Forging A New Hope

ANNUAL REPORT **2019**

Credit Bank
My Friend, My Bank

About this Report

Creating A Story Worth Telling

Credit Bank PLC Annual Report and Financial Statement 2019 provides a balanced and comprehensive view of the Group's performance as part of our continuous efforts to enhance disclosure and keep our stakeholders well informed. Our report covers the period from 1 January 2019 to 31 December 2019. This is our primary report to our investors, and contains information relevant to other stakeholders.

The Group's Annual Financial Statements were prepared in accordance with the International Financial Reporting Standards (IFRS). The report is part of our commitment to be transparent and accountable to our stakeholders.

As a financial services provider, we play an important role in the economic life of individuals, businesses and nations, supporting the socio economic welfare of our people. Through all our activities, we consider our stakeholders as we pursue our ambition to have a positive impact on society and deliver shareholder value.

Credit Bank PLC's 2019 financial statements were audited by Price Water House Coopers Kenya.

Contents

Notice of Annual General **Meeting**

The Companies Act, 2015
No. 23/90

NOTICE IS HEREBY GIVEN THAT THE THIRTY FOURTH (34TH) ANNUAL GENERAL MEETING OF CREDIT BANK PLC WILL BE HELD VIA ELECTRONIC COMMUNICATION, ON THURSDAY, 16TH JULY 2020 AT 10.00 AM

Agenda

Ordinary Business

1 Constitution of the Meeting

To read the notice convening the meeting and confirm the presence of a quorum.

2 Annual Report and Financial Statements for the Year Ended 31 December 2019

To receive and adopt the audited Balance Sheet and Financial Statements for the year ended 31 December 2019 together with the reports of the Directors, the Chairman, the Chief Executive Officer and the Auditor thereon.

3 Dividend

To note that the Directors do not recommend the payment of cash dividend.

4 Election of Directors

To re-elect Directors in accordance with the Articles of Association:-

i) Mrs Grace Wamuyu Nyachae, retires from office by rotation and, being eligible, offers herself for re-election;
ii) Mr Robinson Njagi Gachogu retires from office by rotation and, being eligible, offers himself for re-election;
iii) Mr Moses Munywoki Mwendwa retires from office by rotation and, being eligible, offers himself for re-election.
iv) Mr Jack Mugo Ngare having been appointed a Director since the last Annual General Meeting, retires at this meeting and, being eligible, offers himself for re-election;

5 Directors' Remuneration

To approve the Directors' remuneration for the financial year 2020.

6 Auditors' Remuneration

To authorize the directors to fix the Auditors' remuneration.

7 Appointment of Auditors

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 Bonus Issue of Shares

To consider and, if thought fit to pass the following Ordinary Resolution:-

"THAT up to Shs 26,335,063.00 being part of the amount standing to the credit of the Retained earnings as at 31 December 2019 be capitalized by issue of up to 263,350 ordinary shares of Shs 100 par value and the directors be authorized to allot such shares to the members appearing in the Company's Share Register as at 31 December 2019 as fully paid up bonus shares in proportion of 1 new ordinary share for every 100 ordinary shares then held and that the Directors be authorised to deal with fractions arising from such allotments as they deem fit and to do all things to give full effect to this resolution, subject always to the Articles of Association of the Company.

9 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 17,556,708 new ordinary shares in the capital of the company at par to shareholders in the Company's record as at 31st December 2019 by way of a rights issue of 2 (two) new share for every 3 (three) 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.

10 Any Other Business

To transact any other business for which due notice has been received.

By Order Of The Board

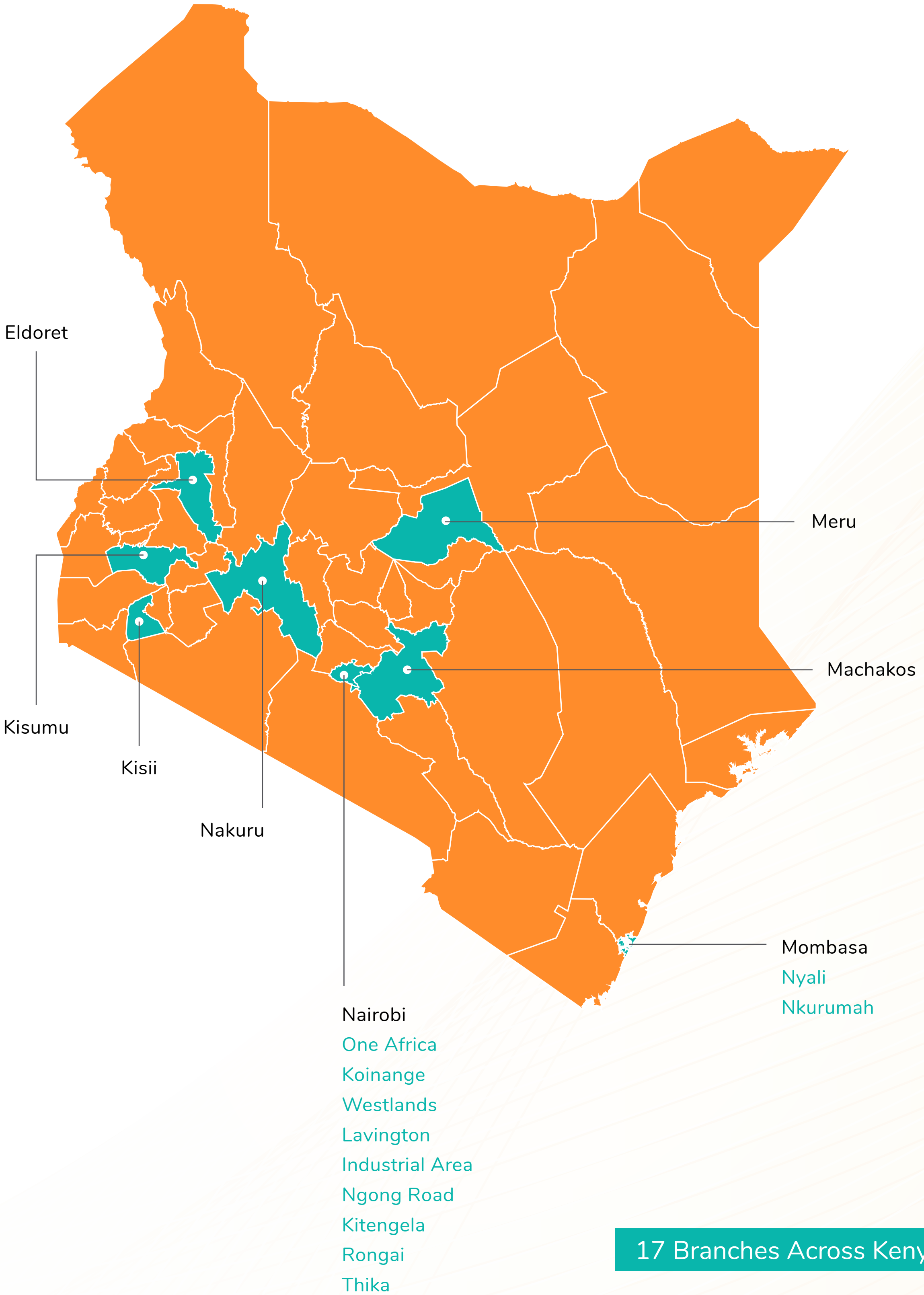
Dcdm Registrars.

DCDM Registrars
Company Secretaries
24th June 2020

Note:

Shareholders will be able to register to follow the meeting, vote electronically or by proxy and may ask questions in advance of the Annual General meeting in the manner detailed under "Virtual Registration Process" on the Company website: https://creditbank.co.ke/wp-content/uploads/2020/07/AGM-Virtual-Registration-Process.pdf

Credit Bank PLC At A **Glance**



17 Branches Across Kenya

Since 1986

Over 45,000 Customers

Fully Digital Bank

At Credit Bank, we take pride in our qualified Human Capital capable of delivering personalised financial solutions to customers. Our focus on the Trade Finance Space has enabled us provide a unique value propositon to SMEs. We are a friend your business can bank on.

236 Employees

R17 Version of T24

Over 10,200 Shareholders

2019 Awards

Best in Our Category in Providing Customer Focused Financial Solutions by KBA.

Contribution to Sustainable Finance in Kenya by Kenya Association of Manufacturers.

Best Bank in Tier III, 2nd Runners Up Best Bank in SME Banking, and 2nd Runners Up in Sustainable Corporate Social Responsibility by Think Business.

Awarded Best SME Partner Bank by The European.

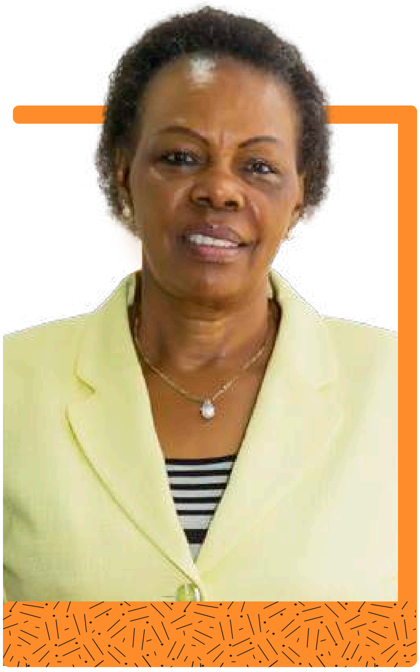
Board of Directors' **Profiles**

Hon. Simeon Nyachae, EGH
Chairman

Hon. Simeon Nyachae is a founding member of Credit Bank PLC. He brings to Credit Bank a wealth of experience after working with the Civil Service and at different times as a Minister. He sits on boards of several companies including but not limited to Kenindia Assuarance, Sansora Group of Companies and Paper House of Kenya.

Mrs. Grace Nyachae
Director

Mrs. Grace is a founding director of Credit Bank PLC. She worked in the Civil Service for 11 years and has vast experience in managing businesses especially in the agricultural sector. She sits on various boards including H.C.D.A, Sotik Tea Company Limited Sansora Group of Companies, among others.



Moses M. Mwendwa
Director

Mr. Moses Mwendwa is a Kenyan national with vast qualifications in the accounting field. He is an experienced financial and tax advisor with specialist knowledge in sourcing credit finance for corporate, groups and individuals. He has worked as a director in firms of professional accountants and management consultants for more than 30 years advising clients on capital investment appraisals.

Ketan Morjaria
Director

Mr. Ketan Morjaria is a UK qualified Chartered Accountant with extensive experience in financial risk management, controls and fraud. He has over 18 years' business experience in Africa and the United Kingdom. He has been a shareholder in Credit Bank PLC since its establishment and has served on the board of the bank for several years and chaired key board committees.

Robinson Gachogu
Director

Mr Robinson Gachogu is a Bachelor of Commerce graduate and a qualified Chartered Accountant with extensive experience in financial management. He has over 40 years of experience in the financial sector. He serves in various boards including Kenya Commercial bank.

Jay Karia
Director

Mr. Jay Karia is a British national with vast experience in manufacturing, trading and banking in Kenya and and Uganda. He has certifications in corporate governance with speciality in perfomance and sustainability. He is a shareholder and director of Orient Bank Limited, a director and shareholder of Credit Bank PLC.

Dr. James James Mathenge
Director

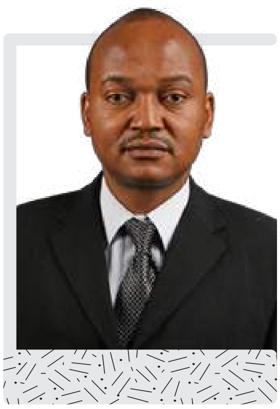
Dr. James Mathenge is a former long-servicing permanent secretary and career administrator. He has served as Chairman of Public Service Commission, Kirinyaga University College and Kenya Freedom from Hunger Council. He is on several boards in the Anglican Church of Kenya and has also served as board member of several private and public companies.

Jack Ngare
Director

Jack Ngare has more than 15 years' experience in technology and is currently a Managing Director at Africa Development Centre, Microsoft in Kenya. He brings in-depth knowledge around topics like telecommunications, financial services and emerging technology. He holds a Master's Degree in Advanced Computer Science and a Bachelor's Degree in Computer Science from the University of Leicester.

Mrs. Betty C. M Korir
Chief Executive Officer

Mrs. Korir is a holder of Bachelor of Education and Bachelor of Law with Honors. She has a Master's Degree in Finance/Marketing from the University of Nairobi. She is a member of Global Association of Finance and Management (GAFM). She has international exposure in project finance and sustainable lending acquired from Triodos Bank in the UK.



Robert Ndung'u
Company Secretary

Robert is a holder of a BA from University of Nairobi, a Certified Public Secretary, CPS (K), and a member of the Institute of Certified Public Secretaries with over 20 years experience in providing corporate secretarial services. He also helped in setting up of the Uganda Securities Exchange. Robert has been affiliated with BDO since 2009 and is in charge of providing corporate secretarial services to the firm.

Chairman's **Report**

Fellow Shareholders,

I trust that you are all keeping safe in these extraordinary times. I thus present to you the 2019 report with a mixture of pleasure and shared concern about the uncertainties faced by economies worldwide.

Credit Bank grew significantly in 2019 by positioning itself as a fast, friendly, and flexible bank accessible to the SME sector. Driven by our desire to transform the socio-economic welfare of our people, we sought to go beyond banking services by participating in community-led activities and promoting financial inclusion.

Global Environment

Official data shows that the global GDP recorded a decelerated growth of 2.9 percent in 2019 compared to an increase of 3.5 percent in 2018. Advanced economies are estimated to have expanded by 1.2 percent in 2019 compared to a growth of 2.2 percent in 2018.

Sub-Saharan Africa's growth slightly slowed to 3.1 percent in the review period from 3.3 percent growth in 2018. The growth was mostly supported by favorable weather conditions that led to increased agricultural production as well as high infrastructural investments.

Globally, the inflation rate eased from 2.3 percent in 2018 to 2.0 percent in 2019, mainly attributable to a decline in energy prices, reduction in world trade prices of food and agricultural raw materials, and modest wage levels in most countries.

The growth in global trade volume slowed from 3.7 percent in 2018 to 1.2 percent in 2019. Decelerated growth was highly pronounced in the advanced economies and the Emerging Market and Developing Economies such as China and South Asia.

Operating Environment

Kenya's GDP is estimated to have expanded by 5.4 percent in 2019 compared to a growth of 6.3 percent in 2018. It spread across all sectors of the economy but was more pronounced in service-oriented industries. Agriculture, forestry, and fishing sectors accounted for a sizeable proportion of the slowdown, from 6.0 percent growth in 2018 to 3.6 percent in 2019. The manufacturing sector grew by 3.2 percent in 2019 compared to 4.3 percent growth in 2018. Although most sectors recording decelerated growths, the economy was supported by acceleration in Financial and Insurance (6.6 percent) and Real Estate activities (5.3 percent).

During the review period, the Government through Central Bank of Kenya (CBK) reviewed the Central Bank Rate (CBR) downwards from 9.00 percent in July 2018 to 8.50

percent in November 2019, signaling an easing of monetary policy to boost economic growth. Similarly, the capping of bank interest rates previously enshrined in section 33B of the 2016 Banking Act, was repealed in November by enacting the Finance Act, 2019.

A resilient banking sector continues to witness mergers with several banks being absorbed or acquired by larger and more resilient players. These moves are welcome as they result in greater stability, resilience, competitiveness, and agility in an industry facing rapid disruption caused by an evolving digital revolution.

Our Strategic Performance

Despite the challenging global macroeconomic and geopolitical environment in 2019, we continued to progress and delivered great results in the year ended 2019. We are proud to note that we are making great strides in sustainable financing. Our focus has shifted more towards green financing as we seek to address some of the world's challenges, including climate change and health.

Credit Bank's pre-eminent desire is to support the customer by offering excellent, relevant, and up-to-date services. We, therefore, embarked on a journey to re-examine our products, services, and processes to ensure that they are all focused on the customer, responding to our stakeholder needs and that all the inherent risks and opportunities are continuously reviewed.

Credit Bank Group attained the prestigious ISO 900.2015 certification, which allowed us to join the global league of organizations that consistently provide products and services that meet customer and regulatory requirements.

In 2019 Credit Bank was nominated as the only Kenyan bank to assist further the Affirmative Finance Action for Women in Africa initiative with an initial 400Million USD over a period of 5 years in the country.

AFAWA is a Pan-African initiative aimed at bridging the $42 billion financing gap-facing women in Africa. AFAWA's approach challenges the gender gap in access to finance and liberates/unlocks women's entrepreneurial capacity in Africa. This goes towards supporting our diversity agenda that seeks to build on our value creation.

Community Initiatives

As a sustainable business, we care for the communities' progress in the markets where we operate. In the year under review, we joined the Rotary Club of Karen in support of Women for Cancer Initiative and Meru County Run to conserve the forests in Meru County, amongst others. We commit to investing more resources into the social investment agenda to transform the lives of communities in which we operate.

2020 Outlook

COVID-19 will impact Kenya's medium-term growth prospects, and much remains uncertain about the magnitude. The global economy is tipped for a recession in 2020, with significant negative spillovers expected in Kenya.

We remain optimistic that the economy will be able to rebound relatively quickly and return close to its trend growth rate. Credit Bank Group has positioned itself to walk with customers this unexpected but challenging journey.

Conclusion

In closing, I wish to thank the board and management for steering the bank in the right direction and the staff members for the hard work they put in supporting this great institution. I'm confident that together, we shall steer the bank through the global crisis and emerge stronger after this disruptive period.

Thank you, and stay safe.

Hon. Simeon Nyachae,
Chairman, Board of Directors

Management **Profiles**

Mrs. Betty C. M Korir
Chief Executive Officer

Mrs. Korir joined Credit Bank PLC in June 2013 and has 20 years Banking Experience spanning across several Banks. She is a holder of Bachelor of Ed. Degree, Bachelor of Laws (Hons) LLB and a Master's Degree in Finance/Marketing from University of Nairobi.

On the professional front she is a member of Global Association of Finance and Management (GAFM), Chartered Credit Analyst (CCA) and an associate of Kenya Institute of Bankers being a finalist in Banking Professional Qualification (AKIB) in addition to holding various Risk Management Certifications.

Eric Nyachae
Executive Officer, Business and Strategy

Eric Nyachae has more than fifteen years in the banking industry. He has vast working experience in Credit, Banking Operations, Marketing, Corporate Banking and Business Development. He currently holds a Bachelor of Arts in Business Administration from King Alfred's College of Higher Education and a HND in Business Studies from the Salisbury College of Technology.

Jackson Njenga | Chief Manager, Risk and Compliance

Jackson Njenga has over 18 years' experience in the finance field. He is a Certified Public Accountant – CPA(K), Certified Public Secretary – CPS(K) and member of both the Institute of Certified Public Accountants of Kenya (ICPAK) and Institute of Certified Public Secretaries of Kenya (ICPSK). He holds an MBA degree from the University of Nairobi (Strategic Management).

Daniel Lesirma | Head of Finance

Mr. Daniel Lesirma has over 15 years' experience in finance. He is a Certified Public Accountant of Kenya. He holds a Master's Degree in Business Administration (Finance Option), from the University of Nairobi. He is a Member of the Institute of Certified Public Accountants of Kenya and also holds a Certificate in Business Analytics from the Harvard Business School.

Pamela Mutembei | Head of Business & Marketing

Pam Mutembei is a talented and seasoned executive with over 16 years of experience in financial services. She has Bachelor of Commerce credentials, Strategic Management in a Global Economy from London School of Economics, Diploma in Sustainable Business & Responsible Leadership from the Swedish Institute of Management and various professional certificates in leadership & business management including a Harvard Business School workshop on Value Innovation.

Isaac Nduvi | Head of Bancassurance & Digital Business

Mr. Nduvi's has over 12 years of experience in the banking industry. His educational credentials include a Degree in Bachelor of Commerce (Accounting Option) from Kenyatta University, a Master's in Economics (Policy Analysis) at the University of Nairobi. He has attended various professional courses including Computer Crimes and Security Systems, Fraud Detection, Investigation and Management.

Charles Kibara | Chief Manager Operations & Branches

Mr. Kibara has over 13 years' experience in finance, internal and external audit. He is CPA (K), member of the Institute of Certified Public Accountant (ICPAK) and holds a Master's of Business Administration (MBA) Degree from University of Nairobi. He has attended numerous professional development and leadership courses in internal control.

Azmina Mulji | Head of Human Resource & Administration

Azmina has over 16 years of management experience. Her education credentials include a Master's Degree in Business Administration in Human Resource Management from Heriot Watt University, UK, a Bachelor of Laws (Hons.) from the University of Nairobi and a post-graduate diploma in law. She's a member of the Institute of Human Resource Management of Kenya (IHRM-K), the Law Society of Kenya (LSK) as well as the Institute of Certified Public Secretaries of Kenya (ICPSK).

John Mwika | Head of Treasury, Custody & Advisory Services

John is a Certified Treasury professional (ACI DC) with 8 Years' experience across various treasury functions. John holds a Bachelor of Commerce (accounting) from University of Nairobi and Associates of Kenya Institute of Bankers (AKIB) finalist. Prior to joining Credit Bank PLC, he worked as Head of Trading at African Banking Corporation where he was instrumental in growing treasury business.

Francis Ngaruiya | Head of Legal

Francis is a legal expert with over 15 years' experience. He is a Certified Public Secretary (CPSK), a Notary Public, Commissioner for Oaths, and a Qualified HR Practitioner. He has a Bachelor of Law Degree from Moi University, a Post Graduate Diploma in Law from the Kenya School of Law and a Post Graduate Diploma in Human Resource Management from the Institute of Human Resource Management.

Renson Okusimba | Head of Audit

Mr. Okusimba has over 16 years work experience in accounting, auditing and banking operations in various organizations. He holds a Master's of Business Administration Degree, Finance Option, from Kenya Methodist University. He has a Bachelor of Commerce Accounting option degree from Catholic University of Eastern Africa. He is a CPA (K), a member of Institute of Certified Public Accountants of Kenya (ICPAK) and the Institute of Internal Auditors (IIA) Kenya. He is also a Certified Information System Auditor (CISA).

Francis Wamahiu | Head of ICT

Francis Wamahiu has over 8 years' experience in IT Banking. Having joined the bank in 2010, He has garnered extensive expertise and brings experience in providing leadership in ICT and Innovation. He holds a Masters in Business Administration and a Bachelor's Degree in Business Information Technology (BBIT). He is responsible for the bank's strategic technological pillar and information and communication technology (ICT.

John Gichuki | Head of Trade Finance

John has over 10 years' experience in the banking industry and has garnered extensive knowledge and expertise in the field of Trade Finance. He has vast experience in structuring transactions, trade operations acquired through experience. He has been exposed to other courses such as Harvard Manage Mentor. He holds Masters in Banking and Finance and a Bachelor's Degree in Business Management specializing in Banking and Finance from Moi University.

Zadock Ogambi | Head of Credit

Zadock is a seasoned banker with over 12 years' experience and a great wealth of expertise in credit risk analysis, portfolio management and reporting, credit administration and internal audit. Zadock has a Bachelor of Commerce Degree, Accounting, from Kenyatta University and is currently pursuing his MBA in Project Management. He is also a fully qualified Certified Public Accountant (CPA-K), Certified Credit Professional (CCP) and a member of the Institute of Certified Public Accountants of Kenya (ICPAK).

CEO's
Report

Dear Shareholder,

We trust that you are staying safe in this difficult time of the pandemic that has caused massive socio-economic disruptions the world over.

The year 2019 was notable for a challenging operating environment. The banking sector saw heightened regulatory scrutiny, increased competition, intensified adoption of digital banking, and shifting economic climate across the country.

We took advantage of the shifts and repositioned the Bank to tap into the digital opportunities presented as we navigated past the challenges. We are glad to announce that the business remained resilient and has seen the bank post impressive results.

Financial inclusion has been identified as an enabler for 7 out of the 17 UN Sustainable Development Goals. Resilient, transparent, and smooth-functioning economic systems and capital markets contribute to financial stability, job growth, and poverty alleviation. Digital solutions and business innovation have also led to more significant financial inclusion.

Through the Bank's innovations, we are glad to have contributed immensely to financial inclusion as well as economic development across the region through various products, including our Mobile Banking dubbed "CB Konnect."

CB Konnect includes an option that allows the unbanked to access banking services through a mobile wallet that is not linked to the core banking services. This solution earned the Bank the Kenya Banker's Association (KBA) recognition for the Best Bank in offering Dignity & Respect and a Satisfactory Digital Experience in the Tier III category in the year under review.

In the year under review, we also brought home the best SME partner Bank of the year in East Africa during the European Global Banking and Finance Awards 2019 held in the United Kingdom. The Bank was recognized at these prestigious awards for our role in enabling the growth of SMEs in Kenya through our entrepreneurship hub, E-Hub.

In the year under review, we also won the best leading bank in our category during the Think Business Banking Awards 2019, underlining our growing competitiveness.

2019 Milestones

On strategic partnerships, the Bank acquired equity in the newly formed Kenya Mortgage Refinancing Company (KMRC). KMRC is a joint initiative of the National Treasury and the World Bank. They have committed to supporting the affordable housing agenda by providing secure, long- term funding to the mortgage lenders, thereby increasing the availability and affordability of mortgage loans Kenyans.

The Bank obtained the CMA Custodial License in 2019 and has now lodged applications with NSE and CBK for CDSC accounts for share trading and Bond trading, respectively. We also launched the Internal Custody account, offering nominee accounts for custody clients to build on our wealth management portfolio.

On customer experience, the Bank streamlined its policies and procedures in line with the quality management system, ISO 9001:2015 standard. Bureau Veritas subsequently awarded the Bank the certification, and we are now ISO certified. This milestone speaks of our commitment to offering our customers the best products and the best processes to enhance client satisfaction.

Financials

The Group managed to grow its books and report a profit of KES 303 Million before tax. Other highlights include;

- Total Assets grew by 22% to KES 21.66 billion up from KES 17.83 billion in December 2018
- Customer deposits grew by 28% to KES 16.81 billion up from KES 13.12 billion in December 2018
- Net loan book grew by 17% to KES 15.23 billion up from KES 13.03 billion in December 2018
- Investments in GOK treasury bonds grew by 31% to KES 3.04 billion from KES 2.32 billion in December 2018
- Gross interest income increased by 15% to KES 2.52 billion up from KES 2.19 billion

As a bank, we are committed to improve and innovate continuously. This can only be achieved through rigorous training and skills expansion for our staff.

In 2019, we committed KES 8 million for training. Over 100 staff have benefitted from training opportunities on information technology, cybersecurity, health and safety, anti-money laundering, and sustainability.

Increasing brand loyalty and building relationships with our customers is a vital driving force at Credit Bank. We have grown our social media presence and further enhanced online interactions with our customers. Social media has allowed for immediate feedback that has enabled us to improve our service delivery and our products.

Partnerships with various organizations, including Meru County, Rotary Club of Karen, ANDE amongst others, have seen the bank position itself as a friendly bank that furthers the welfare of the communities, we operate in.

Outlook

As the world contends with the spread and impact of the COVID-19, the importance of our digital banking platform cannot be overemphasised. Therefore, the Bank has set up a digital team to innovate as we position ourselves to deliver more financial solutions digitally.

On behalf of the senior leadership team and staff of the Bank, I would like to thank the Chairman and members of the Board for their continued guidance and support. Thank you also to our dedicated customers who have continued to show us unconditional support and loyalty as we navigate these challenging times.

Thank you, and God Bless You.

Betty Korir
Chief Executive Officer

Non-Financial **Highlights**

Customer Complaints		Avarage Mystrey Score - Bankwide	
2018	1,917	2018	67%
2019	2,776	2019	75%

	Total Number of Staff	Male	Female	Average Tenure of Staff
2018	215	118	97	4.94
2019	249	137	112	4.93

	Total Number of Branch Transactions	Total Number of Transactions on our channels
2018	11.58%	88.42%
2019	11.96%	88.04%

Nostalgic and **Outdated...**

So is queuing for your banking needs. Just press play on your mobile and just like music to your ears, your bank is there in an instant.

Discover more on **CB Konnect**.

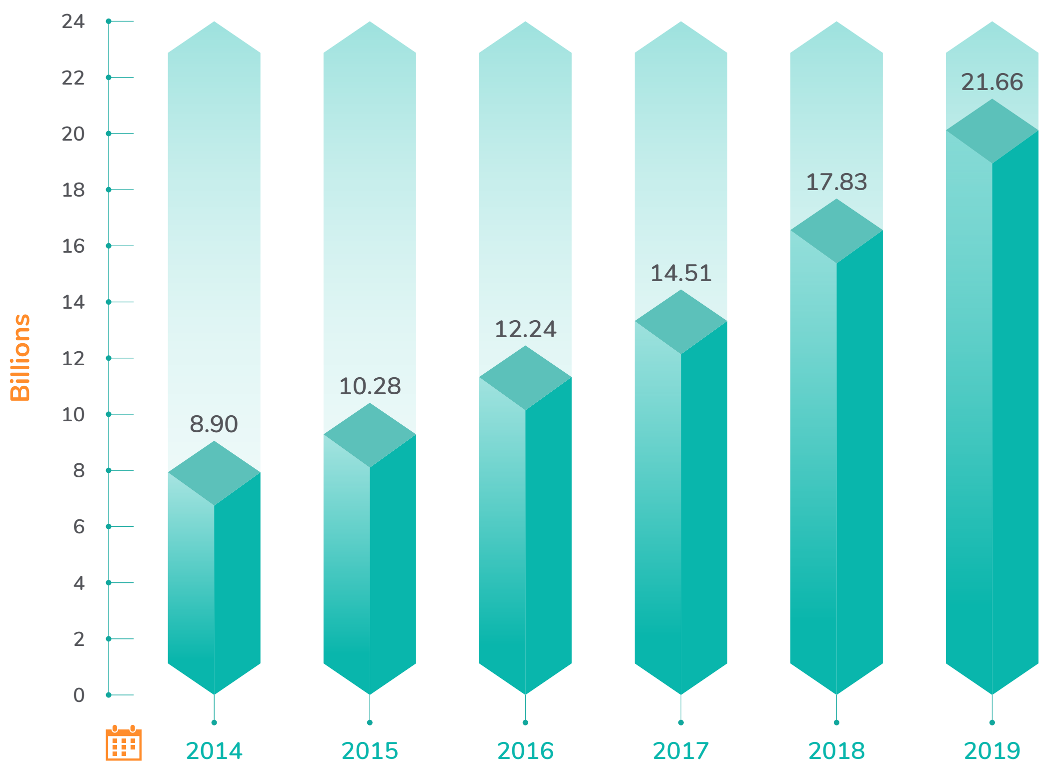
GET IT ON Google Play

Download on the App Store

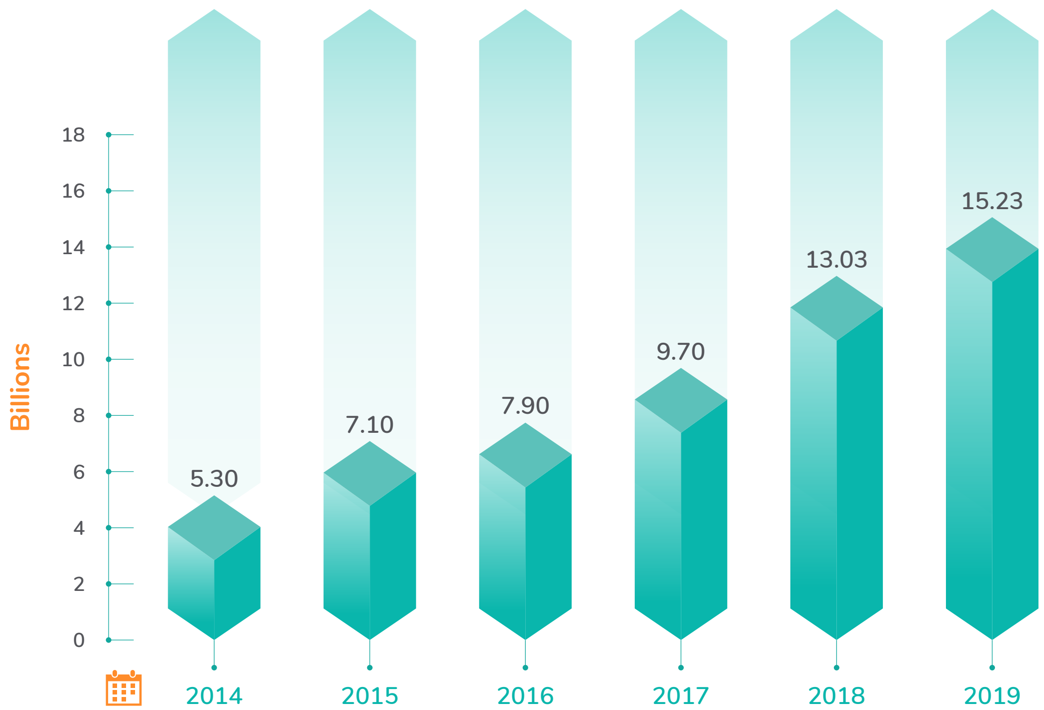
Credit Bank
My Friend, My Bank

Financial **Highlights**

Total Assets

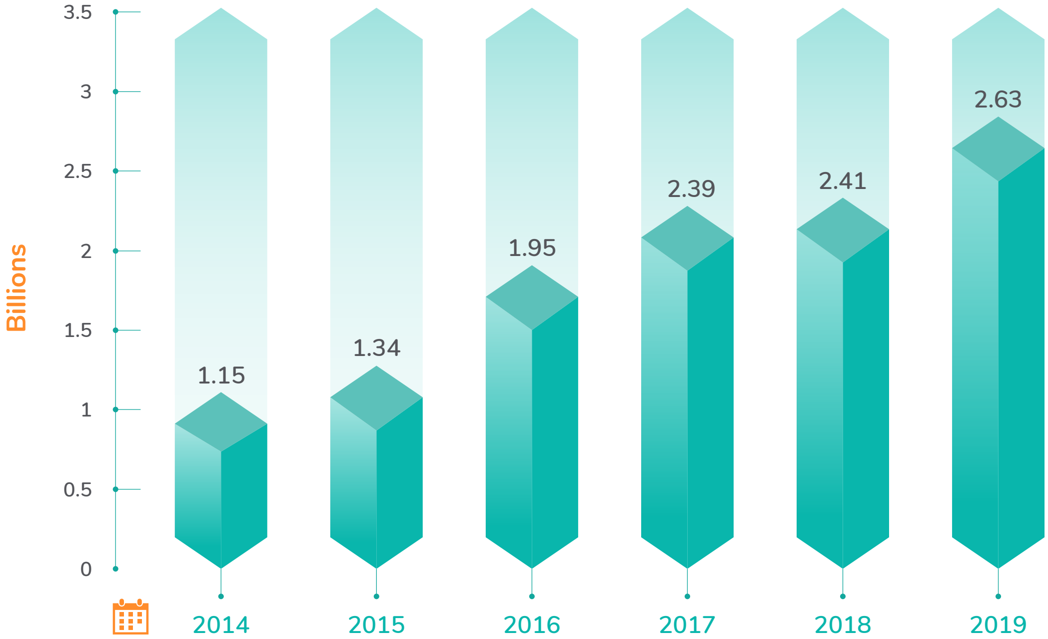


Net Loan Book

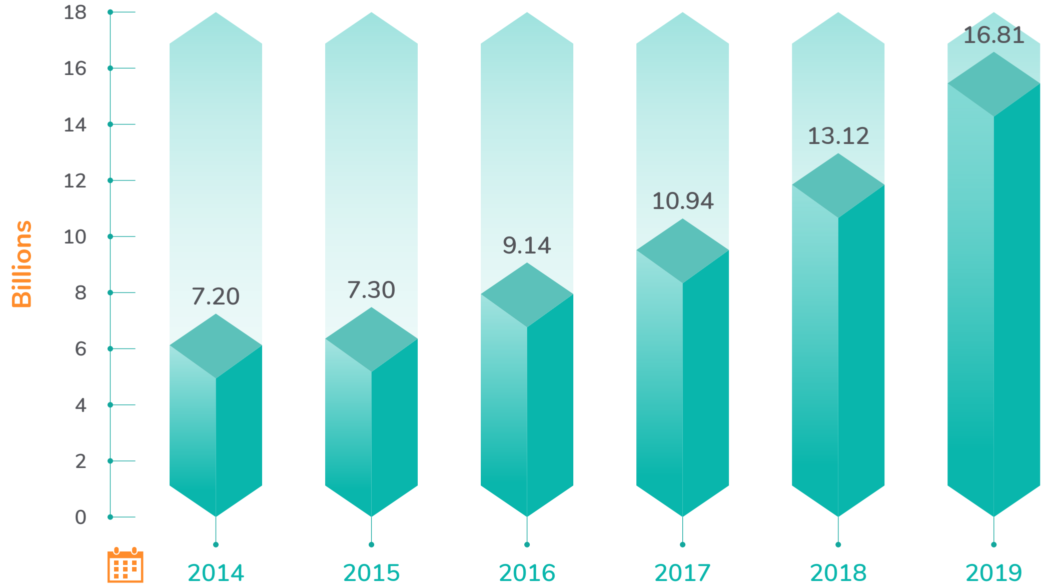


Financial Highlights (Continued)

Share Capital

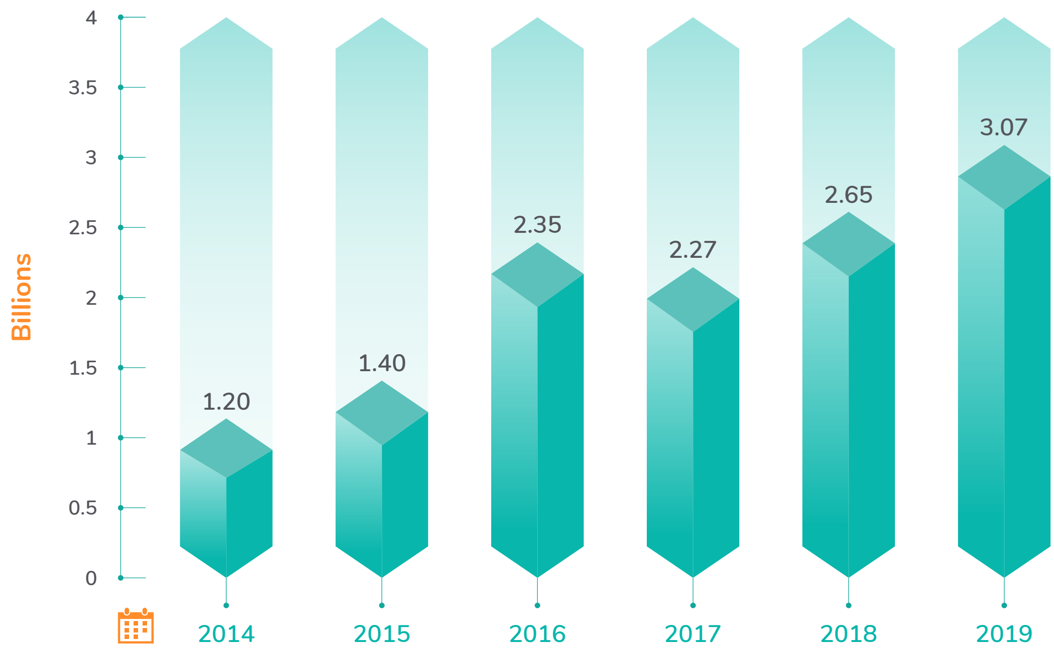


Deposits

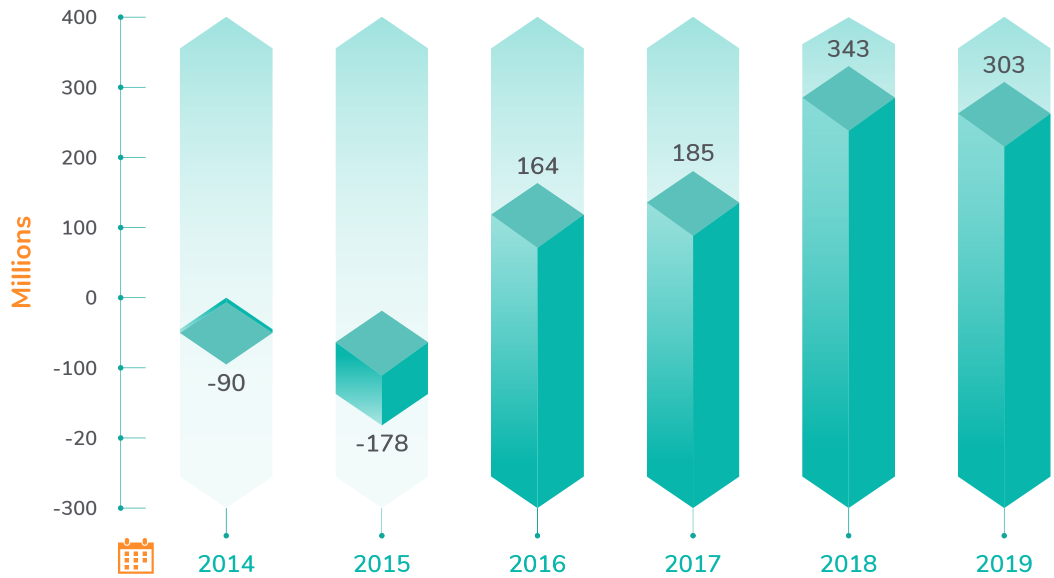


Financial Highlights (Continued)

Total Income

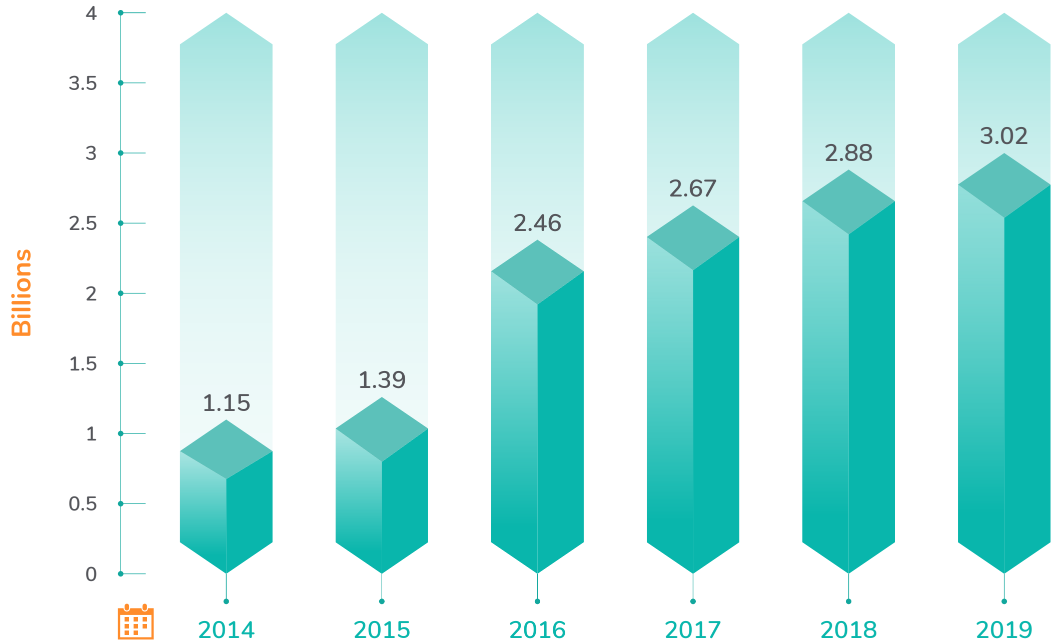


Profit Before Tax



Financial Highlights (Continued)

Shareholders' Funds



Strategy **Overview**

Our Journey

1986

- Credit Bank PLC was incorporated as a financial institution (initially as Credit Kenya Limited) headquartered at Canon House

1994

- Licensed to operate as a fully-fledged commercial bank with our head office relocating to Mercantile House, Koinange Street

1995 - 2004

- '95 – Koinange Branch Opens
- '99 – Launch of the Micro-Banker Core Banking and opening of Kisumu Branch
- '01 – Nakuru Giddo Branch Opens

2006 - 2010

- '06 – Core Banking System Upgrade to Bankers Realm
- '09 – Awarded as third most affordable bank (Banking Survey Awards)
- '10 - Rebrands, Westlands Branch opens, 2nd Runners Up in Customer Satisfaction (Banking Survey Awards)

2011 - 2014

- '11 – Awarded 3rd Best Bank in Recoveries and opening of Industrial Area branch
- '12 – Core banking system upgraded to T24 R11, mobile banking launched, and Nakuru Kenyatta Avenue branches open
- '13 – Opening of Eldoret, Rongai, Nyali Centre Branches and launching of MyFriend Insurance Agency
- '14 – Launching of Internet Banking and opening of Lavington, Machakos and Kitengela branches

2015 - 2016

- '15 – Mobile banking system upgraded
- '16 – Entrepreneur's Hub, VISA EMV Compliant Cards and Customer Experience Centre launched. Opening of Ngong Road and Mombasa Town branches.

2017 - 2018

- '17 – Betty Korir is appointed the CEO of the Bank, core banking system upgraded to T24 R17 and won three Banking Survey Awards
- '18 - Ventured into Agribusiness Financing, won three Think Business Awards and one CFI.co Award.

2019

- Recognition of KBA Customer Survey Award, Kenya Association of Manufacturers Award, Think Business Award, European Awards, launching of CB Konnect.

2020

- Relocation of HQ to One Africa, Westlands and opening of new Executive Branch at One Africa, Westlands
- ISO Certified 9001:2015

Value Creation

Our role as a financial services institution is to support and stimulate economic, social and environmental progress. We create shared value by providing products and services that help people to improve their lives and fuel economic growth. Credit Bank has built on Sustainable Development Goals to achieve this.

SDG #5

GENDER EQUALITY

The Bank has designed elev8HER a product that seeks to address the gender disparity in accessing of finances for women entrepreneurs.

SDG #8

DECENT WORK AND ECONOMIC GROWTH

Deposits 16.81 B

Loans 15.23 B

SDG #9

INDUSTRIAL INNOVATION AND INFRASTRUCTURE

- Launched CB Konnect mobile app that is giving convenience to thousands of customers and a wallet account to allow for financial inclusion.
- Launched 24/7 M-Pesa Float Management for customers and B2B direct payments to merchants.

SDG #10

REDUCED INEQUALITIES

Credit Bank staff male:female ratio

2019 55% 45%

SDG #11

SUSTAINABLE CITIES AND COMMUNITIES

- The Bank is committed to creating sustainable cities and green spaces, we have taken up maintainance of Meru town and Kisii town roundabouts.
- CSR activities to support our community that range from environmental support, health and technical support to entrepreneurs.

SDG #17

PARTNERSHIPS FOR THE GOALS

Partnerships to strengthen sustainable developments. Some of the partnerships include;

- Energy Infrastructure Players – to support renewable energy agenda in the country.
- Medical Credit Fund (MCF) – to further the agenda of accessible healthcare through specialised financing.
- African Guarantee Fund – to support the SMEs.

Credit Bank Insurance **Agency**

Credit Bank Insurance Agency formerly (MyFriend Insurance Ageny Ltd) is a fully owned subsidiary of Credit Bank PLC. It was registered under the Company Act in 2013 with a sole intention of carrying out insurance services to the Bank customers on behalf of the Bank.

The official trading license by Insurance regulator (IRA) was issued in November 2014 and the approval by the CBK to carry out incidental Business was granted in June 2015

CBIA has been on an upward trajectory since inception and have supported the group grow it's business tremendously. Despite the low penetration of insurance products in the market which curretly stands at 2%, the bank has deliberately supported the agency by defining innovative products that speak to the customers and seeks to reach all customer segments.

The agency has sought strategic partnerships with firms like Jubilee Insurance Company Limited with whom we jointly offer solutions that are relevant to the customers.

Due to the great partnerships, the customers now enjoy numerous benefits;

- One stop shop for bank customers.
- Tailored insurance products to specific customers.
- Negotiated competitive terms for the customers.
- Speedy claims settlement.

Credit Bank Insurance Agency has managed to create a niche and has tailored its products to suit this segment. Our flagship products include;

1. Investment
2. Education Insurance
3. Marine Insurance
4. Contractors all risk insurance to support the trade business

The Bank's strategy to grow the income has seen the strengthening of the agency with new hires, to complement the in-house talent.

From Ideas to Accelerated **Growth: eHub**

About eHub

eHub is a platform designed to enable small and medium sized enterprises (SMEs) to build and scale competitive businesses across industries. eHub provides a platform for SMEs to network, learn and do business.

Numerous Benefits for Entrepreneurs

eHub gives businesses access to management learning modules, business related articles from investment and financial experts, inspirational talks and expert engagement by invited visionary entrepreneurs and leaders. What entrepreneurs gain from these resources will give their business the much-needed growth.

eHub Accelerator: This benefit is designed to remove growth barriers by providing tools to identify gaps and growth areas for businesses.

eHub Mentors: Access to experienced business leaders and C-level executives give entrepreneurs the opportunity to rub shoulders with the best.

eHub Masterclass: With eHub, businesses gain access to incremental skills development workshops covering leadership, management, sales, human resources, and marketing.

eHub Circles: Here, entrepreneurs get the opportunity to share experiences, challenges and ideas with other members. Monthly meetings provide a framework for peer to peer learning.

eHub Exposé: This annual event provides growing enterprises with opportunities to showcase their products to a wider business audience of potential customers, partners and investors.

eHub Connect: This is a portal for members where they get to share their business profile and access to our expansive eLearning resource as well as experts.

Milestones

eHub was established in 2016 with the mandate of addressing the challenges that SMEs face today. Some of our achievements are as highlighted below:

- Enrolled 100 members into the network.
- Hosted 500 entrepreneurs in 3 entrepreneur forums.
- Hosted 4 masterclasses discussing 'Technology & Business Transformation' , 'Unbox your Strategy', 'Building a Sustainable Business Empire', and 'Be Attractive sessions.'
- 8 one-on-one coaching sessions which benefited 144 entrepreneurs.
- Participated in the UNODC youth conference that brought together 200 youth from across the country. 17 with the strongest ideas are being supported by eHub.

eHub Reel

Activities

2019 AGM - It was a great pleasure hosting our shareholders during the 2019 AGM held at Catholic University

Jubilee Partnership - Credit Bank signed a deal with Jubilee Insurance to enhance our Bancassurance portfolio. The deal through 'Credit Bank Insurance Agency', seeks to focus on ensuring that customers of both entities build an education fund and a savings portfolio over a period of time.

Activities

Supporting Cancer Patients - Health month October 2019 was different with staff setting aside time and resources to support cancer children at Kenyatta National Hospital. It was a special time as they shared hope and love to these young ones.

KMRC Partnership - Credit Bank is proud to be amongst the pioneers/shareholders in KMRC an initiative of National Treasury and World Bank support the affordable housing agenda by providing secure, long-term funding to the mortgage lenders, thereby increasing the availability and affordability of mortgage loans to Kenyans

Directors' **Report**

The directors submit their report together with the audited financial statements of Credit Bank PLC ("the Bank") and its subsidiary (together the "Group") for the year ended 31 December 2019.

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 212,019,000 (2018: Shs 248,537,000) has been added to retained earnings. The directors do not recommend payment of a cash dividend (2018: Shs 3.00 per share amounting to 72,192,753).

However may discretionally propose dividend in form of bonus shares of one new share for every one hundrend shares held which will result to issuance of 263,351 share at par hence resulting to reclassification of Shs 26.34 million from retained earning to paid up capital.

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 22% from 2018 mainly on account of growth in net loan book of 17%, deposits growth of 28% and shareholders' funds of 5%. The Group realized a return on asset of 1.2% (2018:2%), Return of equity 7% (2018: 8.95%) and the cost to income ratio of 82% (2018: 79%)

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 James S Mathenge	
Mr Leon Nyachae	

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 LLP continues in office in accordance with the company's Articles of Association and Section 719 of the Companies Act, 2015. 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
18th March 2020

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	27 Mar 2019	27 Jun 2019	25 Sept 2019	11 Dec 2019
Hon. Simeon Nyachae	AP	AP	AP	AP
Betty Korir	P	P	P	P
Grace Nyachae	P	P	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
Leon Nyachae	P	P	P	P
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
18th March 2020

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 Company as at the end of the financial year and of its profit or loss for that year. The directors are responsible for ensuring that the Company keeps proper accounting records that are sufficient to show and explain the transactions of the Company; disclose with reasonable accuracy at any time the financial position of the Company; and that enables them to prepare financial statements of the Company that comply with prescribed financial reporting standards and the requirements of the Kenyan Companies Act, 2015. They are also responsible for safeguarding the assets of the Company and for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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

i) Designing, implementing and maintaining 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 18th March 2020 and signed on its behalf by:

Moses M. Mwendwa
Chairman

Betty Korir
Chief Executive Officer

pwc

Independent Auditor's Report 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 46 to 122 which comprise the consolidated statement of financial position at 31 December 2019 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 2019 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 2019 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 Bank in accordance with the International Ethics Standards Board for Accountants (IESBA) International Code of Ethics for Professional Accountants (including International Independence Standards) (the IESBA Code) together with the ethical requirements that are relevant to our audit of the financial statements in Kenya. We have fulfilled our ethical responsibilities in accordance with 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, 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.

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

PricewaterhouseCoopers LLP. PwC Tower, Waiyaki Way/Chiromo Road, Westlands
P.O. Box 43963 – 00100 Nairobi, Kenya
T: +254 (20)285 5000 F: +254 (20)285 5001 www.pwc.com/ke

Partners: E Kerich B Kimacia M Mugasa A Murage F Muriu P Ngahu R Njoroge S O Norbert'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.

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.

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

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

In our opinion the information given in the directors’s report on pages 36 and 37 is consistent with the financial statements.

PricewaterhouseCoopers LLP

Certified Public Accountants

Nairobi

31 March 2020

CPA Bernice Kimacia, Practising Certificate No. 1457

Signing Partner Responsible for the Independent Audit

To be the very best is **Our Goal...**

The European Award

Our expertise with small and growing businesses earned us recognition by The European as the Best SME Partner Bank. At the helm of this concerted effort is Ms Betty Korir who also won the accolade of CEO of the Year 2019.

Customer Service Award

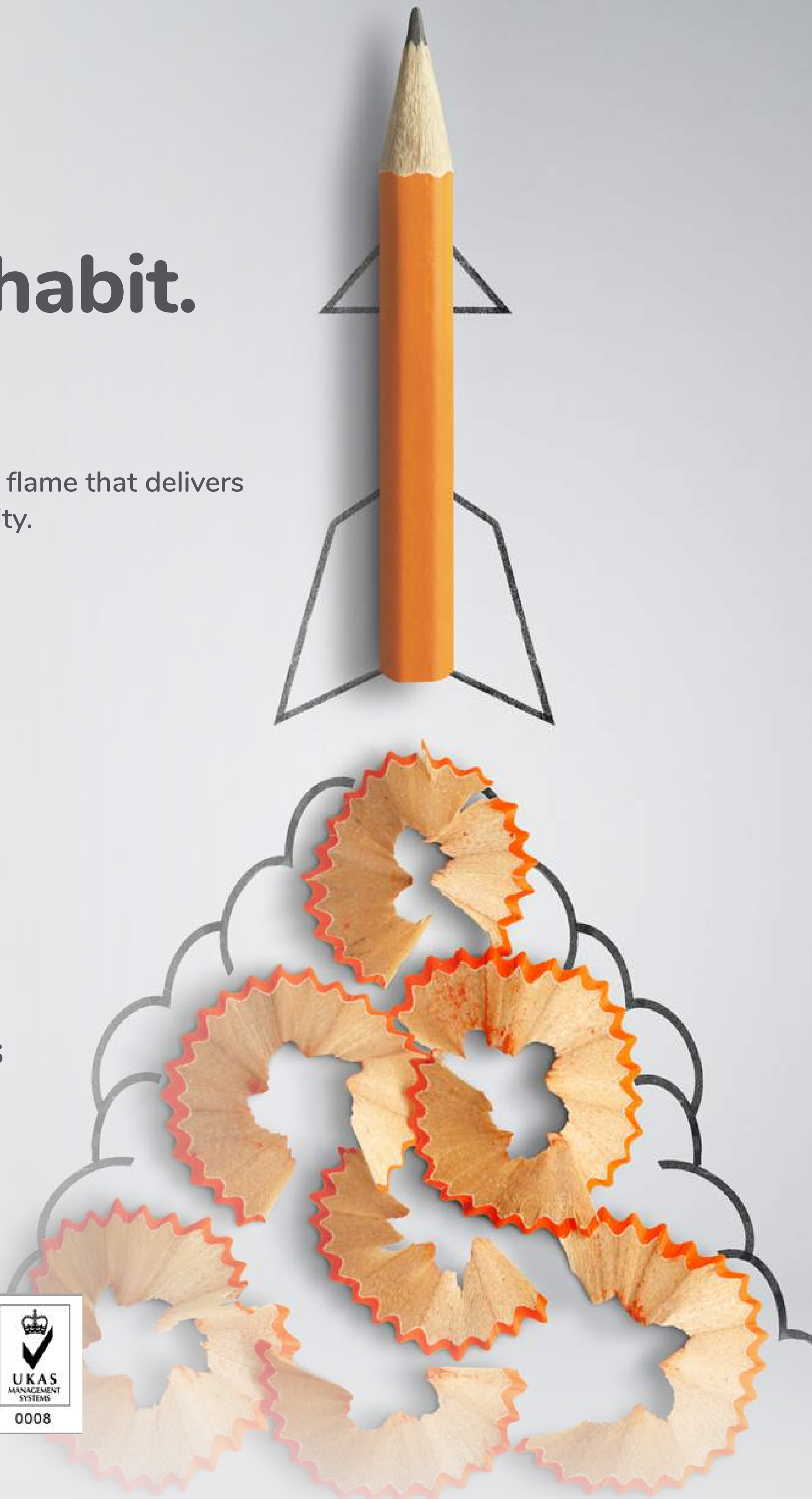
For the second year in a row, KBA, through a customer survey issued in 2019, recognised us as the best in our category for offering Dignity & Respect and a Satisfactory Digital Experience.

Think Business 2019 Awards

- Best Bank in Tier III
- 2nd Runners Up in the Best Bank in SME Banking
- 2nd Runners Up in Sustainable Corporate Social Responsibility

It’s our habit.
Quality

We continously fan the flame that delivers on this promise of quality.



Financial **Statements**

ISO 9001
BUREAU VERITAS
Certification
UKAS MANAGEMENT SYSTEMS
0008

Consolidated Statement of Comprehensive Income

	Notes	2019 Shs'000	2018 Shs'000
Interest income	5	2,515,550	2,192,898
Interest expense	6	(1,229,885)	(898,051)
Net interest income		1,285,665	1,294,847
Fee and commission income		389,152	205,186
Fee and commission expense		(2,929)	(2,494)
Net fee and commission income		386,223	202,692
Net foreign exchange income		117,711	83,486
Other income	7	49,975	171,997
Credit impairment losses	8	(185,990)	(154,175)
		(18,304)	101,308
Net operating income		1,653,584	1,598,847
Employee benefits	9	(658,753)	(575,449)
Other operating expenses	10	(436,300)	(518,089)
Directors' expenses		(69,150)	(52,607)
Depreciation of property and equipment	20	(62,191)	(59,579)
Depreciation of right-of-use asset	26	(72,753)	-
Amortisation of intangible assets	21	(51,528)	(50,182)
Operating expenses		(1,350,675)	(1,255,906)
Profit before income tax		302,909	342,941
Income tax expense	11	(90,890)	(94,404)
Profit for the year		212,019	248,537

Consolidated Statement of Other Comprehensive Income	Notes	2019 Shs'000	2018 Shs'000
Profit for the year		212,019	248,537
Other comprehensive income			
Items that may be subsequently reclassified to profit or loss			
Net fair value movements on FVOCI financial assets, net of tax	29	(11,633)	14,963
Total comprehensive profit for the year		200,386	263,500

Bank Statement of Comprehensive Income

	Notes	2019 Shs'000	2018 Shs'000
Interest income	5	2,515,550	2,192,898
Interest expense	6	(1,231,071)	(899,434)
Net interest income		1,284,479	1,293,464
Fee and commission income		373,721	189,058
Fee and commission expense		(2,929)	(2,494)
Net fee and commission income		370,792	186,564
Net foreign exchange income		117,711	83,486
Other income	7	49,975	171,997
Credit impairment losses	8	(185,990)	(154,175)
		(18,304)	101,308
Net operating income		1,636,967	1,581,336
Employee benefits	9	(646,589)	(569,692)
Other operating expenses	10	(434,791)	(517,184)
Directors' expenses		(69,150)	(52,607)
Depreciation of property and equipment	20	(62,188)	(59,567)
Depreciation of right-of-use asset	26	(72,753)	-
Amortisation of intangible assets	21	(51,424)	(50,078)
Operating expenses		(1,336,895)	(1,249,128)
Profit before income tax		300,072	332,208
Income tax expense	11	(89,841)	(91,174)
Profit for the year		210,231	241,034

Bank Statement of Other Comprehensive Income	Notes	2019 Shs'000	2018 Shs'000
Profit for the year		210,231	241,034
Other comprehensive income			
Items that may be subsequently reclassified to profit or loss			
Net fair value movements on FVOCI financial assets, net of tax	29	(11,633)	14,963
Total comprehensive profit for the year		198,598	255,997

Consolidated Statement of Financial Position

	Notes	2019 Shs'000	2018 Shs'000
Assets			
Cash and balances with Central Bank of Kenya	13	1,286,075	1,359,780
Financial assets at FVOCI	14	1,246,601	806,405
Financial assets at amoritised cost	15	1,789,084	1,512,143
Deposits and balances due from banking institutions	16	434,016	195,648
Loans and advances to customers	17	15,226,683	13,031,248
Other assets and prepaid expenses	18	526,289	346,978
Property and equipment	20	290,351	270,844
Intangible assets	21	188,751	170,357
Right-of-use assets	26	496,120	-
Deferred income tax	19	176,645	132,625
Current Income tax		3,830	-
Total assets		21,664,445	17,826,028
Liabilities			
Deposits and balances due to banking institutions	23	540,192	1,273,732
Customer deposits	24	16,806,420	13,117,881
Other liabilities	25	726,832	514,987
Lease liabilities	33	530,982	-
Current income tax		41,649	39,726
Total liabilities		18,645,625	14,946,326
Shareholders' Equity			
Share capital	27	2,633,507	2,406,425
Share premium	27	59,908	75,715
Regulatory reserve	28	164,684	92,040
Retained earnings		162,235	295,403
Fair value reserve	29	(1,514)	10,119
Shareholders' equity		3,018,820	2,879,702
Total equity and liabilities		21,664,445	17,826,028

The financial statements on pages 46 to 122 were approved for issue by the Board of Directors on 18th March 2020 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	2019 Shs'000	2018 Shs'000
Assets			
Cash and balances with Central Bank of Kenya	13	1,256,286	1,333,102
Financial assets at FVOCI	14	1,246,602	806,405
Financial assets at amoritised cost	15	1,789,084	1,512,143
Deposits and balances due from banking institutions	16	434,016	195,648
Loans and advances to customers	17	15,226,683	13,031,248
Other assets and prepaid expenses	18	435,378	274,977
Property and equipment	20	290,206	270,744
Intangible assets	21	188,707	170,208
Right-of-use assets	26	496,120	-
Deferred income tax	19	176,656	132,367
Current Income tax	22	1,000	1,000
		-	-
Total assets		21,540,738	17,727,842
Liabilities			
Deposits and balances due to banking institutions		540,192	1,273,732
Customer deposits		16,806,420	13,117,881
Other liabilities	23	621,139	433,388
Lease liabilities	24	530,982	-
Current income tax	25	41,649	39,816
	33		
Total liabilities		18,540,382	14,864,817
Shareholders' Equity			
Share capital		2,633,507	2,406,425
Share premium		59,908	75,715
Regulatory reserve		164,684	92,040
Retained earnings		143,771	278,726
Fair value reserve	27	(1,514)	10,119
	27		
Shareholders' equity	28	3,000,356	2,863,025
Total equity and liabilities	29	21,540,738	17,727,842

The financial statements on pages 46 to 122 were approved for issue by the Board of Directors on 18th March 2020 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 Shs'000	Retained Earnings Shs'000	Regulatory Reserve Shs'000	Fair Value Reserve Shs'000	Total Shs'000
Year ended 31 December 2018							
At start of the year		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 assets at FVOCI		-	-	-	-	14,963	14,963
Total comprehensive income for the year		-	-	248,537	-	14,963	263,500
Transfer from retained earnings	28	-	-	(42,499)	42,499	-	-
Additional share capital	27	15,639	7,808	-	-	-	23,447
Issue of bonus shares	27	-	(20,798)	-	-	-	(20,798)
At end of year		2,406,425	75,715	295,403	92,040	10,119	2,879,702
Year ended 31 December 2019							
At start of year		2,406,425	75,715	295,403	92,040	10,119	2,879,702
Total comprehensive income for the year							
Profit for the year		-	-	212,018	-	-	212,018
Fair value movement on available for sale assets		-	-	-	-	(11,633)	(11,633)
Total comprehensive income for the year		-	-	212,018	-	(11,633)	200,385
Transfer from retained earnings	28	-	-	(72,644)	72,644	-	-
Transactions with owners	27						
Issue of share capital		26,733	16,444	-	-	-	43,177
Bonus Issue		200,349	-	(200,349)	-	-	-
Share issue costs		-	(32,251)	-	-	-	(32,251)
Dividend paid		-	-	(72,193)	-	-	(72,193)
At end of year		2,633,507	59,908	162,235	164,684	(1,514)	3,018,820

Bank Statement of Changes in Equity

	Notes	Share capital Shs'000	Share Premium Shs'000	Retained Earnings Shs'000	Regulatory reserve Shs'000	Fair value reserve Shs'000	Total Shs'000
Year ended 31 December 2018							
At start of the year		2,390,786	88,705	140,885	49,541	(4,844)	2,665,073
Changes on initial application of IFRS 9 net of tax		-	-	(60,694)	-	-	(60,694)
Total comprehensive income for the year							
Profit for the year		-	-	241,034	-	-	241,034
Fair value movement on assets at FVOCI		-	-	-	-	14,963	14,963
Total comprehensive income for the year		-	-	241,034	-	14,963	255,997
Transfer from retained earnings	28	-	-	(42,499)	42,499	-	-
Additional share capital	27	15,639	7,808	-	-	-	23,447
Issue of bonus shares	27	-	(20,798)	-	-	-	(20,798)
At end of year		2,406,425	75,715	278,726	92,040	10,119	2,863,025
Year ended 31 December 2019							
At start of year		2,406,425	75,715	278,726	92,040	10,119	2,863,025
Total comprehensive income for the year							
Profit for the year		-	-	210,231	-	-	210,231
Fair value movement on available for sale assets		-	-	-	-	(11,633)	(11,633)
Total comprehensive income for the year		-	-	210,231	-	(11,633)	197,977
Transfer from retained earnings	28	-	-	(72,644)	72,644	-	-
Transactions with owners							
Issue of share capital	27	26,733	16,444	-	-	-	43,177
Bonus Issue		200,349	-	(200,349)	-	-	-
Share issue costs		-	(32,251)	-	-	-	(32,251)
Dividend paid		-	-	(72,193)	-	-	(72,143)
At end of year		2,633,507	59,908	143,771	164,684	(1,514)	3,000,356

Consolidated Statement of Cash Flows

	Notes	2019 Shs'000	2018 Shs'000
Cash flows from operating activities			
Interest receipts		2,515,550	1,892,762
Net fees and commissions receipts		386,223	504,211
Interest paid		(1,229,886)	(899,434)
Foreign exchange income		119,441	83,486
Recoveries on loans previously written off		4,669	24,756
Payments to employees and suppliers		(1,231,612)	(1,069,374)
Income tax paid		(132,987)	(46,574)
Other income received		49,975	171,711
Cash flows from operating activities before changes in operating assets and liabilities		481,373	661,544
Changes in operating assets and liabilities:			
- gross loans and advances to customers		(2,498,410)	(3,704,247)
- other assets and prepaid expenses		(179,311)	(28,029)
- Central Bank of Kenya cash reserve requirement	32	(183,658)	(105,347)
- deposits and balances due to banking institutions		(733,540)	728,888
- customer deposits		3,688,539	2,178,086
- other liabilities		246,908	162,768
Net cash generated from operating activities		821,901	(106,337)
Cash flows from investing activities			
Net proceeds from financial assets at amoritised cost		(276,941)	249,638
Purchase of financial assets at FVOCI		(440,198)	(302,725)
Purchase of property and equipment	20	(88,759)	(39,281)
Proceeds from disposal of property and equipment		7,061	286
Purchase of intangible assets	21	(78,520)	(35,732)
Net cash used in investing activities		(877,357)	(127,814)
Cash flows from financing activities			
Proceeds from issue of shares	27	10,926	2,650
Dividend paid		(72,193)	-
Net cash (used in)/generated from financing activities		(61,267)	2,650
Net decrease in cash and cash equivalents		(116,723)	(231,501)
Cash and cash equivalents at start of year		1,014,267	1,245,768
Cash and cash equivalents at end of year	32	897,544	1,014,267

Bank Statement of Cash Flows

	Notes	2019 Shs'000	2018 Shs'000
Cash flows from operating activities			
Interest receipts		2,515,550	1,891,379
Net fees and commissions receipts		370,792	488,083
Interest paid		(1,231,071)	(899,434)
Foreign exchange income		119,441	83,486
Recoveries on loans previously written off		4,669	24,756
Payments to employees and suppliers		(1,213,268)	(1,015,245)
Income tax paid		(132,421)	(44,024)
Other income received		49,975	171,711
Cash flows from operating activities before changes in operating assets and liabilities		483,667	700,712
Changes in operating assets and liabilities:			
- gross loans and advances to customers		(2,498,410)	(3,704,247)
- other assets and prepaid expenses		(160,401)	(23,761)
- Central Bank of Kenya cash reserve requirement	32	(183,658)	(105,347)
- deposits and balances due to banking institutions		(733,540)	728,888
- customer deposits		3,688,539	2,178,086
- other liabilities		222,538	118,855
Net cash generated from operating activities		818,735	106,814
Cash flows from investing activities			
Net proceeds from financial assets at amortised cost		(277,571)	249,638
Purchase of financial assets at FVOCI		(440,198)	(302,725)
Purchase of property and equipment	20	(88,075)	(39,187)
Proceeds from disposal of property and equipment		7,061	286
Purchase of intangible assets	21	(78,520)	(35,638)
Net cash used in investing activities		(877,303)	(127,626)
Cash flows from financing activities			
Proceeds from issue of shares	27	10,926	2,650
Dividend paid		(72,193)	-
Net cash generated from financing activities		61,267	2,650
Net decrease in cash and cash equivalents		(119,836)	(231,790)
Cash and cash equivalents at start of year		987,590	1,219,380
Cash and cash equivalents at end of year	32	867,755	987,590

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

(i) New and Amended Standards Adopted by the Group

IFRS 16 - Leases

In January 2016, the IASB issued IFRS 16 to replace IAS 17. The Group adopted this new standard as of 1 January 2019. This resulted in changes in accounting policies and disclosure of leases in the financial statements previously not recognised. The objective of IFRS 16 is to ensure that lessees and lessors provide relavant information in a manner that clearly represent their lease transactions in their financial statements and provide users of financial statements with ability to assess the amount , timing and uncertainity of cash flows arising from such leases.

IFRS 16 introduces a single lessee accounting model and requires a lessee to recognise assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. A lessee is required to recognise a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments periodically.

IFRIC 23, 'Uncertainty Over Income Tax Treatments'

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

(ii) New Standards and Interpretations not yet Adopted

Certain new accounting standards and interpretations have been published that are not mandatory for 31 December 2019 reporting periods and have not been early adopted by the Bank. These standards are not expected to have a material impact on the Bank in the current or future reporting periods and on foreseeable future transactions.

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 2019.

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'000), 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

i) Classification and Subsequent Measurement

Financial Assets

Except for trade receivables that do not have a significant financing component, at initial recognition, the Group measures a financial asset or financial liability at its fair value plus or minus, in the case of a financial asset or financial liability not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issuance of the financial asset or financial liability. Trade receivables that do not have a significant financing component are measured at their transaction price.

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

- Measured at amortised cost;
- FVOCI; and
- FVTPL.

Amortised Cost

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

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

The Group recognises cash, deposits and balances due from financial institutions including items in the course of collection, amounts due from related parties, loans and advances to customers, certain investment securities, and other assets at amortised cost.

Fair Value Through other Comprehensive Income (FVOCI) – Debt

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

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

The Bank classifies certain investments it has in government securities at FVOCI.

Fair Value through Other Comprehensive Income (FVOCI) – Equity

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

The Bank classifies derivative financial assets at FVOCI.

Fair Value through Profit or Loss (FVTPL)

All financial assets not classified as measured at amortised cost or FVOCI as described above are measured at FVTPL. In addition, on initial recognition the Group may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at FVOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise. The Group currently has no equity investments held at FVTPL.

A financial asset is classified into one of these categories on initial recognition. Under IFRS 9, derivatives embedded in contracts where the host is a financial asset in the scope of IFRS 9 are not separated. Instead, the hybrid financial instrument as a whole is assessed for classification.

Assessment Whether Contractual Cash Flows are Solely Payments of Principal and Interest (SPPI)

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

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

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

In assessing whether the contractual cash flows are solely payments of principal and interest, the Group considered the contractual terms of its financial assets. The Group, through the Credit, Finance and Treasury departments will from time to time review the contractual terms of existing instruments and also review contractual terms of new products the Group develops or invests in going forward. This includes assessing whether the financial asset contained a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition.

In making the assessment, the Group shall consider:

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

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

Interest rates on loans made by the Group are based on the prevailing interest rate which currently are referenced to the Central Bank Rate. The prevailing rates are generally based on a Central Bank rate and also include a discretionary spread (Margin). In these cases, the Group has assessed whether the discretionary feature is consistent with the SPPI criterion by considering a number of factors, including whether:

- the borrowers are able to prepay the loans without significant penalties;
- the market competition ensures that interest rates are consistent between banks; and
- any regulatory or customer protection framework is in place that requires banks to treat customers fairly.

Some of the Group's loans may contain prepayment features. A prepayment feature is consistent with the SPPI criterion if the prepayment amount substantially represents unpaid amounts of principal and interest on the principal amount outstanding, which may include reasonable compensation for early termination of the contract.

In addition, a prepayment feature is treated as consistent with this criterion if a financial asset is acquired or originated at a premium or discount to its contractual par amount, the prepayment amount substantially represents the contractual par amount plus accrued (but unpaid) contractual interest (which may also include reasonable compensation for early termination), and the fair value of the prepayment feature is insignificant on initial recognition.

De Minimis

A contractual cash flow characteristic may not affect the classification of a financial asset if it could have only a de minimis effect on the financial asset's contractual cash flows. To make this determination, the Group considers the possible effect of the contractual cash flow characteristic in each reporting period and cumulatively over the life of the financial asset.

Business Model Assessment

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

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

Financial assets that are held for trading and those that are managed and whose performance is evaluated on a fair value basis have been measured at FVTPL because they are neither held to collect contractual cash flows nor held both to collect contractual cash flows and to sell financial assets. The table below summarises the key features of each type of business model and the resultant measurement category:

Business Model	Key Features	Category
Held to collect	The objective of the business model is to hold assets to collect contractual cash flows. Sales are incidental to the objective of the model. This model typically involves the lowest level of sales in comparison with other business models (in frequency and volume).	Amortised cost[1]
Both held to collect and for sale	Both collecting contractual cash flows and sales are integral to achieving the objective of the business model. This model typically has more sales (in frequency and volume) than the held-to-collect business model.	FVOCI[1]
Other business models, including: trading, managing assets on a fair value basis, maximising cash flows through sale	The business model is neither held-to-collect nor held to collect and for sale. The collection of contractual cash flows is incidental to the objective of the model.	FVTPL[2]

[1]Subject to meeting the SPPI criterion.
[2]The SPPI criterion is irrelevant - i.e. assets in all business models are measured at FVTPL.

Financial Liabilities
The Group classifies all financial liabilities as subsequently measured at amortised cost, except for financial liabilities at fair value through profit or loss. Such liabilities, including derivatives that are liabilities, shall be subsequently measured at fair value. Deposits from customers, borrowed funds and other liabilities are also classified at amortised cost.

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

Derecognition and Contract Modification
The Group derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or when it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Group is recognised as a separate asset or liability. However, when the modification of a financial instrument not measured at FVTPL does not result in derecognition, the Group has recalculated the gross carrying amount of the financial asset (or the amortised cost of the financial liability) by discounting the modified contractual cash flows at the original effective interest rate and recognise any resulting adjustment as a modification gain or loss in profit or loss..

Derecognition and Contract Modification (Continued)

The Group derecognises a financial liability when its contractual obligations are discharged or cancelled or expire. The Group enters into transactions whereby it transfers assets recognised on its statement of financial position, but retains either all or substantially all of the risks and rewards of the transferred assets or a portion of them. If all or substantially all risks and rewards are retained, then the transferred assets are not derecognised from the statement of financial position. Transfers of assets with retention of all or substantially all risks and rewards include, for example, securities lending and repurchase transactions.

Write-off

The Group writes off financial assets, in whole or part, when it has exhausted all practical recovery efforts and has concluded there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include:

- Ceasing enforcement activity
- Where the Group's recovery method is foreclosing on collateral and the value of the collateral is such there is no reasonable expectation of recovering in full.

Offsetting

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Group has a legal right to set off the amounts and it intends either to settle them on a net basis or to realise the asset and settle the liability simultaneously. Income and expenses are presented on a net basis only when permitted under IFRS, or for gains and losses arising from a group of similar transactions such as in the Group's trading activity.

Interest Income Recognition

According to IFRS 9 paragraph 5.4.1 interest revenue shall be calculated by using the effective interest method (Refer to the Effective Interest Rate (EIR) policy for information on determination of the EIR). This shall be calculated by applying the effective interest rate to the gross carrying amount of a financial asset except for:

- Purchased or originated credit-impaired financial assets. For those financial assets, the entity shall apply the cred it-adjusted effective interest rate to the amortised cost of the financial asset from initial recognition.
- Financial assets that are not purchased or originated credit-impaired financial assets but subsequently have become credit-impaired financial assets. For those financial assets, the entity shall apply the effective interest rate to the amortised cost of the financial asset in subsequent reporting periods.

According to IFRS 9 paragraph 5.4.2 an entity that, in a reporting period, calculates interest revenue by applying the effective interest method to the amortised cost of a financial asset in accordance with paragraph 5.4.1(b) (see (b) above), shall, in subsequent reporting periods, calculate the interest revenue by applying the effective interest rate to the gross carrying amount if the credit risk on the financial instrument improves so that the financial asset is no longer credit-impaired and the improvement can be related objectively to an event occurring after the requirements in paragraph 5.4.1(b) were applied (such as an improvement in the borrower's credit rating). In the context of the Central Bank regulations, credit impaired accounts would refer to the substandard, doubtful and loss risk classifications.

Assets that are Credit-Impaired on Initial Recognition

According to IFRS 9 (7A.8.340) Purchased or Originated Credit Impaired (POCI) assets are assets that are credit-impaired on initial recognition. An asset is credit-impaired if one or more events have occurred that have a detrimental impact on the estimated future cash flows of the asset. The following are examples of such events:

- Significant financial difficulty of the issuer or the borrower;
- A breach of contract - e.g. a default or past-due event;
- A lender having granted a concession to the borrower - for economic or contractual reasons relating to the borrower's financial difficulty - that the lender would not otherwise conside;
- It becoming probable that the borrower will enter bankruptcy or another financial reorganisation;
- The disappearance of an active market for that financial asset because of financial difficulties; or
- The purchase of a financial asset at a deep discount that reflects the incurred credit losses.

It may not be possible to identify a single discrete event that caused the asset to be credit impaired. Instead, the combined effect of several events may cause financial assets to become credit impaired.

Measurement on Initial Recognition

On initial recognition, POCI assets do not carry an impairment allowance. Instead, lifetime ECLs are incorporated into the calculation of the effective interest rate.

Subsequent Measurement

The ECLs for POCI assets are always measured at an amount equal to lifetime ECLs. However, the amount recognised as a loss allowance for these assets is not the total amount of lifetime ECLs, but instead the changes in lifetime ECLs since initial recognition of the asset. Favourable changes in lifetime ECLs are recognised as an impairment gain, even if the favourable changes are more than the amount, if any, previously recognised in profit or loss as impairment losses.

Modifications

When the contractual cash flows of a POCI asset are modified and the modification does not result in derecognition, the calculation of the modification gain or loss is the difference between:

- the gross carrying amount of the asset before the modification; and
- the recalculated gross carrying amount

The recalculated gross carrying amount is the present value of the estimated future cash payments or receipts through the expected life of the modified financial asset discounted using the credit-adjusted effective interest rate before the modification

ii) Impairment – Financial Assets, Loan Commitments and Financial Guarantee Contracts

IFRS 9 replaced the previous 'incurred loss' model in IAS 39 with a forward-looking 'expected credit loss' model. The new impairment model applies to the following financial instruments that are not measured at FVTPL:

- financial assets that are debt instruments – this applies to the Group's loans and advances to customers, Investment in Government securities measured at amortised cost and FVOCI, balances due to group companies and other assets;
- lease and trade receivables – this applies to the Group's finance lease and trade receivables; and
- loan commitments and financial guarantee contracts issued (previously, impairment was measured under IAS 37 Provisions, Contingent Liabilities and Contingent Assets) - this applies to the Group's off-balance sheet exposures where credit intervention is not required for the counterparty to access the credit facility.

No impairment loss is recognised on equity investments and financial assets measured at FVTPL.

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

The Group has recognised loss allowances at an amount equal to lifetime ECLs, except in the following cases, for which the amount recognised will be 12-month ECLs:

- debt investment securities that are determined to have low credit risk at the reporting date. The Bank has considered a debt security to have low credit risk when its credit risk rating is equivalent to the globally understood definition of 'investment-grade' and investments in Government securities; and
- other financial instruments (other than trade and lease receivables) for which credit risk has not increased significantly since initial recognition.

Loss allowances for trade and lease receivables will always be measured at an amount equal to lifetime ECLs. The impairment requirements of IFRS 9 are complex and require management judgement, estimates and assumptions, particularly in the following areas, which are discussed in detail below:

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

Measurement of Expected Credit Losses

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

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

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

- significant financial difficulty of the issuer or the borrower;
- a breach of contract - e.g. a default or past-due event;
- a lender having granted a concession to the borrower - for economic or contractual reasons relating to the borrower's financial difficulty - that the lender would not otherwise consider;
- it is becoming probable that the borrower will enter bankruptcy or another financial reorganisation;
- the disappearance of an active market for that financial asset because of financial difficulties; or
- the purchase of a financial asset at a deep discount that reflects the incurred credit losses.

For purposes of IFRS 9 there will be no difference between credit impaired and non-performing financial loans as defined by the CBK.

Expected Credit Losses

Expected credit losses are computed as a product of the Probability of Default (PD), Loss Given Default (LGD) and the Exposure at Default (EAD).

ECL = PD x LGD x EAD

In applying the IFRS 9 impairment requirements, an entity needs to follow one of the approaches below:

- The general approach
- The simplified approach

The simplified approach is applied for trade receivables or contract assets resulting from transactions in the scope of IFRS 15 Revenue from customer contracts or lease receivables resulting from transactions in the scope of IAS 17 Leases. The Bank has therefore applied the general approach.

The General Approach

Under the general approach, at each reporting date, an entity recognises a loss allowance based on either 12-month ECLs or lifetime ECLs, depending on whether there has been a significant increase in credit risk on the financial instrument since initial recognition. The changes in the loss allowance balance are recognised in profit or loss as an impairment gain or loss. Essentially, an entity must make the following assessment at each reporting date:

Stage 1 - For credit exposures where there have not been significant increases in credit risk since initial recognition, an entity is required to provide for 12-month ECLs, i.e., the portion of lifetime ECLs that represent the ECLs that result from default events that are possible within the 12-months after the reporting date (12-month ECL as per formula below).

$$ECL12m = PD12m \times LGD12m \times EAD12m \times D12m$$

Stage 2 - For credit exposures where there have been significant increases in credit risk since initial recognition on an individual or collective basis, a loss allowance is required for lifetime (LT) ECLs, i.e., ECLs that result from all possible default events over the expected life of a financial instrument (ECL LT as per formula below).

$$ECL\ LT = LT\sum T=1\ PDt \times LGDt \times EADt \times Dt$$

Stage 3 – For credit exposures that are credit impaired and in default. Similar to stage 2 assets a loss allowance is required for lifetime ECLs however the probability of default for these assets is presumed to be 100% less any determined recovery and cure rate.

The table below shows the link between the CBK risk classifications and the IFRS 9 stage allocation for assets.

CBK PG/04 Guidelines	Days Past Due	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

Definition of Default

The Group has considered a financial asset to be in default when:

- the borrower is unlikely to pay their credit obligations to the Bank in full, without recourse by the Bank to actions such as realising security (if any is held); or
- the borrower is more than 90 days past due on any material credit obligation to the Bank. This will be consistent with the rebuttable criteria set out by IFRS 9 and existing practice of the Bank; or
- if it meets the definition of the local regulator of default, if in the future the local regulator prescribe the criteria of default for IFRS 9 purposes

This definition is largely consistent with the Central Bank of Kenya definition that will be used for regulatory purposes. In assessing whether a borrower is in default, the Bank has considered indicators that are:

- significant financial difficulty of the issuer or the borrower;
- a breach of contract - e.g. a default or past-due event;
- a lender having granted a concession to the borrower - for economic or contractual reasons relating to the borrower's financial difficulty - that the lender would not otherwise consider;
- it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation;
- the disappearance of an active market for that financial asset because of financial difficulties; or
- the purchase of a financial asset at a deep discount that reflects the incurred credit losses

Inputs into the assessment of whether a financial instrument is in default and their significance may vary over time to reflect changes in circumstances. The Group has not rebutted the 90 Days Past Due (DPD) rule for identifying defaults.

Significant Increase in Credit Risk (SIICR)

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

The Group identifies a significant increase in credit risk where

- an exposure is greater than 30 days past due – this is in line with the IFRS 9 30 DPD rebuttable presumption;
- an exposure has been restructured in the past due to credit risk related factors or which was NPL and is now regular (subject to the regulatory cooling off period);or
- by comparing exposures:
    - credit risk quality at the date of reporting; with
    - the credit risk quality on initial recognition of the exposure.

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

Credit Risk Classification

The Group allocates each exposure to a credit risk classification based on the regulatory requirements of the Central Bank which requires the prediction of the risk of default and applying experienced credit judgement. The Bank shall use these classifications in identifying significant increases in credit risk under IFRS 9. The risk classifications are defined using the regulator's guidance, days past due, management assessment, qualitative and quantitative factors that are indicative of the risk of default.

These factors may vary depending on the nature of the exposure and the type of borrower. The Bank shall undertake a thorough credit appraisal process and determine the credit quality of each exposure on initial recognition based on available information about the borrower. Exposures will be subject to ongoing monitoring, which may result in an exposure being moved to a different credit risk classification.

Determining Whether Credit Risk has Increased Significantly

The Group shall establish a framework that incorporates both quantitative and qualitative information to determine whether the credit risk on a particular financial instrument has increased significantly since initial recognition. The framework shall align with the Bank's internal credit risk management process. The criteria for determining whether credit risk has increased significantly will vary by portfolio and will include a backstop based on delinquency (30 DPD presumption).

Quantitative Factors

The Group deems the credit risk of a particular exposure to have increased significantly since initial recognition based on a loan being in arrears for a period of 31 to 90 days in accordance with IFRS 9 paragraph 5.5.11. The Bank has developed an internal rating model going forward and movement in rating grades between the reporting period and initial recognition date/the date of initial application of IFRS 9 of the loan will form the basis of significant increase in credit risk.

Qualitative Factors

In certain instances, using its expert credit judgement and, where possible, relevant historical experience, the Bank may determine that an exposure has undergone a significant increase in credit risk if particular qualitative factors indicate so and those indicators may not be fully captured by its quantitative analysis on a timely basis. The management view and judgement include the following assessments:

- Classification of exposures by any other Banks and Financial institutions or local Credit Reference Bureau (CRB);
- Unavailable/inadequate financial information/financial statements;
- Qualified report by external auditors;
- Significant contingent liabilities;
- Loss of key staff in the organization;

- Increase in operational risk and higher occurrence of fraudulent activities;
- Continued delay and non-cooperation by the borrower in providing key relevant documentation; and
- Deterioration in credit worthiness due to factors other than those listed above

As a backstop, and as required by IFRS 9, the Group has presumptively considered that a significant increase in credit risk occurs no later than when an asset is more than 30 days past due. The Bank has determined days past due by counting the number of days since the earliest elapsed due date in respect of which full payment has not been received.

SIICR at Transition to IFRS 9

Under IFRS 9, assessment of SIICR requires comparison of default risk at the reporting date with the risk at origination or initial recognition of the asset. However, the standard also states that if the Group cannot measure default risk at initial recognition for SIICR purposes without undue cost or effort, then it should recognize lifetime ECL on that instrument. The Group at transition used past due information to determine whether there have been significant increases in credit risk since initial recognition.

Backward Transitions

Backward transitions define the criteria for moving a financial asset back from Stage 2 to Stage 1 or Stage 3 to Stage 2. The Group applies the considerations of the Central Bank prudential guidelines to determine whether a financial asset should be upgraded from Stage 3 to Stage 2 and then Stage 1. Where an account in Stage 3 is regularised (i.e. all past due principal and interest is repaid in full) it may be upgraded to Stage 2 subject to observation of the cooling off period as defined by the Prudential Guidelines. A facility which meets the above condition and has been classified as Stage 2 may be reclassified to Stage 1 if a sustained record of performance is maintained for a period of six (6) months.

Modified Financial Assets

The contractual terms of a loan may be modified for a number of reasons, including changing market conditions, customer retention and other factors not related to a current or potential credit deterioration of the customer. An existing loan whose terms have been modified may be derecognised and the renegotiated loan recognised as a new loan at fair value. Under IFRS 9, when the terms of a financial asset are modified and the modification does not result in derecognition, the determination of whether the asset's credit risk has increased significantly reflects comparison of the borrower's initial credit risk assessment and the current assessment at the point of modification.

Restructuring

The Group renegotiates loans to customers in financial difficulties (referred to as 'restructuring') to maximise collection opportunities and minimise the risk of default. Under the Bank's restructuring policy, loan restructuring is granted on a selective basis if the debtor is currently in default on its debt or if there is a high risk of default, there is evidence that the debtor made all reasonable efforts to pay under the original contractual terms and the debtor is expected to be able to meet the revised terms. The revised terms usually include extending the maturity, changing the timing of interest payments and amending the terms of loan covenants. The Gropup's Credit Committee regularly reviews reports on restructuring activities.

Generally, restructuring is a qualitative indicator of default and credit impairment and expectations of restructuring are relevant to assessing whether there is a significant increase in credit risk. Following restructuring, a customer needs to demonstrate consistently good payment behaviour over a period of time before the exposure is no longer considered to be in default/credit-impaired or the PD is considered to have decreased such that the loss allowance reverts to being measured at an amount equal to 12-month ECLs.

The Group applies the requirements of the Central Bank prudential guidelines where an account in Doubtful or Sub-standard category (Stage 3) will be upgraded to Watch if principal and interest payments are fully regularised at the point of restructure, the account is re-classified to Watch (Stage 2) and observed for six (6) months. Where the account continues to perform appropriately for an additional six (6) months the account is upgraded to normal and the Bank reverts to measuring 12-month ECLs. Where the account is restructured with the customer having not regularized overdue principal and interest, the account shall remain in Substandard for six (6) months or if in Doubtful category, twelve (12) months for observation. If the restructured account performs as per the new contract during the observation period, the account can be then upgraded to Watch (stage 2) and observed for another six (6) months where it can be further upgraded to Normal (stage 1) if good performance is sustained. The date of renegotiation is consequently considered to be the date of initial recognition for impairment calculation purposes, including for determining whether a significant increase in credit risk has occurred.

However, the Group also assesses whether the new financial asset recognised is deemed to be credit-impaired at initial recognition, especially in circumstances where the renegotiation was driven by the debtor being unable to make the originally agreed payments. Differences in the carrying amount are also recognised in profit or loss as a gain or loss on derecognition. If the terms are not substantially different, the renegotiation or modification does not result in derecognition, and the Group recalculates the gross carrying amount based on the revised cash flows of the financial asset and recognises a modification gain or loss in profit or loss. The new gross carrying amount is recalculated by discounting the modified cash flows at the original EIR.

ii) Fair Value Measurement

The Group measures FVOCI 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 Group

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 Group 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 Group 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.

The determination of fair values of financial assets and financial liabilities is based on quoted market prices or dealer price quotations for financial instruments traded in active markets at the reporting date without any deduction for transaction costs. Gains or losses on valuation of financial assets at FVOCI are recognised in other comprehensive income.

For all other financial instruments not traded in an active market, the fair value is determined by using appropriate valuation techniques. Valuation techniques include the discounted cash flow method, comparison to similar instruments for which market observable prices exist, options pricing models, credit models and other relevant valuation models.

For the purpose of fair value disclosures, the Bank has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy, as explained above. The table below shows the various asset classes.

<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) 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.

i) 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.

j) 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

k) 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.

l) Impairment of Non-Financial Assets

ets 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.

m) 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.

n) 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.

o) 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.

p) 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.

q) 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.

r) 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.

s) Dividend Income

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

t) Dividends Payable

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

u) 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.

v) 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.

w) 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.

x) Accounting for Leases

Leases Under Which the Group is the Lessee

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

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

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

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

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

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

The above policy has been applied from 1 January 2019.

Leases Under Which the Group is the Lessor

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

Accounting Policy Prior to 1 January 2019

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

(a) The Group is the lessee

(i) Operating lease

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

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

(ii) Finance Lease

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

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

(a) The Group is the lessor

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

(b) Fees paid in connection with arranging leases

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

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 m sed 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 2019 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 2019 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.

Maximum Exposure to Credit Risk Before Collateral Held Group	2019 Shs'000	2018 Shs'000
Balances with Central Bank of Kenya (Note 13)	891,993	950,690
Deposits and balances due from banking institutions (Note 16)	434,016	195,648
Financial assets at amortised cost (Note 15)	1,789,084	1,512,143
Financial assets at FVOCI (Note 14)	1,246,602	806,405
Other assets (Note 18)	463,676	301,193
Loans and advances to customers (Note 17)	15,226,683	13,031,250
	20,052,054	16,797,329
Credit risk exposures relating to off-balance sheet items:	1,180,048	1,079,918
- Acceptances and letters of credit	4,992,727	5,620,912
- Guarantee and performance bonds	606,006	2,630,386
- Commitments to lend	3,359,556	1,175,715
- Unutilised guarantees		
	30,120,391	27,304,260

Maximum Exposure to Credit Risk Before Collateral Held Bank	2019 Shs'000	2018 Shs'000
Balances with Central Bank of Kenya (Note 13)	891,993	924,012
Deposits and balances due from banking institutions (Note 16)	434,016	195,648
Financial assets at amortised cost (Note 15)	1,789,084	1,512,143
Financial assets at FVOCI (Note 14)	1,246,602	806,405
Other assets (Note 18)	372,765	229,192
Loans and advances to customers (Note 17)	15,226,683	13,031,250
	19,961,143	16,698,650
Credit risk exposures relating to off-balance sheet items:		
- Acceptances and letters of credit	1,180,043	1,079,918
- Guarantee and performance bonds	4,922,727	5,620,912
- Commitments to lend	606,006	2,630,386
- Unutilised Guarantees	3,359,556	1,175,715
	30,029,480	27,205,581

The below table represents a worst case scenario of credit risk exposure to the Bank at 31 December 2019 and 2018, 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 51% of the total maximum exposure is derived from loans and advances to customers (2018: 61%); 10% (2018:8%) 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'.

3.1.4 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 the following categories:

CBK PG/04 Guidelines	Days Past Due	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	2019 Shs'000	2018 Shs'000
Neither past due nor impaired (Stage 1)	14,096,485	11,825,366
Past due but not impaired (Stage 2)	172,827	597,601
Impaired (Stage 3)	1,374,167	1,002,094
Gross	15,643,479	13,425,061
Stage 1 and 2	(64,282)	(95,250)
Stage 3	(352,514)	(298,563
Net	15,226,683	13,031,248

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			
Stage 1 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 2019							
Stage 1	134,236	1,276,205	680,660	8,160,085	3,845,299	-	14,096,485
31 December 2018							
Stage 1	13,740	1,539,736	257,861	8,139,195	1,820,174	-	11,770,706

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)		
Stage 2 Group and Bank	Overdrafts Shs'000	Term loans Shs'000	Total Shs'000
31 December 2019			
Past due up to 30 days	-	10,759	10,759
Past due 30 - 90 days	2,681	35,407	38,088
Past due 60 - 90 days	-	22,202	22,202
Total	2,681	68,368	71,049

3. Financial Risk Management (Continued)

3.1 Credit Risk (Continued)

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

Stage 2 Group and Bank	Corporate entities		
	Large Corporate customers Shs'000	SMEs Shs'000	Total Shs'000
31 December 2019			
Past due up to 30 days	16,537	11,689	28,226
Past due 30 - 90 days	42,022	53,732	95,754
Past due 60 - 90 days	-	7,860	7,860
Total	58,559	73,281	131,840

Stage 2 Group and Bank	Individual (retail customers)		
	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

Stage 2 Group and Bank	Corporate entities		
	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	185,495
Total	73,204	406,491	479,695

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:

Stage 3 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 2019						
Stage 3	9,244	107,158	13,096	808,894	386,689	1,325,081
31 December 2018						
Stage 3	9,520	112,831	2,557	108,734	710,094	943,736

Collateral Held Against Stage 3 Loans	SME Shs'000	Corporate Shs'000	Personal Shs'000	Total Collateral held Shs'000
Product				
Loans	361,041	684,716	113,795	1,159,552
Overdraft	297,084	30,121	9,915	337,120
Total	658,125	714,837	123,710	1,496,672

3.2 Concentration of Risk

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

Risk Concentration on Loan Portfolios	Loans and Advances %	Credit Commitments %
At 31 December 2019		
Financial institutions	5%	1%
Manufacturing	2%	11%
Real estate	6%	37%
Wholesale and retail trade	36%	21%
Building and construction	22%	16%
Other industries	13%	11%
Individuals	16%	3%
	100%	100%
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%

3.3 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 2019, 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 7,948,000 (2018: Kshs 9,287,000.00)

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).

3. Financial Risk Management (Continued)

3.3 Market Risk (Continued)

ii) Currency Risk (Continued)

Foreign Exchange Risk Exposure	USD	GBP	Euro	Other	Total
At 31 December 2019					
Assets					
Cash and balances with Central Bank of Kenya	44,806	17,712	11,846	71	74,435
Deposits and balances due from banking institutions	89,875	32,527	10,775	786	133,963
Loans and advances to customers	1,818,419	103,104	59,609	-	1,981,132
Other assets	28,636	-	-	-	28,636
Total assets	1,981,736	153,343	82,230	857	2,218,166
Liabilities					
Customer deposits	1,160,928	150,979	65,696	493	1,378,096
Deposits and balances due to banking Institutions	280,114	-	-	-	280,114
Other liabilities	2,336	231	-	-	2,567
Total liabilities	1,443,378	151,210	65,696	493	1,660,777
Net on-balance sheet position	538,358	2,133	16,534	364	557,389
Net off-balance sheet position	-394,009	2,270	-13,604	-	-405,343
Overall net position	144,349	4,403	2,930	364	152,046
As at 31 December 2018					
Total assets	1,694,865	175,412	150,032	22	2,020,331
Total liabilities	1,638,575	177,049	120,128	525	1,936,277
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)		(503)	84,054

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 2019, an increase/decrease of 1% would have resulted in an increase/decrease in pre tax loss of Kshs 13,113,750 (2018: Kshs 19,583,000)

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.

Interest Rate Risk 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 2019						
Assets						
Cash and balances with Central Bank of Kenya	-	-	-	-	1,286,075	1,286,075
Financial assets at amortised cost	6,297	22,642	168,184	1,591,960	-	1,789,083
Deposits and balances due from banking institutions	300,053	-	-	-	133,963	434,016
Financial assets at FVOCI	1,246,602	-	-	-	-	1,246,602
Other assets and prepaid expenses	-	-	-	-	526,289	526,289
Loans and advances to customers	15,226,683	-	-	-	-	15,226,683
Property and equipment and intangible assets	-	-	-	-	479,102	479,102
Deferred income tax	-	-	-	-	176,645	176,645
Right-of-use asset	-	-	-	-	496,120	496,120
Current income tax	-	-	-	-	3,830	3,830
Total assets	16,779,635	22,642	168,184	1,591,960	3,102,024	21,664,445

3. Financial Risk Management (Continued)

3.3 Market Risk (Continued)

iii) Interest Rate Risk (Continued)

Interest Rate Risk 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 2019						
Liabilities and Shareholders' Funds						
Customer deposits	6,075,312	4,762,114	2,188,274	346,573	3,434,148	16,806,421
Deposits and balances due to banking institutions	261,355	278,837	-	-	-	540,192
Other liabilities	-	-	-	-	727,034	727,034
Current income tax	-	-	-	-	41,469	41,469
Lease liability	-	-	-	-	530,982	530,982
Shareholders' equity	-	-	-	-	3,018,168	3,018,168
Total liabilities and shareholders' equity	6,336,667	5,040,951	2,188,274	346,573	7,751,801	21,664,266
Interest sensitivity gap	10,442,968	(5,018,309)	(2,020,090)	1,245,387	(4,649,856)	-
As at 31 December 2018						
Total assets	14,021,398	97,728	129,497	1,296,823	2,280,582	17,826,028
Total liabilities and shareholders' funds	4,830,839	4,126,668	2,009,137	70,972	6,788,411	17,826,028
Interest sensitivity gap	9,190,559	(4,028,940)	(1,879,640)	1,225,851	(4,507,829)	-

Interest Rate Risk 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 2019						
Assets						
Cash and balances with Central Bank of Kenya	-	-	-	-	1,256,286	1,256,286
Financial assets at amortised cost	6,297	22,642	168,184	1,591,961	-	1,789,084
Deposits and balances due from banking institutions	300,053	-	-	-	133,963	434,016
Financial assets at FVOCI	1,246,602	-	-	-	-	1,246,602
Other assets and prepaid expenses	-	-	-	-	435,378	435,378
Loans and advances to customers	15,226,683	-	-	-	-	15,226,683
Property and equipment and intangible assets	-	-	-	-	478,913	478,913
Right-of-use asset	-	-	-	-	496,120	496,120
Deferred income tax	-	-	-	-	176,656	176,656
Investment in subsidiary	-	-	-	-	1000	1000
Total assets	16,779,635	22,642	168,184	1,591,961	2,978,316	21,540,738

Interest Rate Risk 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 2019						
Liabilities And Shareholders' Funds						
Customer deposits	6,075,312	4,762,114	2,188,274	346,573	3,434,147	16,806,420
Deposits and balances due to banking institutions	261,355	278,837	-	-	-	540,192
Other liabilities	-	-	-	-	621,065	621,065
Current income tax	-	-	-	-	41,649	41,649
Lease liability	-	-	-	-	530,982	530,982
Shareholders' equity	-	-	-	-	3,000,430	3,000,430
Total liabilities and shareholders' equity	6,336,667	5,040,951	2,188,274	346,573	7,628,273	21,540,738
Interest sensitivity gap	10,442,968	-5,018,309	-2,020,090	1,245,388	-4,650,957	-
As at 31 December 2018						
Total assets	14,021,397	97,728	129,497	1,296,823	2,182,397	17,727,842
Total liabilities and shareholders' funds	4,830,839	4,126,668	2,009,137	70,972	6,690,226	17,727,842
Interest sensitivity gap	9,190,558	(4,028,940)	(1,879,640)	1,225,851	(4,507,829)	-

3.4 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.

Payable Undiscounted Cash Flows 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 2019						
Liabilities						
Customer deposits	9,528,359	4,846,680	2,073,920	346,574	10,887	16,806,420
Deposits and balances due to banking institutions	540,192	-	-	-	-	540,192
Other liabilities	506,349	112,025	40,518	42,512	25,630	727,034
Shareholders' equity	-	-	-	-	3,018,168	3,018,168
Lease liability	-	-	-	-	530,982	530,982
Total liabilities	10,574,900	4,958,705	2,114,438	389,086	3,585,667	21,622,796
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	-	-	1,483,333
Other liabilities	442,899	-	51,829	-	3,657	498,385
	-	-	-	-	2,893,356	2,893,356
Total liabilities	5,093,282	6,299,957	2,607,511	1,286,082	2,897,013	18,183,845

Payable Undiscounted Cash Flows *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 2019						
Liabilities	9,528,359					
Customer deposits	540,192	4,846,680	2,073,920	346,574	10,887	16,806,420
Deposits and balances due to		-	-	-	-	540,192
banking institutions	400,380					
Other liabilities	-	112,025	40,518	42,512	25,630	621,065
Lease liability	-	-	-	-	530,982	530,982
Total liabilities	10,468,931	4,958,705	2,114,438	389,086	567,499	18,498,659
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
Total liabilities	5,084,715	6,033,357	2,514,715	1,267,139	3,657	14,903,583

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.

Assets Measured at Fair Value *Group and Bank*	Level 1 Shs'000	Level 2 Shs'000	Level 3 Shs'000	Total balance Shs'000
At 31 December 2019				
Assets				
Fair value through OCI				
- Debt investments	-	1,246,602	-	1,246,602
At 31 December 2018				
Assets				
Fair value through OCI				
- Debt investments	-	806,405	-	806,405

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.

3.5 Fair Value Hierarchy

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.

Fair Value Group	2019		2018	
	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	1,286,075	1,286,075	1,359,780	1,359,780
Financial assets at FVOCI	1,246,602	1,246,602	806,405	806,405
Financial assets at amortised cost	1,789,084	1,789,084	1,512,142	1,512,142
Deposits and balances due from banking institutions	434,016	434,016	195,648	195,648
Loans and advances to customers	15,226,683	15,226,683	13,031,248	13,031,248
Other assets and prepaid expenses	526,289	526,289	346,978	346,978
Liabilities				
Deposits and balances due to banking institutions	540,192	540,192	1,273,732	1,273,732
Customer deposits	16,806,420	16,806,420	13,117,882	13,117,882
Other liabilities	727,034	727,034	514,987	514,987
Lease liabilities	530,982	530,982	-	-

Fair Value Bank	2019		2018	
	Historical cost Shs'000	Fair Value Shs'000	Historical cost Shs'000	Fair Value Shs'000
Assets				
Cash and balances with Central	1,256,286	1,256,286	1,333,102	1,333,102
Bank of Kenya				
Financial assets at FVOCI	1,246,602	1,246,602	806,405	806,405
Financial assets at amortised cost	1,789,084	1,789,084	1,512,143	1,512,143
Deposits and balances due from	434,016	434,016	195,648	195,648
banking institutions	15,226,683	15,226,683	13,031,248	13,031,248
Loans and advances to customers	435,378	435,378	274,997	274,977
Other assets and prepaid expenses				
Liabilities				
Deposits and balances due to	540,192	540,192	1,273,732	1,273,732
banking institutions				
Customer deposits	16,806,420	16,806,420	13,117,882	13,117,882
Other liabilities	621,065	621,065	433,388	433,388
Lease liabilities	530,982	530,982	-	-

3.6 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% (2018: 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% (2018: 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:

Composition of Regulatory Capital	2019 Shs'000	2018 Shs'000
Tier 1 capital	2,837,260	2,760,865
Tier 1 + Tier 2 capital	3,001,944	2,852,906
Risk-weighted assets		
On-balance sheet	16,955,484	13,504,875
Off-balance sheet	3,113,865	5,383,493
Total risk-weighted assets	20,069,349	18,888,368
Basel ratio		
Core capital to total risk weighted assets (CBK minimum – 10.5% (2017: 10.5%)	14.10%	14.60%
Total capital to total risk weighted assets (CBK minimum – 14.5% (2017: 14.5%)	15.00%	15.10%

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.

	2019 Shs'000	2018 Shs'000
5. Interest Income		
Group and Bank		
Loans and advances	1,919,735	1,619,816
Credit related fees and commissions	314,355	301,519
Financial assets at amortised cost	173,512	176,175
Financial assets at FVOCI	102,885	88,882
Deposits and balances due from banking institutions	5,063	6,506
	2,515,550	2,192,898
6. Interest Expense		
Group		
Customer deposits	1,133,445	853,441
Deposits and balances due to banking institutions	36,505	44,610
Lease liability	59,935	-
	1,229,885	898,051
Bank		
Customer deposits	1,134,631	854,824
Deposits and balances due to banking institutions	36,505	44,610
Lease liability	59,935	-
	1,231,071	899,434
7. Other Income		
Group and Bank		
Gain on sale of financial assets held at FVOCI	16,941	146,071
Other income	33,221	25,640
Gain on disposal of property and equipment	(187)	286
	49,975	171,997
8. Credit Impairment Losses		
Group and Bank		
Loans to customers (Note 17)	185,990	153,910
Investment securities	-	(157)
Cash, Nostros and placements	-	(12)
Off balance sheet	-	434
	185,990	154,175

9. Employee Benefits

	2019 Shs'000	2018 Shs'000
Group		
Salaries and allowances	566,214	489,904
Medical insurance	41,851	37,630
Training and development	9,192	6,940
Travelling and accommodation	3,776	2,494
- Defined contribution scheme	23,447	20,194
- National Social Security Fund	550	493
Other costs	13,723	17,794
	658,753	575,449

The number of persons employed by the Group at the year-end was 249 (2018: 215).

	2019 Shs'000	2018 Shs'000
Bank		
Salaries and allowances	555,363	484,657
Medical insurance	41,164	37,332
Training and development	9,192	6,940
Travelling and accommodation	3,776	2,494
Retirement benefits costs	-	-
- Defined contribution scheme	23,126	20,012
- National Social Security Fund	539	486
Other costs	13,429	17,771
	646,589	569,692

The number of persons employed by the Bank at the year-end was 249 (2018: 212).

10. Other Operating Expenses	2019 Shs'000	2018 Shs'000
Group		
The following items are included with other operating expenses:		
Software licensing and other information technology costs	79,754	67,928
Auditor's remuneration	4,497	5,293
Rental expenses	91,317	102,909
Other costs	260,732	341,959
	436,300	518,089
Bank		
The following items are included with other operating expenses:		
Software licensing and other information technology costs	79,603	67,777
Auditor's remuneration	4,132	4,945
Rental expenses	91,317	102,909
Other costs	259,739	341,553
	434,791	517,184

11. Income Tax Expense	2019 Shs'000	2018 Shs'000
Group		
Current income tax	134,594	86,552
Deferred income tax (Note 19)	(46,080)	10,032
Under/ (over) provision of deferred tax in the prior years (Note 19)	2,060	(2,180)
Under provision of current tax in the prior years (Note 19)	316	-
	90,890	94,404
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	302,909	342,941
Tax calculated at a tax rate of 30% (2018: 30%)	90,873	102,882
Tax effect of:		
- income not subject to tax	(41,522)	(33,982)
- expenses not deductible for tax purposes	39,163	25,643
- overprovision of deferred tax in prior years	2060	(139)
- overprovision of current tax in prior years	316	-
Income tax expense	90,080	94,404
Bank		
Current income tax	133,611	83,055
Deferred income tax (Note 19)	(46,351)	10,068
(Under) / overprovision of deferred income tax in the prior years (Note 19)	2,061	(1,949)
Under provision of curreny tax in the prior years	520	-
	89,841	91,174
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	300,072	332,208
Tax calculated at a tax rate of 30% (2018: 30%)	90,022	99,662
Tax effect of:		
- income not subject to tax		
- expenses not deductible for tax purposes	(41,522)	(33,983)
- overprovision of deferred tax in prior years	38,760	25,634
- overprovision of current tax in prior years	2,061	(139)
	520	-
	89,841	91,174

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 do not recommend payment of a cash dividend (2018: Shs 72,192,753). The directors however may discretionally propose dividend in form of bonus shares of one new share for every one hundrend shares held which will result to issuance of 263,351 share at par hence resulting to reclassification of Shs 26.34 million from retained earning to paid up capital.

	2019 Shs'000	2018 Shs'000
13. Cash and Balances with Central Bank of Kenya		
Group		
Cash in hand	364,293	409,090
Balances with Central Bank of Kenya	921,782	950,690
	1,286,075	1,359,780
Bank		
Cash in hand	364,293	409,090
Balances with Central Bank of Kenya	891,993	924,012
Cash and balances with Central Bank is net of ECL of Shs 43,000 (2018: Shs 43,000)	1,256,286	1,333,102
14. Financial Assets Held at FVOCI		
Group and Bank		
Infrastructure bond	571,778	635,967
Government of Kenya treasury bonds	674,824	158,532
Corporate bond	-	11,906
	1,246,602	806,405
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	1,789,084	1,414,415
Maturing within 90 days from the date of acquisition	-	97,728
	1,789,084	1,512,143

	2019 Shs'000	2018 Shs'000
16. Deposits and Balances from Banking Institutions		
Group and Bank		
Overnight lending	300,053	35,028
Balances with banks abroad	133,963	160,620
	434,016	195,648
17. Loans and Advances to Customers		
Retail customers		
Mortgage lending	680,660	378,034
Personal unsecured	60,752	58,948
Personal secured Loans	1,528,035	1,811,594
Corporate customers		
Commercial term loans	9,749,393	8,379,000
Overdraft facilities	3,624,639	2,797,485
Gross loans and advances	15,643,479	13,425,061
Less: Provision for impairment of loans and advances		
- Stage 1	(55,817)	(68,811)
- Stage 2	(8,465)	(26,439)
- Stage 3	(352,514)	(298,563)
	(416,796)	(393,813)
Net loans and advances	15,226,683	13,031,248

i)	Stage 1 12-month ECL Shs'000	Stage 2 Lifetime ECL Shs'000	Stage 3 Lifetime ECL Shs'000	Total Shs'000
Gross carrying amount as at 1 January 2019	11,825,366	597,601	1,002,094	13,425,061
Transfer from stage 1 to stage 2	(355,245)	355,245	-	-
Transfer from stage 1 to stage 3	(25,654)	-	25,654	-
Transfer from stage 2 to stage 3	-	(512,009)	512,009	-
Transfer from stage 3 to stage 2	-	6	(6)	-
Transfer from stage 3 to stage 1	5,465	-	(5,465)	-
Transfer from stage 2 to stage 1	236,504	(236,504)	-	-
New financial assets originated	3,264,710	8,485	49,086	3,322,281
Financial assets derecognised	(854,661)	(39,997)	(109,652)	(1,004,310)
Write-offs	-	-	(99,553)	(99,553)
Gross carrying amount as at 31 December 2019	14,096,485	172,827	1,374,167	15,643,479
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	Stage 1 12-month ECL Shs'000	Stage 2 Lifetime ECL Shs'000	Stage 3 Lifetime ECL Shs'000	Total Shs'000
Year ended 31 December 2019				
At start of the year	68,811	26,439	298,563	393,813
Movements during the year				
Transfer to 12 month ECL	18,664	(18,664)	-	-
Transfer to lifetime ECL not credit impaired	(483)	489	(6)	-
Transfer to life time ECL credit impaired	(35,676)	(298)	35,974	-
Net reameasurement of loss allowance	-	-	53,755	53,755
Net financial assets originated	4,501	499	131,904	136,904
Financial assets derecognized	-	-	(4,669)	(4,669)
Charge to profit or loss	(12,994)	(17,974)	(216,958)	185,990
Write-offs	-	-	(163,077)	(163,077)
Loss allowance as at 31 December 2019	55,817	8,465	352,514	416,796
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 to 12 month ECL	3,495	(3,495)	-	-
Transfer to life time ECL not credit impaired	(13,846)	14,280	(434)	-
Transfer to life time ECL credit impaired	(18,543)	(63,752)	82,295	-
New financial assets originated	39,665	47,596	66,649	153,910
	10,771	(5,371)	148,510	153,910
Write-offs	-	-	(227,887)	(227,887)
Loss allowance as at 31 December 2018	68,811	26,439	298,563	393,813

18. Other Assets and Prepaid Expenses	2019 Shs'000	2018 Shs'000
Group		
Items in transit	223,673	151,912
Prepaid expenses	62,613	45,785
Stationery stocks	9,548	6,623
Others	230,455	142,658
	526,289	346,978
Bank		
Items in transit	223,673	151,912
Prepaid expenses	62,613	45,785
Stationery stocks	9,548	6,623
Others	139,544	70,657
	435,378	274,977

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% (2018: 30%). The movement on the deferred income tax account is as follows:

Deferred Income Tax Group	2019 Shs'000	2018 Shs'000
At start of year	132,625	114,749
Change on initial application of IFRS 9	-	25,728
Charge to profit or loss account (Note 11)	46,080	(10,032)
Under provision in the prior years	(2,060)	2,180
At end of year	176,645	132,625

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:

Attribution of Net Deferred Income Tax Group	At Start of Year Shs'000	(Credit/ (Charge) to P&L Shs'000	At End of Year Shs'000
Year ended 31 December 2019			
Property and equipment	2,133	2,853	4,986
Loans and advances	134,144	(8,697)	125,447
Other provisions	5,352	40,860	46,212
Fair value movements	(8,913)	8,913	-
Unrealised exchange losses	(91)	91	-
Net deferred income tax asset	132,625	44,020	176,645
Year ended 31 December 2018			
Property and equipment	(669)	2,802	2,133
Loans and advances	116,683	17,461	134,144
Other provisions	3,363	1,989	5,352
Fair value movement	(2,501)	(6,412)	(8,913)
Unrealised exchange losses	(2,127)	2,036	(91)
Net deferred income tax asset	114,749	17,876	132,625

Deferred Income Tax Group	2019 Shs'000	2018 Shs'000
At start of year	132,367	114,758
Change on initial application of IFRS 9	-	25,728
Charge to profit or loss account (Note 11)	46,350	(10,068)
Under provision in the prior years	(2,061)	1,949
At end of year	176,656	132,367

The net deferred income tax asset in the statement of financial position and deferred income tax expense in the profit or loss are attributable to the following items:

Attribution of Net Deferred Income Tax Group	At Start of Year Shs'000	(Credit/ (Charge) to P&L Shs'000	At End of Year Shs'000
Year ended 31 December 2019			
Property and equipment	2,142	2,844	4,986
Loans and advances	133,877	8,430	125,447
Other provisions	5,352	40,871	46,223
Fair value movements	(8,193)	8,193	-
Unrealised exchange losses	(91)	91	-
Net deferred income tax asset	132,367	60,429	176,656
Year ended 31 December 2018			
Property and equipment	(660)	2,802	2,142
Loans and advances	116,683	17,194	133,877
Other provisions	3,363	1,989	5,352
Fair value movement	(2,501)	(6,412)	(8,913)
Unrealised exchange losses	(2,127)	2,036	(91)
Net deferred income tax asset	114,758	17,609	132,367

20. Property and Equipment Group	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
At January 2018						
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 2018						
Opening net book amount	150,897	59	103,686	25,778	10,782	291,203
Additions	7,757	11,032	12,756	4,599	3,076	39,220
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)	(425,579)
Net book amount	139,273	9,424	93,173	17,805	11,170	270,844
Year ended 31 December 2019						
Opening net book amount	139,273	9,424	93,173	17,805	11,169	270,844
Additions	54,050	-	30,041	2,706	1,962	88,759
Disposal	(5,237)		(1,606)	(84)	(134)	(7,061)
Depreciation charged	(20,478)	(2,758)	(24,911)	(11,618)	(2,426)	(62,191)
Closing net book amount	167,608	6,666	96,697	8,809	10,571	290,351
At 31 December 2019						
Cost	301,050	31,089	246,081	157,466	42,436	778,122
Accumulated depreciation	(133,442)	(24,423)	(149,384)	(148,657)	(31,865)	(487,771)
Net book amount	167,608	6,666	96,697	8,809	10,571	290,351

20. Property and Equipment Bank	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
At January 2018						
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 Value	150,897	59	103,686	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	39,126
Depreciation charged	(19,381)	(1,667)	(23,270)	(12,572)	(2,677)	(59,567)
Closing net book amount	139,273	9,424	93,173	17,711	11,164	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)	(425,534)
Net book amount	139,273	9,424	93,173	17,711	11,165	270,745
Year ended 31 December 2019						
Opening net book amount	139,273	9,424	93,173	17,711	11,165	270,745
Additions	54,050	-	30,041	2,706	1,908	88,705
Disposal	(5,237)		(1,606)	(84)	(137)	(7,064)
Depreciation charged	(20,478)	(2,758)	(24,911)	(11,618)	(2,423)	(62,188)
Closing net book amount	167,608	6,666	96,697	8,715	10,513	290,201
At 31 December 2019						
Cost	301,050	31,089	246,081	157,273	42,332	777,825
Accumulated depreciation	(133,440)	(24,423)	(149,383)	(148,555)	(31,818)	(487,619)
Net book amount	167,610	6,666	96,698	8,718	10,514	290,206

21. Intangible Assets

	Software Licences Shs'000	Work in Progress Shs'000	Total Shs'000
Group			
Year ended 31 December 2018			
Opening net book amount	175,077	12,125	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	9,646	170,357
Year ended 31 December 2019			
Opening net book amount	160,711	9,646	170,356
Additions	67,418	11,102	78,520
Cost Adjustment	(8,532)	-	(8,532)
Disposal	(66)	-	(66)
Amortisation for the year	(51,528)		(51,528)
Closing net book amount	168,003	20,748	188,751
Bank			
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
Year ended 31 December 2019			
Opening net book amount	160,563	9,645	170,208
Additions	67,418	11,102	78,520
Cost Adjustment	(8,531)	-	(8,531)
Disposal	(66)	-	(66)
Amortisation for the year	(51,424)	-	(51,424)
Closing net book amount	167,960	20,747	188,707

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.

	2019 Shs'000	2018 Shs'000
23. Deposits and Balances Due to Banking Institutions		
Group and Bank		
Current accounts	12,072	3,000
Deposits from other banks	279,910	306,270
Overnight borrowing	248,210	964,462
	540,192	1,273,732
24. Customer Deposits		
Group and Bank		
Retail customers:		
Current and demand deposits	1,247,713	1,823,685
Fixed deposits	4,083,667	4,239,339
Savings accounts	277,253	304,664
Corporate customers:		
Current and demand deposits	2,282,807	1,535,491
Fixed deposits	8,914,980	5,214,702
	16,806,420	13,117,881
25. Other Liabilities		
Group		
Items in transit	23,506	47,530
Bills payable	16,569	10,981
Unclaimed balances	4,692	3,604
Other payables	681,615	452,872
	726,382	514,987
Bank		
Items in transit	23,506	47,530
Bills payable	14,176	10,364
Unclaimed balances	4,692	3,604
Other payables	578,765	371,890
	621,139	433,388

26. Right of Use Assets
Group and Bank

	Buildings Shs'000
Year ended 31 December 2019	
At start of year	
Initial recognition upon adoption of IFRS 16	464,233
Additions	104,640
Depreciation Charge	(72,753)
At end of year	496,120

27. Share Capital
Group and Bank

	Number of shares (thousands)	Ordinary shares Shs'000	Share premium Shs'000
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
Issue of Bonus shares	-	-	(20,798)
As at 31 December 2018	24,064	2,406,425	75,715
Year ended 31 Dec 2019			
At the start of the year	24,064	2,406,425	75,715
Issue of shares	267	26,733	16,444
Bonus Issue	2,004	200,349	-
Share Premium Adjustment	-	-	(32,251)
As at 31 December 2019	26,335	2,633,507	59,908

As at 31 December 2019, the Banks authorised share capital was 75,000,000 ordinary shares of Shs' 100 each (2018: 50,000,000). During the year an additional 267,000 shares were issued at a premium.Retained earnings distributed in form of 2,003,486 bonus shares 26,335,063 shares are issued and fully paid (2018: 24,064,251).

28. Regulatory Reserve

	2019 Shs'000	2018 Shs'000
At start of year	92,040	49,541
Transfer from retained earnings	72,644	42,499
At end of year	164,684	92,040

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.

29. Fair Value Reserve *Group and Bank*	2019 Shs'000	2018 Shs'000
At start of year	10,119	(4,844)
Revaluation – Available-for-sale assets	(11,633)	21,376
Deferred income tax	-	(6,413)
At end of year	(1,514)	10,119

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

30. 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:

Contingent Liabilities and Clients' Investments	2019 Shs'000	2018 Shs'000
Contingent Liabilities		
Acceptances and letters of credit	1,180,048	1,079,918
Guarantees and performance bonds	4,922,727	5,620,912
	6,102,775	6,700,830
Clients' Investments		
Clients' treasury bonds	11,800	1,800
Clients' treasury bills	300	1,250
	12,100	3,050

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.

Commitments (a) Operating Lease Commitments	2019 Shs'000	2018 Shs'000
Not later than one year	116,936	86,971
Later than 1 year and not later than 5 years	414,046	76,427
	530,982	163,398

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 2019, the Bank had Minimum capital commitments (2018: Minimum) in respect of software, buildings and equipment purchases.

Commitments (d) Other Commitments	2019 Shs'000	2018 Shs'000
Undrawn formal stand-by facilities, credit lines and other commitments to lend	2,742,930	3,035,717

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.

31. Assets Pledged as Security

As at 31 December 2019 treasury bonds valued at Shs Nil (2018: Shs 260,000,000) were pledged to secure trade finance lines with various banks.

The was no contingent liabilities outstanding under these facilities at 31 December 2019 (2018: Nil)

32. Analysis of Cash and Cash Equivalents as Shown in the Cash Flow Statement	2019 Shs'000	2018 Shs'000
Group		
Cash and balances with Central Bank of Kenya (Note 13)	1,286,075	1,359,779
Less: cash reserve requirement (see below)	(822,547)	(638,889)
Deposits and balances due from banking institutions (Note16)	434,016	195,649
Treasury bills with less than 91 days maturity (Note15)	-	97,728
	897,544	1,014,267
Bank		
Cash and balances with Central Bank of Kenya (Note 13)	1,256,286	1,333,102
Less: cash reserve requirement (see below)	(822,547)	(638,889)
Deposits and balances due from banking institutions (Note16)	434,016	195,649
Treasury bills with less than 91 days maturity (Note15)	-	97,728
	867,755	987,590

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% (2018: 5.25%) of the average outstanding customer deposits over a cash reserve cycle period of one month.

33 Lease Liabilities	2019 Shs'000
At start of the year	
Initial recognition of upon adoption of IFRS 16	461,683
Add :- additions	104,640
Add :- interest expense	59,974
Less :-lease payments	(95,315)
	530,982
Lease liablities can be classified as current or non – current liabilities depending on the expected date of settlement / cash outflow as per the table below :-	
Expected to be settled within 12 months after the year end	116,936
Expected to be settled more than 12 months after the year end	414,046
	530,982

34. Related Party Transactions

(i) Transactions With Key Management Personnel

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

Transactions With Key Management Personnel	2019 Shs'000 Maximum balance	2019 Shs'000 Closing balance	2018 Shs'000 Maximum balance	2018 Shs'000 Closing balance
Mortgage lending and other secured loans	261,277	256,159	210,895	208,108
Other loans	-	-	3,536	3,153

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

Management Personnel Compensation	2019 Shs'000	2018 Shs'000
(ii) Key management compensation		
Salaries and other short-term employment benefits	164,319	164,891
(iii) Directors' remuneration		
- fees for services as non executive directors	9,130	8,640
- other emoluments (included in key management compensation above)	60,020	43,967
	69,150	52,607

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

At 31 December 2019 advances to companies where the Bank's directors or their families exert significant influence amounted to Kes 348,667,000 (2018: Shs 588,701,000).

At 31 December 2019 advances to employees amounted to Shs 900,703,000 (2018: Shs 714,103,000). The movement in advances to related parties is as shown below:

v) Loans and Advances to Staff *Group and Bank*	2019 Shs'000	2018 Shs'000
At start of year	714,103	553,064
Issued during the year	451,197	334,213
Repaid during the year	(264,597)	(173,174)
At end of year	900,703	714,103
Interest earned on staff loans during the year amounted to Shs 65,679,469 (2018: Shs 50,008,000).		
The Bank has entered into loan transactions with its directors and associates as follows:		
At start of year	404,655	351,412
Interest charged	41,738	55,123
Loans disbursed	-	30,000
Repaid during the year	(156,409)	(163,488)
Net movement in overdraft balances	(14,823)	131,608
At end of year	275,161	404,655
Interest income earned on these advances	41,738	55,123

No provisions have been recognised in respect of loans given to related parties (2018: nil).

At 31 December 2019, customer deposits include deposits due to directors or their families and employees of Shs 1,354,200.00 (2018: Shs 1,378,723,827).

(vi) Other Related Party Transactions

Rent expense payments to related parties during the year amounted to Shs 31,422,828 (2018: Shs 38,304,234).

Credit Bank
My Friend, My Bank

Proxy **Form**

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

Details

I/We:

ID No.: Address:

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

Name:

ID No.: Proxy's Mobile No.:

Proxy's Email Address:

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 16th July 2020 and at any adjournment thereof.

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

1. To receive and adopt the audited Balance Sheet and Financial Statements for the year ended 31 December 2019 together with the Directors' and Auditors' Reports thereon.

   ○ For ○ Against ○ Abstain

2. To note that the Directors do not recommend the payment of a cash dividend.

   ○ For ○ Against ○ Abstain

3. To re-elect Directors in accordance with the Articles of Association:-

   i. To approve the re-election of Mrs Grace Wamuyu Nyachae who retires from office by rotation and is eligible in accordance with the Company's Articles of Association

   ○ For ○ Against ○ Abstain

   ii. To approve the re-election of Mr Robinson Njagi Gachogu who retires from office by rotation and is eligible in accordance with the Company's Articles of Association

   ○ For ○ Against ○ Abstain

   iii. To approve the re-election of Mr Moses Munywoki Mwendwa who retires from office by rotation and is eligible in accordance with the Company's Articles of Association

   ○ For ○ Against ○ Abstain

   iv. To approve the re-election of Mr Jack Mugo Ngare who retires from office by rotation and is eligible in accordance with the Company's Articles of Association

   ○ For ○ Against ○ Abstain

Proxy
Form

4. To approve the Directors' remuneration for the financial year 2020.

◯ For ◯ Against ◯ Abstain

5. To authorise the directors to fix the Auditors' remuneration.

◯ For ◯ Against ◯ 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.

◯ For ◯ Against ◯ Abstain

7. Bonus Issue

To approve a Bonus Issue of 1 share for each 100 shares held.

◯ For ◯ Against ◯ Abstain

8. Rights Issue

To approve a Rights Issue of 2 new shares for every 3 shares held.

◯ For ◯ Against ◯ Abstain

Dated this day of

Signature:

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

Notes:

1. In accordance with Section 298(1) of the Companies Act, shareholders entitled to attend and vote at the AGM are entitled to appoint a proxy to attend and vote on their behalf. A proxy must be signed by the appointer or his attorney duly authorized in writing. If the appointer is a body corporate, the instrument appointing the proxy shall be given under its common seal or under the hand of an officer or duly authorized attorney of such body corporate. A completed form of proxy should be emailed to proxy@candrgroup.co.ke in pdf format or delivered to Custody and Registrars Services Ltd, the Company's Registrars, at IKM Place, Tower B, 1st Floor, 5th Ngong Avenue, so as to be received not later than Tuesday, 14th July 2020 at 12.00 noon. When nominating a proxy the ID/Passport No, details for email and/or mobile number of the proxy must be submitted to facilitate registration. Any proxy registration that is rejected will be communicated to the shareholder concerned no later than Wednesday, 15th July 2020 to allow time to address any issues.

2. Registration for the AGM opens on Thursday 9th July, 2020 at 8:00 a.m. and will close on Wednesday 15th, July 2020 at 12:00 noon. Shareholders will not be able to register after 15th July 2020 12:00 noon.

3. A full copy of the Audited Accounts and Financial Statements for the year ended 31 December 2019 may be viewed on the Bank website www.creditbank.co.ke. A printed copy may be requested from the Bank's head office, 14th Floor, One Africa Building, Waiyaki Way, Westlands, Nairobi or our Company's Share Registrar, Custody and Registrars Services, IKM Place, Tower B, 1st Floor, 5th Ngong Avenue between 9.00AM to 3.00PM from Monday to Thursday and Friday 8.30AM to 12.30PM.

NB: Shareholders and proxies who wish to register and participate in the AGM can do so by visiting https://digital.candrgroup.co.ke or dialing *384*039# on their mobile phones.
Visit https://creditbank.co.ke/wp-content/uploads/2020/07/AGM-Virtual-Registration-Process.pdf for more information.

What We Believe

At the very heart of who we are at Credit Bank is the desire to transform the social-economic welfare of our people by offering innovative financial solutions. Behind this desire is a team driven by integrity and excellence to serve you.

Head Office, 14th Floor, One Africa, Waiyaki Way
P.O. Box 61064-00200, City Square - Nairobi, Kenya
+254 709 072 000 | +254 20 228 3000
customerservice@creditbank.co.ke
www.creditbank.co.ke

ISO 9001:2015
Credit Bank PLC is Regulated by the Central Bank of Kenya

Credit Bank
My Friend, My Bank