable or discounted during the tenure.

Financial Liabilities

Most financial liabilities are held at amortised cost. That is, the initial fair value (which is normally the amount borrowed) is adjusted for premiums, discounts, repayments and the amortisation of coupon, fees and expenses to represent the effective interest rate of the liability.

The Bank's financial liabilities include deposits from banks or customers, borrowed funds, amounts due to related parties and other payables.

Derecognition

The Bank derecognises a financial liability when the obligation under the liability is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and recognition of new liability. The difference between carrying amount of the original liability and the consideration paid is recognised in profit or loss.

Offsetting Financial Instruments

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, there is a currently enforceable legal right to set off the recognised amounts and there is an intention either to settle 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.

Fair Value Measurement

The Bank measures financial instruments such as derivatives and investment securities at fair value at each reporting date. Fair value of financial instruments 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.

The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability; or
- In the absence of a principal market, in the most advantageous market for the asset or liability.

The principal or the most advantageous market must be accessible by the Bank.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

The Bank uses valuation techniques that are appropriate in the circumstances and for which sufficient data is available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 – Quoted (unadjusted) market prices in active markets for identical assets or liabilities
- Level 2 – Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
- Level 3 – Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognised in the financial statements at fair value on a recurring basis, the Bank determines whether transfers have occurred between levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

i) 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 offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously.

j) Cash and Cash Equivalents

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

k) Property and Equipment

Property and equipment are stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of these assets. Subsequent expenditures are included in the asset's carrying amount or are recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Bank and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognized. All other repair and maintenance costs are charged to profit or loss during the financial period in which they are incurred.

Depreciation is calculated on the straight line basis to write down the costs of the property, plant and equipment to their residual value over their estimated useful lives as follows:

Leasehold improvements	12.5 years
Motor vehicles	4 years
Office equipment	8 years
Computers and electronic equipment	3.33 years
Furniture and fittings	8 years

l) Intangible Assets

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

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

Directly attributable costs that are capitalized as part of the software product include the software development employee costs and an appropriate portion of relevant overheads.

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

m) Impairment of Non-Financial Assets

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

n) Provisions for Liabilities

Provisions for restructuring costs and legal claims are recognised when: the Bank 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.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures 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. The increase in the provision due to passage of time is recognised as interest expense.

o) Income Tax

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

(i) Current Income Tax

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

(ii) Deferred Income Tax

Deferred income tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill; deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the reporting date and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

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

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

p) Employee Benefits

i) Post-Employment Benefits

The Group operates a defined contribution post-employment benefit scheme for all its employees. The scheme is administered by an insurance company and is funded by contributions from both the Bank and employees. The Bank and its employees also contribute to the statutory National Social Security Fund, which is a defined contribution scheme.

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

The Bank's contributions to both these defined contribution schemes are charged to profit or loss in the year to which they fall due. The Bank has no further obligation once the contributions have been paid. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

ii) Other Entitlements

The estimated monetary liability for employees' including annual leave entitlement at the balance sheet date is recognised as an expense accrual.

q) Operating Leases

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

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

r) Interest Income and Expense

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

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

Once a financial asset or a group of similar financial assets has been written down as a result of an impairment loss, interest income is recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

s) Fees and Commission Income

Fees and commission income is generally recognised on an accrual basis when the service has been provided. Loan commitment fees for loans that are likely to be drawn down are deferred (together with related direct costs) and recognised as an adjustment to the effective interest rate on the loan.

Fees and commissions expense are generally recognised on an accrual basis when incurred.

t) Dividend Income

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

u) Dividends Payable

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

v) Share Capital

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

w) Regulatory Reserve

Where impairment losses required by Central Bank of Kenya Prudential guidelines exceed those computed under IFRS, the excess is recognised as a regulatory reserve and is accounted for as an appropriation of retained earnings. The regulatory reserve is non-distributable.

x) Financial Guarantee Contracts and Loan Commitments

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

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

Loan commitments provided by the Group are measured as the amount of the loss allowance. The Group has not provided any commitment to provide loans at a below-market interest rate, or that can be settled net in cash or by delivering or issuing another financial instrument, other than for staff facilities. For loan commitments and financial guarantee contracts, the loss allowance is recognised as a provision. However, for contracts that include both a loan and an undrawn commitment and the Group cannot separately identify the expected credit losses on the undrawn commitment component from those on the loan component, the expected credit losses on the undrawn commitment are recognised together with the loss allowance for the loan to the extent that the combined expected credit losses exceed the gross carrying amount of the loan, the expected credit losses are recognised as provision.

able right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the company or the counterparty.

3. Financial Risk Management

The Bank's business involves taking on risks in a targeted manner and managing them professionally. The core functions of the Bank's risk management are to identify all key risks for the Bank, measure these risks, manage the risk positions and determine capital allocations. The Bank regularly reviews its risk management policies and systems to reflect changes in markets, products and best market practice.

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

Risk management is carried out by different departments under policies approved by the Board of Directors. Departmental heads identify and evaluate risks in close cooperation with the operating units. The Board provides guidance on overall risk management, as well as written policies covering specific areas such as foreign exchange risk, interest rate risk, credit risk, use of financial instruments. The most important types of risk are credit risk, liquidity risk, market risk and other operational risk. Market risk includes currency risk, interest rate and other price risk.

3.1 Credit Risk

The Bank takes on exposure to credit risk, which is the risk that a counterparty will cause a financial loss to the Bank by failing to pay amounts in full when due. Credit risk is the most important risk for the Bank's business: management therefore carefully manages the exposure to credit risk. Credit risk arises mainly from commercial and consumer loans and advances, and loan commitments arising from such lending activities, but can also arise from credit enhancement provided, financial guarantees, letters of credit, endorsements and acceptances. The Bank is also exposed to other credit risks arising from investments in debt securities.

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 lending limits where appropriate in light with the changing market and economic conditions.

3.1.1 Risk Limit Control and Mitigation Policies

The Group structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers, and to industry segments. Such risks are monitored on a revolving basis and subject to annual or more frequent review. Limits on the level of credit risk by product, and industry sector are approved annually by the Board of Directors. The Board of Directors also approves individual borrower limits above specified amounts.

The exposure to any one borrower including groups is further restricted by sub-limits covering on- and off-balance sheet exposures and daily delivery risk limits in relation to trading items such as forward foreign exchange contracts. Actual exposures against limits are monitored daily. Exposure to credit risk is also managed through regular analysis of the ability of borrowers and potential borrowers to meet interest and capital repayment obligations and by changing lending limits where appropriate.

The Bank employs a range of policies and practices to mitigate credit risk. The most traditional of these is the taking of security for funds advances, which is common practice. The Bank implements guidelines on the acceptability of specific classes of collateral or credit risk mitigation. The principal collateral types for loans and advances are:

- Mortgages over residential properties.
- Charges over business assets such as premises inventory and accounts receivable.
- Charges over financial instruments such as debt securities and equities.

Collateral held as security for financial assets other than loans and advances depends on the nature of the instrument. Longer-term finance and lending to corporate entities are generally secured. In addition, in order to minimize the credit loss the Bank will seek additional collateral from the counterparty as soon as impairment indicators are identified for the relevant individual loans and advances.

3.1.2 Credit Risk Measurement

Loans and Advances (Including Loan Commitments and Guarantees)

The estimation of credit exposure is complex and requires the use of models, as the value of a product varies with changes in market variables, expected cash flows and the passage of time. The assessment of credit risk of a portfolio of assets entails further estimations as to the likelihood of defaults occurring, of the associated loss ratios and of default correlations between counterparties. In measuring credit risk of loans and advances at a counterparty level, the Bank considers three components: (i) the ‘Probability of Default’ (PD) by the client or counterparty on its contractual obligations; (ii) current exposures to the counterparty and its likely future development, from which the Bank derive the ‘Exposure at Default’ (EAD); and (iii) the likely recovery ratio on the defaulted obligations (the ‘Loss Given Default’) (LGD).

Credit Risk Grading

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

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

Retail

After the date of initial recognition, for retail business, the payment behaviour of the borrower is monitored on a periodic basis to develop a behavioural score. Any other know information about the borrower, which impacts their creditworthiness – such as unemployment and previous delinquency history – is also incorporated into the behavioural score. This score is mapped to a PD.

Corporate

For wholesale business, the rating is determined at the borrower level. A relationship manager will incorporate any updated or new information/credit assessments into the credit system on an ongoing basis. In addition, the relationship manager will also update information about the creditworthiness of the borrower every year from sources such as public financial statements. This will determine the updated internal credit rating and PD.

Debt Securities and Placements with Banks

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

3.1.3 Expected Credit Loss Measurement

IFRS 9 outlines a 'three-Stage' model for impairment based on changes in credit quality since initial recognition as summarised below:

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

The following diagram summarises the impairment requirements under IFRS 9 (other than purchased or originated credit-impaired financial assets):

Change in Credit Quality Since Initial Recognition

Stage 1	Stage 2	Stage 3
(Initial Recognition)	(Significant Increase in credit risk since initial recognition)	(Credit Impaired assets)
12- Month ECL	Lifetime ECL	Lifetime ECL

The key judgements and assumptions adopted by the Group in addressing the requirements of the Standard are as follows:

a) Significant Increase in Credit Risk (SICR)

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

Quantitative Criteria

The standard also sets out a rebuttable presumption that the credit risk on a financial asset has increased significantly since initial recognition when contractual payments are more than 30 days past due. The Bank has adopted the default standard definition of 30 days past due to determine the significant increase in credit risk.

Qualitative Criteria

The Bank considers a significant increase in credit risk in their portfolio if the borrower is on the watch list and/or the instrument meets one or more of the following criteria:

- Significant increase in credit spread
- Significant adverse changes in business, financial and/or economic conditions in which the borrower operates
- Actual or expected forbearance or restructuring
- Actual or expected significant adverse change in operating results of the borrower
- Significant change in collateral value (secured facilities only) which is expected to increase risk of default

Early signs of cash flows/liquidity problems such as delay in servicing of trade creditors/loans

The assessment of SICR incorporates forward-looking information and is performed at the counterparty level and on a periodic basis. The criteria used to identify SICR are monitored and reviewed periodically for appropriateness by the independent credit team.

b) Definition of Default and Credit-Impaired Assets

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

Qualitative Criteria

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

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

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

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

c) Measuring Expected Credit loss - Explanation of Inputs, Assumptions and Estimation Techniques

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

- The PD represents the likelihood of a borrower defaulting on its financial obligation, either over the next 12 months (12M PD), or over the remaining lifetime (Lifetime PD) of the obligation.
- EAD is based on the amounts the Group expects to be owed at the time of default, over the next 12 months (12M EAD) or over the remaining lifetime (Lifetime EAD).
- LGD represents the Group's expectations of the extent of loss on a defaulted exposure. LGD varies by type of counterparty, type of seniority of claim and availability of collateral or other credit support. LGD is calculated on a 12-month or lifetime basis, where 12 month LGD is the percentage of loss expected to be made if the default occurs over the next 12 months and lifetime LGD is the percentage of loss expected to be made if the default occurs over the remaining expected lifetime of the loan. Forward-looking economic information is also included in determining the 12-month and lifetime PD, EAD and LGD. These assumptions vary by product type. ECL is formula driven, i.e. ECL= PD x LGD x EAD

d) 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 the loan portfolio. These economic variables and their associated impact on PD, EAD and LGD vary by financial instrument.

The most significant period-end assumptions used for the ECL estimate as at 31 December 2018 are as follows:

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.

Sensitivity Analysis

There are no significant changes to the ECL at 31 December 2018 that would result from reasonably possible changes in the Bank's macro economic overlays and the probability weightings from actual assumptions used in the Bank's economic variable assumptions.

3.1.4 Credit Risk Exposure

Maximum Exposure to Credit Risk Before Collateral Held	2018 Shs'000	2017 Shs'000
Group		
Balances with Central Bank of Kenya (Note 13)	924,012	704,422
Deposits and balances due from banking institutions (Note 16)	195,649	637,705
Financial assets held-to-maturity (Note 17)	1,512,142	1,763,334
Financial assets available-for-sale (Note 14)	806,405	503,680
Other assets (Note 18)	425,308	249,774
Loans and advances to customers (Note 17)	13,031,250	9,698,546
	16,894,766	13,557,462
Credit risk exposures relating to off-balance sheet items:		
- Acceptances and letters of credit	1,079,918	715,709
- Guarantee and performance bonds	5,620,912	6,737,777
- Commitments to lend	2,630,386	2,149,395
- Unutilised guarantees	1,175,715	2,994,281
	27,401,697	26,154,623
Bank		
Balances with Central Bank of Kenya (Note 12)	924,012	704,422
Deposits and balances due from banking institutions (Note 15)	195,649	637,705
Financial assets held-to-maturity (Note 14)	1,512,142	1,763,334
Financial assets available-for-sale (Note 13)	806,405	503,680
Other assets (Note 17)	353,529	263,958
Loans and advances to customers (Note 16)	13,031,250	9,698,546
	16,822,987	13,571,645
Credit risk exposures relating to off-balance sheet items:		
- Acceptances and letters of credit	1,079,918	715,709
- Guarantee and performance bonds	5,620,912	6,737,777
- Commitments to lend	2,630,386	2,149,395
- Unutilised guarantees	1,175,715	2,994,281
	27,329,918	26,168,807

The above table represents a worst case scenario of credit risk exposure to the Bank at 31 December 2018 and 2017, without taking account of any collateral held or other credit enhancements attached. For on-balance sheet assets, the exposures set out above are based on carrying amounts as reported in the statement of financial position.

As shown above 48% of the total maximum exposure is derived from loans and advances to customers (2017: 39%). 8% (2017:9%) represents investments in held-to-maturity and available-for-sale financial assets.

Loans and advances to customers and off-balance sheet items are secured by collateral in the form of charges over land and buildings and/or plant and machineries. No collateral is held for 'other assets'.

3.1.5 Financial Assets that are Past Due or Impaired

The Bank aligns the classification of assets that are past due or impaired in line with the Central

Bank of Kenya prudential guidelines. In determining the classification of an account, performance is the primary consideration. Classification of an account reflects judgement about the risk of default and loss associated with the credit facility.

Accounts are classified into five categories as follows:

CBK PG/04 Guidelines	Days Past Due	IFRS 9 Stage Allocation
Normal	0-30	1
Watch	31-90	2
Substandard	91-180	3
Doubtful	181 - 365	3
Loss	Over 365 or considered uncollectible	3

Analysis of Loans and Advances – Group and Bank	2018 Shs'000	2017 Shs'000
Neither past due nor impaired (Stage 1)	11,712,349	7,457,118
Past due but not impaired (Stage 2)	710,619	1,922,036
Impaired (Stage 3)	943,736	708,335
Gross	13,366,704	10,087,489
Stage 1 and 2	(95,249)	(62,502)
Stage 3	(240,206)	(326,442)
Net	13,031,250	9,698,545

i) Loans Advances Neither Past Due by up to 30 Days (Stage 1)

The credit quality of the portfolio of loans and advances that were neither past due nor impaired can be assessed by reference to the classification adopted by the Bank in conformity with the prudential guidelines of Central Bank of Kenya:

	Individual (retail customers)			Corporate entities			
Group and Bank	Overdrafts Shs'000	Term loans Shs'000	Mortgage Shs'000	Large corporate customers Shs'000	SMEs Shs'000	Other Shs'000	Total loans & advances to customers Shs'000
31 December 2018							
Stage 1	13,740	1,539,736	257,861	8,080,838	1,820,174	-	11,712,349
31 December 2017							
Stage 1	27,043	1,104,131	198,321	3,541,678	2,585,945	-	7,457,118

ii) Loans and Advances Past Due by up to 90 Days (Stage 2)

Late processing and other administrative delays on the side of the borrower can lead to a financial asset being past due but not impaired. Therefore, loans and advances less than 90 days past due are not usually considered impaired, unless other information is available to indicate the contrary. Gross amount of loans and advances by class to customers that were past due but not impaired were as follows:

	Individual (retail customers)		
Group and Bank	Overdrafts Shs'000	Term loans Shs'000	Total Shs'000
31 December 2018			
Past due up to 30 days	21,791	87,012	108,803
Past due 30 - 90 days	4,262	41,699	45,961
Past due 60 - 90 days	29,586	46,574	76,160
Total	55,639	175,285	230,924

	Corporate entities		
Group and Bank	Large Corporate customers Shs'000	SMEs Shs'000	Total Shs'000
31 December 2018			
Past due up to 30 days	71,555	204,480	276,035
Past due 30 - 90 days	235	17,930	18,165
Past due 60 - 90 days	1,414	184,081	185,494
Total	73,204	406,491	479,695

3. Financial Risk Management (Continued)
3.1 Credit Risk (Continued)
3.1.5 Financial Assets that are Past Due or Impaired (Continued)
ii) Loans and Advances Past Due by up to 90 Days (Stage 2) (Continued)

Group and Bank	Individual (retail customers) Overdrafts Shs'000	Term loans Shs'000	Total Shs'000
31 December 2017			
Past due up to 30 days	16,893	92,184	109,077
Past due 30 - 90 days	801	29,865	30,666
Past due 60 - 90 days	-	6,409	6,409
Total	17,694	128,458	146,152

	Corporate entities Large Corporate customers Shs'000	SMEs Shs'000	Total Shs'000
Past due up to 30 days	952,667	469,819	1,422,486
Past due 30 - 90 days	243,206	93,233	366,439
Past due 60 - 90 days	-	16,959	16,959
Total	1,195,873	580,011	1,775,884

iii) Loans and Advances Individually Impaired (Stage 3) - Group and Bank

Of the total gross amount of impaired loans, the following amounts have been individually assessed net of interest in suspense:

Group and Bank	Individual (retail customers) Overdrafts Shs'000	Term loans Shs'000	Mortgage Shs'000	Corporate entities Large corporate customers Shs'000	SMEs Shs'000	Total loans & advances to customers Shs'000
31 December 2018						
Stage 3	9,520	112,831	2,557	108,734	710,094	943,736
31 December 2017						
Stage 3	23,122	314,837	4,123	101,474	264,779	708,335

Collateral Held Against Stage 3 Loans	SME Shs'000	Corporate Shs'000	Personal Shs'000	Total Collateral held Shs'000
Product				
Loans	409,059	336,856	114,941	860,856
Overdraft	234,151	19,211	11,129	264,490
Total	643,210	356,067	126,070	1,125,347

Concentration of Risk

Economic sector risk concentrations within the loan portfolios were as follows:

	Loans and advances %	Credit Commitments %
At 31 December 2018		
Financial institutions	5%	1%
Manufacturing	3%	11%
Real Estate	6%	37%
Wholesale and Retail trade	32%	21%
Building and construction	21%	16%
Other industries	16%	11%
Individuals	17%	3%
	100%	100%
At 31 December 2017		
Financial institutions	6%	22%
Manufacturing	5%	0%
Real Estate	9%	0%
Wholesale and Retail trade	15%	32%
Building and construction	28%	28%
Other industries	20%	17%
Individuals	16%	1%
	100%	100%

3.2 Market Risk

The Bank takes on exposure to market risks, which is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risks arise from open positions in interest rate, 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, foreign exchange rates and equity prices. The Bank separates exposures to market risk into either trading or non-trading portfolios.

The objective of market risk management is to manage and control market risk exposures within acceptable limits, while optimising the return on risk. Overall responsibility for managing market risk rests with the Assets and Liabilities Committee (ALCO). The Treasury department is responsible for the development of detailed risk management policies (subject to review and approval by ALCO) and for the day to day implementation of those policies. Market risk measurement and monitoring technique adopted by the bank includes use of various stress tests in its day to day operations.

Stress tests provide an indication of the potential size of losses that could arise in extreme conditions. The stress tests carried out by Bank Treasury include interest rates stress test, liquidity stress test and adhoc stress testing, which includes applying possible stress events to specific positions or regions – for example, the stress outcome to a region following a currency peg break.

The results of the stress tests are reviewed by senior management and the Assets and liabilities committee and by the Board of Directors. The stress testing is tailored to the business and typically uses scenario analysis.

i) Foreign Exchange Risk

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

At December 2018, if the shilling had weakened/strengthened by 5% against the foreign currencies in which the Bank had exposures, with all other variables held constant, pre-tax loss would have been lower by Kshs 9,287,000 (2017: Kshs 2,992,000).

ii) Currency Risk

The table below summarises the Bank's exposure to foreign exchange risk at 31 December 2018. Included in the table are the Bank's financial instruments at carrying amounts, categorised by currency (all amounts expressed in thousands of Kenya Shillings).

	USD	GBP	Euro	Other	Total
At 31 December 2018					
Assets					
Cash and balances with Central Bank of Kenya	51,503	3,962	16,695	22	72,182
Deposits and balances due from banking institutions	30,617	66,890	98,141	-	195,648
Loans and advances to customers	1,599,608	104,560	258	-	1,704,426
Other assets	13,137	-	34,938	-	48,075
Total assets	1,694,865	175,412	150,032	22	2,020,331
Liabilities					
Customer deposits	1,164,241	176,193	120,128	11	1,460,573
Deposits and balances due to banking Institutions	474,334	-	-	-	474,334
Other Liabilities	-	856	-	504	1,360
Total liabilities	1,638,575	177,049	120,128	525	1,936,267
Net on-balance sheet position	56,290	(1,637)	29,904	(503)	84,064
Net off-balance sheet position	-	-	-	-	-
Overall net position	56,290	(1,637)	29,904	(503)	84,064
As at 31 December 2017					
Total assets	1,520,201	185,233	249,651	46	1,955,131
Total liabilities	1,468,067	184,364	242,297	562	1,895,290
Net on-balance sheet position	52,134	869	7,354	(516)	59,841
Net off-balance sheet position	4,312	-	(4,315)	-	(3)
Overall net position	56,446	869	3,039	(516)	59,838

iii) Interest Rate Risk

Cash flow interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate because of changes in market interest rates.

The Bank's interest bearing financial assets and liabilities are loans and advances to customers and customer deposits, which are at variable rate, and on which it is therefore exposed to cash flow interest rate risk. The Bank regularly monitors financing options available to ensure optimum interest rates are obtained. At December 2018, an increase/decrease of 1% would have resulted in an increase/decrease in pre tax loss of Kshs 19,583,000 (2017: Kshs 4,844,000).

The table below summarises the exposure to interest rate risk. Included in the table are the Bank's assets and liabilities at carrying amounts, categorised by the earlier of contractual re-pricing or maturity date. The Bank does not bear an interest rate risk on off balance sheet items. All figures are in thousands of Kenya shillings.

Group	Up to 1 months Shs'000	1-3 months Shs'000	4-12 months Shs'000	Over 1 year Shs'000	Non-interest bearing Shs'000	Total Shs'000
As at 31 December 2018						
Assets						
Cash and balances with Central Bank of Kenya	-	-	-	-	1,359,779	1,359,779
Financial assets held- to-maturity	-	97,728	117,591	1,296,823	-	1,512,142
Deposits and balances due from banking institutions	195,649	-	-	-	-	195,649
Financial assets available-for-sale	794,499	-	11,906	-	-	806,405
Other assets and prepaid expenses	-	-	-	-	425,308	425,308
Loans and advances to customers	13,031,250	-	-	-	-	13,031,250
Property and equipment and intangible assets	-	-	-	-	441,200	441,200
Deferred income tax	-	-	-	-	131,913	131,913
Total assets	14,021,398	97,728	129,497	1,296,823	2,358,200	17,903,646

	Up to 1 months Shs'000	1-3 months Shs'000	4-12 months Shs'000	Over 1 year Shs'000	Non-interest bearing Shs'000	Total Shs'000
As at 31 December 2018						
Liabilities and Shareholders' Funds						
Customer deposits	3,866,377	4,021,517	1,805,018	70,972	3,353,998	13,117,882
Deposits and balances due to banking institutions	964,462	105,151	204,119	-	-	1,273,732
Other liabilities	-	-	-	-	593,568	593,568
Current income tax	-	-	-	-	39,436	39,436
Shareholders' equity	-	-	-	-	2,879,027	2,879,027
Total liabilities and shareholders' equity	4,830,839	4,126,668	2,009,137	70,972	6,866,029	17,903,646
Interest sensitivity gap	9,190,559	(4,028,940)	(1,879,640)	1,225,851	(4,507,829)	-
As at 31 December 2017						
Total assets	10,362,946	44,830	307,938	1,887,552	1,907,412	14,510,677
Total liabilities and shareholders' funds	2,008,439	2,993,199	3,698,949	788,473	5,021,617	14,510,677
Interest sensitivity gap	8,354,507	(2,948,369)	(3,391,011)	1,099,079	(3,114,205)	-

3. Financial Risk Management (Continued)
3.2 Market Risk (Continued)
iii) Interest Rate Risk (Continued)

Bank	Up to 1 months Shs'000	1-3 months Shs'000	4-12 months Shs'000	Over 1 year Shs'000	Non-interest bearing Shs'000	Total Shs'000
As at 31 December 2018						
Assets						
Cash and balances with Central Bank of Kenya	-	-	-	-	1,333,101	1,333,101
Financial assets held- to-maturity	-	97,728	117,591	1,296,823	-	1,512,142
Deposits and balances due from banking institutions	794,499	-	11,906	-	-	806,405
Financial assets available-for-sale	195,649	-	-	-	-	195,649
Other assets and prepaid expenses	-	-	-	-	354,564	354,564
Loans and advances to customers	13,031,250	-	-	-	-	13,031,250
Property and equipment and intangible assets	-	-	-	-	-	-
Deferred income tax	-	-	-	-	131,927	131,927
Investment in subsidiary	-	-	-	-	440,952	440,952
Total assets	14,021,397	97,728	129,497	1,296,823	2,260,545	17,805,990

	Up to 1 months Shs'000	1-3 months Shs'000	4-12 months Shs'000	Over 1 year Shs'000	Non-interest bearing Shs'000	Total Shs'000
As at 31 December 2018						
Liabilities And Shareholders' Funds						
Customer deposits	3,866,377	4,021,517	1,805,018	70,972	3,353,998	13,117,882
Deposits and balances due to banking institutions	964,462	105,151	204,119	-	-	1,273,732
Other liabilities	-	-	-	-	511,969	511,969
Current income tax	-	-	-	-	39,382	39,382
Shareholders' equity	-	-	-	-	2,863,025	2,863,025
Total liabilities and shareholders' equity	4,830,839	4,126,668	2,009,137	70,972	6,768,374	17,805,990
Interest sensitivity gap	9,190,558	(4,028,940)	(1,879,640)	1,225,851	(4,507,829)	
As at 31 December 2017						
Total assets	10,362,946	44,830	307,938	1,887,552	1,861,808	14,465,074
Total liabilities and shareholders' funds	2,008,439	2,993,199	3,698,949	788,473	4,976,014	14,465,074
Interest sensitivity gap	8,354,507	(2,948,369)	(3,391,011)	1,099,079	(3,114,206)	-

3.3 Liquidity Risk

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

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

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

Monitoring and reporting take the form of cash flow measurement and projections for the next day, week and month respectively, as these are key periods for liquidity management. The starting point for those projections is an analysis of the contractual maturity of the financial liabilities and the expected collection date of the financial assets.

Bank Treasury also monitors unmatched medium-term assets, the level and type of undrawn lending commitments, the usage of overdraft facilities and the impact of contingent liabilities such as standby letters of credit and guarantees.

The table below presents the undiscounted cash flows payable by the Bank under financial liabilities by remaining contractual maturities at the balance sheet date. All figures are in Thousands of Kenya Shillings.

3. Financial Risk Management (Continued)

3.3 Liquidity Risk (Continued)

Group	Up to 1 months Shs'000	1-3 months Shs'000	4-12 months Shs'000	1-5 years Shs'000	Over 5 years Shs'000	Total Shs'000
As at 31 December 2018						
Liabilities						
Customer deposits	3,679,667	5,991,459	2,351,563	1,286,082	-	13,308,771
Deposits and balances due to banking institutions	970,716	308,498	204,119	-	-	1,279,214
Other liabilities	442,899	-	51,829	-	3,657	498,385
Shareholders' equity	-	-	-	-	2,893,356	2,893,356
Total liabilities	5,093,282	6,299,957	2,607,511	1,286,082	2,897,013	17,979,726
As at 31 December 2017						
Liabilities						
Customer deposits	3,866,377	4,021,517	1,805,018	70,972	3,353,998	11,015,148
Deposits and balances due to banking institutions	544,887	-	-	-	-	544,887
Other liabilities	137,496	94,807	39,827	80,221	-	352,351
Total liabilities	4,548,760	4,116,324	1,844,845	151,193	3,353,998	11,912,386

Bank	Up to 1 months Shs'000	1-3 months Shs'000	4-12 months Shs'000	1-5 years Shs'000	Over 5 years Shs'000	Total Shs'000
As at 31 December 2018						
Liabilities						
Customer deposits	3,663,770	5,928,206	2,258,767	1,267,139	-	13,117,882
Deposits and balances due to banking institutions	964,462	105,151	204,119	-	-	1,273,732
Other liabilities	456,483	-	51,829	-	3,657	511,969
Shareholders' equity					2,863,025	2,863,025
Total liabilities	5,084,715	6,033,357	2,514,715	1,267,139	2,866,682	17,766,608
At 31 December 2017						
Liabilities						
Customer deposits	5,593,792	3,426,879	1,652,788	341,689	-	11,015,148
Deposits and balances due to banking institutions	544,886	-	-	-	-	544,886
Other liabilities	137,495	56,853	39,827	80,358	-	314,533
Current income tax	-	-	-	-	-	-
Shareholders' equity	-	-	-	-	2,673,586	2,673,586
Total liabilities	6,276,173	3,483,732	1,692,615	422,047	2,673,586	14,548,153

The Bank holds a diversified portfolio of cash and high-quality highly-liquid securities to manage liquidity risk and support payment obligations and contingent funding in a stressed market environment. The Bank's assets held for managing liquidity risk comprise of cash and balances with Central Bank of Kenya, certificates of deposit, government securities and other securities that are readily acceptable in repurchase agreements with the Central Bank of Kenya.

3.4 Fair Value Hierarchy

Assets Measured at Fair Value	Level 1 Shs'000	Level 2 Shs'000	Level 3 Shs'000	Total balance Shs'000
Group and Bank				
At 31 December 2018				
Fair value through OCI				
- Debt investments	-	806,405	-	806,405
- Impairment charge				
Total assets				
At 31 December 2017				
Fair value through OCI				
- Debt investments	-	503,680	-	503,680

The fair value of financial instruments traded in active markets is based on quoted market prices at the balance sheet date. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry Bank, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. The quoted market price used for financial assets held by the Bank is the current bid price. These instruments are included in level 1. Instruments included in level 1 comprise primarily foreign corporate bonds and Nairobi Securities Exchange ("NSE") equity investments classified as available for sale.

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined by using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2. If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3.

Specific valuation techniques used to value financial instruments include:

- Quoted market prices or dealer quotes for similar instruments
- The fair value of forward foreign exchange contracts is determined using forward exchange rates at the balance sheet date, with the resulting value discounted back to present value.

The following summarises the carrying amount of those assets and liabilities not held at fair value. The carrying amount of assets and liabilities held at amortised cost is considered to approximate the fair value of the assets and liabilities.

	2018		2017	
Group	Historical cost Shs'000	Fair Value Shs'000	Historical cost Shs'000	Fair Value Shs'000
Assets				
Cash and balances with Central Bank of Kenya	1,359,779	1,359,779	995,565	995,565
Financial assets available-for-sale	806,405	806,405	503,680	503,680
Financial assets held-to-maturity	1,512,142	1,512,142	1,763,334	1,639,030
Deposits and balances due from banking institutions	195,649	195,649	637,705	637,705
Loans and advances to customers	13,031,250	13,031,250	9,698,546	9,698,546
Other assets and prepaid expenses	425,308	425,308	318,692	318,692
Liabilities				
Deposits and balances due to banking institutions	1,273,732	1,273,732	544,887	544,887
Customer deposits	13,117,882	13,117,882	10,939,796	10,939,796
Other liabilities	593,568	593,568	352,349	352,349

	2018		2017	
Bank	Historical cost Shs'000	Fair Value Shs'000	Historical cost Shs'000	Fair Value Shs'000
Assets				
Cash and balances with Central Bank of Kenya	1,333,101	1,333,101	969,177	969,177
Financial assets available-for-sale	806,405	806,405	503,680	503,680
Financial assets held-to-maturity	1,512,142	1,512,142	1,763,334	1,639,030
Deposits and balances due from banking institutions	195,649	195,649	637,705	637,705
Loans and advances to customers	13,031,250	13,031,250	9,698,546	9,698,546
Other assets and prepaid expenses	353,564	353,564	298,738	298,738
Property and equipment			291,186	291,186
Liabilities				
Deposits and balances due to banking institutions	1,273,732	1,273,732	544,887	544,887
Customer deposits	13,117,882	13,117,882	10,939,796	10,939,796
Other liabilities	511,969	511,969	314,533	314,533

3.5 Capital Management

The Bank's objectives when managing capital, which is a broader concept than the 'equity' on the balance sheets, are:

- to comply with the capital requirements set by the Central Bank of Kenya;
- to safeguard the Bank's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders;
- to maintain a strong capital base to support the development of its business.

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

The Central Bank of Kenya requires each bank to:

(a) hold the minimum level of regulatory capital of Shs 1 billion;
(b) maintain a ratio of core regulatory capital to the risk-weighted assets plus risk-weighted off-balance sheet assets (the 'Basel ratio') at or above the required minimum of 10.5% (2017: 10.5%);
(c) maintain core capital of not less than 8% of total deposit liabilities; and
(d) maintain total capital of not less than 14.5% (2017: 14.5%) of risk-weighted assets plus risk-weighted off-balance sheet items.

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

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

The risk weighted assets are measured by means of a hierarchy of four risk weights classified according to the nature of – and reflecting an estimate of the credit risk associated with – each asset and counterparty. A similar treatment is adopted for off-balance sheet exposure, with some adjustments to reflect the more contingent nature of the potential losses.

The table below summarises the composition of regulatory capital and the ratios of the Bank as at 31 December:

	2018 Shs'000	2017 Shs'000
Tier 1 capital	2,760,865	2,594,364
Tier 1 + Tier 2 capital	2,852,906	2,643,905
Risk-weighted assets		
On-balance sheet	13,504,875	9,605,727
Off-balance sheet	5,383,493	6,210,588
Total risk-weighted assets	18,888,368	15,816,315
Basel ratio		
Core capital to total risk weighted assets		
(CBK minimum – 10.5% (2017: 10.5%)	14.60%	15.6%
Total capital to total risk weighted assets		
(CBK minimum – 14.5% (2017: 14.5%)	15.1%	15.9%

4. Critical Accounting Estimates and Judgements in Applying Accounting Policies

The Bank makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgements are continuously evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

a) Impairment losses on loans and advances

The Bank reviews its loan portfolios to assess impairment at least on a quarterly basis. In determining whether an impairment loss should be recorded in profit or loss, the Bank makes judgements as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with an individual loan in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the Bank.

Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

	2018 Shs'000	2017 Shs'000
5. Interest Income		
Group and Bank		
Loans and advances	1,619,816	1,252,435
Credit related fees and commissions*	301,519	182,172
Financial assets held-to-maturity	176,175	170,461
Financial assets available-for-sale	88,882	86,120
Deposits and balances due from banking institutions	6,506	24,301
	2,192,898	1,715,489

**Credit related fees and commisions previously classified under fees and commission income have been classified under interest income.*

	2018 Shs'000	2017 Shs'000
6. Interest Expense		
Group		
Customer deposits	853,441	708,982
Deposits and balances due to banking institutions	44,610	30,517
	898,051	739,499
Bank		
Customer deposits	854,824	709,677
Deposits and balances due to banking institutions	44,610	30,517
	899,434	740,194
7. Other Income		
Group and Bank		
Gain on sale of financial assets held at FVOCI	146,071	57,747
Other income	25,640	31,093
Gain on disposal of property and equipment	286	-
	171,997	88,840
8. Credit impairment losses		
Group and Bank		
Loans to customers (Note 17)	153,910	136,272
Investment securities	(157)	-
Cash, Nostros and placements	(12)	-
Off balance sheet	434	-
	154,175	136,272

	2018 Shs'000	2017 Shs'000
9. Employee Benefits		
Group		
Salaries and allowances	489,904	415,809
Medical insurance	37,630	23,502
Training and development	6,940	2,200
Travelling and accommodation	2,494	1,445
Retirement benefits costs	-	
- Defined contribution scheme	20,194	17,606
- National Social Security Fund	493	476
Other costs	17,794	9,569
	575,449	470,60
The number of persons employed by the Group at the year-end was 215 (2017: 198).		
Bank		
Salaries and allowances	484,657	411,837
Medical insurance	37,332	23,277
Training and development	6,940	2,200
Travelling and accommodation	2,494	1,445
Retirement benefits costs		
- Defined contribution scheme	20,012	17,422
- National Social Security Fund	486	471
Other costs	17,771	9,537
	569,692	466,189
The number of persons employed by the Bank at the year-end was 212 (2017: 196)		

	2018 Shs'000	2017 Shs'000
10. Other Operating Expenses		
Group		
The following items are included with other operating expenses:		
Software licensing and other information technology costs	67,928	61,341
Auditor's remuneration	4,945	4,709
Rental expenses	102,909	101,974
Other costs	342,307	247,256
	518,089	411,470
Bank		
The following items are included with other operating expenses:		
Software licensing and other information technology costs	67,777	61,175
Auditor's remuneration	11,582	3,748
Rental expenses	102,909	101,974
Other costs	334,916	243,053
	517,184	414,240

	2018 Shs'000	2017 Shs'000
11. Income Tax Expense		
Group		
Current income tax	86,552	40,822
Deferred income tax (Note 18)	10,032	9,231
Over provision of deferred tax in the prior years (Note 18)	(2,180)	1,085
	94,404	51,138
The tax on the Group's profit before income tax differs from the theoretical amount that would arise using the statutory income tax rate as follows:		
Profit before income tax	342,941	185,218
Tax calculated at a tax rate of 30% (2017: 30%)	102,882	55,565
Tax effect of:		
- income not subject to tax	(33,982)	(27,888)
- expenses not deductible for tax purposes	25,643	22,376
- overprovision of deferred tax in prior years	(139)	1,085
Income tax expense	94,404	51,138
Bank		
Current income tax	83,055	38,892
Deferred income tax (Note 19)	10,068	9,233
Overprovision of deferred tax in the prior years (Note 19)	(1,949)	1,085
	91,174	49,210
The tax on the Bank's profit before income tax differs from the theoretical amount that would arise using the statutory income tax rate as follows:		
Profit before income tax	332,208	179,056
Tax calculated at a tax rate of 30% (2017: 30%)	99,662	53,517
Tax effect of:		
- income not subject to tax	(33,983)	(27,888)
- expenses not deductible for tax purposes	25,634	22,296
- overprovision of deferred tax in prior years	(139)	1,085
Income tax expense / (credit)	91,174	49,210

12. Proposed Dividends

Proposed dividends are provided for when declared and ratified at the annual general meeting.

Payment of dividends is subject to withholding tax at a rate of either 5% or 10% depending on the residence status of the respective shareholders.

The directors propose payment of a dividend of Kshs 2.00 per share amounting to Shs 72,310,200 (2017: 26,059,568).

	2018 Shs'000	2017 Shs'000
13. Cash and balances with Central Bank of Kenya		
Group		
Cash in hand	409,090	291,143
Balances with Central Bank of Kenya	950,690	704,422
	1,359,780	995,565
Bank		
Cash in hand	409,090	264,755
Balances with Central Bank of Kenya	924,012	704,422
	1,333,102	969,177
14. Financial Assets Held at FVOCI		
Group and Bank		
Infrastructure bond	635,967	118,120
Government of Kenya treasury bonds	158,532	361,765
Corporate bond	11,906	23,795
	806,405	503,680
The securities are traded on the Nairobi Securities Exchange.		
15. Financial Assets Held-to-Maturity		
Group and Bank		
Maturing after 90 days of the date of acquisition	1,414,415	1,617,294
Maturing within 90 days from the date of acquisition	97,728	146,040
	1,512,143	1,763,334

	2018 Shs'000	2017 Shs'000
16. Deposits and Balances from Banking Institutions		
Group and Bank		
Overnight lending	35,028	243,417
Balances with local banks	-	-
Balances with banks abroad	160,620	394,288
	195,648	637,705
Deposits and balances from banking institutions is net of ECL of Shs. 9,172 (2017: Shs. 29,302)		
17. Loans and Advances to Customers		
Retail customers		
Mortgage lending	378,034	242,819
Personal unsecured	58,948	120,960
Personal secured Loans	1,811,594	1,386,089
Corporate customers		
Commercial term loans	8,379,000	6,233,730
Overdraft facilities	2,797,485	2,103,891
Gross loans and advances	13,425,061	10,087,489
Less: Provision for impairment of loans and advances		
- Stage 1	(68,811)	(51,462)
- Stage 2	(26,438)	(11,040)
- Stage 3	(298,563)	(326,442)
	(393,813)	(388,944)
Net loans and advances	13,031,248	9,291,169

	Stage 1 12-month ECL Shs'000	Stage 2 Lifetime ECL Shs'000	Stage 3 Lifetime ECL Shs'000	Total Shs'000
i)				
Gross carrying amount as at 1 January 2018	7,775,659	1,121,903	1,190,193	10,087,755
Transfer from stage 1 to stage 2	(195,700)	195,700		-
Transfer from stage 1 to stage 3	(41,042)		41,042	-
Transfer from stage 2 to stage 3		(337,068)	337,068	-
Transfer from stage 3 to stage 2		36,542	(36,542)	-
Transfer from stage 2 to stage 1	479,473	(479,473)		-
Transfer from stage 3 to stage 1	139,978		(139,978)	
New financial assets originated or purchased	3,666,998	59,997		3,726,995
Financial assets that have been derecognised			(161,676)	(161,676)
Write-offs			(228,013)	(228,013)
Gross carrying amount as at 31 December 2018	11,825,366	597,601	1,002,094	13,425,061
ii) Provisions for Impairment of Loans and Advances				
Year ended 31 December 2018				
At start of the year	51,462	11,040	326,442	388,944
Change on initial application of IFRS 9	6,578	20,770	51,498	78,846
Movements during the year				
Transfer from stage 1 to stage 2	(13,846)	13,846	-	-
Transfer from stage 1 to stage 3	(18,546)		18,546	-
Transfer from stage 2 to stage 3		(63,750)	63,750	-
Transfer from stage 3 to stage 2		434	(434)	-
Transfer from stage 2 to stage 1	3,495	(3,495)		-
New financial assets originated or purchased	39,665	47,596	66,649	153,910
	10,768	(5,369)	148,511	153,910
Write-offs	-	-	(228,013)	(228,013)
Loss allowance as at 31 December 2018	68,811	26,439	298,563	393,813

17. Loans and Advances to Customers (Continued)

ii) Provisions for Impairment of Loans and Advances (Continued)

	Retail Shs'000	Corporate Shs'000	Total Shs'000
Movement in provisions for impairment of loans and advances in 2017 were as follows:			
Individually assessed			
At start of year	86,625	268,606	355,231
Charge for the year	92,308	22,565	114,873
Write offs	(12,268)	(131,394)	(143,662)
At end of the year	166,665	159,777	326,442
Collectively assessed			
Start of the year	4,682	36,420	41,102
Charge for the year	5,151	16,249	21,400
At end of the year	9,833	52,669	62,502
Totals	176,498	212,446	388,944

	Shs'000
iii) Provision Movement on Adoption of IFRS 9	
Opening adjustment	
- Loans and advances	78,846
- Other financial assets	6,915
Total	85,761
Deferred income tax	(25,728)
Net amounts adjusted through opening retained earnings	60,033

	2018 Shs'000	2017 Shs'000
18. Other Assets and Prepaid Expenses Group		
Group		
Items in transit	151,912	122,365
Prepaid expenses	45,785	37,318
Stationery stocks	6,623	4,111
Others	142,658	154,898
	346,978	318,692
Bank		
Items in transit	151,912	122,365
Prepaid expenses	45,785	30,669
Stationery stocks	6,623	4,111
Others	70,657	141,593
	274,977	298,738

19. Deferred Income Tax

Deferred income tax is calculated, in full, on all temporary differences under the liability method using the enacted income tax rate of 30% (2017: 30%). The movement on the deferred income tax account is as follows:

Group	2018 Shs'000	2017 Shs'000
At start of year	114,749	125,065
Change on initial application of IFRS 9	25,728	-
Charge to profit or loss account (Note 10)	(10,032)	(9,231)
Under provision in the prior years	2,180	(1,085)
At end of year	132,625	114,749

The net deferred income tax asset in the statement of financial position, deferred income tax credit in the profit or loss and charge to other comprehensive income (OCI) are attributable to the following items:

	1.1.2018 Shs'000	IFRS 9	(Dr)/Cr to P&L Shs'000	31.12.2018 Shs'000
Property and equipment	(669)	-	2,802	2,133
Loans and advances	116,683	25,728	(8,267)	134,144
Other provisions	3,363	-	1,989	5,352
Fair value movements	(2,501)	-	(6,412)	(8,913)
Unrealised exchange losses	(2,127)	-	2,036	(91)
Net deferred income tax asset	114,749	25,728	(7,852)	132,625

	1.1.2017 Shs'000	(Dr)/Cr to P&L Shs'000	31.12.2017 Shs'000
Property and equipment	((2,912)	2,243	(669)
Loans and advances	114,937	1,926	116,683
Other provisions	10,417	(7,054)	3,363
Available for sale securities - fair value Movement	(3,491)	1,415	(2,501)
Unrealised exchange losses	6,114	(8,240)	(2,127)
Tax losses	-	-	-
Net deferred income tax asset	125,065	(10,316)	114,749

Bank	2018 Shs'000	2017 Shs'000
At start of year	114,758	125,076
Change on initial application of IFRS 9	25,728	-
Charge to profit or loss account (Note 11)	(10,068)	(9,233)
Under provision in the prior years	1,949	(1,085)
At end of year	132,367	114,758

The net deferred income tax asset in the statement of financial position, deferred income tax credit in the profit or loss and charge to other comprehensive income (OCI) are attributable to the following items:

	1.1.2018 Shs'000	IFRS 9	(Dr)/Cr to P&L Shs'000	31.12.2018 Shs'000
Property and equipment	(660)	-	2,802	2,142
Loans and advances	116,683	25,728	(8,534)	133,877
Other provisions	3,363	-	1,989	5,352
Fair value movements	(2,501)	-	(6,412)	(8,913)
Unrealised exchange losses	(2,127)	-	2,036	(91)
Net deferred income tax asset	114,758	25,728	(8,119)	132,367

	1.1.2017 Shs'000	(Dr)/Cr to P&L Shs'000	31.12.2017 Shs'000
Property and equipment	(2,901)	2,243	(660)
Loans and advances	114,937	1,926	116,683
Other provisions	10,417	(7,054)	3,363
Available for sale securities - fair value Movement	(3,491)	1,415	(2,501)
Unrealised exchange losses	6,114	(8,240)	(2,127)
Tax losses	-	-	-
Net deferred income tax asset	125,076	(10,316)	114,758

	Leasehold improvements Shs'000	Motor vehicles Shs'000	Office equipment Shs'000	Computer & electronic equipment Shs'000	Furniture and fittings Shs'000	Total Shs'000
20. Property and Equipment						
Group						
At January 2017						
Cost	244,419	20,057	204,889	150,245	37,533	657,143
Accumulated Depreciation	(93,522)	(19,998)	(101,203)	(124,467)	(26,751)	(365,941)
Net Book Value	150,897	59	103,687	25,778	10,782	291,203
Year ended 31 December 2017						
Opening net book amount	150,897	59	103,687	25,778	10,782	291,203
Additions	3,227	64	12,751	28,084	369	44,431
Depreciation charged	(18,894)	(234)	(23,068)	(13,400)	(2,739)	(58,335)
Closing net book amount	150,897	59	103,687	25,777	10,782	291,203
At 31 December 2017						
Cost	244,419	20,057	204,889	150,245	37,533	657,143
Accumulated depreciation	(93,522)	(19,998)	(101,203)	(124,467)	(26,751)	(365,941)
Net book amount	150,897	59	103,687	25,778	10,782	291,203
Year ended 31 December 2018						
Opening net book amount	150,897	59	103,687	25,778	10,782	291,203
Additions	7,757	11,032	12,756	4,599	3,076	39,221
Depreciation charged	(19,381)	(1,667)	(23,270)	(12,572)	(2,689)	(59,579)
Closing net book amount	139,273	9,424	93,173	17,805	11,169	270,844
At 31 December 2018						
Cost	252,237	31,089	217,646	154,844	40,608	696,424
Accumulated depreciation	(112,964)	(21,665)	(124,473)	(137,039)	(29,438)	(425,580)
Net book amount	139,273	9,424	93,173	17,805	11,169	270,844

	Leasehold improvements Shs'000	Motor vehicles Shs'000	Office equipment Shs'000	Computer & electronic equipment Shs'000	Furniture and fittings Shs'000	Total Shs'000
Bank						
At 1 January 2017						
Cost	241,192	20,057	192,138	122,161	37,113	612,661
Accumulated depreciation	(74,628)	(19,827)	(78,134)	(111,068)	(23,991)	(307,648)
Net book amount	166,564	230	114,004	11,093	13,122	305,013
Year ended 31 December 2017						
Opening net book amount	166,564	230	114,004	11,093	13,122	305,013
Additions	3,227	-	12,751	28,084	369	44,431
Depreciation charged	(18,894)	(171)	(23,068)	(13,400)	(2,726)	(58,323)
Closing net book amount	150,897	59	103,687	25,777	10,765	291,186
At 31 December 2017						
Cost	244,419	20,057	204,889	150,245	37,482	657,092
Accumulated depreciation	(93,522)	(19,998)	(101,203)	(124,467)	(26,717)	(365,907)
Net book amount	150,897	59	103,687	25,778	10,765	291,186
Year ended 31 December 2018						
Opening net book amount	150,897	59	103,687	25,778	10,765	291,186
Additions	7,757	11,032	12,756	4,505	3,076	39,187
Depreciation charged	(19,381)	(1,667)	(23,270)	(12,572)	(2,677)	(59,627)
Closing net book amount	139,273	9,424	93,173	17,711	11,165	270,745
At 31 December 2018						
Cost	252,237	31,089	217,646	154,750	40,558	696,280
Accumulated depreciation	(112,964)	(21,665)	(124,473)	(137,039)	(29,393)	(425,535)
Net book amount	139,273	9,424	93,173	17,711	11,165	270,745

	Software licences Shs'000	Work in Progress Shs'000	Total Shs'000
21. Intangible Assets			
Group			
Year ended 31 December 2017			
Opening net book amount	106,245	26,794	133,039
Additions	95,839	4,341	100,180
Transfer from WIP	19,011	(19,011)	-
Amortisation for the year	(46,017)	-	(46,017)
Closing net book amount	175,077	12,124	187,202
Year ended 31 December 2018			
Opening net book amount	175,077	12,124	187,202
Additions	33,337	-	33,337
Transfer from WIP	2,479	(2,479	-
Amortisation for the year	(50,182)	-	(50,182)
Closing net book amount	160,711	9,645	170,357
At 31 December 2017			
Bank			
Year ended 31 December 2017			
Opening net book amount	105,888	26,794	132,682
Additions	95,839	4,341	100,180
Transfer from WIP	19,011	(19,011)	-
Amortisation for the year	(45,913)	-	(45,913)
Closing net book amount	174,825	12,124	186,949
Year ended 31 December 2018			
Opening net book amount	174,825	12,124	186,949
Additions	33,337	-	33,337
Transfer from WIP	2,479	(2,479	-
Amortisation for the year	(50,078)	-	(50,078)
Closing net book amount	160,563	9,645	170,208

22. Investment in Subsidiary

The Bank has an investment in a wholly owned subsidiary called My Friend Insurance Agency Limited. The subsidiary provides bancassurance services.

	2018 Shs'000	2017 Shs'000
23. Deposits and Balances Due to Banking Institutions		
Group and Bank		
Current accounts	3,000	4,349
Deposits from other banks	306,270	465,488
Overnight borrowing	964,462	75,050
	1,273,732	544,887
24. Customer Deposits		
Group and Bank		
Retail customers:		
Current and demand deposits	1,823,685	621,683
Fixed deposits	4,239,339	3,268,880
Savings accounts	304,664	421,941
Corporate customers:		
Current and demand deposits	1,535,491	1,660,342
Fixed deposits	5,214,702	4,966,950
	13,117,881	10,939,796
25. Other Liabilities		
Group		
Items in transit	47,530	49,056
Bills payable	10,981	19,331
Unclaimed balances	3,604	12,022
Other payables	452,872	271,919
	514,987	352,348
Bank		
Items in transit	47,530	11,810
Bills payable	10,364	18,760
Unclaimed balances	3,604	12,022
Other payables	371,890	271,941
	433,388	314,533

	Number of shares (thousands)	Ordinary shares Shs'000	Share premium Shs'000
26. Share Capital			
Group and Bank			
Year ended 31 Dec 2017			
At the start of the year	19,491	1,949,163	457,977
Issue of shares	517	51,718	20,633
Issue of Bonus shares	3,899	389,905	(389,905)
As at 31 December 2017	23,907	2,390,786	88,705
Year ended 31 Dec 2018			
At the start of the year	23,907	2,390,786	88,705
Issue of shares	157	15,639	7,808
Share Premium Adjustment			(20,798)
As at 31 December 2018	24,064	2,406,425	75,715

As at 31 December 2018, the Banks authorised share capital was 50,000,000 ordinary shares of Shs' 100 each (2017: 30,000,000). During the year an additional 157,000 shares were issued at a premium. 24,064,251 shares are issued and fully paid (2017: 20,008,813).

	2018 Shs'000	2017 Shs'000
27. Regulatory Reserve		
At start of year	49,541	44,497
Transfer from retained earnings	42,499	5,044
At end of year	92,040	49,541

The regulatory reserve represents an appropriation from retained earnings to comply with the CBK's Prudential guidelines. The balance in the reserve represents the excess of impairment provisions determined in accordance with the CBK's Prudential guidelines over the impairment provisions recognised in accordance with the International Financial Reporting Standards. This reserve is not distributable.

	2018 Shs'000	2017 Shs'000
28. Fair Value Reserve		
Group and Bank		
At start of year	(4,844)	(8,146)
Revaluation – Available-for-sale assets	21,376	4,717
Deferred income tax	(6,413)	(1,415)
At end of year	10,119	(4,844)

Fair value reserve comprises the cumulative net change in the fair value of available-for-sale investments until the investment is derecognised or impaired.

29. Off-Balance Sheet Financial Instruments, Contingent Liabilities and Commitments (Group and Bank)

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

In addition, there are other off-balance sheet financial instruments including forward contracts for the purchase and sale of foreign currencies, whose nominal amounts are not reflected in the statement of financial position. At the year end, the contingent items were as follows:

	2018 Shs'000	2017 Shs'000
Contingent Liabilities		
Acceptances and letters of credit	1,079,918	715,709
Guarantees and performance bonds	5,620,912	6,737,777
	6,700,830	7,453,486
Clients' Investments		
Clients' treasury bonds	1,800	800
Clients' treasury bills	1,250	550
	3,050	1,350

The Bank invests in Government of Kenya treasury bills and treasury bonds on behalf of its clients. These investments are held in Bank's clients account with the Central Bank of Kenya separate from the Bank's own investments. These investments are recognised as client investments and as off balance sheet assets in the Bank's books.

Nature of Contingent Liabilities (Group and Bank)

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

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

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

	2018 Shs'000	2017 Shs'000
Commitments		
(a) Operating Lease Commitments		
Not later than one year	86,971	103,227
Later than 1 year and not later than 5 years	76,427	181,496
	163,399	284,723

The Bank leases a number of branch and office premises under operating leases. The leases typically run for a period of up to six years, with an option to renew the lease after that date. The lease payments have escalation clauses at different interval periods to reflect market rentals.

(b) Legal Proceedings

There were a few of legal proceedings outstanding against the Bank at 31 December 2018.

Claims and counter claims against the Bank regarding collaterals held by the Bank have been lodged. The Bank considers the cases as without merit and is defending them vigorously.

(c) Capital Commitments

At 31 December 2018, the Bank had Minimum capital commitments (2017: Kshs 23,157,000) in respect of software, buildings and equipment purchases.

	2018 Shs'000	2017 Shs'000
(d) Other Commitments		
Undrawn formal stand-by facilities, credit lines and other commitments to lend	3,035,717	2,149,395

Nature of Commitments

Commitments to lend are agreements to advance to a customer in future subject to certain conditions. Such commitments are normally made for a fixed period. The Bank may withdraw from its contractual obligation for the undrawn portion of agreed overdraft limits by giving reasonable notice to the customer.

30. Assets Pledged as Security

As at 31 December 2018 treasury bonds valued at Shs 260,000,000 (2017: Shs 574,415,000) were pledged to secure trade finance lines with various banks.

The was no contingent liabilities outstanding under these facilities at 31 December 2018 (2017: Shs 1,463,000.00)

	2018 Shs'000	2017 Shs'000
31. Analysis of Cash and Cash Equivalents as Shown in the Cash Flow Statement		
Group		
Cash and balances with Central Bank of Kenya (Note 12)	1,359,779	995,565
Less: cash reserve requirement (see below)	(638,889)	(533,542)
Deposits and balances due from banking institutions (Note15)	195,649	637,705
Treasury bills with less than 91 days maturity (Note14)	97,728	146,040
	1,014,267	1,245,768
Bank		
Cash and balances with Central Bank of Kenya (Note 12)	1,333,102	969,177
Less: cash reserve requirement (see below)	(638,889)	(533,542)
Deposits and balances due from banking institutions (Note15)	195,649	637,705
Treasury bills with less than 91 days maturity (Note14)	97,728	146,040
	987,590	1,219,380

For the purposes of the cash flow statement, cash and cash equivalents comprise balances with less than 91 days maturity from the date of acquisition including: cash and balances with central banks, treasury bills and other eligible bills, and amounts due to and from other banks. Cash and cash equivalents exclude the cash reserve requirement held with the Central Bank of Kenya.

Banks are required to maintain a prescribed minimum cash balance with the Central Bank of Kenya that is not available to finance the Bank's day-to-day activities. The amount is determined as 5.25% (2017: 5.25%) of the average outstanding customer deposits over a cash reserve cycle period of one month.

32 Related Party Transactions (Group and Bank)

Transactions with Key Management Personnel

Key management personnel and their immediate relatives have transacted with the Bank during the year as follows:

	2018 Shs'000 Maximum balance	2018 Shs'000 Closing balance	2017 Shs'000 Maximum balance	2017 Shs'000 Closing balance
Mortgage lending and other secured loans	210,895	208,108	241,356	223,527
Other loans	3,536	3,153	10,280	15,155

Interest rate charged to staff is at preferential rate whereas rates to Directors and related parties are at arm's length transaction. The mortgages and secured loans granted are secured over property of the respective borrowers. Other balances are not secured and no guarantees have been obtained.

No impairment losses have been recorded against balances outstanding during the period with key management personnel, and no specific allowance has been made for impairment losses on balances with key management personnel and their immediate relatives at the period end.

Key management personnel compensation for the year comprised

	2018 Shs'000	2017 Shs'000
Key management compensation		
Salaries and other short-term employment benefits	164,891	187,334
Directors' remuneration		
- fees for services as non executive directors	8,640	8,929
- other emoluments (included in key management compensation above)	43,967	41,691
	52,607	50,620

Loans and Advances to Directors and Their Associates (Group and Bank)

At 31 December 2018 advances to companies where the Bank's directors or their families exert significant influence amounted to 588,701,000 (2017: Shs 351,412,000).

At 31 December 2018 advances to employees amounted to Shs 714,103,000 (2017: Shs 553,064,000). The movement in advances to related parties is as shown below:

	2018 Shs'000	2017 Shs'000
Loans and Advances to Staff		
Group and Bank		
At start of year	553,064	482,855
Issued during the year	334,213	230,864
Repaid during the year	(173,174)	(160,655)
At end of year	714,103	553,064

32. Related Party Transactions (Group and Bank) (Continued)

Loans and Advances to Directors and Their Associates (Group and Bank) (Continued)

Interest earned on staff loans during the year amounted to Shs 50,008,000 (2017: Shs 43,408,000).

The Bank has entered into loan transactions with its directors and associates as follows:

	2018 Shs'000	2017 Shs'000
At start of year	351,412	238,308
Interest charged	55,123	41,751
Loans disbursed	30,000	198,189
Repaid during the year	(163,488)	(93,560)
Net movement in overdraft balances	131,608	(33,276)
At end of year	404,655	351,412
Interest income earned on these advances	55,123	41,751

No provisions have been recognised in respect of loans given to related parties (2017: nil).

At 31 December 2018, customer deposits include deposits due to directors or their families and employees of Shs 1,378,723,827 (2017: Shs 1,383,042,000).

Other Related Party Transactions

Rent expense payments to related parties during the year amounted to Shs 38,304,234 (2017: Shs 43,067,000).

Credit Bank
My Friend, My Bank

Proxy Form

To: The Secretary
Credit Bank PLC
P O Box 61064 – 00200
NAIROBI

I/We ____

ID Number ____________________ of address ____________________

____

being a member/members of CREDIT BANK PLC (the Company) hereby appoint:

Name ____

ID Number ____________________ of address ____________________

or failing him/her ____

____

as my/our proxy to vote for me/us on my/our behalf at the Annual General Meeting of the Company to be held on 27th June 2019 at Catholic University of Eastern Africa, Nairobi and at any adjournment thereof.

I / We authorize my/our Proxy to cast the votes according to my/our intentions as follows*:

1. To receive and adopt the audited Financial Statements for the year ended 31 December 2018 together with the Directors' and Auditors' Reports thereon.
   ○ Approve ○ Disapprove ○ Abstain

2. To declare a dividend of Ksh. 3.00 per share in respect of the financial year ended 31 December 2018.
   ○ Approve ○ Disapprove ○ Abstain

3. To re-elect Directors in accordance with the Articles of Association:-
   a. Mr Simeon Nyachae retires from office by rotation and, being eligible, offers himself for re-election;
   ○ Approve ○ Disapprove ○ Abstain

   b. Mr Ketan Devram Morjaria retires from office by rotation and, being eligible, offers himself for re-election.
   ○ Approve ○ Disapprove ○ Abstain

   c. Mr James Stanley Mathenge retires from office by rotation and, being eligible, offers himself for re-election.
   ○ Approve ○ Disapprove ○ Abstain

4. To approve the Directors' remuneration for the financial year 2019.
   ○ Approve ○ Disapprove ○ Abstain

5. To authorise the directors to fix the Auditors' remuneration.
   ○ Approve ○ Disapprove ○ Abstain

6. To re-appoint the Auditors, PricewaterhouseCoopers who have indicated their willingness to continue in office in accordance with Section 719 (2) of the Companies Act, 2015 and subject to approval by Central Bank of Kenya.
   ○ Approve ○ Disapprove ○ Abstain

Proxy Form

7. Increase of nominal share capital

a) To RESOLVE THAT the Nominal Share Capital of the Company be increased from Shs 5,000,000,000 divided into 50,000,000 ordinary shares of Shs 100 each to Shs 7,500,000,000 divided into 75,000,000 ordinary shares of Shs 100 each by the creation of an additional 25,000,000 new ordinary shares of Shs 100 each.

○ Approve ○ Disapprove ○ Abstain

b) To RESOLVE THAT Article 5 of the Company's Articles of Association be amended as follows:

5. The share capital of the Company is Kenya Shillings seven billion five hundred million (Kshs. 7,500,000,000/=) divided into seventy five million (75,000,000) shares of Kenya Shillings One Hundred (Kshs. 100/=) each, with power for the company to increase or reduce such capital and divide any shares in its capital for the time being into several classes and to attach thereto several classes and to attach thereto respectively any preferential, deferred, qualified or other rights, privileges, restrictions or conditions and to issue all or any part of such original, increased or reduced capital with or subject to such preferential, deferred, qualified or other rights, privileges, restrictions or conditions.

○ Approve ○ Disapprove ○ Abstain

8. Bonus Issue

To approve a Bonus Issue of 1 share for each 12 shares held.

○ Approve ○ Disapprove ○ Abstain

9. Rights Issue

To approve a Rights Issue of 3 new share for every 5 shares held

○ Approve ○ Disapprove ○ Abstain

Dated this ______________________________ day of ______________________________

SIGNED: ______________________________

*Unless specifically indicated, the proxy will vote as they wish.

Note:

Note 1: A member entitled to attend and vote at the meeting is entitled to appoint a proxy to attend and vote on his or her behalf. A proxy need not to be a member of the Company. A form of proxy maybe obtained from the bank's website www.creditbank.co.ke or the banks head office, Mercantile House, Koinange Street, Nairobi or our Company's Share Registrar, Custody and Registrars Services, 6th Floor, Bruce House, Standard Street, Nairobi. To be valid, a form of proxy must be duly completed by the member and must either be lodged with the Registrar of the Company at Custody and Registrars Services, 6th Floor, Bruce House, Standard Street, Nairobi or be posted to Custody and Registrars Services, P. O. Box 8484-00100 Nairobi, so as to reach the Registrar not later than 48 hours before the meeting or emailed to proxy@candrgroup.co.ke in pdf format. Duly completed form must be supported by a copy of ID/ valid Passport of the member.

Note 2: : In the case of a member being a corporation, the proxy must be under a common Seal or under the hand of an officer or attorney duly authorised

Note 3: Physical registration of members and proxies at the Annual General Meeting will commence at 8.00 a.m. on June 27, 2019. Members and proxies should carry their national ID cards and a copy of a relevant share certificate for ease of the registration process.

Note 4: A full copy of the Audited Accounts and Financial Statements for the year ended 31 December 2018 may be viewed on the Bank website www.creditbank.co.ke. A printed copy may be requested from the Bank's head office, Mercantile House, Koinange Street, Nairobi or our Company's Share Registrar, Custody and Registrars Services, 6th Floor, Bruce House, Standard Street, Nairobi between 9.00AM to 3.00Pm from Monday to Thursday and Friday 8.30AM to 12.30PM.

Credit Bank
My Friend, My Bank

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