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PRINCIPAL SHAREHOLDER

	Bank of Baroda, India - 86.70%
Country of incorporation and domicile	Kenya

PRINCIPAL OFFICERS

Mr. Saravanakumar A.	Managing Director
Mr. Yogendra Singh Saini	Director - Executive and Head - Operations
Mr. Akshay Goyal	Head - Risk Management and Compliance
Mr. Andrew W. Lukuyani	Head - Credit
Mr. Winston Sore	Head - Internal Audit
Mr. Bhavik S. Trivedi	Head - Treasury
Ms. Maria Gorett Makokha	Head - Treasury (Back Office)
Mr. Patrick Sila	Head - Finance
Mr. Lusiji Patrick Kombe	Head - Information Technology
Mr. Dhirajlal N. Shah	Manager - Marketing
Mr. Mukesh Kumar	Branch Head - Digo Rd Branch, Mombasa
Mr. Gopal Saxena	Branch Head - Thika Branch
Mr. Suneel Karanam	Branch Head - Kisumu Branch
Mr. Ajeet Kumar	Branch Head - Sarit Centre Branch, Nairobi
Mr. Anoop Sharma	Branch Head - Industrial Area, Nairobi
Mr. Digvijay Singh Rawat	Branch Head - Eldoret Branch
Mr. Sanjay Pratap	Branch Head - Nakuru branch
Mr. Vijay Kumar	Branch Head - Nairobi Main Branch
Mr. Paul M. Kairu	Branch Head - Kakamega Branch
Ms. Neela K. Raj	Branch Head - Nyali Branch, Mombasa
Mr. Elias K. Karanu	Branch Head - Meru Branch
Mr. Krishna VSN Raja	Branch Head - Diamond Plaza, Nairobi
Mr. Prasanta Kumar Padhi	Branch Head - Mombasa Road Branch, Nairobi

REGISTERED OFFICE

Location:	Baroda House, 29 Koinange Street
Postal Address:	P.O. Box 30033-00100
	Nairobi
Telephone:	(020) 2248402, 2248412, 2226416
Fax:	(020) 316070/310439
E-Mail:	kenya@bankofbaroda.com; ho.kenya@bankofbaroda.com

PRINCIPAL CORRESPONDENT BANKS

Bank of Baroda - Mumbai, India
Bank of Baroda - New York, U.S.A.
Bank of Baroda - London, U.K.
Bank of Baroda - Brussels, Belgium
Bank of Baroda - Sydney, Australia
Bank of India - Tokyo, Japan
Bank of Montreal - Toronto, Canada
Union Bank of Switzerland - Zurich, Switzerland

INDEPENDENT AUDITORS

Grant Thornton
Certified Public Accountants (K)
5th Floor, Avocado Towers
Muthithi Road, Westlands
P.O. Box 46986-00100
Nairobi

COMPANY SECRETARY

Africa Registrars
Certified Public Secretaries (K)
Kenya-Re Towers, Upperhill
P. O. Box 1243-00100
Nairobi

LEGAL ADVISORS

Hamilton Harrison & Mathews Advocates
A.B. Patel & Patel Advocates
Mwaura & Wachira Advocates
Patel & Patel Advocates
Gathaiya & Associates
L. G. Menezes

PRINCIPAL VALUERS

Njihia Njoroge & Co
Crystal Valuers Limited
Datoo Kithiku Limited
Coral Properties Limited
Chrisca Real Estates

HEAD OFFICE, NAIROBI

Baroda House, 29th Koinange Street,
P.O.Box 30033-00100 ,Nairobi, Kenya

Telephone : +254 (020) 2248412/2226416
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E-mail: kenya@bankofbaroda.com

BRANCH NETWORK

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Plot No.XXV/61,
Kizingo, Mombasa
Telephone : +254 (041) 2224507/8,2226211
Fax: (041) 228607
E-mail:digoro@bankofbaroda.com

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Telephone : +254 (067) 22379, 30048
Fax: (067) 30048
E-mail:thika@bankofbaroda.com

Kisumu Branch, Kisumu
Central Square,
P.O. Box: 966-40100, Kisumu
Telephone : +254 (057) 2021768/74, 2020303
Fax: (057) 2024375
E-mail:kisumu@bankofbaroda.com

Eldoret Branch, Eldoret
Chardor Patel Plaza, Moi Street,
P.O. Box 1517 -30100, Eldoret
Telephone : +254 (053) 2063341
Fax: (053) 2063540
E-mail:eldoret@bankofbaroda.com

Nairobi Main Office Branch,
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P.O.Box 30033-00100, Nairobi
Telephone : +254 (20) 2248402/2248412
Fax: (020) 3310439
E-mail: nairob@bankofbaroda.com

Industrial Area Branch, Nairobi
Industrial Area, Enterprise Road,
P.O. Box 18269-00500 , Nairobi
Telephone : +254 (20) 6555971/6555945
Fax: (020) 6555943
E-mail:indust.nairobi@bankofbaroda.com

Sarit Center Branch, Nairobi
Sarit Centre, Lower Ground Floor, Westlands,
P.O. Box 886-00606,Nairobi
Telephone : +254 (20) 3752590/91
Fax: (020) 3752592
E-mail:sarit@bankofbaroda.com

Diamond Plaza Branch, Nairobi
First Floor, Diamond Plaza, Masari Road,
P.O. Box: 583-00606,Nairobi
Telephone : +254 (020) 3742257/3742263
Fax: (020) 3742257
E-mail:dp.nairobi@bankofbaroda.com

Mombasa Road Branch, Nairobi
Somak House (Ground Floor), Near Airtel Bldg,
P.O. Box No. 18948 – 00500
Mombasa Road, Nairobi
Telephone : +254 (020) 6829118/6829119
E-mail:mombasaroad@bankofbaroda.com

Kakamega Branch, Kakamega
Kenyatta Avenue,
P.O. Box 2873, Kakamega
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Fax: (056) 31766
E-mail:kakamega@bankofbaroda.com

Meru Branch, Meru
Brown Rock Building, Njuri Ncheke Street,
P.O. Box No. 2762-60200,Meru
Telephone : +254 (020) 2341342/056-30632
Fax: (056) 30632
E-mail:meru@bankofbaroda.com

Nakuru Branch, Nakuru
Vikers House, Kenyatta Avenue,
P.O. Box 12408-20100, Nakuru
Telephone : +254 (051) 2211718
Fax: (051) 2211719
E-mail:nakuru@bankofbaroda.com

Nyali Branch, Mombasa
Ground Floor, Texas Tower, Nyali Road ,
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Telephone : +254 (041) 4471103
Fax: (041) 4471103
E-mail:nyali@bankofbaroda.com

BRIEF HISTORY

14th December 1953 was a historic day for India's International Bank, Bank of Baroda. Bank of Baroda, India started its glorious journey of its Overseas Operations on this day by opening a branch at Makadara Road, Mombasa in Kenya.

Later, on 03rd October 1959, another branch was opened at Digo Road in Mombasa. Subsequently, in 2002 Makadara Branch was merged with Digo Road Branch, Mombasa.

On 21st January 1992 the subsidiary, Bank of Baroda (Kenya) Ltd was incorporated with 86.70% shareholding of the Bank of Baroda, India and 42 local shareholders constitute the remaining 13.30%.

During the year, we celebrated our 65th Anniversary and the bank has beed a dominant player in the industry with a good public image and customer confidence.

Bank has a distinction of having an "All Women Employee" branch at Nyali.

Bank of Baroda

CELEBRATING

65

YEARS IN KENYA

The Board Committees as at the date of this report comprise of:

Board Audit Committee	Board Credit Committee	Board Risk Management Committee
Composition		
Three Directors (Non-Executive)	Two Directors (Executive) and	One Director (Executive) and
	Three Directors (Non-Executive)	Three Directors Non-Executive
Main Function		
Strengthening the control environment, financial reporting and auditing function	Appraisal and approval of credit applications and reviewing credit portfolio	Ensuring quality, integrity and reliability of the Bank's risk management function
Frequency of meetings per annum (minimum)		
Quarterly	Quarterly	Quarterly
Chairperson		
Mr. Patrick K. Njoroge	Mr. D. Anandakumar	Mr. Patrick K. Njoroge
Members		
Mr. D. Anandakumar	Mr. Patrick K. Njoroge	Mr. D. Anandakumar
Mr. Ramesh Chunilal Mehta	Mr. Saravanakumar A.	Mr. Saravanakumar A.
	Mr. Ramesh Chunilal Mehta	Dr. Winfred N. Karugu
	Mr. Yogendra Singh Saini	

Dear Stakeholders,

KENYAN ECONOMY & BANKING SECTOR

Kenya`s GDP grew by 5.9% in 2018, from 4.9% in 2017, supported by good weather, eased political uncertainties to mention but a few. Inflation fell to 4.7% in January 2019, from 5.7% in December 2018, remaining within the Central Bank's medium-target range of 2.5%–7.5%. Kenya's economy for the first time in a decade likely to hit 6.00% GDP growth rate in 2019 subject to stability in other relevant variables. Mauritian lender SBM Holdings formally took over Chase Bank following the conclusion of a sale deal. A new IFRS 16 was introduced effective January 01, 2019 and specifies recognition, measurement, presentation and disclosure of leases. The standard provides a single lessee accounting model, requiring lessees to recognize assets and liabilities for all leases. The new financial reporting standard for leases will significantly impact many corporates' earnings, assets and liabilities, and will change the classification of expenses and the associated impact on covenant tests, may well vary materially.

PERFORMANCE OF THE BANK

Gross Deposits in 2018 were Kshs 101.958 Billion (growth of 40%) compared to Kshs 73.005 billion in 2017. The Bank maintained a balanced deposit mix, giving priority to increasing low-cost deposits. Advances increased marginally to Kshs 44.174 Billion in 2018 compared to Kshs 43.943 of 2017. The Total Business of the Bank increased by 25% to close at Kshs 146.132 Billion as at December 31, 2018 compared to Kshs 116.948 Billion as at December 31, 2017. Treasury investment portfolio grew by 30% during the period under review to stand at Kshs 60.844 Billion compared to Kshs 46.644 as at December 31, 2017. The Bank's Profit Before Tax was Kshs 5.159 Billion in 2018 (growth 2%) compared to Kshs 5.053 of 2017. IFRS 9 which took effect from January 01, 2018 made the year tougher for the Bankers as they are required to make more provisions. The ratio of Gross NPA as a percentage of total advances increased to 8.84% as at December 31, 2018 compared to 6.07% as at December 31, 2017.

ACHIEVEMENTS

The Bank partially launched school fee module and same is likely to be implemented fully this year. Owing to the increased cases of frauds, we took preventive measures by changing the cheque book printer to M/s De La Rue Currency & Security Print (K) Limited. Work is in progress for the construction of Head Office Block at Muthithi Road. We conducted various seminars / sensitization clinics on Amnesty scheme across the country by inviting potential clients. To enhance professional skills, the Bank has begun the process of introducing / launching e-learning modules. The Bank conducted an Indian Property Fair for the first time in it's lifetime. During the year we celebrated 65th year of existence in the country.

FUTURE OUTLOOK

We shall explore the possibility of opening more Branches and renovating existing ones to enhance our presence. We shall also identify and join forums with a view to create new relationships e.g. KNCCI.

ACKNOWLEDGEMENTS

I take this opportunity to thank the Regulators, Government and our customers for their support. I also express gratitude to my fellow Directors for their guidance and the dedication of the Management and other. We also thank the shareholders, for their trust and look forward to working together now and beyond. Thank you, for all that you have done.

Yours sincerely,

D. Ananda Kumar
Chairman
Bank of Baroda (Kenya) Ltd

BOARD OF DIRECTORS

MR. ASHOK KUMAR GARG
M.Com, CAIIB, LLB

Age: 60

Nationality: Indian

Position:
Chairman

Date of Appointment:
July 31st, 2017

Date of Resignation:
June 30th, 2018

Other Directorships:
None

MR. ERIC FRANCIS TUCKER
M.Com (Hons), CAIIB

Age: 60

Nationality: Indian

Position:
Director - Non-Executive

Date of Appointment:
January 4th, 2017

Date of Resignation:
December 31st, 2018

Other Directorships:
None

MR. D. ANANDA KUMAR
B.Com, CA

Age: 52

Nationality: Indian

Position:
Chairman

Date of Appointment:
September 7th, 2018

Other Directorships:
Bank of Baroda (Tanzania) - Non-Executive Director

MR. SARAVANAKUMAR A.
B. E (Agr), DCO, MBA -Banking & Finance, CAIIB, PGDFM, DTIRM

Age: 49

Nationality: Indian

Position:
Managing Director

Date of Appointment:
December 8th, 2017

Other Directorships:
None

MR. PHILIP BURH
B.A, MBA, JAIIB

Age: 57

Nationality: Indian

Position:
Director - Executive

Date of Appointment:
March 17th, 2014

Date of Resignation:
January 15th, 2018

Other Directorships: None

MR. YOGENDRA SINGH SAINI
B.Sc ; B.Ed, CAIIB Diploma in Home Loan Advising

Age: 52

Nationality: Indian

Position:
Director - Executive

Date of Appointment:
March 1st, 2018

Other Directorships:
None

MR PATRICK K NJOROGE
ICPAK, ACIB, MBA Institute of Directors

Age: 52

Nationality: Kenyan

Position:
Director - Non-Executive

Date of Appointment:
August 18th, 2014

Other Directorships:
Kenya Association of Investments Group
East Africa Capital Consultants A
lgorithm Limited
Amalgamated Chama Limited

DR WINIFRED N KARUGU
ICPAK, ACIB, MBA Institute of Directors

Age: 61

Nationality: Kenyan

Position:
Director - Non-Executive

Date of Appointment:
June 3rd, 2016

Other Directorships:
Kargua Construction
Mirie Cousins Ltd
Erian Heights Ltd

MR. RAMESH CHUNILAL MEHTA
BBM

Age: 72

Nationality: Kenyan

Position:
Director - Non-Executive

Date of Appointment:
March 28th, 2017

Other Directorships:
Western Emporium (1975) Co. Ltd

The Bank places strong importance on maintaining a sound control environment and applying the highest standards to continue its business integrity and professionalism in all areas of activities. It shall continue its endeavour to enhance shareholders' value by protecting their interests and defend their rights by ensuring performance at all levels and maximizing returns with minimal use of resources in its pursuit of excellence in corporate life.

1. RESPECTIVE RESPONSIBILITIES

The shareholders' role is to appoint the Board of Directors and the external auditors. This role is extended to holding the Board accountable and responsible for efficient and effective governance.

The Board of Directors is responsible for the governance of the Bank, and to conduct the business and operations of the Bank with integrity and in accordance with generally accepted corporate practices, in a manner based on transparency, accountability and responsibility.

2. BOARD OF DIRECTORS

The composition of the Board is set out on page 8-9. The Board is chaired by Director (Non-Executive) and comprises of the Managing Director, one Director (Executive) and Four Directors (Non-Executive).

All Directors (Non-Executive) are independent of management. The Board has varied and extensive skills in the areas of banking, business management, accountancy and information communication and technology. The Directors' responsibilities are set out in the Statement of Directors Responsibilities on page 14. The Directors are responsible for the development of internal financial controls which provide safeguard against material misstatements and fraud and also for the fair presentation of the financial statements.

The board meets on a quarterly basis and has a formal schedule of matters reserved for discussion.

During the year under review, the Board meetings were held on the following dates:

- March 1, 2018
- March 26, 2018
- June 15, 2018
- September 7, 2018
- December 6, 2018

The attendance of individual directors is as follows:

Name of director	Period	Meetings held during their tenure	Meetings attended
Mr. Ashok Kumar Garg	01 January 2018 to 31 December 2018	3	2
Mr. Eric Francis Tucker	01 January 2018 to 31 December 2018	5	4
Mr. D. Anandakumar	01 January 2018 to 31 December 2018	2	2
Mr. Saravanakumar A.	01 January 2018 to 31 December 2018	5	5
Mr. Yogendra Singh Saini	01 January 2018 to 31 December 2018	5	5
Mr. Patrick K Njoroge	01 January 2018 to 31 December 2018	5	5
Dr. Winifred N. Karugu	01 January 2018 to 31 December 2018	5	5
Mr. Ramesh Chunilal Mehta	01 January 2018 to 31 December 2018	5	5

The board has appointed various sub-committees to which it has delegated certain responsibilities with the chairperson of the sub-committee reporting to the board. The composition of the sub-committee is set out on page 5.

3. BOARD PERFORMANCE EVALUATION

In compliance with the Prudential Guidelines issued by the Central Bank of Kenya and also part of good Corporate Governance, each member of the Board including the Chairman conducted a peer evaluation exercise for the year 2018. This involved a self review of the Board's capacity, functionality and effectiveness of performance against its set objectives. This enabled the Board to assess its areas of strengths and weakness and then know how to balance its skills, expertise and knowledge.

The Board Performance evaluation covered the following:

(a) The Board Self Evaluation

The Board's performance during the year was evaluated by each member where members were allowed to give their opinion on how the Board had performed. Members were satisfied that the Board had performed to their expectations.

(b) The Board chairman's Evaluation

The Board members assessed the Chairman's performance and noted that the Board managed to achieve its business targets for year 2018 under his Chairmanship. The Chairman was effective during the year.

(c) Individual Director Peer Evaluation

A Directors' Peer evaluation exercise was conducted for each member. Each director observes performance of fellow Director.

4. BOARD COMMITTEES

Board Audit Committee

The committee comprises three Directors (Non-Executive). The committee meets on a quarterly basis and its functions include:

- Monitoring and strengthening the effectiveness of management information and internal control systems.
- Review of financial information and improving the quality of financial reporting.
- Strengthening the effectiveness of internal and external audit functions, and deliberating on significant issues arising from internal and external audits, and inspections carried out by the Bank Supervision Department of Central Bank of Kenya.
- Increasing the stakeholders' confidence in the credibility and stability of the institution.
- Monitoring instances of non-compliance with the International Financial Reporting Standards, applicable legislation and the Central Bank of Kenya Prudential Regulations and other pronouncements.

Board Credit Committee

The committee is chaired by a Director (Non-Executive) and comprises of the two Executive Directors, two Non-Executive Director and the Head of Credit as convener. It meets at least once in a quarter. The functions of the committee include Credit monitoring, appraisal and approval of credit applications based on limits set by the Board. The committee also monitors and reviews non-performing advances and ensures that adequate loan loss provisions are held against delinquent accounts in accordance with the guidelines issued by the Central Bank of Kenya and International Accounting Standards Board.

Board Risk Management Committee

The committee, chaired by a Director (Non - Executive) and comprising Managing Director and two other Directors (Non-Executive), meets on a quarterly basis to ensure quality, integrity and reliability of Risk Management function and programme by way of assisting the Board of Directors in the discharge of duties relating to the corporate accountability, reviewing the integrity of the risk control systems, monitoring external developments relating to the practice of corporate accountability and providing independent and objective oversight.

5. MANAGEMENT COMMITTEES

Asset and Liability Committee (ALCO)

The committee, chaired by the Managing Director, comprising Director (Executive) and various departmental heads, meets on a monthly basis to discuss operational issues and to monitor and manage the statement of financial position to ensure that adequate resources are available to meet anticipated fund demands and to monitor compliance with all statutory requirements. The committee is also responsible for developing a framework for monitoring the banking risks including operational, liquidity, maturity, interest rate and exchange rate risks.

Executive Committee (EC)

The committee, chaired by Director (Executive) and comprising various departmental heads, meets at least three times a year to implement operational plans, annual budgeting, periodic reviews of operations, strategic plans, ALCO strategies, identification and management of key risks and opportunities.

Business Continuity Planning Committee (BCPC)

The committee, chaired by the Managing Director, comprising of Director (Executive) and various departmental heads, meets on half yearly basis to identify business function groups, Business Impact Analysis (BIA), Prioritization, fixation of Recovery Time Objectives (RTO) / Recovery Point Objective (RPO) for the function groups and identifcation of the threats to which the Business Processes are exposed and the assessment of the potential damage and disruption associated with these threats realsied.

Information & Communication Technology Committee (ICTC)

The committee, chaired by the Managing Director, comprising of Director (Executive) and various departmental heads, meets on half yearly basis to oversee and report the effectiveness of strategic Information & Communication Technology (ICT) planning, the ICT Budget and actual expenditure , and the overall ICT perfromacne to the Board of Directors and Senior Management periodically.

Directors' Remuneration

The remuneration to all Directors is based on the responsibilities allocated to the Directors, and is subject to regular review to ensure that it adequately compensates them for the time spent on the affairs of the Bank.

Relationship with Shareholders

The Bank is a private limited liability company with the details of the main shareholder set out on the general information page. Shareholders have full access through the Managing Director to all information they require in respect of the Bank and its affairs. In accordance with the guidelines issued by the Central Bank of Kenya, the Bank publishes quarterly accounts in the local newspapers.

Saravanakumar A.
Managing Director - 14th March 2019

The directors submit their report together with the audited annual report and financial statements for the year ended December 31, 2018. In accordance with Section 42 of the Sixth Schedule, Transitional and Saving Provisions, of the Kenyan Companies Act, 2015, this report has been prepared in accordance with Section 157 of the repealed Companies Act, as if that repeal had not taken effect.

1. Principal activities

The bank is licensed under the Banking Act and provides banking, financial and related services.

There have been no material changes to the nature of the bank's business from the prior year.

2. Business review of financial results and activities

The annual report and financial statements have been prepared in accordance with International Financial Reporting Standards and the requirements of the Kenyan Companies Act, 2015. The accounting policies have been applied consistently compared to the prior year.

The bank recorded a net profit after tax for the year ended December 31, 2018 of Ksh 3,929,580. This represented an increase of 0.17% from the net profit after tax of the prior year of Ksh 3,922,996.

Bank revenue increased by 12.03% from Ksh 10,445,555 in the prior year to Ksh 11,702,644 for the year ended December 31, 2018.

Bank cash flows from operating activities increased by 170.95% from Ksh 5,566,378 in the prior year to Ksh 17,517,996 for the year ended December 31, 2018.

The above figures have been rounded off to the nearest ('000) Kenyan Shillings.

3. Share capital

There have been no changes to the authorised or issued share capital during the year under review.

4. Dividends

The directors proposed a final dividend of Ksh 30 per share (2017: Ksh 20per share) amounting to Ksh 1,484.575 million (2017: Ksh 989.716 million).

5. Directors

The directors in office during the year are as follows:

Directors	**Nationality**
Mr. D. Anandakumar (Appointed w.e.f 07.09.2018)	Indian
Mr. Saravanakumar A.	Indian
Mr. Yogendra Singh Saini (Appointed w.e.f 01.03.2018)	Indian
Mr. Philip Burh (Resigned w.e.f 15.01.2018)	Indian
Mr. Patrick K. Njoroge	Kenyan
Dr. Winifred N. Karugu	Kenyan
Mr. Ashok Kumar Garg (Resigned w.e.f 30.06.2018)	Indian
Mr. Eric Francis Tucker (Resigned w.e.f 31.12.2018)	Indian
Mr. Ramesh Chunilal Mehta	Kenyan

6. Events after the reporting period

The directors are not aware of any material event which occurred after the reporting date and up to the date of this report.

7. Statement of disclosure to the company's auditors

With respect to each person who is a director on the day that this report is approved:
- there is, so far as the person is aware, no relevant audit information of which the bank's auditors are unaware; and
- the person has taken all the steps that he/she ought to have taken as a director to be aware of any relevant audit information and to establish that the bank's auditors are aware of that information.

8. Terms of appointment of the auditors

Grant Thornton continues in office in accordance with the bank's Articles of Association and Section 719 (2) of the Kenyan Companies Act, 2015 and subject to Section 24(1) of the Banking Act (Cap. 488). The directors monitor the effectiveness, objectivity and independence of the auditors. The directors also approve the annual audit engagement contract which sets out the terms of the auditor's appointment and the related fees.

9. Approval of financial statements

The annual report and financial statements were approved at a meeting by the directors on 14th March,2019 and were signed on its behalf by:

By order of the Board

Africa Registrars

Company secretary

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The Kenyan Companies Act, 2015 requires the directors to prepare annual report and financial statements for each financial year that give a true and fair view of the financial position of the bank as at the end of the financial year and of its profit or loss for that year. It also requires the directors to ensure that the bank maintains proper accounting records that are sufficient to show and explain the transactions of the bank and disclose, with reasonable accuracy, the financial position of the bank. The directors are also responsible for safeguarding the assets of the bank, 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 annual report and financial statements in accordance with the International Financial Reporting Standards and in the manner required by the Kenyan Companies Act, 2015. They also accept responsibility for:

- designing, implementing and maintaining such internal controls as they determine necessary to enable the presentation of annual report and financial statements that are free of material misstatement, whether due to fraud or error;
- selecting suitable accounting policies and applying them consistently; and
- making accounting estimates and judgements that are reasonable in the circumstances.

Having made an assessment of the bank'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 bank's ability to continue as a going concern.

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

The annual report and financial statements set out on pages 18 to 61, which have been prepared on the going concern basis, were approved by the directors on 14th March, 2019 and were signed on its behalf by:

Managing Director

Executive Director

TEAM BOB KENYA

To the shareholder of Bank of Baroda (Kenya) Limited

Report on the Audit of the Annual Report And Financial Statements

Opinion

We have audited the annual report and financial statements of Bank of Baroda (Kenya) Limited set out on pages 18 to 61, which comprise the statement of financial position as at December 31, 2018, and the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the annual report and financial statements, including a summary of significant accounting policies.

In our opinion, the annual report and financial statements present fairly, in all material respects, the financial position of Bank of Baroda (Kenya) Limited as at December 31, 2018, and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Kenyan Companies Act, 2015.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the annual report and financial statements section of our report. We are independent of the bank in accordance with the International Ethics Standards Board for Accountants Code of Ethics for Professional Accountants (IESBA Code) and other independence requirements applicable to performing audits of annual report and financial statements in Kenya. We have fulfilled our other ethical responsibilities in accordance with the IESBA Code and in accordance with other ethical requirements applicable to performing audits in Kenya. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other information

The directors are responsible for the other information. The other information comprises the Directors' Report and the Audit Committee's Report as required by the Kenyan Companies Act, 2015 of Kenya, which we obtained prior to the date of this report. Other information does not include the annual report and financial statements and our auditor's report thereon.

Our opinion on the annual report and financial statements does not cover the other information and we do not express an audit opinion or any form of assurance conclusion thereon.

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

Responsibilities of the directors for the Annual Report And Financial Statements

The directors are responsible for the preparation and fair presentation of the annual report and financial statements 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 annual report and financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the annual report and financial statements, the directors are responsible for assessing the 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 bank or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the Annual Report And Financial Statements

Our objectives are to obtain reasonable assurance about whether the annual report and 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 International Standards on Auditing 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 annual report and financial statements.

As part of an audit in accordance with International Standards on Auditing, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the annual report and 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 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 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 annual report and 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 bank to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the annual report and financial statements, including the disclosures, and whether the annual report and financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

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

From the matters communicated with the directors, we determine those matters that were of most significance in the audit of the annual report and financial statements of the current year and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on other legal and regulatory requirements

In our opinion the information given in the report of the directors on page 12 - 13 is consistent with the annual report and financial statements.

The engagement partner responsible for the audit resulting in this independent auditor's report was D. V. Shah - P/No 1729.

Grant Thornton

Grant Thornton
Certified Public Accountants (K)
Nairobi
A/AUD
14th March, 2019

FINANCIAL STATEMENTS
STATEMENT OF PROFIT OR LOSS AND COMPREHENSIVE INCOME

	Note(s)	2018 Kshs '000	2017 Kshs '000
Interest income	4	11,702,644	10,445,555
Interest expense	5	(5,265,393)	(4,670,010)
Net interest income		**6,437,251**	**5,775,545**
Fees and commission income		192,846	166,123
Foreign exchange trading income		135,472	90,477
Other income	6	116,342	523,631
Operating expenses	7	(1,293,742)	(1,138,506)
Impairment losses on loans and advances	11	(429,094)	(363,837)
Profit before taxation		**5,159,075**	**5,053,433**
Taxation	12	(1,229,495)	(1,130,437)
Profit for the year		**3,929,580**	**3,922,996**
Earnings per share			
Basic and diluted (Kshs per share)		**79.41**	**79.28**
Dividend			
Proposed final dividend for the year		1,484,575	989,717
Dividend per share (Kshs per share)		**30.00**	**20.00**

The accounting policies on pages 21 to 29 and the notes on pages 30 to 62 form an integral part of the annual report and financial statements.

	Note(s)	2018 Kshs '000	2017 Kshs '000
Profit for the year		**3,929,580**	**3,922,996**
Other comprehensive income:			
Fair value gain and (losses) on financial assets classified as 'available-for-sale'			
- government securities	13	209,301	251,292
- corporate bonds	13	(320)	(5,413)
- quoted shares	13	1,704	1,012
Other comprehensive income for the year net of taxation	13	210,685	246,891
Total comprehensive income		**4,140,265**	**4,169,887**

The amounts included in other comprehensive income are net of taxation.

The accounting policies on pages 22 to 30 and the notes on pages 31 to 61 form an integral part of the annual report and financial statements.

STATEMENT OF FINANCIAL POSITION

Assets	**Note(s)**	**2018 Kshs '000**	**2017 Kshs '000**
Cash in hand	14	484,186	398,001
Balances with Central Bank of Kenya	15	5,905,928	3,975,943
Government securities	16	60,788,658	46,549,619
Deposits and balances due from other banking institutions	17	13,012,181	2,013,676
Other assets	18	882,992	594,584
Loans and advances to customers (net)	19	41,570,848	42,207,280
Investment securities	20	55,623	94,393
Current tax receivable	21	29,276	-
Intangible assets	22	3,049	4,312
Property and equipment	24	209,439	224,598
Deferred tax	25	72,221	69,694
Total Assets		**123,014,401**	**96,132,100**
Equity and Liabilities			
Liabilities			
Customer deposits	26	101,958,340	73,004,885
Deposits and balances due to other banking institutions	27	48,491	4,688,938
Other liabilities	28	592,745	393,220
Current tax Payable	21	-	145,121
Total Liabilities		**102,599,576**	**78,232,164**
Equity			
Share capital	29	989,717	989,717
Fair value reserve (Statement of Changes in Equity)		142,056	(68,629)
Statutory loan loss reserve (Statement of Changes in Equity)		162,252	706,320
Retained income (Statement of Changes in Equity)		17,636,225	15,282,811
Proposed dividends		1,484,575	989,717
Total Equity		**20,414,825**	**17,899,936**
Total Equity and Liabilities		**123,014,401**	**96,132,100**

The annual report and financial statements and the notes on pages 18 to 61, were approved by the directors on the March 14, 2019 and were signed on its behalf by:

Managing Director

Director

Executive Director

Africa Registrars

Company secretary

The accounting policies on pages 22 to 30 and the notes on pages 31 to 61 form an integral part of the annual report and financial statements.

STATEMENT OF CHANGES IN EQUITY

	Share capital Kshs '000	Fair value reserve Kshs '000	Statutory loan loss reserve Kshs '000	**Total reserves Kshs '000**	Retained income Kshs '000	Proposed dividends Kshs '000	**Total equity Kshs '000**
Balance at January 01, 2018	**989,717**	**(68,629)**	**706,320**	**637,691**	**15,282,811**	**989,717**	**17,899,936**
Restatement opening balance as per IFRS 9	-	-	-	**-**	(635,659)	-	**(635,659)**
Total comprehensive income for the year	-	210,685	-	**210,685**	3,929,580	-	**4,140,265**
Total adjusted balance	**-**	**210,685**	**-**	**210,685**	**3,293,921**	**-**	**3,504,606**
Transfer to statutory loan loss reserve	-	-	(544,068)	**(544,068)**	544,068	-	**-**
Dividends paid	-	-	-	**-**	-	(989,717)	**(989,717)**
Dividends proposed	-	-	-	**-**	(1,484,575)	1,484,575	**-**
Total Changes	**-**	**-**	**(544,068)**	**(544,068)**	**(940,507)**	**494,858**	**(989,717)**
Balance at December 31, 2018	**989,717**	**142,056**	**162,252**	**304,308**	**17,636,225**	**1,484,575**	**20,414,825**
Balance at January 01, 2017	**989,717**	**(315,520)**	**486,363**	**170,843**	**12,569,489**	**494,858**	**14,224,907**
Changes in equity							
Total comprehensive income for the year	-	246,891	-	**246,891**	3,922,996	-	**4,169,887**
Transfer to statutory loan loss reserve	-	-	219,957	**219,957**	(219,957)	-	**-**
Dividends paid	-	-	-	**-**	-	(494,858)	**(494,858)**
Dividends proposed	-	-	-	**-**	(989,717)	989,717	**-**
Total changes	-	246,891	219,957	**466,848**	2,713,322	494,859	**3,675,029**
Balance at December 31, 2017	**989,717**	**(68,629)**	**706,320**	**637,691**	**15,282,811**	**989,717**	**17,899,936**

	Note(s)	2018 Kshs '000	2017 Kshs '000
Cash flows from operating activities			
Cash generated from operations	31	18,924,416	6,984,471
Tax paid	21	(1,406,420)	(1,418,093)
Net cash from operating activities		**17,517,996**	**5,566,378**
Cash flows from investing activities			
Purchase of property and equipment	24	(26,332)	(40,947)
Proceeds from sale of property and equipment	24	1,086	325,835
Purchase of intangible assets	22	(731)	(1,329)
Purchase of government securities		(14,043,032)	(5,088,372)
Purchase of Investment Securities		38,770	30,438
Proceeds from sale of investment securities		12,989	22,284
Net cash from investing activities		**(14,017,250)**	**(4,752,091)**
Cash flows from financing activities			
Dividends proposed/paid	38	(1,484,575)	(494,858)
Total Cash and cash equivalents movement for the year		**2,016,171**	**319,429**
Cash and cash equivalents at the beginning of the year	14-15	4,373,943	4,054,514
Total Cash and cash equivalents at end of the year	14-15	**6,390,114**	**4,373,943**

Corporate information

Bank of Baroda (Kenya) Limited is a private limited company incorporated in Kenya under the Kenyan Companies Act, 2015 as a private limited liability company and is domiciled in Kenya. The bank is licensed under the Banking Act (Cap 488) and provide banking, financial and related services.

The bank operates 13 branches within Kenya.

1. Significant accounting policies

The principal accounting policies applied in the preparation of these annual report and financial statements are set out below.

1.1 Basis of preparation

The annual report and financial statements have been prepared on the going concern basis in accordance with, and in compliance with, International Financial Reporting Standards ("IFRS") and International Financial Reporting Interpretations Committee ("IFRIC") interpretations issued and effective at the time of preparing these annual report and financial statements and the Kenyan Companies Act, 2015 and the Banking Act.

For Kenyan Companies Act, 2015 reporting purposes, the balance sheet is represented in these annual report and financial statements by the Statement of Financial Position and the profit and loss account by the Statement of Profit or Loss and Other Comprehensive Income.

The annual report and financial statements have been prepared on the historic cost convention as modified by the carrying of available for sale investments at fair value and impaired assets at their recoverable amount, unless otherwise stated in the accounting policies which follow and incorporate the principal accounting policies set out below. They are presented in Shillings, which is the bank's functional currency and rounded off to the nearest Shilling.

These accounting policies are consistent with the previous period, except for the changes set out in note 38.

1.2 Significant judgements and sources of estimation uncertainty

The preparation of annual report and financial statements in conformity with IFRS requires management, from time to time, to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. These estimates and associated assumptions are based on experience and various other factors that are believed to be reasonable under the circumstances. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

Critical judgements in applying accounting policies

The critical judgements made by management in applying accounting policies, apart from those involving estimations, that have the most significant effect on the amounts recognised in the financial statements, are outlined as follows:

Taxes

Determining income tax liability involves judgment on the tax treatment of certain transactions. Deferred tax is recognised on temporary differences where it is probable that there will be taxable revenue against which these can be offset.

Impairment of loans and advances

The bank's loan impairment provisions are established to recognise incurred impairment losses either on specific loan assets or within a portfolio of loans and receivables.

Impairment losses for specific loan assets are assessed either on an individual or on a portfolio basis. Individual impairment losses are determined as the difference between the loan carrying value and the present value of estimated future cash flows, discounted at the loans' original effective interest rate. Impairment losses determined on a portfolio basis are assessed based on the probability of default inherent within the portfolio of impaired loans or receivables.

Estimating the amount and timing of future recoveries involves significant judgment, and considers the level of arrears as well as the assessment of matters such as future economic conditions and the value of collateral, for which there may not be a readily accessible market.

Loan losses that have been incurred but have not been separately identified at the reporting date are determined on a portfolio basis, which takes into account past loss experience and defaults based on portfolio trends. Actual losses identified could differ significantly from the impairment provisions reported as a result of uncertainties arising from the economic environment.

Fair value of financial instruments

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or, in its absence, the most advantageous market to which the bank has access at that date. The fair value of a liability reflects its non-performance risk.

When available, the bank measures the fair value of an instrument using the quoted price in an active market for that instrument. A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

If there is no quoted price in an active market, then the bank uses valuation techniques that maximise the use of relevant observable inputs and minimise the use of unobservable inputs. The chosen valuation technique incorporates all of the factors that market participants would take into account in pricing a transaction.

Depreciation of property and equipment

Critical estimates are made by the Directors in determining the useful lives of property and equipment.

Key sources of estimation uncertainty

Impairment of financial assets

The impairment provisions for financial assets are based on assumptions about risk of default and expected loss rates. The bank uses judgement in making these assumptions and selecting the inputs to the impairment calculation, based on the bank's past history, existing market conditions as well as forward looking estimates at the end of each reporting period. For details of the key assumptions and inputs used, refer to the individual notes addressing financial assets.

Useful lives of property, plant and equipment

Management assess the appropriateness of the useful lives of property, plant and equipment at the end of each reporting period. The useful lives of motor vehicles, furniture and computer equipment are determined based on bank replacement policies for the various assets. Individual assets within these classes, which have a significant carrying amount are assessed separately to consider whether replacement will be necessary outside of normal replacement parameters. The useful life of manufacturing equipment is assessed annually based on factors including wear and tear, technological obsolescence and usage requirements.

When the estimated useful life of an asset differs from previous estimates, the change is applied prospectively in the determination of the depreciation charge.

Provisions

Provisions are inherently based on assumptions and estimates using the best information available.

1.3 Property and equipment

Property and equipment are tangible assets which the bank holds for its own use or for rental to others and which are expected to be used for more than one year.

An item of property and equipment is recognised as an asset 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.

Property and equipment is initially measured at cost. Cost includes all of the expenditure which is directly attributable to the acquisition or construction of the asset, including the capitalisation of borrowing costs on qualifying assets and adjustments in respect of hedge accounting, where appropriate.

Expenditure incurred subsequently for major services, additions to or replacements of parts of property and equipment are capitalised if it is probable that future economic benefits associated with the expenditure will flow to the bank and the cost can be measured reliably. Day to day servicing costs are included in profit or loss in the year in which they are incurred.

Depreciation of an asset commences when the asset is available for use as intended by management. Depreciation is charged to write off the asset's carrying amount over its estimated useful life to its estimated residual value, using a method that best reflects the pattern in which the asset's economic benefits are consumed by the bank. Depreciation is not charged to an asset if its estimated residual value exceeds or is equal to its carrying amount. Depreciation of an asset ceases at the earlier of the date that the asset is classified as held for sale or derecognised.

The useful lives of items of property and equipment have been assessed as follows:

Item	Depreciation method	Rate % and Method of Depreciation
Buildings	Straight line	Over the remaining period of the lease
Furniture and fittings	Diminishing balance	12.5
Motor vehicles	Diminishing balance	25
IT equipment	Straight line	Over a period of three years
Leasehold improvements	Straight line	Over a period of ten years

The residual value, useful life and depreciation method of each asset are reviewed at the end of each reporting year. If the expectations differ from previous estimates, the change is accounted for prospectively as a change in accounting estimate.

Each part of an item of property and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately.

The depreciation charge for each year is recognised in profit or loss unless it is included in the carrying amount of another asset.

Impairment tests are performed on property and equipment when there is an indicator that they may be impaired. When the carrying amount of an item of property and equipment is assessed to be higher than the estimated recoverable amount, an impairment loss is recognised immediately in profit or loss to bring the carrying amount in line with the recoverable amount.

An item of property and equipment is derecognised upon disposal or when no future economic benefits are expected from its continued use or disposal. Any gain or loss arising from the derecognition of an item of property and equipment, determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item, is included in profit or loss when the item is derecognised.

1.4 Intangible assets

An intangible asset is recognised when:
it is probable that the expected future economic benefits that are attributable to the asset will flow to the entity; and
the cost of the asset can be measured reliably.

Intangible assets are initially recognised at cost.

Intangible assets are carried at cost less any accumulated amortisation and any impairment losses.

Internally generated brands, mastheads, publishing titles, customer lists and items similar in substance are not recognised as intangible assets.

Amortisation is provided to write down the intangible assets, on a straight line basis, to their residual values as follows:

Item	**Useful life**
Computer software	5 years

1.5 Financial instruments

Financial instruments held by the bank are classified in accordance with the provisions of IFRS 9 Financial Instruments.

Broadly, the classification possibilities, which are adopted by the bank ,as applicable, are as follows:

Financial assets which are debt instruments:
Amortised cost. (This category applies only when the contractual terms of the instrument give rise, on specified dates, to cash flows that are solely payments of principal and interest on principal, and where the instrument is held under a business model whose objective is met by holding the instrument to collect contractual cash flows); or
Fair value through other comprehensive income. (This category applies only when the contractual terms of the instrument give rise, on specified dates, to cash flows that are solely payments of principal and interest on principal, and where the instrument is held under a business model whose objective is achieved by both collecting contractual cash flows and selling the instruments); or
Available for sale or;
Held to maturity investment

Financial liabilities:
Amortised cost; or

The specific accounting policies for the classification, recognition and measurement of each type of financial instrument held by the bank are presented below:

Loans receivable at amortised cost

Recognition and measurement

Loans receivable are recognised when the bank becomes a party to the contractual provisions of the loan. The loans are measured, at initial recognition, at fair value plus transaction costs, if any.

They are subsequently measured at amortised cost.

The amortised cost is the amount recognised on the loan initially, minus principal repayments, plus cumulative amortisation (interest) using the effective interest method of any difference between the initial amount and the maturity amount, adjusted for any loss allowance.

Trade and other receivables

Recognition and measurement

Loans and advances to customers are recognised when the bank becomes a party to the contractual provisions of the receivables. They are measured, at initial recognition, at fair value plus transaction costs, if any.

They are subsequently measured at amortised cost.

The amortised cost is the amount recognised on the receivable initially, minus principal repayments, plus cumulative amortisation (interest) using the effective interest method of any difference between the initial amount and the maturity amount, adjusted for any loss allowance.

Derecognition

Financial assets

The bank derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another party. If the bank neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the bank recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the bank retains substantially all the risks and rewards of ownership of a transferred financial asset, the bank continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

Financial liabilities

The bank derecognises financial liabilities when, and only when, the bank obligations are discharged, cancelled or they expire. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable, including any non-cash assets transferred or liabilities assumed, is recognised in profit or loss.

1.6 Impairment for non-financial assets

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

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

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

An impairment loss in respect of goodwill is not reversed. For other assets, an impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

1.7 Identification and measurement of impairment of financial assets

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

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

Objective evidence that financial assets are impaired can include default or delinquency by a borrower, restructuring of a loan or advance by the bank on terms that the bank would not otherwise consider, indications that a borrower or issuer will enter bankruptcy, the disappearance of an active market for a security, or other observable data relating to a group of assets such as adverse changes in the payment status of borrowers or issuers in the group, or economic conditions that correlate with defaults in the group.

In assessing collective impairment, the bank uses statistical modelling of historical trends of the probability of default, timing of recoveries and the amount of loss incurred, adjusted for management's judgement as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical modelling. Default rate, loss rates and the expected timing of future recoveries are regularly benchmarked against actual outcomes to ensure that they remain appropriate.

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

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

1.8 Tax

Current tax assets and liabilities

Current tax for current and prior periods is, to the extent unpaid, recognised as a liability. If the amount already paid in respect of current and prior periods exceeds the amount due for those periods, the excess is recognised as an asset. Current tax liabilities (assets) for the current and prior periods are measured at the amount expected to be paid to (recovered from) the tax authorities, using the tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax assets and liabilities

A deferred tax liability is recognised for all taxable temporary differences, except to the extent that the deferred tax liability arises from the initial recognition of an asset or liability in a transaction which at the time of the transaction, affects neither accounting profit nor taxable profit (tax loss).

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

Tax expenses

Current and deferred taxes are recognised as income or an expense and included in profit or loss for the period, except to the extent that the tax arises from:

- a transaction or event which is recognised, in the same or a different period, to other comprehensive income, or
- a business combination.

Current tax and deferred taxes are charged or credited to other comprehensive income if the tax relates to items that are credited or charged, in the same or a different period, to other comprehensive income.

Current tax and deferred taxes are charged or credited directly to equity if the tax relates to items that are credited or charged, in the same or a different period, directly in equity.

1.9 Leases

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership.

Finance leases - lessor
The bank recognises finance lease receivables in the statement of financial position.

Finance income is recognised based on a pattern reflecting a constant periodic rate of return on the bank's net investment in the finance lease.

Operating leases - lessor
Assets leased to third parties under operating leases are included in investment properties in the statement of financial position.

Operating leases – lessee
Operating lease payments are recognised as an expense on a straight-line basis over the lease term. The difference between the amounts recognised as an expense and the contractual payments are recognised as an operating lease asset. This liability is not discounted.

Any contingent rents are expensed in the period they are incurred.

1.10 Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of an equity instrument are deducted from the initial measurement of the equity instrument.

1.11 Employee benefits

Short-term employee benefits
The cost of short-term employee benefits, (those payable within 12 months after the service is rendered, such as paid vacation leave and sick leave, bonuses, and non-monetary benefits such as medical care), are recognised in the period in which the service is rendered and are not discounted.

The expected cost of compensated absences is recognised as an expense as the employees render services that increase their entitlement or, in the case of non-accumulating absences, when the absence occurs.

Retirement benefit costs
The bank operates a defined contribution staff retirement benefit scheme for its permanent and pensionable employees. The scheme is administered by an insurance company. The bank has no further payment obligations once the contributions have been paid. The company's obligations to the schemes are recognised in the Statement of Profit or Loss and Other Comprehensive income.

The bank and its employees also contribute to the National Social Security Fund (NSSF), a national defined contribution scheme. Contributions are etermined by local stature and the bank's contributions are charged to the Statement of Profit or Loss and Other Comprehensive Income in the year they fall due.

Employee entitlements
Employee entitlements to gratuity and long term service awards are recognised when they accrue to employees. A provision is made for the estimated liability for such entitlements as a result of services rendered by employees up to the statement of financial position date.

The estimated monetary liability for employee's accrued annual leave entitlement at the reporting date is recognised as an expense accrual.

1.12 Provisions

Provisions are recognised when:

- the bank has a present obligation as a result of a past event;
- it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and
- a reliable estimate can be made of the obligation.

The amount of a provision is the present value of the expenditure expected to be required to settle the obligation.

1.13 Revenue from contracts with customers

Dividend income is recognised when the right to receive the payment is established.

All other incomes including the above are recognised at a point in time as prescribed by IFRS 15.

1.14 Revenue other than from contracts with customers

Revenue is recognised only when it is probable that the economic benefits associated with the transaction will flow to the bank.

The bank recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and when the specific criteria have been met for each of the bank's activities as described below.

The amount of revenue is not considered to be reliably measured until all contingencies relating to the transaction have been resolved. The bank bases its estimates on historical results, taking into cosideration the type of customer, type of transaction and specifics of each arrangement.

Interest income is recognised on an accrual basis in profit or loss using the effective yield on the asset. Interest income includes income from loans and advances, income from placements with loans and advances to other banking institutions and income from government securities. When financial assets become impaired, interest income is thereafter recognised at rates used to discount future cash flows for the purposes of measuring the recoverable amount.

Foreign exchange trading income is recognised at the time of effecting the transaction. It includes income from spot and forward deals and translated foreign currency assets and liabilities.

The above incomes including corporate bonds,

1.15 Translation of foreign currencies

Foreign currency transactions

A foreign currency transaction is recorded, on initial recognition in Shillings, by applying to the foreign currency amount the spot exchange rate between the functional currency and the foreign currency at the date of the transaction.

At the end of the reporting period:

- foreign currency monetary items are translated using the closing rate;
- non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction; and
- non-monetary items that are measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

Exchange differences arising on the settlement of monetary items or on translating monetary items at rates different from those at which they were translated on initial recognition during the period or in previous annual report and financial statements are recognised in profit or loss in the period in which they arise.

When a gain or loss on a non-monetary item is recognised to other comprehensive income and accumulated in equity, any exchange component of that gain or loss is recognised to other comprehensive income and accumulated in equity. When a gain or loss on a non-monetary item is recognised in profit or loss, any exchange component of that gain or loss is recognised in profit or loss.

Cash flows arising from transactions in a foreign currency are recorded in Shillings by applying to the foreign currency amount the exchange rate between the Shillings and the foreign currency at the date of the cash flow.

1.16 Dividends

Proposed dividends are disclosed as a separate component of equity until declared.

Dividends are recognised as a liabilities in the period in which they are approved by the bank's shareholders.

1.17 Contingent liabilities

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

1.18 Statutory loan loss reserve

These are provisions that have been appropriated from Retained Earnings. This applies if provisions computed under the Risk Classification of Assets and Provisioning Guidelines is in excess of impairment losses computed under the International Financial Reporting Framework.

1.19 Interest expense

Interest for all interest-bearing financial liabilities is recognised within interest expense in profit or loss using the effective interest method.

Interest expense includes expense incurred on customer deposits, placements and overnight borrowings with other banking institutions.

2. New Standards and Interpretations

2.1 Standards and interpretations effective and adopted in the current year

In the current year, the bank has adopted the following standards and interpretations that are effective for the current financial year and that are relevant to its operations:

Foreign Currency Transactions and Advance Consideration
The interpretation applies to circumstances when an entity has either paid or received an amount of consideration in advance and in a foreign currency, resulting in a non-monetary asset or liability being recognised. The specific issue addressed by the interpretation is how to determine the date of the transaction for the purposes of determining the exchange rate to use on the initial recognition of the related asset, expense or income when the non-monetary asset or liability is derecognised. The interpretation specifies that the date of the transaction, for purposes of determining the exchange rate to apply, is the date on which the entity initially recognises the non-monetary asset or liability.

The effective date of the interpretation is for years beginning on or after January 1, 2018.

The bank has adopted the interpretation for the first time in the 2018 annual report and financial statements.

The impact of the interpretation is not material.

Amendments to IFRS 15: Clarifications to IFRS 15 Revenue from Contracts with Customers
The amendment provides clarification and further guidance regarding certain issues in IFRS 15. These items include guidance in assessing whether promises to transfer goods or services are separately identifiable; guidance regarding agent versus principal considerations; and guidance regarding licenses and royalties.

The effective date of the amendment is for years beginning on or after January 1, 2018.

The bank has adopted the amendment for the first time in the 2018 annual report and financial statements.

The impact of the amendment is set out in note 38 Changes in Accounting Policy.

IFRS 9 Financial Instruments
IFRS 9 issued in November 2009 introduced new requirements for the classification and measurements of financial assets. IFRS 9 was subsequently amended in October 2010 to include requirements for the classification and measurement of financial liabilities and for derecognition, and in November 2013 to include the new requirements for general hedge accounting. Another revised version of IFRS 9 was issued in July 2014 mainly to include a)impairment requirements for financial assets and b) limited amendments to the classification and measurement requirements by introducing a "fair value through other comprehensive income" (FVTOCI) measurement category for certain simple debt instruments.

Key requirements of IFRS 9:

- All recognised financial assets that are within the scope of IAS 39 Financial Instruments: Recognition and Measurement are required to be subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the outstanding principal are generally measured at amortised cost at the end of subsequent reporting periods. Debt instruments that are held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets, and that have contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on outstanding principal, are measured at FVTOCI. All other debt and equity investments are measured at fair value at the end of subsequent reporting periods. In addition, under IFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income with only dividend income generally recognised in profit or loss.

- With regard to the measurement of financial liabilities designated as at fair value through profit or loss, IFRS 9 requires that the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of the liability is presented in other comprehensive income, unless the recognition of the effect of the changes of the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Under IAS 39, the entire amount of the change in fair value of a financial liability designated as at fair value through profit or loss is presented in profit or loss.
- In relation to the impairment of financial assets, IFRS 9 requires an expected credit loss model, as opposed to an incurred credit loss model under IAS 39. The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition. It is therefore no longer necessary for a credit event to have occurred before credit losses are recognised.
- The new general hedge accounting requirements retain the three types of hedge accounting mechanisms currently available in IAS 39. Under IFRS 9, greater flexibility has been introduced to the types of transactions eligible for hedge accounting, specifically broadening the types of instruments that qualify for hedging instruments and the types of risk components of non-financial items that are eligible for hedge accounting. In addition, the effectiveness test has been replaced with the principal of an "economic relationship". Retrospective assessment of hedge effectiveness is also no longer required. Enhanced disclosure requirements about an entity's risk management activities have also been introduced.

The effective date of the standard is for years beginning on or after January 1, 2018.

The bank has adopted the standard for the first time in the 2018 annual report and financial statements.

The impact of the standard is set out in note 38 Changes in Accounting Policy.

IFRS 15 Revenue from Contracts with Customers

IFRS 15 supersedes IAS 11 Construction contracts; IAS 18 Revenue; IFRIC 13 Customer Loyalty Programmes; IFRIC 15 Agreements for the construction of Real Estate; IFRIC 18 Transfers of Assets from Customers and SIC 31 Revenue - Barter Transactions Involving Advertising Services. The core principle of IFRS 15 is that an entity recognises revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. An entity recognises revenue in accordance with that core principle by applying the following steps:

- Identify the contract(s) with a customer
- Identify the performance obligations in the contract
- Determine the transaction price
- Allocate the transaction price to the performance obligations in the contract
- Recognise revenue when (or as) the entity satisfies a performance obligation.

IFRS 15 also includes extensive new disclosure requirements.

The effective date of the standard is for years beginning on or after January 1, 2018.

The bank has adopted the standard for the first time in the 2018 annual report and financial statements.

The impact of the standard is set out in note 38 Changes in Accounting Policy.

2.2 Standards and interpretations not yet effective

The following standards and interpretations have been published and are mandatory for the bank's accounting periods beginning on or after January 1, 2019 or later periods but are not relevant to its operations:

Prepayment Features with Negative Compensation - Amendment to IFRS 9

The amendment to Appendix B of IFRS 9 specifies that for the purpose of applying paragraphs B4.1.11(b) and B4.1.12(b), irrespective of the event or circumstance that causes the early termination of the contract, a party may pay or receive reasonable compensation for that early termination.

The effective date of the amendment is for years beginning on or after January 1, 2019.

The bank does not envisage the adoption of the amendment until such time as it becomes applicable to the bank's operations.

Amendments to IAS 12 Income Taxes: Annual Improvements to IFRS 2015 - 2017 cycle

The amendment specifies that the income tax consequences on dividends are recognised in profit or loss, other comprehensive income or equity according to where the entity originally recognised the events or transactions which generated the distributable reserves.

The effective date of the amendment is for years beginning on or after January 1, 2019.

The bank does not envisage the adoption of the amendment until such time as it becomes applicable to the bank's operations.

IFRS 16 Leases

IFRS 16 Leases is a new standard which replaces IAS 17 Leases, and introduces a single lessee accounting model. The main changes arising from the issue of IFRS 16 which are likely to impact the bank are as follows:

Bank as lessee:

- Lessees are required to recognise a right-of-use asset and a lease liability for all leases, except short term leases or leases where the underlying asset has a low value, which are expensed on a straight line or other systematic basis.
- The cost of the right-of-use asset includes, where appropriate, the initial amount of the lease liability; lease payments made prior to commencement of the lease less incentives received; initial direct costs of the lessee; and an estimate for any provision for dismantling, restoration and removal related to the underlying asset.
- The lease liability takes into consideration, where appropriate, fixed and variable lease payments; residual value guarantees to be made by the lessee; exercise price of purchase options; and payments of penalties for terminating the lease.
- The right-of-use asset is subsequently measured on the cost model at cost less accumulated depreciation and impairment and adjusted for any re-measurement of the lease liability. However, right-of-use assets are measured at fair value when they meet the definition of investment property and all other investment property is accounted for on the fair value model. If a right-of-use asset relates to a class of property, plant and equipment which is measured on the revaluation model, then that right-of-use asset may be measured on the revaluation model.
- The lease liability is subsequently increased by interest, reduced by lease payments and re-measured for reassessments or modifications.
- Re-measurements of lease liabilities are affected against right-of-use assets, unless the assets have been reduced to nil, in which case further adjustments are recognised in profit or loss. The lease liability is re-measured by discounting revised payments at a revised rate when there is a change in the lease term or a change in the assessment of an option to purchase the underlying asset.
- The lease liability is re-measured by discounting revised lease payments at the original discount rate when there is a change in the amounts expected to be paid in a residual value guarantee or when there is a change in future payments because of a change in index or rate used to determine those payments.
- Certain lease modifications are accounted for as separate leases. When lease modifications which decrease the scope of the lease are not required to be accounted for as separate leases, then the lessee re-measures the lease liability by decreasing the carrying amount of the right of lease asset to reflect the full or partial termination of the lease. Any gain or loss relating to the full or partial termination of the lease is recognised in profit or loss. For all other lease modifications which are not required to be accounted for as separate leases, the lessee re-measures the lease liability by making a corresponding adjustment to the right-of-use asset.
- Right-of-use assets and lease liabilities should be presented separately from other assets and liabilities. If not, then the line item in which they are included must be disclosed. This does not apply to right-of-use assets meeting the definition of investment property which must be presented within investment property. IFRS 16 contains different disclosure requirements compared to IAS 17 leases.

Bank as Lessor:

- Accounting for leases by lessors remains similar to the provisions of IAS 17 in that leases are classified as either finance leases or operating leases. Lease classification is reassessed only if there has been a modification.
- A modification is required to be accounted for as a separate lease if it both increases the scope of the lease by adding the right to use one or more underlying assets; and the increase in consideration is commensurate to the stand alone price of the increase in scope.
- If a finance lease is modified, and the modification would not qualify as a separate lease, but the lease would have been an operating lease if the modification was in effect from inception, then the modification is accounted for as a separate lease. In addition, the carrying amount of the underlying asset shall be measured as the net investment in the lease immediately before the effective date of the modification. IFRS 9 is applied to all other modifications not required to be treated as a separate lease.
- Modifications to operating leases are required to be accounted for as new leases from the effective date of the modification. Changes have also been made to the disclosure requirements of leases in the lessor's financial statements.

Sale and leaseback transactions:

- In the event of a sale and leaseback transaction, the requirements of IFRS 15 are applied to consider whether a performance obligation is satisfied to determine whether the transfer of the asset is accounted for as the sale of an asset.
- If the transfer meets the requirements to be recognised as a sale, the seller-lessee must measure the new right-ofuse asset at the proportion of the previous carrying amount of the asset that relates to the right-of-use retained. The buyer-lessor accounts for the purchase by applying applicable standards and for the lease by applying IFRS 16
- If the fair value of consideration for the sale is not equal to the fair value of the asset, then IFRS 16 requires adjustments to be made to the sale proceeds. When the transfer of the asset is not a sale, then the seller-lessee continues to recognise the transferred asset and recognises a financial liability equal to the transfer proceeds. The buyer-lessor recognises a financial asset equal to the transfer proceeds.

The effective date of the standard is for years beginning on or after January 1, 2019.

The bank does not envisage the adoption of the standard until such time as it becomes applicable to the bank's operations. The impact of this standard is currently being assessed.

3. Financial risk management

Financial risk management

The bank's activities exposes it to a variety of financial risks and those activities involve analysis, evaluation, acceptance and management of some degree of risk or combination of risks. Taking risk is core to the financial business, and the operational risks are an inevitable consequence of being in business. The bank's aim is therefore to achieve an appropriate balance between risk and return and minimise potential adverse effects on the bank's financial performance.

The bank's risk management policies are designed to identify and analyse these risks, to set risk limits and controls, and to monitor the risks and adherence to limits by means of reliable and up-to-date management information systems. The bank regularly reviews its risk management policies and systems to reflect changes in markets, products and emerging best practice.

Risk management function is carried out by the bank's risk management department under policies approved by the Board of Directors. The bank's risk management department identifies, measures, monitors and controls financial risks in close coordination with various other departmental heads. The bank has Board approved policies covering specific areas, such as credit risk, market risk, liquidity risk and operational risk.

The most important types of risk are credit risk, liquidity risk, market risk and operational risk. Market risk includes currency risk, interest rate risk and price risk.

Capital management

The bank's objectives when managing capital, which is a broader concept than the equity on the face of the statement of financial position are:

- To comply with the capital requirements set by the regulator, 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.

The bank monitors the adequacy of its capital using ratios established by Central Bank of Kenya. These ratios measure capital adequacy by comparing the bank's core capital with total risk-weighted assets plus risk weighed off-balance sheet items, total deposit liabilities and total risk-weighted off balance sheet items.

Credit risk weighted assets

Assets are weighted according to broad categories of notional credit risk, being assigned a risk weighting according to the amount of capital deemed to be necessary to support them. Four categories of risk weights (0%, 20%, 50% and 100%) are applied e.g. cash in hand (domestic and foreign), balances held with Central Bank of Kenya including securities issued by the Government of Kenya have a zero risk weighting, which means that no capital is required to support the holding of these assets. Property, plant and equipment carries a 100% risk weighting. Based on these guidelines it means that they must be supported by capital equal to 100% of the carrying amount. Other asset categories have intermediate weightings.

Off-balance sheet credit related commitments such as guarantees and acceptances, performance bonds, documentary credit e.t.c. are taken into account by applying different categories of credit risk conversion factors, designed to convert these items into balance sheet equivalents. The resulting credit equivalent amounts are then weighted for credit risk using the same percentages as for statement of financial position assets. Core capital (Tier 1) consists of paid-up share capital, retained profits less non-dealing investments. Supplementary capital (Tier 2) includes statutory loan loss provisions and non-dealing investments.

Market risk weighted assets

This is the risk of loss in on and off balance sheet position arising from movement in market prices. These risks pertain to inherent risk related instruments in the trading book, commodities risk throughout the bank, equities risk and foreign exchange risk in the trading and banking books of the bank. Different risk weights are applied as per the Prudential Regulation.

Operational risk weighted assets

This is the risk of loss resulting from inadequate or failed internal process, people or from external events. The operational risk is calculated using the Basic Indicator Approach. Under this approach, the capital charge for operational risk is a fixed percentage of average positive annual gross income of the institution over the past three years. Annual gross income is the sum of net interest income and net non interest income.

The table below summarizes the composition of the regulatory capital. The figures below are in K Sh ('000).

	Balance sheet nominal amount		Risk weighted amount	
	2018	**2017**	**2018**	**2017**
Cash in hand	484,186	398,001	-	-
Balances with Central Bank of Kenya	5,905,928	3,975,943	-	-
Governement securities	60,788,658	46,549,619	-	-
Deposits and balances due from other banking institutions	13,012,181	2,013,676	2,602,436	402,735
Other assets	882,992	594,584	882,991	594,584
Loans and advances to customers	41,570,848	42,207,280	37,166,041	38,352,486
Investment securities	55,623	94,393	55,624	94,393
Current tax receivable	29,276	-	29,276	-
Intangible assets	3,049	4,312	3,049	4,312
Property and equipment	209,439	224,598	209,439	224,598
Deferred tax	72,221	69,694	72,221	69,694
	123,014,401	**96,132,100**	**41,021,078**	**39,742,802**
Off balance sheet position	7,889,392	6,655,151	2,680,596	2,132,311
Less: Market Risk qualifying Assets included in above	(55,624)	(94,393)	(55,624)	(94,393)
Adjusted credit risk weighted assets	**130,848,169**	**102,692,858**	**43,646,050**	**41,780,720**
Market risk				
Total Market Risk Weighted Assets Equivalent	4,655,311	2,433,860	4,655,311	2,433,860
Operational Risk Equivalent Assets	9,979,431	8,150,062	9,979,431	8,150,062
Total market risk capital charge	**14,634,742**	**10,583,922**	**14,634,742**	**10,583,922**
Total market risk weighted assets	**145,482,911**	**113,276,780**	**58,280,792**	**52,364,642**

	2018 Kshs '000	2017 Kshs '000
Capital adequacy requirement calculation		
Tier I -Core Capital	**20,899,244**	**16,202,834**
Add: Paid-up ordinary share capital/Assigned Capital	989,717	989,717
Retained earnings/Accumulated losses	16,052,168	11,359,815
Net After tax profits for the current year	3,929,580	3,922,996
Less: Deferred Tax Asset	(72,221)	(69,694)
Tier II -Supplementary Capital		
Add: Statutory Loan Reserve	162,252	706,320
Total Capital	**21,061,496**	**16,909,154**
Total deposit liabilities	101,958,340	73,004,885

Risk weighted amounts for loans and advances to customers are stated net of impairment losses. These balances have also been offset against fixed deposits and short term deposits placed by customers as securities. There is no borrower with either funded or non-funded facilities, exceeding twenty five percent of core capital.

	Actual Ratios		**Minimum Requirement**	
	2018	**2017**	**2018**	**2017**
Core capital to total risk weighted assets	35.86 %	30.94 %	10.50 %	10.50 %
Total capital to total risk weighted assets	36.14 %	32.29 %	14.50 %	14.50 %
Core capital to deposit liabilities	20.50 %	22.19 %	8.00 %	8.00 %

Credit risk

The Bank takes on exposure to credit risk, which is the risk that a customer will cause a financial loss for the Bank by failing to fulfil a contractual obligation. Credit risk is the most important risk for the Bank's business. Management therefore carefully manages its exposure to credit risk. Credit risk mainly arises from customer loans and advances, credit cards, investing activities and loan commitments (off balance sheet financial instruments).
The credit risk management and control are centralised in credit and treasury departments of the bank.

Measurement of credit risk

- Loans and advances

In measuring credit risk of loans and advances to customers, the bank reflects on various components. These include:

- The probability of default by the borrower/client on their contractual obligations;
- Current exposures on the borrower/client and the likely future development, from which the bank derives the exposure at default; and
- The likely recovery ratio on the defaulted obligations.

These credit risk measurements, which reflect expected loss, are embedded in the bank's daily operational management. The operational measurements can be contrasted with impairment allowances required under IFRS 9 and the Banking Act which are based on losses that have been incurred at the date os the statement of financial position rather than expected loss.

The bank assesses the probability of default of individual borrower/client using internal rating methods tailored to the various categories of the borrower/client. These have been developed and combine statistical analysis with the credit department's judgement and are validated, where appropriate, by comparison with externally available data.

Management assesses the credit quality of the customer, taking into account their financial position, past experience and other factors. Individual limits are set based on internal or external information in accordance with limits set by the management. The utilisation of credit limits is regularly monitored. Corrective action is taken where necessary.

- Investments

For investments, internal ratings taking into account the requirements of the Banking Act are used by the bank for managing the credit risk exposures. The investments in those securities are viewed as a way to gain a better credit quality mapping and maintain a readily available source to meet the funding requirment at the same time.

- Risk limit control and mitigation policies

The bank manages, limits and controls concentrations of credit risk wherever they are identified. The bank 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, when considered necessary. Limits on the level of credit risk by product and industry sector are approved as and when required by the credit committee.

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 charging these lending limits where appropriate.
Some other specific control and mitigation measures are outlined below:

- Collateral

The bank employs a range of policies and practices to mitigate credit risk. The most common one is to obtain collateral for loans and advances to customers. The types of collateral obtained include:

- Mortgages over properties;
- Charges over business assets such as land and buildings, inventory and receivables;
- Charges over financial instruments such as investments;
- Deposits placed under lien.

- Credit-related commitments

The primary purpose of these instruments is to ensure that funds are available to a customer as required. Guarantees and letters of credit carry the same credit risk as loans. Letters of credit (which are written undertakings by the bank on behalf of a customer authorising a third party to draw drafts on the bank up to a stipulated amount under specific terms and conditions) are collateralised by the underlying shipments of goods to which they relate and therefore carry less risk than a direct advance or loan.

Commitments to extend credit represent unused portions of authorisations to extend credit in the form of loans, guarantees or letters of credit. With respect to credit risk on commitments to extend credit, the bank is potentially exposed to loss in an amount equal to the total unused commitments. However, the likely amount of loss is less than the total unused commitments, as most commitments to extend credit are contingent upon customers maintaining specific credit standards. The bank monitors the term to maturity of credit commitments because longer-term commitments generally have a greater degree of credit risk than shorter-term commitments.

- Impairment and provisioning policies

The bank's internal and external systems focus more on credit quality mapping from the inception of the lending of the loan or advance. In contrast, impairment provisions are recognised for financial reporting purposes only for losses that have been incured at the statement of financial position date based on objective evidence of impairment.
The impairment provision shown in the statement of financial position at the year-end is derived after taking various factors into consideration as described in the accounting policy. The bank's management uses basis under IAS 39 and the Prudential Guidelines to determine the amount of impairment.

- Exposure to credit risk

The management is confident in its ability to continue to control and sustain minimal exposure of credit risk to the bank resulting from both its loan and advances portfolio and other financial assets based on the following:

- The maximum exposure to credit risk arises from investments in government securities which form 49.42% (2017: 48.40%) of Bank`s total assets; 35.31%, (2017: 45.69%) represents loans and advances to customers.
- Government securities are considered stable investments as the risk is considered negligible.
- Share of Normal and Watch Accounts 91.16% (2017: 93.93%) of the loans and advances portfolio is categorised in the top two grades of the internal rating system (Normal and Watch Accounts).
- 19.47% (2017: 18.92%) of the loans and advances portfolio are considered to be past due but not impaired.
- Most of its loans and advances to customers are performing as per the respective covenants. Non-performing loans and advances have been provided for. The loans and advances are also secured.
- Cash in hand, balances with Central Bank of Kenya and placements with other banking institutions are held with sound financial institutions.
- Management considers the historical information available to assess the credit risk on investment securities.

Exposure to this risk has been quantified in each financial asset note in the financial statements along with any concentration of risk.

Liquidity risk

Liquidity risk is the risk that the bank is unable to meet its payment obligations associated with its financial liabilities when they fall due and to replace funds when they are overdrawn.

The matching and controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental to the management of the bank. It is unusual for banks ever to be completely matched since business transacted is often of uncertain terms and of different types. An unmatched position potentially enhances profitability, but can also increase the risk of losses.

The maturity of assets and liabilities and the ability to replace, at an acceptable cost, interest bearing liabilities as they mature are important factors in assessing the iquidity of the bank and its exposure to changes in interest and exchange rates.

The bank does not maintain cash resources to meet all liabilities as they fall due as experience shows that a minimum level of reinvestment of maturing funds can be predicted with a high level of certainity. The management has set limits on the minimum portion of maturing funds available to meet such withdrawals and on the level of interbank and other borrowing facilities that should be in place to cover withdrawals at unexpected levels of demand. The management reviews the maturity profile on a weekly basis and ensures that sifficient liquidity is maintained to meet maturing deposits which substantially are generally rolled over into new deposits.The bank fully complies with the Central Bank of Kenya's minimum cash reserve ratio (5.25%) and liquidity ratio (20%) requirements, with the average liquidity maintained at 78.2% (2017: 65.6%) during the year.

The table below analyses the bank's financial assets and liabilities into the relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date

At December 31, 2018	Up to 3 months	3 to 6 months	6 to 12 months	1 to 3 years	Over 3 years	Total
Assets						
Cash in hand	484,186	-	-	-	-	**484,186**
Balances with Central Bank of Kenya	1,986,896	-	-	-	3,919,032	**5,905,928**
Governement securities	2,188,947	2,166,758	7,201,179	3,978,383	45,253,391	**60,788,658**
Deposits and balances due from other banking institutions	13,012,181	-	-	-	-	**13,012,181**
Other assets	270,380	212,749	-	12,138	387,725	**882,992**
Loans and advances to customers	22,804,844	1,788,926	880,171	5,594,116	10,502,791	**41,570,848**
Investment securities	-	-	-	-	55,623	**55,623**
Current tax receivable	29,276	-	-	-	-	**29,276**
Intangible assets	-	-	610	610	1,829	**3,049**
Investment property	-	-	-	-	-	**-**
Property and equipment	-	-	42,761	128,283	38,395	**209,439**
Deferred tax	-	-	-	-	72,221	**72,221**
Total assets	**40,776,710**	**4,168,433**	**8,124,721**	**9,713,530**	**60,231,007**	**123,014,401**
Liabilities and shareholders' equity						
Customer deposits	74,592,011	15,682,563	11,072,074	556,387	55,305	**101,958,340**
Deposits due to other banking institutions	(6,765,248)	3,656,153	3,157,586	-	-	**48,491**
Other liabilities	(136,699)	174,042	288,672	-	266,730	**592,745**
Shareholders' equity	1,484,575	142,056	3,929,580	162,252	14,696,362	**20,414,825**
Total liabilities and equity	**69,174,639**	**19,654,814**	**18,447,912**	**718,639**	**15,018,397**	**123,014,401**
Net liquidity gap as at December 31, 2018	**(28,397,929)**	**(15,486,381)**	**(10,323,191)**	**8,994,891**	**45,212,610**	**-**
At December 31, 2017						
Total assets	27,606,599	4,832,943	5,673,790	11,074,560	46,944,207	96,132,100
Total liabilities and equity	58,646,334	12,532,356	11,035,562	1,503,553	12,414,295	96,132,100
Net liquidity gap as at December 31, 2017	**(31,039,735)**	**(7,699,413)**	**(5,361,772)**	**9,571,007**	**34,529,912**	**-**

Experience indicates that customer deposits are maintained for longer periods than the contractual maturity dates. The deposit base is considered to be of a stable and long term nature.

Interest rate risk

The bank's operations are subject to the risk of interest rate fluctuations to the extent that interest earning assets and interest bearing liabilities mature or reprice at different times or in differing amounts. Risk management activities are aimed at optimizing net interest income, given market interest rates levels consistent with the bank's business strategies.

The bank is exposed to various risks associated with the effects of fluctuation in the prevailing levels of market interest rates on its financial position and cash flows. The management closely monitors the interest rate trends to minimise the potential adverse impact of interest rate changes. The table summarises the exposure to interest rate risk at the balance sheet date. Included in the table are the assets and liabilities at carrying amounts, categorised by the earlier of contractual repricing or maturity dates. The bank does not have any derivative financial instruments. The bank does not bear an interest rate risk on off balance sheet items.

Cash flow interest rate risk

	Up to 3 months	3 to 6 months	6 to 12 months	1 to 3 years	Over 3 years	Non-interest bearing	**Total**
Assets							
Cash in hand	484,186	-	-	-	-	-	**484,186**
Balances with Central Bank of Kenya	1,986,896	-	-	-	-	3,919,032	**5,905,928**
Governement securities	2,188,947	2,166,758	7,201,179	3,978,383	45,253,391	-	**60,788,658**
Deposits and balances due from other banking institutions	13,012,181	-	-	-	-	-	**13,012,181**
Other assets	-	-	-	-	-	882,992	**882,992**
Loans and advances to customers	22,804,844	1,788,926	880,171	5,594,116	7,899,782	2,603,009	**41,570,848**
Investment securities	-	-	-	-	-	55,623	**55,623**
Current tax receivable	-	-	-	-	-	29,276	**29,276**
Intangible assets	-	-	-	-	-	3,049	**3,049**
Property and equipment	-	-	-	-	-	209,439	**209,439**
Deferred tax	-	-	-	-	-	72,221	**72,221**
Total assets	**40,477,054**	**3,955,684**	**8,081,350**	**9,572,499**	**53,153,173**	**7,774,641**	**123,014,401**
Liabilities and shareholders' equity							
Customer deposits	62,916,152	15,682,563	11,072,074	556,387	55,305	11,675,859	**101,958,340**
Deposits due to other banking institutions	(6,765,248)	3,656,153	3,157,586	-	-	-	**48,491**
Other liabilities	-	174,042	-	-	266,730	151,973	**592,745**
Shareholders' equity	-	-	-	-	-	20,414,825	**20,414,825**
Total liabilities and equity	**56,150,904**	**19,512,758**	**14,229,660**	**556,387**	**322,035**	**32,242,657**	**123,014,401**
Interest sensitivity gap as at December 31, 2017	**(15,673,850)**	**(15,557,074)**	**(6,148,310)**	**9,016,112**	**52,831,138**	**(24,468,016)**	**-**
At December 31, 2017							
Total assets	27,474,046	4,704,673	5,569,444	10,801,065	40,940,056	6,642,816	96,132,100
Total liabilities and equity	51,745,854	12,600,985	7,112,566	797,233	64,763	23,810,699	96,132,100
Interest sensitivity gap as at December 31, 2017	**(24,271,808)**	**(7,896,312)**	**(1,543,122)**	**10,003,832**	**40,875,293**	**(17,167,883)**	**-**

The tables below summarise the effective interest rates calculated on a weighted average basis, by major currencies for monetary financial assets and liabilities:

2018	K Sh	USD	GBP	Euro
Government securities	12.34%	- %	- %	- %
Deposits and balances due from banking institutions	8.21%	- %	- %	- %
Loans and advances to customers	13.73%	9.79%	5.83%	6.89%
Customer deposits	6.85%	1.09%	2.19%	0.21%
Deposits and balances due to banking institutions	2.42%	- %	- %	- %

2017	K Sh	USD	GBP	Euro
Government securities	11.99%	- %	- %	- %
Deposits and balances due from banking institutions	7.96%	- %	- %	- %
Loans and advances to customers	14.58%	9.09%	6.95%	8.14%
Customer deposits	7.14%	1.37%	3.35%	0.24%
Deposits and balances due to banking institutions	2.42%	- %	- %	- %

Interest rate risk sensitivity

At 31 December 2018, if the weighted average interest had been 10% higher, with all other variables held constant, post-ta: profit would have been as follows:

	2018 Kshs `000	2017 Kshs `000
Effect on interest income - increase	819,185	731,189
Effect in interest expense - (increase)	(368,578)	(326,901)
Net effect on profit after tax - increase	**450,607**	**404,288**

Currency risk

The bank operates wholly within Kenya and its assets and liabilities are reported in the local currency. It conducts trade with correspondant banks and takes deposits and lends in other currencies. The bank's currency position and exposure are managed within the exposure guideline of 10% of the core capital as stipulated by the Central Bank of Kenya. The position is reviewed on a daily basis by management. The significant currency positions are detailed below:

At 31 December 2018	USD	GBP	Euro	Others	Total
Assets					
Cash and Bank balances	13,576	3,377	4,235	-	21,188
Balances with Central Bank of Kenya	126,203	4,253	10,214	1,339	142,009
Deposits due from other banking institutions	5,295,997	7,234,191	40,047	25,497	12,595,732
Loans and advances to customers	7,536,052	-	127,786	-	7,663,838
Total assets	12,971,828	7,241,821	182,282	26,836	20,422,767
Liabilities and shareholders' equity					
Customer deposits	13,060,892	7,454,178	841	-	20,515,911
Deposits due to other banking institutions	28,622	-	-	19,869	48,491
Total liabilities and equity	13,089,514	7,454,178	841	19,869	20,564,402
Net statement of financial position gap	**(117,686)**	**(212,357)**	**181,441**	**6,967**	**(141,635)**
Off balance sheet net notional position	71,292	-	-	30,489	101,781
At December 31, 2017					
Total assets	8,493,369	387,073	173,859	14,235	9,068,536
Total liabilities and equity	8,224,255	682,498	163,887	38,774	9,109,414
Net statement of financial position gap	**269,114**	**(295,425)**	**9,972**	**(24,539)**	**(40,878)**

Market risk

Market risk is the risk that changes in the market prices, which includes currency exchange rate and interest rates, will affect the fair value or future cash flows of financial instruments. Market risk arises from open positions in interest rates and foreign currencies, both of which are exposed to general and specific market movements and changes in the level of volatility. The objective of market risk management is to manage and control market risk exposures within acceptable limits, while optimising on the return on risk. Overall management for management of market risk rests with the Assets & Liability 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 the policies. Market risks arise mainly from trading and non-trading activities. Trading portfolios include those positions arising from market-making transactions where the bank acts as a principal with clients or with the market.

Non-trading portfolios primarily arise from the interest rate management of the entity's retail and commercial banking assets and liabilities. Non-trading portfolios also consist of foreign exchange and equity risks arising from the bank's available-for-sale investments. The major measurement techniques used to measure and control market risk are outlined below:

- ALCO review

ALCO meets on a monthly basis to review the following:

- A summary of the bank's aggregate exposure on market risk
- A summary of the bank's maturity/repricing gaps
- A report indicating that the bank is in compliance with the board's set exposure limit
- A comparison of past forecast or risk estimates with actual results to identify any shortcomings.

- Review by the treasury department

The treasury department monitors foreign exchange risk in close collaboration with the management. Regular reports are prepared by the treasury department of the bank and discussed with the management. Some of these reports include:

- Net overnight positions by currency
- Maturity distribution by currency of the assets and liabilities for both on and off balance sheet items
- Outstanding contracts (if any) by settlement date and currency
- Total values of contracts, spots and futures
- Aggregate dealing limits
- Exception reports for example limits or line excesses.

Operational risk

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

The bank endeavors to manage the operational risk by creating a balance between avoidance of cost of financial losses and damage to the bank's reputation within overall cost effectiveness and to avoid control procedures that restrict creativity and initiative. The key responsibility for development and implementation of policies and programs to implement the bank's operational risk management is with the senior management of the bank.

The above is tried to be achieved by development of overall standards for the bank to manage the risk in the following areas:

- Segregation of duties including independent authorisation of transactions
- Monitoring and reconciliation of transactions
- Compliance of regulatory and legal requirement
- Documentation of control and procedure
- Assessment of the operational risk on a periodic basis to address the deficiencies observed, if any
- Reporting of operational losses and initiation of remedial action
- Development of contingency plan
- Giving training to staff to improve their professional competency
- Ethical and business standards
- Obtaining insurance wherever feasible, as a risk mitigation measure.

Risk measurement and control

Interest rate, currency, credit, liquidity and other risks are actively managed by management to ensure compliance with the bank's risk limits. The bank's risk limits are assessed regularly to ensure their appropriateness given its objectives and strategies and current market conditions. A variety of techniques are used by the bank in measuring the risks inherent in its trading and non-trading positions.

Foreign exchange risk sensitivity

The table below summarises the effect on post-tax profit had the Kenya Shilling weakened by 10% against each currency, with all other variables held constant. If the Kenya Shilling strengthened against each currency, the effect would have been the opposite.

2018	*USD*	*GBP*	*EURO*	*Others*	*Total*
Effect on profit - Increase / (decrease)	36,162	(26,145)	(6,770)	1,758	5,005
2017	*USD*	*GBP*	*EURO*	*Other*	*Total*
Effect on profit - Increase / (decrease)	30,566	(21,548)	(2,407)	111	6,722

Price risk sensitivity

The Bank is exposed to price risk on quoted shares, corporate bonds and government securities because of investments that are classified on the statement of financial position as 'Available-for-sale'.

The table below summarises the impact on increase in the market price on the Bank's equity net of tax. The analysis is based on the assumption that the market prices had increased by 5% with all other variables held constant and all the Banks equity instruments moved according to the historical correlation with the price:

	Impact on other comprehensive Income	
	2018	*2017*
	Kshs '000	*Kshs '000*
Effect of increase	344,000	259,236

	2018 Kshs '000	2017 Kshs '000
4 Interest income		
Revenue other than from contracts with customers		
Loans and advances to customers	5,123,781	5,170,282
Government securities	6,351,590	5,233,465
Corporate bonds	7,020	11,468
Deposits and balances due from banking institutions	41,154	28,327
Other income	179,099	2,013
	11,702,644	**10,445,555**

Disaggregation of revenue from contracts with customers

The bank disaggregates revenue from customers as follows:

	2018 Kshs '000	2017 Kshs '000
Timing of revenue recognition		
At a point in time		
Recoveries of advances previously impaired	114,689	191,955
Dividend income	829	803
Profit on disposal of property, plant and equipment	460	322,129
Miscellaneous income	364	515
Rental income	-	8,229
Total revenue from contracts with customers	**116,342**	**523,631**

Transaction price allocated to performance obligations that are unsatisfied or partially unsatisfied at the reporting date

The transaction price which has been allocated to performance obligations which are unsatisfied or partially unsatisfied at the reporting date are presented below. All unsatisfied performance obligations are expected to be completed within one year from reporting date:

	2018 Kshs '000	2017 Kshs '000
5 Interest expense		
Time deposits	4,794,924	4,155,849
Other Customer Deposits	414,805	431,860
Deposits and balances due to banking institutions	55,664	81,842
Other interest expense	-	459
	5,265,393	**4,670,010**

	2018 Kshs '000	2017 Kshs '000
6 Other income		
Profit and (loss) on sale of assets	460	322,129
Dividend income	829	803
Recoveries of advances previously impaired	114,689	191,955
Rental income	116	8,229
Miscellaneous income	248	515
	116,342	**523,631**

	2018 Kshs '000	2017 Kshs '000
7 Operating Expenses		
The following are included within operating expenses		
Staff costs (Note 8)	641,007	594,901
Directors' emoluments as executives	14,789	16,303
Depreciation and amortisation	42,761	37,350
Auditors remuneration - current year fees	13,652	6,380
Contribution to Deposit Protection Fund	107,320	88,963
Operating lease rent	130,363	120,761
Loss on sale of property	-	-
Administration expenses (Note 9)	269,057	194,007
Establishment expenses (Note 10)	74,793	75,841
	1,293,742	**1,134,506**
8 Staff costs		
Salaries and wages	458,603	403,591
National Social Security Fund (NSSF)	29,351	27,057
Fringe benefits	1,227	1,094
Staff leave	8,253	10,794
Staff medical	28,103	22,367
Staff training	942	878
Other staff expenses	114,528	129,120
	641,007	**594,901**
Nuber of persons in employement for the year		
Management	110	113
Supervisory	1	1
Unionisable	98	93
	209	**207**

	2018	2017
9 Administrative expenses	**Kshs '000**	**Kshs '000**
Advertising	12,048	13,189
Computer expenses	35,463	27,578
Donations and fines	558	2,754
Subscriptions and periodicals	1,443	1,387
Entertainment	1,443	1,688
Legal and professional fees	132,941	58,809
Miscellaneous	24,918	38,374
Postages, telephones, telex and fax	10,464	7,883
Printing and stationery	13,213	11,385
Secretarial fees	239	204
Insurance	17,367	23,458
Travelling and motor vehicle	13,203	11,298
	263,300	**198,007**
10 Establishment expenses		
Electricity and water	19,175	18,921
Insurance	293	598
Licences	3,454	3,068
Office cleaning	9,671	6,262
Repairs and maintenance	42,200	46,992
	74,793	**75,841**
11 Impairment losses on;		
(a) Loans and advances to customers		
Additional provisions (General)	47,972	-
Additional provisions (Specific)	375,365	363,837
	423,337	**363,837**
(b) Other Items as per IFRS 9	5,757	-
	5,757	**-**
12 Taxation		
Major components of the tax expense		
Current		
Local Income Tax -Current tax	1,232,023	1,146,648
	1,232,023	**1,146,648**
Deferred		
Local Deferred Tax -Current tax	(2,528)	(16,211)
	(2,528)	**(16,211)**
	1,229,495	**1,130,437**
Reconciliation of the tax expense		
Reconciliation between accounting profit and tax expense.		
Accounting profit	5,159,075	5,053,433
Tax at the applicable tax rate of 30% (2017: 30%)	1,547,723	1,616,030
Tax effect of adjustments on taxable income		
Expenses not deductible for tax purposes	91,134	5,956
Income not subject to tax	(409,362)	(491,549)
	1,229,495	**1,130,437**

	2018 Kshs '000	2017 Kshs '000
13 Other comprehensive income		
Components of other comprehensive income - Net of tax		
Available-for-sale financial assets adjustments		
Government securities	209,301	251,292
Corporate bonds	(320)	(5,413)
Quoted shares	1,704	1,012
	210,685	**246,891**

14 Cash in hand

	2018 Kshs '000	2017 Kshs '000
Cash and cash equivalents consist of:		
Cash in hand	484,186	398,001

Exposure to currency risk

Refer to note on Financial instruments and financial risk management for details of currency risk management for cash in hand.

15 Balances with Central Bank of Kenya

	2018 Kshs '000	2017 Kshs '000
Balances with Central Bank of Kenya		
- Cash reserve ratio	5,763,918	3,919,032
- Other	142,010	56,911
	5,905,928	**3,975,943**

The cash reserve ratio balance is non interest bearing and is based on the value of customer deposits as adjusted in accordance with Central Bank of Kenya requirements. As at 31 December 2018 the cash reserve ratio requirement was 5.25% (2017: 5.25%) of all customer deposits. These funds are not available for the Bank's day to day operations.

16 Governement securities

	2018 Kshs '000	2017 Kshs '000
Fair Value through other comprehensive income		
Treasury bonds	**10,927,394**	**6,436,486**
Amortised cost		
Treasury bonds	46,051,100	35,316,640
Treasury bills	3,810,164	4,796,493
	49,861,264	**40,113,133**
Total government securities	**60,788,658**	**46,549,619**
Current assets		
Fair Value through other comprehensive income	10,927,394	6,436,486
Amortised cost	49,861,264	40,113,133
	60,788,658	**46,549,619**

	2018 Kshs '000	2017 Kshs '000
Government securities comprise of:		
Maturing within 91 days	2,188,946	1,724,895
Maturing after 91 days and within a year	9,367,937	1,798,693
Maturing after a year	14,198,894	12,540,686
Maturing after three years	35,032,881	30,485,345
	60,788,658	**46,549,619**

The fair values of the government securities classified as 'Fair Value through other comprehensive incomee' financial assets are categorised under Level 1 based on the information set out in the accounting policy.

There were no gains or losses realised on the disposal of amortised cost financial assets in 2018 and 2017, as all the financial assets were disposed of at their redemption date.

17 Deposits and balances due from other banking institutions

	2018	2017
Balances with banking institutions in Kenya	349,789	68,603
Balances with banking institutions abroad	12,659,685	1,941,912
Balances with parent bank	2,707	3,161
	13,012,181	**2,013,676**

18 Other assets

	2018	2017
Items in transit	340,073	196,810
Other receivables and prepayments	542,919	397,774
	882,992	**594,584**

Exposure to credit risk

Loans receivable inherently expose the Bank to credit risk, being risk that the bank will incur financial loss if counterparties fail to make payments as they fall due.

Credit loss allowances

The following set out the carrying amount, loss allowance and measurement basis of expected credit losses for group loans receivables.

19 Loans and advances to customers

	2018	2017
Commercial loans	23,463,183	24,782,667
Overdrafts	20,571,313	19,059,723
Bills	139,361	101,093
Gross loans and advances	**44,173,857**	**43,943,483**
Provision for impaired loans and advances	(1,633,365)	(1,545,448)
Suspended interest	(235,016)	(190,755)
Provision for Perfroming loans ad advances	(734,628)	-
Net loans and advances	**41,570,848**	**42,207,280**

Provision for impaired loans and advances	2018	2017
At start of the year	1,545,938	1,374,264
Additional provision during the year	376,275	363,142
Provision utilised during the year for write off	(910)	245
Recoveries	(287,439)	(191,713)
At End of the year	**1,633,864**	**1,545,938**

Provision for performing Assets	Loans	Others	2018	2017
At start of the year	706,320	-	706,320	486,363
Additional provision to P/L during the year	47,972	5,757	53,729	219,957
Additional provision to OCI during the year	-	120,569	120,569	-
Excess reversals to OCI	(19,670)	-	(19,670)	-
At End of the year	**734,622**	**126,326**	**860,948**	**706,320**

Loans and advances have been written down to their recoverable amount. Non performing loans and advances on which provisions for impairment have been recognised amount to KSh 3.903 billion (2017: KSh 2.665 billion). These are included in the statement of financial position net of provisions at KSh 2.367 billion (2017: KSh 1.545 billion). In the opinion of the Directors, sufficient securities are held to cover the exposure on such loans and advances. Interest income amounting to KSh 235.01 million (2017: KSh 190.76 million) on impaired loans and advances has not been recognised as the management feels no economic benefit of such interest will flow to the bank.

Categorisation of Provision for impaired loans and advances

Trade and other receivables are categorised as follows in accordance with IFRS 9: Financial Instruments:

	2018	2017
At amortised cost	**41,570,848**	**42,207,280**

Concentration

Economic sector risk concentrations within the loans and advances portfolio are as follows:

	2018	**2018**	**2017**	**2017**
	Kshs `000	**%**	**Kshs `000**	**%**
Agriculture	506,097	1.15%	1,344,772	3.06%
Manufacturing	10,642,383	24.09%	9,568,694	21.78%
Building and construction	3,474,673	7.87%	3,293,702	7.50%
Mining and quarrying	440,449	1.00%	436,378	0.99%
Energy and water	174,793	0.40%	135,539	0.31%
Trade	16,439,028	37.21%	14,239,385	32.40%
Tourism, restaurants and hotels	1,285,715	2.91%	1,559,641	3.55%
Transport and communication	1,632,599	3.70%	2,989,606	6.80%
Real estate	4,198,073	9.50%	4,517,027	10.28%
Financial services	702,689	1.59%	677,235	1.54%
Social, Community and Personal Households	4,677,358	10.59%	5,181,506	11.79%
	44,173,857	**100%**	**43,943,485**	**100%**

Loans and advances neither past due nor impaired, past due but not impaired and individually impaired

	2018	**2017**
	Kshs `000	**Kshs `000**
Neither past due nor impaired	31,670,863	32,964,403
Past due but not impaired	8,599,686	8,313,300
Individually impaired	3,903,308	2,665,782
Gross loans and advances to customers	**44,173,857**	**43,943,485**
Less: Provision for impaired loans and Suspended Interest	(2,603,009)	(1,736,203)
Net loans and advances to customers	**41,570,848**	**42,207,282**

The loans and advances past due but not impaired are aged between 30 to 90 days. Loans and advances that are aged past 180 days are considered impaired.

The credit quality of the portfolio of loans and advances that were past due but not impaired can be assessed by reference to the internal rating system adopted by the bank. The loans and advances past due but not impaired can be analysed as follows:

Watch	8,599,686	8,313,300

The fair value of the collateral for loans and advances past due but not impaired is considered adequate.

Loans and advances individually impaired

The fair value of the collateral / securities value for loans and advances individually impaired is Kshs 2034.927 Million (2017: Kshs 1,163.93 Million)

Loans and advances renegotiated

Restructuring activities include extended payment arrangements, approved external management plans, modification and deferral of payments. Following restructuring, a previously overdue customer account is reset to a substandard status and managed together with other similar accounts. Restructuring policies and practices are based on indicators or criteria which, in the judgement of the credit committee indicate that payment will most likely continue. These policies are kept under continuous review.

Repossessed collateral

As at the year end the bank did not hold possession of any reposessed collateral held as security.

Exposure to credit risk

Loans and receivables inherently expose the bank to credit risk, being the risk that the bank will incur financial loss if customers fail to make payments as they fall due.

The bank's historical credit loss experience does not show significantly different loss patterns for different customer segments. The provision for credit losses is therefore based on past due status without disaggregating into further risk profiles.

Exposure to currency risk

Refer to note 3 for details of currency risk management for loans and advances.

20 Investment securities	**2018 Kshs '000**	**2017 Kshs '000**
Quoted equity investments:		
At start of year	1,225	1,005
Fair value (loss)/gain	(713)	220
At end of the year	**512**	**1,225**
Unquoted equity investments:		
At start and end of year	19,391	19,391
Corporate bonds:		
At start of year	73,777	184,546
Redemption	(37,302)	(111,354)
Interest income for the year	756	1,511
Interest income received	-	-
Fair value (loss)/gain	(1,511)	(926)
	35,720	**73,777**
	55,623	**94,393**

The fair values of the quoted equity investments and corporate bonds are categorised under Level 1 based on the information set out in the accounting policy.

21 Tax Paid		
Balance at beginning of the year	(145,121)	(416,566)
Current tax for the year recognised in profit or loss	(1,232,023)	(1,146,648)
Balance at end of the year	(29,276)	145,121
	(1,406,420)	**(1,418,093)**

22 Intangible assets

Reconciliation of intangible assets - 2018

	Opening balance	Additions	Disposals	Amortisation	Total
Computer software	4,877	731	-	(2,559)	3,049
	4,877	**731**	**-**	**(2,559)**	**3,049**

Reconciliation of intangible assets - 2017

	Opening balance	Additions	Disposals	Amortisation	Total
Computer software	2,937	3,918	-	(1,978)	4,877
	2,937	**3,918**	**-**	**(1,978)**	**4,877**

	2018			**2017**		
	Cost / Valuation	Accumulated Amortisation	Carrying value	Cost / Valuation	Accumulated Amortisation	Carrying value
Computer software	18,268	(15,219)	3,049	16,208	(11,331)	4,877
Total	**18,268**	**(15,219)**	**3,049**	**16,208**	**(11,331)**	**4,877**

In the opinion of management there is no impairment in the value of intangible assets.
Amortisation costs are included in non interest expenses in the profit or loss.

24 Property and equipment

	2018			**2017**		
	Cost / Valuation	Accumulated depreciation	Carrying value	Cost / Valuation	Accumulated depreciation	Carrying value
Buildings	38,240	(8,824)	29,416	38,240	(7,927)	30,313
Furniture and fittings	178,848	(93,009)	85,839	187,253	(96,821)	90,432
Motor vehicles	33,506	(25,584)	7,922	32,431	(26,452)	5,979
Computer and electronic equipn	181,730	(170,695)	11,035	170,835	(163,447)	7,388
Leasehold improvements	188,307	(113,080)	75,227	194,326	(103,840)	90,486
Total	**620,631**	**(411,192)**	**209,439**	**623,085**	**(398,487)**	**224,598**

Kshs '000

24 Property and equipment (continued)

Reconciliation of property and equipment - 2018

	Opening balance	Additions	Disposals	Depreciation	Total
Buildings	30,313	-	(610)	(287)	29,416
Furniture and fittings	90,432	7,713	(86)	(12,220)	85,839
Motor vehicles	5,979	4,975	(390)	(2,642)	7,922
Computer and electronic equipment	7,388	13,644	-	(9,997)	11,035
Leasehold improvements	90,486	-	-	(15,259)	75,227
	224,598	**26,332**	**(1,086)**	**(40,405)**	**209,439**

Reconciliation of property and equipment - 2017

	Opening balance	Additions	Disposals	Depreciation	Total
Buildings	29,672	24,112	-	(23,471)	30,313
Furniture and fittings	92,057	33,363	(306)	(34,682)	90,432
Motor vehicles	6,847	0	-	(868)	5,979
Computer and electronic equipment	12,553	11,975	-	(17,140)	7,388
Leasehold improvements	81,684	14,199	-	(5,397)	90,486
	222,813	**83,649**	**(306)**	**(81,558)**	**224,598**

In the opinion of management, there is no impairment in the value of property and equipment.

25 Deferred tax

	2018 Kshs '000	2017 Kshs '000
Deferred tax asset / (liability)		
Deferred tax	72,221	69,694
Reconciliation of deferred tax asset (liability)		
At beginning of the year	69,694	53,482
Accelerated capital allowances	(6,085)	4,035
Provisions	8,612	12,177
	72,221	**69,694**

Recognition of deferred tax asset

An entity shall disclose the amount of a deferred tax asset and the nature of the evidence supporting its recognition, when: the utilisation of the deferred tax asset is dependent on future taxable profits in excess of the profits arising from the reversal of existing taxable temporary differences; and the entity has suffered a loss in either the current or preceding period in the tax jurisdiction to which the deferred tax asset relates.

	2018 Kshs '000	2017 Kshs '000
26 Customer deposits		
Savings Deposits	8,752,060	8,168,924
Current Deposits	11,675,859	5,610,441
Term deposits	81,530,421	59,225,520
	101,958,340	**73,004,885**
Analysis of customer deposits by maturity		
Payable within 90 days	67,778,272	54,136,747
Payable after 90 days and within one year	33,568,376	18,185,380
Payable after one year	611,692	682,758
	101,958,340	**73,004,885**

The economic sector concentrations within the customer deposits portfolio were as follows:

	2018 Kshs	**2018 %**	**2017 Kshs**	**2017 %**
Other institutions and individuals	86,898,814	85.23%	58,715,537	80.43%
Private companies	14,524,045	14.25%	13,815,935	18.92%
Insurance companies	535,481	0.53%	473,413	0.65%
	101,958,340	**100%**	**73,004,885**	**100%**

Included in customer accounts were deposits of Kshs. 3,715.218 million (2017: Kshs. 3,187.04 million) held as collateral for loans and advances. The fair value of those deposits approximates the carrying amount.

27 Deposits and balances due to other banking institutions		
Parent bank	19,869	30,703
Foreign banks	28,622	4,658,235
	48,491	**4,688,938**
Split between non-current liabilities and current portions		
Current liabilities	48,491	4,688,938
28 Other liabilites		
Staff leave and gratuity accrual	245,567	238,019
Bills payable	1,508	2,600
provisions for impairment on unutilised facilities and off balancesheet items	126,326	-
Other accounts payable	219,344	152,601
	592,745	**393,220**

Other liabilities are expected to be settled within no more than 12 months after the date of the statement of financial position.

29 Share capital		
Authorised		
49,485,838 Ordinary shares of Kshs. 20.00 each	989,717	989,717
Issued		
49,485,838 Ordinary shares of Kshs. 20.00 each	989,717	989,717

Fair value reserve

The fair value reserve relates to the cumulative net change in fair value of Available-for-sale financial assets until the investment is derecognised.

The current year movements have been set out in (Note: 13).

30. Statutory loan loss reserve

Where impairment losses required by legislation or regulation exceed those computed under International Financial Reporting Standards (IFRS's), the excess is recognised as a statutory reserve and accounted for as an appropriation of Retained Earnings. The reserves are not distributable.

31 Dividends		
Proposed Dividends	1,484,575	989,717

Dividends proposed are from capital profits

31. Off-balance sheet financial instruments, contingent liabilities and committments

In common with banking business, the bank conducts business involving acceptances, guarantees, performance bonds and letters of credit. The majority of these facilities are offset by corresponding obligations from third parties.

Contingent liabilities

	2018 K Sh (000)	2017 K Sh (000)
Spots	132,454	105,092
Letters of credit	2,750,738	2,127,160
Letters of guarantees	3,574,439	3,040,109
Bills sent for collection	1,431,761	1,073,616
Forwards	-	313,471
	7,889,392	**6,659,448**

An acceptance is an undertaking by a bank to pay a bill of exchange on a specified due date. The bank expects most acceptances to be presented and reimbursement by the customer is normally immediate. Letters of credit commit the bank to make payments to third parties on production of credit compliant documents which are subsequently reimbursed by customers.

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

Based on the estimate of the financial effect of the contingencies and the corresponding obligations from third parties, no loss is anticipated. The bank has open lines of credit facilities with correspondent banks.

Commitments

	2018 K Sh (000)	2017 K Sh (000)
Undrawn formal stand-by facilities, credit lines	4,626,868	3,761,439

Commitments to lend are agreements to lend to customers 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 facilities by giving reasonable notice to the customer.

The pending litigation claims relate to cases instituted by third parties against the bank. Judgement in respect of these cases had not been determined as at December 31, 2018. The directors are of the opinion that no liabilities will crystallise.

32. Earnings per share

Basic earnings per share is calculated on the profit attributable to the shareholders and on the weighted average number of shares outstanding during the year adjusted for the effect of any share issue during the year.

	2018 K Shs	2017 K Shs
Net income for the period attributable to shareholders (000)	3,929,580	3,922,994
Adjusted weighted average number of ordinary shares in issue (absolute)	49,485,838	49,485,838
Earnings per share - basic and diluted	79.41	79.28

There were no potentially dilutive shares outstanding as at December 31, 2018 and 2017.

(a) Compensation to key management		
Short-term employee benefits	35,490	47,408
Post-employment benefits	9,770	8,512
	45,260	**55,920**
(b) Interest received from loans and advances to:		
Senior management employees	3,771	1,053
Other employees	169,400	135,576
	173,171	**136,629**
(c) Interest paid on deposits from:		
Senior management employees	42	6
Other employees	4,375	280
	4,417	**286**
(d) Management fees paid		
Related companies	23,866	27,708

32 Related parties (continued)

(e) Outstanding loans and advances	Directors 2018	Directors 2017	Related companies 2018	Related companies 2017	Senior management employees 2018	Senior management employees 2017	Other employees 2018	Other employees 2017
At start of year	9,020	-	14,342	-	16,666	15,965	365,119	286,357
Advances during the year	-	32,678	15,793	173,927	1,896	1,288	41,440	41,970
Interest charged	1,173	1,475	2,107	1,788	1,008	1,053	172,163	118,910
Repayments during the year	(10,193)	(25,133)	(16,449)	(161,373)	(3,683)	(1,640)	(133,992)	(82,118)
	-	**9,020**	**15,793**	**14,342**	**15,887**	**16,666**	**444,730**	**365,119**

The loans and advances to related parties are performing.

No provisions have been recognised in respect of the loans and advances to Directors, related parties or staff as they are performing well.

(f) Deposits	Directors 2018	Directors 2017	Related companies 2018	Related companies 2017	Senior management employees 2018	Senior management employees 2017	Other employees 2018	Other employees 2017
At start of year	137	67	177,149	-	764	433	56,163	369,467
Deposits received during the year	1,224	1,974	-	165,597	2,801	2,474	174,986	111,917
Interest paid during the year	18	-	-	-	42	6	4,375	280
Withdrawals during the year	(714)	(1,904)	(177,149)	11,552	(3,131)	(2,149)	(147,054)	(425,501)
	665	**137**	**-**	**177,149**	**476**	**764**	**88,470**	**56,163**

	2018 Kshs '000	2017 Kshs '000
(g) Directors emoluments		
Fees	980	815
Others	13,809	15,488
	14,789	**16,303**

All transactions with related parties were at arms length and at terms and conditions similar to those offered to other major customers.

33 Cash generated from operations

	2018	2017
Profit before taxation	5,159,075	5,053,433
Adjustments for:		
Depreciation and amortisation	42,761	37,350
(Profit) / Loss on sale of assets	460	(322,129)
Changes in working capital:		
Loans and advances to customers	636,433	(5,806,380)
Placement with and loans and advances to other banking institutions	(10,998,506)	(1,680,001)
Other assets	(428,337)	(118,844)
Due to local banking institutions	(4,640,447)	1,788,960
Customer deposits	28,953,452	8,131,282
Other liabilities	199,525	-99,200
	18,924,416	**6,984,471**

34. Capital commitments

Authorised capital expenditure

Already contracted for but not provided for

	2018	2017
Construction of Head Office building	228,000,000	150,000,000

The above are capital commitments relating to construction of the new Head Office building along Muthithi Road.

This committed expenditure relates to property and will be financed by available bank facilities, retained profits, existing cash resources, funds internally generated, etc.

Operating leases – as lessee (expense)

Minimum lease payments due

	2018	2017
- not later than 1 year	78,709	76,785
- later than 1 year and not later than 5 years	423,730	493,187
	502,439	**569,972**

The Directors are of the view that future net revenues, funding and cash flows will be sufficient to cover these commitments.

The bank leases a number of premises under operating leases. The leases typically run for an initial period of between 5 to 8 years with an option to renew the lease after that date. None of these leases include contingent rentals. During the year ended 31 December 2018, K Sh ('000) 130,363 (2017: K Sh ('000) 120,761) was recognised as an expense in the Statement of Profit or Loss in respect of operating leases.

35. Events after the reporting period

The directors of the bank are not aware of any events after the reporting period; which may have a significant impact on the operational existance or on the financial performance of the bank for the period.

36. Fair value

Fair value hierarchy

The table below analyses assets and liabilities carried at fair value. The different levels are defined as follows:

Level 1: Quoted unadjusted prices in active markets for identical assets or liabilities that the bank can access at measurement date.

Level 2: Inputs other than quoted prices included in level 1 that are observable for the asset or liability either directly or indirectly.

Level 3: Unobservable inputs for the asset or liability.

Previous year's figures have been regrouped / rearranged wherever necessary in order to make them comparable with that of current financial period.

37. Comparative figures

Previous year's figures have been regrouped / rearranged wherever necessary in order to make them comparable with that of current financial period.

38. Changes in accounting policy

The annual report and financial statements have been prepared in accordance with International Financial Reporting Standards on a basis consistent with the prior year except for the adoption of the following new or revised standards.

Application of IFRS 9 Financial Instruments

In the current year, the bank has applied IFRS 9 Financial Instruments (as revised in July 2014) and the related consequential amendments to other IFRSs. IFRS 9 replaces IAS 39 Financial Instruments and introduces new requirements for 1) the classification and measurement of financial assets and financial liabilities, 2) impairment for financial assets and 3) general hedge accounting. Details of these new requirements as well as their impact on the bank's financial statements are described below.

The bank has applied IFRS 9 in accordance with the transition provisions set out in IFRS 9.

Classification and measurement of financial assets

The date of initial application (i.e. the date on which the bank has assessed its existing financial assets and financial liabilities in terms of the requirements of IFRS 9) is January 1, 2018. Accordingly, the bank has applied the requirements of IFRS 9 to instruments that have not been derecognised as at January 1, 2018 and has not applied the requirements to instruments that have already been derecognised as at January 1, 2018. Comparatives in relation to instruments that have not been derecognised as at January 1, 2018 have been restated where appropriate.

All recognised financial assets that are within the scope of IFRS 9 are required to be subsequently measured at amortised cost or fair value on the basis of the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets.

The measurement requirements are summarised below:
Debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal amount outstanding, are subsequently measured at amortised cost.

Debt investments that are held within a business model whose objective is both to collect the contractual cash flows and to sell the debt instruments, and that have contractual cash flows that are solely payments of principal and interest on the principal amount outstanding, are subsequently measured at fair value through other comprehensive income.

All other debt investments and equity investments are subsequently measured at fair value through profit or loss, unless specifically designated otherwise.

The bank may irrevocably designate a debt investment that meets the amortised cost or fair value through other comprehensive income criteria as measured at fair value through profit or loss if doing so eliminates or significantly reduces an accounting mismatch.

When a debt investment measured at fair value through other comprehensive income is derecognised, the cumulative gain or loss previously recognised in other comprehensive income is reclassified from equity to profit or loss as a reclassification adjustment. In contrast, for an equity investment designated as measured at fair value through other comprehensive income, the cumulative gain or loss previously recognised in other comprehensive income is not subsequently reclassified to profit or loss.

Debt instruments that are subsequently measured at amortised cost or at fair value through other comprehensive income are subject to new impairment provisions using an expected loss model. This contrasts the incurred loss model of IAS 39.

The directors reviewed and assessed the bank's existing financial assets as at January 1, 2018 based on the facts and circumstances that existed at that date and concluded that the initial application of IFRS 9 has had the following impact on the bank's financial assets as regards to their classification and measurement:

Debt instrument measured at amortised cost

Debt instruments classified as held-to-maturity and loans and receivables under IAS 39 that were measured at amortised cost continue to be measured at amortised cost under IFRS 9 as they are held within a business model to collect contractual cash flows and these cash flows consist solely of payments of principal and interest on the principal amount outstanding.

Debt instruments designated as at fair value through profit or loss

In the current year, the bank has not designated any debt investments that meet the amortised cost or fair value through other comprehensive income criteria as measured at fair value through profit or loss. In addition, there were no such instruments which were measured at fair value through profit or loss under IAS 39 which have been de-designated either voluntarily or because they no longer meet the designation criteria.

Debt instruments designated as at fair value through other comprehensive income

Debt instruments classified as available for sale under IAS 39 that were measured at fair value through other comprehensive income continue to be measured at fair value under through other comprehensive income IFRS 9 as they are held within a business model to collect contractual cash flows and to sell the debt instruments, and these cash flows consist solely of payments of principal and interest on the principal amount outstanding.

Impairment of financial assets

In relation to the impairment of financial assets, IFRS 9 requires an expected credit loss model as opposed to an incurred credit loss model under IAS 39. The expected credit loss model requires the bank to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition of the financial assets. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognised.

Specifically, IFRS 9 requires the bank to recognise a loss allowance for expected credit losses on debt investments subsequently measured at amortised cost or at fair value through other comprehensive income and financial guarantee contracts to which the impairment requirements of IFRS 9 apply. In particular, IFRS 9 requires the bank to measure the loss allowance for a financial instrument at an amount equal to the lifetime expected credit losses if the credit risk on that financial instrument has increased significantly since initial recognition, or if the financial instrument is a purchased or originated creditimpaired financial asset. On the other hand, if the credit risk on a financial instrument has not increased significantly since initial recognition (except for a purchased or originated credit-impaired financial asset), the bank is required to measure the loss allowance for that financial instrument at an amount equal to 12 months expected credit losses.

As at January 1, 2018, the directors reviewed and assessed the bank's existing financial assets, loans and advances to customers and financial guarantee contracts for impairment using reasonable and supportable information that was available without undue cost or effort in accordance with the requirements of IFRS 9 to determine the credit risk of the respective items at the date they were initially recognised, and compared that to the credit risk as at January 1, 2017 and January 1, 2018.The result of the assessment is as follows:

Changes in accounting policy

Items existing on January 1, 2018 that are subject to the impairment provisions of IFRS 9:	Note	Credit risk attributes at January 1, 2017 and January 1, 2018
Government securities	16	All investments in Government securities are assessed to have low credit risk at each reporting date as they are held with the Government. Accordingly, no impairments have been recognised.
Cash in hand, Balances with Central Bank of Kenya, Placements with other banks	14 &15 &17	All bank balances are assessed to have low credit risk at each reporting date as they are held with reputable banking institutions. Accordingly, no impairments have been recognised.
Loans and advances to customers	18	These items are assessed to have various credit risk at each reporting date based on their respective internal credit ratings. As such, the bank measures the credit risk on these financial instruments since initial recognition, and accordingly applies the general approach. The bank recognises 12 month expected credit losses for the loans and advances that do not have a significant increase in credit risk and lifetime expected credit losses for loans and advances having a sginificant increase in credit risk.
Investment securities	19	All investment securities are assessed to have low credit risk at each reporting date as they are held with reputable institutions. Accordingly, no impairments have been recognised.

Total additional loss allowance

The additional loss allowance is charged against the respective asset or provision for financial guarantee, except for the investments at fair value through other comprehensive income, the loss allowance for which is recognised against the reserve in equity. The application of the IFRS 9 impairment requirements has resulted in additional loss allowance of Ksh 54,149 to be recognised in the current year.

Classification and measurement of financial liabilities

One major change introduced by IFRS 9 in the classification and measurement of financial liabilities relates to the accounting for changes in the fair value of a financial liability designated as at FVTPL attributable to changes in the credit risk of the issuer.

Specifically, IFRS 9 requires that the changes in the fair value of the financial liability that is attributable to changes in the credit risk of that liability be presented in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss, but are instead transferred to retained earnings when the financial liability is derecognised. Previously, under IAS 39, the entire amount of the change in the fair value of the financial liability designated as at FVTPL was presented in profit or loss. The above has had no impact on the classification and measurement of the bank's financial liabilities as these are measured at amortised costs.

Reconciliation of the reclassifications and remeasurements of financial assets as a result of adopting IFRS9

The following table presents a summary of the financial assets as at January 1, 2018. The table reconciles the movement of financial assets from their IAS 39 measurement categories and into their new IFRS 9 measurement categories. "FVPL" denotes "fair value through profit or loss" and "FVOCI" denotes "fair value through other comprehensive income."

Changes in accounting policy

		Previous measurement IAS 39	New measurement category: IFRS 9 Amortised cost	FVOCI - debt	Change attributable to:
Previously Loans and receivables:					
Loans and advances to customers	41,451,591	41,451,591			No Change
	41,451,591	**41,451,591**			
Previously Held to maturity:					
Government securities	48,822,652	48,822,652	-	-	Change in measurement categor
Placements with other banks	13,012,182	13,012,182	-	-	Change in measurement categor
	61,834,834	**61,834,834**			
Previously Available for sale:					
Government securities	11,966,005	-	11,966,005	-	Change in measurement categor
Investment securities	55,623	-	55,623	-	Change in measurement categor
	12,021,628	**-**	**12,021,628**		
	115,308,053	**103,286,425**	**12,021,628**		

Reconciliation of the reclassifications and remeasurements of financial liabilities as a result of adopting IFRS9

The following table presents a summary of the financial liabilities as at January 1, 2018. The table reconciles the movement of financial liabilities from their IAS 39 measurement categories and into their new IFRS 9 measurement categories. "FVPL" denotes "fair value through profit or loss".

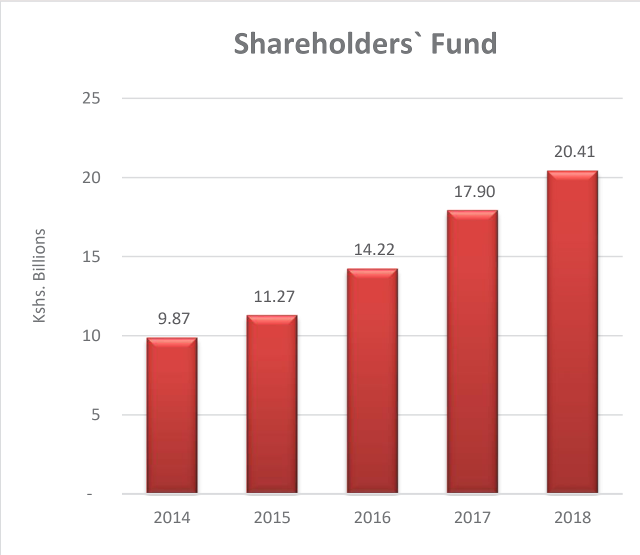
	Previous measurement IAS 39	**New measurement category:** IFRS 9 Amortised cost	Change attributable to:
Previously Amortised cost:			
Customer deposits	101,958,340	101,958,340	No Change
	101,958,340	**101,958,340**	

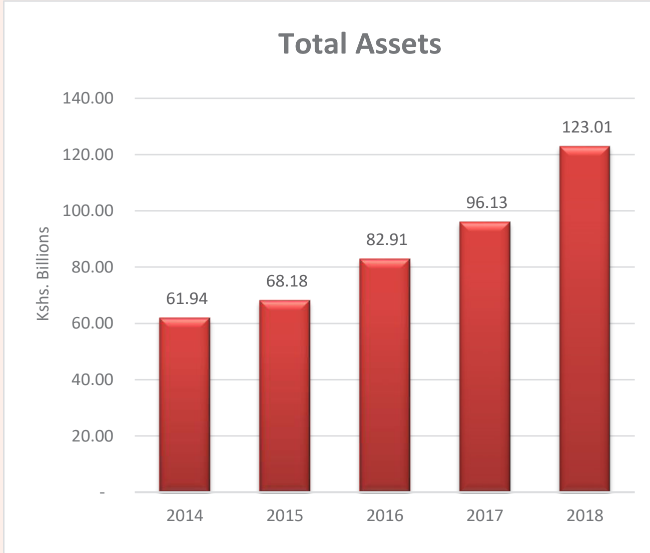
Financial impact of initial application of IFRS 9

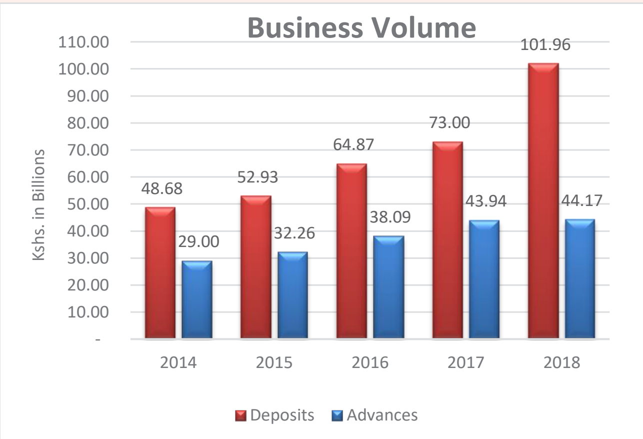
The tables below show the amount of adjustment for each financial statement line item affected by the application of IFRS 9 for the current and prior year.

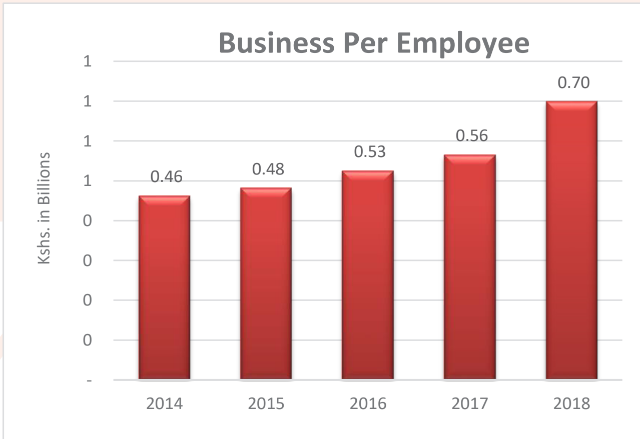
Impact on profit (loss) for the year		
Increase in provision	54,148,558	-
	54,148,558	**-**
Dividends	(1,484,575)	(989,717)
Proposed dividends	**(1,484,575)**	**(989,717)**

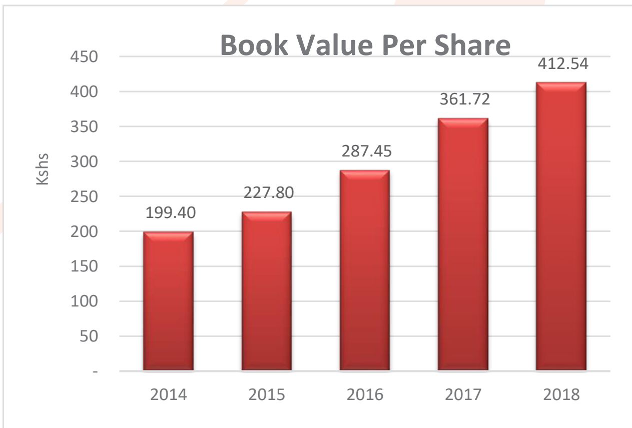
APPENDIX 1 - FINANCIAL HIGHLIGHTS











III OTHER DISCLOSURES	2017 Shs. '000'	2018 Shs. '000'
1.0 NON-PERFORMING LOANS AND ADVANCES		
(a) Gross Non-performing loans and advances	2,665,782	3,903,308
(b) Less: Interest in Suspense	190,760	235,016
(c)Total Non-Performing Loans and Advances (a-b)	**2,475,022**	**3,668,292**
(d) Less: Loan Loss Provision	1,545,445	1,633,371
(e) Net Non-Performing Loans and Advances(c-d)	**929,577**	**2,034,921**
(f) Discounted Value of Securities	929,577	2,034,921
(g) Net NPLs Exposure (e-f)	-	-
2.0 INSIDER LOANS AND ADVANCES		
(a) Directors, Shareholders and Associates	24,002	-
(b) Employees	396,127	476,410
(c)Total Insider Loans and Advances and other facili	**420,129**	**476,410**
3.0 OFF-BALANCE SHEET ITEMS		
(a)Letters of credit,guarantees, acceptances	5,167,269	6,325,177
(b) Forwards, swaps and options	418,563	132,454
(c)Other contingent liabilities	1,073,616	1,431,761
(d)Total Contingent Liabilities	**6,659,448**	**7,889,391**
4.0 CAPITAL STRENGTH		
(a)Core capital	**16,202,834**	**20,038,296**
(b) Minimum Statutory Capital	**1,000,000**	**1,000,000**
(c)Excess/(Dificiency)(a-b)	**15,202,834**	**19,038,296**
(d) Supplementary Capital	**706,320**	**162,252**
(e) Total Capital (a+d)	**16,909,154**	**20,200,548**
(f)Total risk weighted assets	**52,364,642**	**58,280,792**
(g) Core Capital/Total deposits Liabilities	**22.19%**	**19.65%**
(h) Minimum statutory Ratio	8.00%	8.00%
(I) Excess/(Deficiency) (g-h)	14.19%	11.65%
(j) Core Capital / total risk weighted assets	**30.94%**	**34.38%**
(k) Minimum Statutory Ratio	10.50%	10.50%
(l) Excess (Deficiency) (j-k)	20.44%	23.88%
(m) Total Capital/total risk weighted assets	**32.29%**	**34.66%**
(n) Minimum statutory Ratio	14.50%	14.50%
(o) Excess/(Deficiency) (m-n)	17.79%	20.16%
(p) Adjusted Core Capital/Total Deposit Liabilities*	-	20.50%
(q) Adjusted Core Capital/Total Risk Weighted Assets*	-	35.86%
(r) Adjusted Total Capital/Total Risk Weighted Assets*	-	36.14%
14 LIQUIDITY		
14 (a) Liquidity Ratio	**65.58%**	**78.15%**
14 **(b) Minimum Statutory Ratio**	**20.0%**	**20.0%**
14 (c) Excess (Deficiency) (a-b)	45.6%	58.1%

*Adjusted as per IFRS9

Think Business – Banking Awards 2018

Mr. Saravanakumar A, Managing Director Bank of Baroda (Kenya) Ltd along with other bank officials during the Think Business Awards 2018 as Most Efficient Bank- 1st Runner Up.

Recognition by parent Bank – Bank of Baroda, India

Mr. Saravanakumar A, Managing Director Bank of Baroda (Kenya) Ltd during the performance review meeting in Mumbai, India receiving Outstanding performance award for profitability and CASA growth from Managing Director & CEO Mr. P.S. Jayakumar, Bank of Baroda India in presence of Executive Directors & other senior officials.

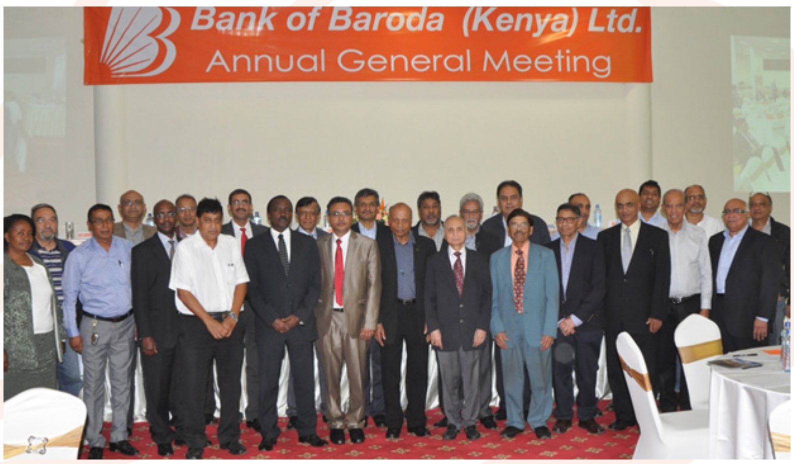
Celebration of World Hindi Day

Guest of Honour Mr. VVS Krishnaiah Shetty , from the office of the High Commission of India along with the Deputy Managing Director Mr. Yogendra Singh Saini and other staff during the celebration of World Hindi Day at Head Office of Bank of Baroda (Kenya) Ltd.

Soft Launch of new product-Baroda Mobile Banking

Mr. Rameshchandra C. Mehta, Dr. Winifred Nyambura Karugu, Mr. Patrick K. Njoroge, Director (Non Executive) Bank of Baroda (Kenya) Ltd demonstrating the newly soft launched product Baroda Mobile Banking App during the Board Meeting in Sept 2018.

Annual General Meeting 2018



Mr. Saravanakumar A. Managing Director, Bank of Baroda (Kenya) Ltd., along with other directors & shareholders of the Bank during the Annual General Meeting 2018.

CORPORATE SOCIAL RESPONSIBILITY

Donation of Computers & Printers to Industrial Area Remand Prison

Mr. Philip Burh, Branch Head Industrial Area branch along with other staff of bank of Baroda with officials of Kenya Industrial Area Remand Prison contributing computers and printers.

Donation on occasion of 111th Foundation Day of our parent Bank in India

Mr. Saravanakumar A. Managing Director, Mr. Philip Burh, Branch Head Industrial Area along with other staff of Bank of Baroda (Kenya) Ltd. contributing food stuff to the inmates of the Kenya Industrial Area Remand Prison" during the corporate social Responsibility activity.

Donation of Wall Clocks to places of worship.

Mr. Mukesh Kumar, Branch Head of Digo Road branch, Mombasa handing over the Wall Clock to a Gurudwara in Mombasa.

Mr. Suneel Karanam, Branch Head, Kisumu branch handing over the Wall Clock to BAPS Temple, Kisumu.