Bank of Baroda (Kenya) Ltd.

ANNUAL REPORT AND FINANCIAL STATEMENTS 2019

STRENGTHENING PILLARS FOR GROWTH

Table of contents

Principal shareholder	Bank of Baroda, India - 86.70%	
Country of Incorporation and domicile	Kenya	
Principal officers	Mr. Saravanakumar A.	Managing Director
	Ms. Mercy A. Owiyo	Secretary to the MD
	Mr. Yogendra Singh Saini	Head of Operations & DMD
	Mr. Winston Sore	Head of Internal Audit
	Mr. Bhavik Trivedi	Head of Treasury
	Mr. Andrew W. Lukuyani	Head of Credit
	Ms. Maria Gorett Makokha	Head of Treasury (Back Office)
	Mr. Patrick Sila	Head of Finance
	Mr. Lusiji Patrick Kombe	Head of Information Technology
	Mr. David M Kilonzi	Head of Risk Management and Compliance
	Mr. Kennedy Machoka	Manager - Administration
	Mr. Ashish Bajaj	In-charge Credit Monitoring & Secy. to board
	Mr. James K Kimintah	HR - In-charge
	Mr. Dhirajlal N. Shah	Manager - Marketing
	Mr. Avishek Banerjee	Marketing - In-charge
	Mr. Mukesh Kumar	Branch Head - Digo Rd Branch, Mombasa
	Mr. Jitendra Kumar	Branch Head - Thika Branch
	Mr. Suneel Karanam	Branch Head - Kisumu Branch
	Mr. Rakesh Mishra	Branch Head - Sarit Centre Branch, Nairobi
	Mr. Anoop Sharma	Branch Head - Industrial Area Branch, Nairobi
	Mr. Digvijay S. Rawat	Branch Head - Eldoret Branch
	Mr. Sanjay Pratap	Branch Head - Nakuru Branch
	Mr. B. Vijaya Kumar	Branch Head - NMO Branch, Nairobi
	Mr. Paul M. Kairu	Branch Head - Kakamega Branch
	Ms. Neela K. Raj	Branch Head - Nyali Branch, Mombasa
	Mr. Richard Ngahu	Branch Head - Meru Branch
	Mr. Amardeep Singh	Branch Head - Diamond Plaza Branch, Nairobi
	Mr. Prasanta Kumar Padhi	Branch Head - Mombasa Road Branch, Nairobi

Registered office

Baroda House, 29, Koinange Street
P.O. Box 30033-00100, Nairobi, Kenya
Telephone: (020) 2248402, 2248412, 2226416
Website: www.bankofbarodakenya.com
E-Mail: 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 auditor

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

Legal advisors

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

Company secretary

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

Principal valuers

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

HEAD OFFICE, NAIROBI

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

Telephone : +254 (020) 2248412/2226416

Website: www.bankofbarodakenya.com
E-mail: ho.kenya@bankofbaroda.com

BRANCH NETWORK

Digo Road Branch, Mombasa
P. O. Box 90260-80100
Plot No.XXV/61, Kizingo, Mombasa
Telephone : (041) 2224507/8,2226211
E-mail: digoro@bankofbaroda.com

Thika Branch, Thika
Kenyatta Avenue,
P.O. Box 794-01000, Thika
Telephone : +254 (067) 22379, 30048
E-mail: thika@bankofbaroda.com

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

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

Nairobi Main Branch, Nairobi,
Baroda House, 29th Koinange Street,
P.O.Box 30033-00100, Nairobi
Telephone : +254 (20) 2248402/2248412
E-mail: nairob@bankofbaroda.com

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

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

Diamond Plaza Branch, Nairobi
First Floor, Diamond Plaza, Masari Road,
P.O. Box: 13709-00800, Nairobi
Telephone : +254 (020) 3742257/3742263
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
Telephone : +254 (056) 2111777
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
E-mail: meru@bankofbaroda.com

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

Nyali Branch, Mombasa
Ground Floor, Texas Tower, Nyali Road ,
P.O. Box: 95450-80106,Mombasa
Telephone : +254 (041) 4471103
E-mail: nyali@bankofbaroda.com

Bank at a Glance

as on 31st December 2019

Bank of Baroda (Kenya) Ltd. started its journey on 14th December 1953. The first Branch of the Bank was opened at Mombasa in Kenya. Today Bank has a total of -13- branches spanning across Kenya. The Bank is offering all types of Banking services for its customers and for the past 66 years has been contributing towards socio economic up-liftment of the country.

The Bank has been able to place itself as a dominant player in the Kenyan Banking Industry it is committed to deliver in all vital sectors of the economy through lending to various sectors viz. Manufacturing, Trading, Agriculture etc. The Bank has been placed in the category Tier II Banks with a good public image and customer confidence. Bank is now aiming towards becoming a Tier I Bank.

Kshs.117.17Bn
TOTAL DEPOSITS

Kshs.50.05Bn
TOTAL ADVANCES

Kshs.167.22Bn
TOTAL BUSINESS

Kshs.4.09Bn
NET PROFIT

32.74%
CAPITAL ADEQUECY

Kshs.143.31Bn
TOTAL ASSETS

Kshs.22.94Bn
SHARE HOLDERS FUND

Kshs.231.82
BOOK VALUE PER SHARE

Kshs.0.75Bn
BUSINESS PER EMPLOYEE

Board Committees

The board committee as at the date of this report comprise:

Board Audit Committee	Board Credit Committee	Board Risk Management Committee
Composition		
Three Directors (Non-Executive)	One Director (Executive) Three Directors (Non-Executive)	One Director (Executive) Three Directors (Non-Executive)
Main Function		
Stengthening 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. Patrick K Njoroge	Dr. Winfred N. Karugu
Members		
Dr. Krishnama Chary Mudumba Mr. Ramesh C. Mehta	Dr. Krishnama Chary Mudumba Mr. Saravanakumar. A Mr. Ramesh C. Mehta	Mr. D Ananda Kumar Mr. Saravanakumar. A Mr. Patrick K Njoroge

Chairman's Report

Dear Stakeholders,

I am pleased to place before you the highlights of the Bank's performance during the year 2019. However, before I do that, it would be in order to give a brief overview of the country's economy during the year and the current events that are likely to impact the Banking sector.

Kenyan Economy & Banking Landscape

Real GDP grew by an estimated 5.9% in 2019, driven by household consumption and investment on the demand side and services on the supply side (such as public administration, information technology, finance and insurance, and transport and storage). GDP was down from 6.5% in 2018, caused mainly by unfavorable weather and reduced government investment. At 5.2%, inflation remains within the central bank's 5 ± 2.5% target band.

Though this report is for the year 2019, it would be pertinent to briefly touch upon the unprecedented situation that has arisen subsequently, on account of COVID-19 pandemic. Like most countries across the world, Kenya too has been adversely affected. The country's economy deteriorated in Q1 2020 after growth slumped to a two-and-a-half-year low as strict social distancing measures and widespread travel restrictions undermined the services, tourism and transportation sectors. Merchandise exports dived at the sharpest pace in nearly a year in April 2020, and are likely to shrink further in Q3 2020 amid falling foreign demand. Moreover, containment measures curbed household spending and investment activity in Q2, with a weaker shilling further worsening the downturn. Against this backdrop, S&P Global Ratings revised the outlook of Kenya's B2 credit rating from stable to negative on July 14, 2020, citing concerns over rising fiscal deficits and worrying government and external debt metrics. Covid-19 is set to derail growth this year and GDP growth is projected to decelerate from an annual average of 5.7% (2015-19) to 1.5% in 2020. However, if it takes longer than expected to bring the pandemic under control, GDP could contract further.

Performance Of The Bank

Gross Deposits increased from Kshs 101.96 billion as at December 31, 2018 to Kshs 117.17 Billion as at December 31, 2019. The year under reporting was of mixed blessings as the market remained volatile and unpredictable. Gross Advances went up from Kshs 44.17 Billion as at December 31, 2018 to hit the historic mark of Kshs 50.05 Billion as at December 31, 2019. However, slow and erratic pace in the economy affected the credit off take. As a result, the Total Business could increase from Kshs 146.132 Billion as at December 31, 2018 to Kshs 167.22 Billion only as at 31 December, 2019.

On the other hand, our Treasury investments (government securities, placements, and other securities) contributed to the growth of the balance sheet from Kshs 73.86 Billion as at December 31, 2018 to Kshs 86.72 Billion as at December 31, 2019, which translates into an increase of 17.41%.

The ratio of Gross NPA as a percentage of total advances reduced from 8.82% as at December 31, 2018 to 8.24% as at December 31, 2019. Bank has initiated recovery action in NPA Accounts most of which are secured by way of immovable assets and we expect substantial recovery in these accounts.

Gross Profit was Kshs 6.40 Billion for the period ended December 31, 2019 compared to Kshs 5.59 Billion in 2018, registering an increase of Kshs 0.81 Billion or 14.49%.

Achievements

The Bank has implemented Integrated Population Registry System (IPRS-Government organization maintaining citizen data) through integration with finacle. The system is very useful in validating the National Identity Cards and Kenyan Passports for better security and background check of documents.

Bank has also launched Rapidfunds2India service through E-Banking which will allow the customers to initiate and verify RF2I request through E-Banking. Mobile Banking was launched and incorporated with

B2C as well as C2B functionalities.

The Bank issued a Bonus Share in the ratio of 1:1 in September 2019 in order to reward the shareholders for their continued support to the Bank.

Bank's Head Office Block was virtually inaugurated and when the situation normalizes, Bank may consider a physical re-inauguration also.

During the period under review, the Bank registered for gold membership with the Kenya National Chambers of Commerce & Industry (KNCCI). Bank also organized a series of Financial Literacy Camps to increase awareness on banking products. Kisumu and Sarit Centre Branches were renovated to enhance the customer service delivery, convenience and comfort.

Under COVID-19 emergency fund, Bank contributed Kshs 20.128 Million, with approval of the Board, to support the country in the war against the virus. The Bank participated in other CSR activities also, including donation of old computers to Schools and participation in Standard Chartered Nairobi Marathon 2019, where the participation money goes to charity.

Bank has introduced a monthly newsletter "Baroda Jamii" for circulation among employees with a view to update the staff on current affairs of the Bank and economy in general. The word "Jamii" is a Swahili word (the country`s second national language) meaning community. The Bank has also introduced e-learning modules for its employees in order to enhance their professional skills and working efficiency.

A Customer and Staff Satisfaction Survey was conducted and both the scores were above the industry benchmark.

During the year, Bank aggressively focused on Brand building and publicity through various measures, including expansion of the digital presence through Facebook and Twitter handles, advertisement on FM Radio etc.

Accolades

The Bank was awarded as the "Most Efficient Bank" - 1st Runner Up, "The Best Bank" - 1st Runner Up under Tier II category, "Best Bank in SME Banking - 1st Runner Up and "Bank with the lowest charges on Loans" - Winner for the year 2019 at the Think Business Banking Awards 2020. Think Business is a leading strategic business intelligence research and publishing company in Kenya specializing in financial sector.

Future Outlook

As a customer centric measure, Bank has commenced various technological initiatives which include introduction of travel / prepaid cards in USD and INR. Bank is also in the stage of migrating Core Banking system from Finacle 7 to Finacle 10 in order to improve operational efficiency and customer convenience through technology up-gradation.

Acknowledgements

I am thankful to the Regulators, Government, customers, partners and stakeholders for their unstinted support during these trying times. I also thank my fellow Directors for their guidance and the Management team as well as employees for the services rendered. I take this opportunity to express gratitude to the shareholders for the trust reposed in the Bank and look forward to a successful journey ahead.

Yours sincerely,

Vikramaditya Singh Khichi
Chairman
Bank of Baroda (Kenya) Ltd.

MR. VIKRAMADITYA SINGH KHICHI

Age: 58 yrs

Nationality: Indian

Position: Chairman

Qualifications:
B. Sc; MBA -Finance & Marketing, CAIIB; Associate of Insurance Institute of India

Appointment Date:
September 2, 2019

Other Directorships:
Bank of Baroda (India) -Executive Director
Baroda Asset Management (India) Limited
BOB Financial Solutions Limited
India First Life Assurance Company Limited
Indo Zambia Bank Ltd

Percentage of individual share holding in the bank:
None

DR. KRISHNAMA CHARY MUDUMBA

Age: 59 yrs

Nationality: Indian

Position: Non-executive Director

Qualifications:
M.Com; LLB, Phd (Banking & Finance), MBA - Marketing, CAIIB

Appointment Date:
July 4, 2019

Other Directorships:
Bank of Baroda (Botswana) Ltd
Bank of Baroda (Uganda) Ltd

Percentage of individual share holding in the bank:
None

MR. D. ANANDA KUMAR

Age: 53 yrs

Nationality: Indian

Position:Non-executive Director

Qualifications:
B.Com, CA

Appointment Date:
September 7, 2018

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

Percentage of individual share holding in the bank:
None

*Date of Resignation - December 31, 2019

MR.SARAVANAKUMAR A.

Age: 50

Nationality: Indian

Position: Managing Director

Qualifications:
B. E (Agr), DCO, MBA -Banking & Finance, CAIIB, PGDFM, DTIRM

Appointment Date:
December 8, 2017

Other Directorships:
None

Percentage of individual share holding
in
the bank:
Two share held in trust

MR. YOGENDRA SINGH SAINI

Age: 53 yrs

Nationality: Indian

Position: Executive Director

Qualifications:
B.Sc ; B.Ed, CAIIB, Diploma in Home Loan Advising

Appointment Date:
March 1, 2018

Other Directorships:
None

Percentage of individual share holding in the bank:
Two share held in trust

*Date of Resignation - May 8, 2019

MR. PATRICK K. NJOROGE

Age: 54 yrs

Nationality: Kenyan

Position: Non-executive Director

Qualifications:
ICPAK, ACIB, MBA
Institute of Directors

Appointment Date:
August 18, 2014

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

Percentage of individual share holding in the bank:
None

DR. WINFRED N. KARUGU

Age: 63 yrs

Nationality: Kenyan

Position: Non-executive Director

Qualifications:
Phd. Economics
Msc. Agriculture (Econ)
Bsc. Agriculture

Appointment Date:
June 3, 2016

Other Directorships:
Kargua Construction
Mirie Cousins Ltd
Erian Heights Ltd

Percentage of individual share holding in the bank:
None

MR. RAMESH CHUNILAL MEHTA

Age: 72 yrs

Nationality: Kenyan

Position: Non-executive Director

Qualifications:
BBM

Appointment Date:
Mar 28, 2017

Other Directorships:
Western Emporium (1975) Co, Ltd

Percentage of individual share holding in the bank:
882,400 held in joint names

Corporate Governance

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 are 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 pages 8 to 9. The Board is chaired by Non-Executive Director and comprises of the Managing Director, one Executive Director and Four Non-Executive Directors.

All Non-Executive Directors 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 13. 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 25, 2019
- June 24, 2019
- September 06, 2019
- December 12, 2019

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 2019. 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 2019 under his Chairmanship. The Chairman was effective during the year.

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

- Monitoring and strengthening the effectiveness of management information and internal control systems.

NAME OF DIRECTOR	PERIOD	MEETINGS HELD DURING THEIR TENURE	MEETINGS ATTENDED
Mr. Vikramaditya Singh Khichi	02 September 2019 - 31 December 2019	1	1
Dr. Krishnama Chary M	04 July 2019 - 31 December 2019	2	2
Mr. D Ananda Kumar	01 January 2019 - 31 December 2019	4	4
Mr. Saravanakumar A	01 January 2019 - 31 December 2019	4	4
Mr. Patrick K Njoroge	01 January 2019 - 31 December 2019	4	4
Dr. Winfred N Karugu	01 January 2019 - 31 December 2019	4	4
Mr. Ramesh Chunilal Mehta	01 January 2019 - 31 December 2019	4	4
Mr. Yogendra Singh Saini	01 January 2019 - 08 May 2019	1	1

- 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 an Independent Non-Executive Director and comprises of one Executive Director, three Non-Executive Directors 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 an Independent Non-Executive Director and comprising Managing Director and two other Non-Executive Directors, 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 Executive Director 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 Executive Director 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 Executive Director 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 identification of the threats to which the Business Processes are exposed and the assessment of the potential damage and disruption associated with these threats realized.

Information & Communication Technology Committee (ICTC)

The committee, chaired by the Managing Director, comprising of Executive Director 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 performance 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.

Mr. Saravanakumar A.
Managing Director

Director's Report

The directors submit their report together with the audited annual report and financial statements for the year ended December 31, 2019.

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, except for the adoption of new or revised accounting standards as set out in note 1, Page 21.

The bank recorded a net profit after tax for the year ended December 31, 2019 of Ksh ('000) 4,092,770. This represented an increase of 4.15% from the net profit after tax of the prior year of Ksh ('000) 3,929,580.

Bank revenue increased by 17.80% from Ksh ('000) 11,702,644 in the prior year to Ksh ('000) 13,785,251 for the year ended December 31, 2019.

Bank cash flows from operating activities increased by 11.61% from Ksh ('000) 17,780,745 in the prior year to Ksh ('000) 19,845,181 for the year ended December 31, 2019.The above figures have been rounded off to the nearest ('000) Kenyan Shillings.

The above movement for the financial results for the year ended December 31, 2019 have been attributed due to the following:

It was reported that Digital lending growth is being driven by mobile penetration which is presumed to have reached 100.1%.

This involves use of digital loan applications / modules from mainstream Banks such as M-Shwari, KCB M-pesa and credit-only digital lenders such as Tala and Branch. The President unveiled new currency notes with new features that replaced the old ones. The country also demonetized old Ksh 1,000 notes. The primary aim of demonetizing was to fight money laundering, counterfeiting and corruption.

During the year, the government launched a national project where persons were registered under one Identity system. The National Integrated Identity Management System (NIIMS) dubbed "Huduma Namba".

The African Export Import Bank has created Fund for Export Development in Africa (Feda) and is exploring opportunities to fund local projects.

In August 2019, Kenya made the first export of 200,000 barrels of her crude oil export.

3. Performance appraisal
Net interest income was Ksh 6.74 Billion for the period ended December 31, 2019 compared to Ksh 6.44 Billion of 2018 translating to an increase of Ksh 0.30 Billion. On the other hand, our treasury investments (government securities, placements, and other securities) contributed to the growth of the balance sheet and closed with Ksh 86.72 Billion as at December 31, 2019 under review compared to Ksh 73.86 Billion as at December 31, 2018 translating to a growth of 17.41%.

4. Future outlook
Mobile Banking: It is expected to enhance customer service delivery and the same was launched on 18th June 2020 and the service is now available for customers. The Baroda Mobi Kenya application can be downloaded from appstore or playstore. Customers can now enjoy seamless banking from the comfort of their home.

Investment in Euro Bonds: We have initiated the process of opening a Custodial account at Bank of Baroda Mauritius and the subsidiary will start investment in Eurobonds once we have the required infrastructure at our Mauritius office.

New product development: Loan to professionals particularly Doctors and Lawyers /Advocates.

5. Share capital
Refer to note 27, Page 53 of the annual report and financial statements for detail of the movement in authorised and issued share capital. Bonus shares of 1:1 were issued during the year.

6. Dividends
The directors proposed a final dividend of Ksh 20 per share (2018: Ksh 30 per share) amounting to Ksh 1.979 billion (2018:Ksh 1.484 billion).

7. Directors
The directors in office at the date of this report are as follows:

	Nationality
Mr. Vikramaditya Singh Khichi	Indian
Mr. Saravanakumar A.	Indian
Mr. D Ananda Kumar (Resigned w.e.f 31.12.2019)	Indian
Dr. Krishnama Chary Mudumba	Indian
Mr. Patrick K. Njoroge	Kenyan
Mr. Ramesh Chunilal Mehta	Kenyan
Dr. Winfred N. Karugu	Kenyan
Mr. Yogendra Singh Saini (Resigned w.e.f 08.05.2019)	Indian

8. 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.

9. 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 each director is aware, no relevant audit information of which the bank's auditors are unaware; and
- the directors have taken all the steps that they 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.

10. 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.

11. Approval of financial statements

The annual report and financial statements were approved at a meeting by the directors on 27th March 2020 and were signed on its behalf by:

By order of the Board

Africa Registrars

Africa Registrars Secretaries

Company secretary

STATEMENT OF DIRECTORS' RESPONSIBILITY

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 12 to 60, which have been prepared on the going concern basis, were approved by the directors on 27th March 2020 and were signed on its behalf by:

Mr. Saravanakumar A.	**Mr. Patrick K Njoroge**
(Managing Director)	**(Director)**

Independent Auditor's Report

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 14 to 60, which comprise the statement of financial position as at December 31, 2019, 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, 2019, 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 (Kenya)
Nairobi

/AUD

Financial Statements

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

Figures in Kenyan Shilling ('000)	Note(s)	2019	2018
Interest income	5	13,785,243	11,702,644
Interest expense	6	(7,049,476)	(5,265,393)
Net interest income		**6,735,767**	**6,437,251**
Fees and commission income		194,021	192,846
Foreign exchange trading income		146,872	135,472
Other income	7	673,082	116,342
Operating expenses	8	(1,467,533)	(1,293,742)
Impairment losses on loans and advances	10	(773,408)	(429,094)
Operating profit		**5,508,801**	**5,159,075**
Finance costs	11	(42,601)	-
Profit before taxation		5,466,200	5,159,075
Taxation	12	(1,373,432)	(1,229,495)
Profit for the year		**4,092,768**	**3,929,580**
Basic and diluted (Ksh per share)	36	41.35	79.41
Dividend			
Proposed final dividend for the year	38	1,979,434	1,484,575
Dividend per share (Ksh per share)	38	20.00	30.00

The accounting policies on pages 21 to 31 and the notes on pages 32 to 60 form an integral part of the annual report and financial statements.

Profit for the year		**4,092,768**	**3,929,580**
Other comprehensive income:			
Fair value gain and (losses) on financial assets classified as 'available-forsale'			
- government securities	14	(80,797)	209,301
- corporate bonds	14	(624)	(320)
- quoted shares	14	1,063	1,704
Other comprehensive income for the year net of taxation	14	**(80,358)**	**210,685**
Total comprehensive income for the year		**4,012,410**	**4,140,265**

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

The accounting policies on pages 21 to 31 and the notes on pages 32 to 60 form an integral part of the annual report and financial statements.

STATEMENT OF FINANCIAL POSITION

Figures in Kenyan Shilling ('000)	Note(s)	2019	2018
Assets			
Cash in hand	15	371,699	484,186
Balance with Central Bank of Kenya	16	7,463,135	5,905,928
Government securities	17	76,743,619	60,788,658
Placement with other banks	18	9,955,536	13,012,181
Other assets	19	627,920	588,517
Loan and advances to customers	20	46,941,977	41,570,848
Investment securities	21	19,720	55,623
Current tax receivable	13	-	29,276
Right-of-use assets	22	303,704	-
Intangible assets	23	5,002	3,049
Property and equipment	24	795,106	503,913
Deferred tax	25	83,917	72,221
Total Assets		**143,311,335**	**123,014,400**
Equity and Liabilities			
Liabilities			
Customer deposits	26	117,173,436	101,958,339
Placement from other banks	30	2,167,289	48,491
Lease liabilities	31	326,361	-
Current tax payable	13	29,903	-
Other liabilitIes	32	671,684	592,745
		120,368,673	**102,599,575**

STATEMENT OF FINANCIAL POSITION

Figures in Kenyan Shilling ('000)	Note(s)	2019	2018
Equity			
Share capital	27	1,979,434	989,717
Fair value reserve	28	61,698	142,056
Statutory loan loss reserve	29	223,812	162,252
Retained income (Statement of Changes in Equity)		18,698,284	17,636,225
Proposed dividends		1,979,434	1,484,575
		22,942,662	**20,414,825**
Total Equity and Liabilities		**143,311,335**	**123,014,400**
Off balance sheet item			
Letters of credit, guarantees and acceptances	35	5,278,183	6,325,177
Forwards, spots, swaps and options	35	50,725	132,454
Other contingent liabilities	35	1,691,508	1,431,761
		7,020,416	**132,454**

The annual report and financial statements and the notes on pages 12 to 60, were approved by the directors on the 27th March 2020 and were signed on its behalf by:

Mr. Saravanakumar A.
(Managing Director)

Mr. Patrick K Njoroge
(Director)

Director

Africa Registrars

Africa Registrar Secretaries
(Company secretary)

The accounting policies on pages 19 to 35 and the notes on pages 32 to 60 form an integral part of the annual report and financial statements.

STATEMENT OF CHANGES IN EQUITY

Figures in Kenyan Shilling ('000)	Share capital	Fair value reserve	Statutory loan loss reserve	Retained income	Proposed dividends	Proposed Total equity
Balance at January 1, 2018	989,717	(68,629)	706,320	15,282,811	989,717	17,899,936
Prior year opening balance adjustment as per IFRS 9	-	-	-	(635,659)	-	(635,659)
Total comprehensive income for the year	-	210,685	-	3,929,580	-	4,140,265
Total adjusted balance	-	210,685	-	3,293,921	-	3,504,606
Transfer to statutory loan loss reserve	-	-	(544,068)	544,068	-	-
Dividends paid	-	-	-	-	(989,717)	(989,717)
Dividends proposed	-	-	-	(1,484,575)	1,484,575	-
Total changes	-	-	(544,068)	(940,507)	494,858	3,150,548
Balance at December 31, 2018	989,717	142,056	162,252	17,636,225	1,484,575	20,414,825
Balance at January 1, 2019	989,717	142,056	162,252	17,636,225	1,484,575	20,414,825
Restated opening balance as per IFRS 9	-	-	-	-	-	-
Total comprehensive income for the year	-	(80,358)	-	4,092,770	-	4,012,412
Total adjusted balance	-	(80,358)	-	4,092,770	-	4,012,412
Issue of shares	989,717	-	-	(989,717)	-	-
Transfer to statutory loan loss reserve	-	-	61,560	(61,560)	-	-
Dividends paid	-	-	-	-	(1,484,575)	(1,484,575)
Dividends proposed	-	-	-	(1,979,434)	1,979,434	-
Total changes	989,717	-	61,560	(3,030,711)	494,859	2,527,837
Balance at December 31, 2019	1,979,434	61,698	223,812	18,698,284	1,979,434	22,942,662
Note(s)	27	28	29		38	

The accounting policies on pages 19 to 32 and the notes on pages 33 to 62 form an integral part of the annual report and financial statements.

The bank issued bonus share at a ratio of 1:1 to all their shareholders during the year.

STATEMENT OF CASH FLOWS

Figures in Kenyan Shilling ('000)	Note(s)	2019	2018
Cash flows generated from operating activities			
Cash generated from operations"	33	21,213,731	19,187,165
Finance costs	11	(42,601)	-
Tax paid	13	(1,325,949)	(1,406,420)
Net cash generated from operating activities		**19,845,181**	**17,780,745**
Cash flows (used in) investing activities			
Purchase of property and equipment"	24	(335,297)	(289,081)
Sale of property and equipment	24	4,581	1,086
Purchase of intangible assets	23	(4,060)	(731)
Purchase of government securities	17	(16,035,318)	(14,030,043)
Purchase of investments securities	21	35,903	38,770
Net cash (used in) investing activities		**(16,335,253)**	**(14,279,999)**
Cash flows from (used in) financing activities			
Payment on lease liabilities	22	(85,777)	-
Dividends paid	34	(1,979,434)	(1,484,575)
Net cash from (used in) financing activities		**(2,065,211)**	**(1,484,575)**
Total cash and cash equivalents movement for the year		**1,444,717**	**2,016,171**
Cash and cash equivalent at the beginning of the year	15	6,390,114	4,373,942
Total cash and cash equivalents at end of the year	15	**7,834,831**	**6,390,113**

The accounting policies on pages 19 to 32 and the notes on pages 33 to 62 form an integral part of the annual report and financial statements

Accounting Policies

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 Thousand Shillings.

These accounting policies are consistent with the previous period, except for the changes set out in note 3.

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:

Lease classification

The bank is party to leasing arrangements as a lessee. The treatment of leasing transactions in the annual report and financial statements is mainly determined by whether the lease is considered to be an operating lease or a finance lease. In making this assessment, management considers the substance of the lease, as well as the legal form, and makes a judgement about whether substantially all of the risks and rewards of ownership are transferred.

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.

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.

Fair value estimation
Several assets and liabilities of the bank are either measured at fair value or disclosure is made of their fair values.

Observable market data is used as inputs to the extent that it is available. Qualified external valuers are consulted for the determination of appropriate valuation techniques and inputs.

Useful lives of property and equipment
Management assess the appropriateness of the useful lives of property 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. 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 repairs, 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 Lease period
Furniture & Fittings	Diminishing balance	12.5
Motor Vehicles	Diminishing balance	25
IT equipment	Straight line	Over three years
Leasehold improvements	Straight line	Over 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, 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
- Designated at fair value through profit or loss. (This classification option can only be applied when it eliminates or significantly reduces an accounting mismatch).

Financial liabilities:

- Amortised cost.

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

Debt instruments at fair value through other comprehensive income

Classification

The bank holds certain investments in bonds and debentures which are classified as subsequently measured at fair value through other comprehensive income (note 14).

They have been classified in this manner because the contractual terms of these debt instruments give rise, on specified dates to cash flows that are solely payments of principal and interest on the principal outstanding, and the objectives of the bank's business model is achieved by both collecting the contractual cash flows on these instruments and by selling them.

Recognition and measurement

These debt instruments are recognised when the bank becomes a party to the contractual provisions. They are measured, at initial recognition, at fair value plus transaction costs, if any.

They are subsequently measured at fair value.

Even though they are measured at fair value, the bank determines the amortised cost of each instrument as if they were measured at amortised cost. The difference, at reporting date, between the amortised cost and the fair value of the debt instruments, is recognised in other comprehensive income and accumulated in equity in the reserve for valuation of investments.

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.

Debt instruments denominated in foreign currencies

When a debt instrument measured at fair value through other comprehensive income is denominated in a foreign currency, the amortised cost and the fair value (carrying amount) of the investment is determined in the foreign currency. The amortised cost and fair value is then translated to the Shillings equivalent using the spot rate at the end of each reporting period. Any foreign exchange gains or losses arising on the amortised cost of the instrument are recognised in profit or loss in the foreign exchange trading income. The remaining foreign exchange gains or losses relate to the valuation adjustment and are included in other comprehensive income and are accumulated in equity in the reserve for valuation of investments.

Details of foreign currency risk exposure and the management thereof are provided in the specific loan notes and in the financial risk management note (note 4).

Derecognition

Refer to the derecognition section below of the accounting policy for the policies and processes related to derecognition.

On derecognition of a debt instrument at fair value through other comprehensive income, the cumulative gain or loss on that instrument which was previously accumulated in equity in the reserve for valuation of investments is reclassified to profit or loss.

Loans and advances to customers

Classification

Loan and advances to customers are classified as financial assets and subsequently measured at amortised cost (note 20).

They have been classified in this manner because their contractual terms give rise, on specified dates to cash flows that are solely payments of principal and interest on the principal outstanding, and the bank's business model is to collect the contractual cash flows on loan and advances to customers.

Recognition and measurement

Loan 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.

Loans and advances to customers denominated in foreign currencies

When loan and advances to customers are denominated in a foreign currency, the carrying amount of the receivables are determined in the foreign currency. The carrying amount is then translated to the Shillings equivalent using the spot rate at the end of each reporting period. Any resulting foreign exchange gains or losses are recognised in profit or loss in Foreign exchange trading income.

Details of foreign currency risk exposure and the management thereof are provided in the financial risk management (note 4).

Impairment

The bank recognises a loss allowance for expected credit losses on loan and advances to customers and prepayments. The amount of expected credit losses is updated at each reporting date.

The bank measures the loss allowance for loan and advances to customers which do not contain a significant financing component at an amount equal to lifetime expected credit losses (lifetime ECL). The loss allowance for all other loan and advances to customers is measured at lifetime ECL when there has been a significant increase in credit risk since initial recognition. If the credit risk on these receivables has not increased significantly since initial recognition, then the loss allowance for those receivables is measured at 12 month expected credit losses (12 month ECL).

Lifetime ECL represents the expected credit losses that will result from all possible default events over the expected life of a loan. In contrast, 12 month ECL represents the portion of lifetime ECL that is expected to result from default events on a loan that are possible within 12 months after the reporting date.

In order to assess whether to apply lifetime ECL or 12 month ECL to loan and advances to customers which do have a significant financing component, the bank considers whether there has been a significant increase in the risk of a default occurring since initial recognition rather than at evidence of a receivable being credit impaired at the reporting date or of an actual default occurring.

Significant increase in credit risk

In assessing whether the credit risk on a receivable or group of receivables has increased significantly since initial recognition, the bank compares the risk of a default occurring as at the reporting date with the risk of a default occurring as at the date of initial recognition.

The bank considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort. Forward-looking information considered includes the future prospects of the industries in which the counterparties operate, obtained from economic expert reports, financial analysts, governmental bodies, relevant think-tanks and other similar organisations, as well as consideration of various external sources of actual and forecast economic information.

Irrespective of the outcome of the above assessment, the credit risk on a receivable is always presumed to have increased significantly since initial recognition if the contractual payments are more than 30 days past due, unless the bank has reasonable and supportable information that demonstrates otherwise.

By contrast, if a receivable is assessed to have a low credit risk at the reporting date, then it is assumed that the credit risk has not increased significantly since initial recognition.

The bank regularly monitors the effectiveness of the criteria used to identify whether there has been a significant increase in credit risk and revises them as appropriate to ensure that the criteria are capable of identifying significant increases in credit risk before the amount becomes past due.

Definition of default

For purposes of internal credit risk management purposes, the bank consider that a default event has occurred if there is either a breach of financial covenants by the counterparty, or if internal or external information indicates that the counterparty is unlikely to pay its creditors in full (without taking collateral into account).

Irrespective of the above analysis, the bank considers that default has occurred when a receivable is more than 90 days past due unless there is reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

Measurement and recognition of expected credit losses

The bank makes use of a provision matrix as a practical expedient to the determination of expected credit losses on loan and advances to customers. The provision matrix is based on historic credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current and forecast direction of conditions at the reporting date, including the time value of money, where appropriate.

An impairment gain or loss is recognised in profit or loss with a corresponding adjustment to the carrying amount of loan and advances to customers, through use of a loss allowance account. The impairment loss is included in Impairment losses on loans and advances in profit or loss as a movement in credit loss allowance (note 10).

Write off policy

The bank writes off a receivable when there is information indicating that the counterparty is in severe financial difficulty and there is no realistic prospect of recovery, e.g. when the counterparty has been placed under liquidation or has entered into bankruptcy proceedings. Receivables written off may still be subject to enforcement activities under the bank recovery procedures, taking into account legal advice where appropriate. Any recoveries made are recognised in profit or loss.

Credit risk
Details of credit risk are included in the loan and advances to customers note (note 20) and the financial risk management note (note 4).

Derecognition
Refer to the derecognition section below of the accounting policy for the policies and processes related to derecognition.

Customer deposits

Classification
Customer deposits (note 26) and amounts received in advance, are classified as financial liabilities subsequently measured at amortised cost.

Recognition and measurement
They are recognised when the bank becomes a party to the contractual provisions, and are measured, at initial recognition, at fair value plus transaction costs, if any.

They are subsequently measured at amortised cost using the effective interest method.

Customer deposits expose the bank to liquidity risk and possibly to interest rate risk. Refer to note 4 for details of risk exposure and management thereof.

Customer deposits denominated in foreign currencies

When customer deposits are denominated in a foreign currency, the carrying amount of the payables are determined in the foreign currency. The carrying amount is then translated to the Shillings equivalent using the spot rate at the end of each reporting period.

Any resulting foreign exchange gains or losses are recognised in profit or loss in the foreign exchange trading income.

Details of foreign currency risk exposure and the management thereof are provided in the financial risk management note (note 4).

Derecognition
Refer to the derecognition section below of the accounting policy for the policies and processes related to derecognition.

Cash and cash equivalents

Cash and cash equivalents are stated at carrying amount which is deemed to be fair value.

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.

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.

Reclassification

Financial assets
The bank only reclassifies affected financial assets if there is a change in the business model for managing financial assets. If a reclassification is necessary, it is applied prospectively from the reclassification date. Any previously stated gains, losses or interest are not restated.

The reclassification date is the beginning of the first reporting period following the change in business model which necessitates a reclassification.

Financial liabilities
Financial liabilities are not reclassified.

1.6 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.

1.7 Leases

The bank assesses whether a contract is, or contains a lease, at the inception of the contract.

A contract is, or contains a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

In order to assess whether a contract is, or contains a lease, management determine whether the asset under consideration is "identified", which means that the asset is either explicitly or implicitly specified in the contract and that the supplier does not have a substantial right of substitution throughout the period of use. Once management has concluded that the contract deals with an identified asset, the right to control the use thereof is considered. To this end, control over the use of an identified asset only exists when the bank has the right to substantially all of the economic benefits from the use of the asset as well as the right to direct the use of the asset.

In circumstances where the determination of whether the contract is or contains a lease requires significant judgement, the relevant disclosures are provided in the significant judgments and sources of estimation uncertainty section of these accounting policies.

Bank as lessee

A lease liability and corresponding right-of-use asset are recognised at the lease commencement date, for all lease agreements for which the bank is a lessee, except for short-term leases of 12 months or less, or leases of low value assets. For these leases, the bank recognises the lease payments as an operating expense (note) on a straight-line basis over the term of the lease unless another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

The various lease and non-lease components of contracts containing leases are accounted for separately, with consideration being allocated to each lease component on the basis of the relative stand-alone prices of the lease components and the aggregate stand-alone price of the non-lease components (where non-lease components exist).

However as an exception to the preceding paragraph, the bank has elected not to separate the non-lease components for leases of land and buildings.

Details of leasing arrangements where the bank is a lessee are presented in note 22 Leases (bank as lessee).

Lease liability

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted by using the rate implicit in the lease. If this rate cannot be readily determined, the bank uses its incremental borrowing rate.

Lease payments included in the measurement of the lease liability comprise the following:

- fixed lease payments, including in-substance fixed payments, less any lease incentives;
- variable lease payments that depend on an index or rate, initially measured using the index or rate at the commencement date;
- the amount expected to be payable by the bank under residual value guarantees;
- the exercise price of purchase options, if the bank is reasonably certain to exercise the option;
- lease payments in an optional renewal period if the bank is reasonably certain to exercise an extension option; and
- penalties for early termination of a lease, if the lease term reflects the exercise of an option to terminate the lease.

Variable rents that do not depend on an index or rate are not included in the measurement of the lease liability (or right-of-use asset). The related payments are recognised as an expense in the period incurred and are included in operating expenses (note 22).

The lease liability is presented as a separate line item on the Statement of Financial Position.

The lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability (using the effective interest method) and by reducing the carrying amount to reflect lease payments made. Interest charged on the lease liability is included in finance costs (note 11).

The bank remeasures the lease liability (and makes a corresponding adjustment to the related right-of-use asset) when:

- there has been a change to the lease term, in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate;
- there has been a change in the assessment of whether the bank will exercise a purchase, termination or extension option, in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate;
- there has been a change to the lease payments due to a change in an index or a rate, in which case the lease liability is remeasured by discounting the revised lease payments using the initial discount rate (unless the lease payments change is due to a change in a floating interest rate, in which case a revised discount rate is used);
- there has been a change in expected payment under a residual value guarantee, in which case the lease liability is remeasured by discounting the revised lease payments using the initial discount rate;
- a lease contract has been modified and the lease modification is not accounted for as a separate lease, in which case the lease liability is remeasured by discounting the revised payments using a revised discount rate.

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-ofuse asset, or is recognised in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

Right-of-use assets
Lease payments included in the measurement of the lease liability comprise the following:

- the initial amount of the corresponding lease liability;
- any lease payments made at or before the commencement date;
- any initial direct costs incurred;
- any estimated costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, when the bank incurs an obligation to do so, unless these costs are incurred to produce inventories; and
- less any lease incentives received.

Right-of-use assets are subsequently measured at cost less accumulated depreciation and impairment losses.

Right-of-use assets are depreciated over the shorter period of lease term and useful life of the underlying asset. However, if a lease transfers ownership of the underlying asset or the cost of the right-of-use asset reflects that the bank expects to exercise a purchase option, the related right-of-use asset is depreciated over the useful life of the underlying asset. Depreciation starts at the commencement date of a lease.

For right-of-use assets which are depreciated over their useful lives, the useful lives are presented in the following table:

Item	Average useful life and depreciation method
Leased premises	Over the remaining lease preiod

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 a right-of-use asset with a cost that is significant in relation to the total cost of the asset 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.

1.8 Leases (Comparatives under IAS 17)

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.

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.

1.9 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.

1.10 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 and contingencies

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.

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in note 35.

1.13 Revenue recognition

Revenue is derived substantially from banking business and related activities and comprises net interest income and noninterest income. Income is recognised on an accrual basis in the period in which it is earned.

(i) Interest and similar income and expense
Under IFRS 9, interest income is recorded using the effective interest rate (EIR) method for all financial instruments measured at amortised cost and financial instruments designated at FVPL. The EIR is the rate that exactly discounts estimated future cash receipts through the expected life of the financial instrument or, when appropriate, a shorter period, to the net carrying amount of the financial asset.

The EIR (and therefore, the amortised cost of the asset) is calculated by taking into account any discount or premium on acquisition, fees and costs that are an integral part of the EIR. The Bank recognises interest income using a rate of return that represents the best estimate of a constant rate of return over the expected life of the loan. Hence, it recognises the effect of potentially different interest rates charged at various stages, and other characteristics of the product life cycle (including prepayments, penalty interest and charges).

If expectations regarding the cash flows on the financial asset are revised for reasons other than credit risk, the adjustment is booked as a positive or negative adjustment to the carrying amount of the asset in the statement of financial position with an increase or reduction in interest income. The adjustment is subsequently amortised through Interest and similar income in profit or loss.

The Bank calculates interest income by applying the EIR to the gross carrying amount of financial assets other than creditimpaired assets.

When a financial asset becomes credit-impaired and is, therefore, regarded as 'Stage 3', the Bank calculates interest income by applying the effective interest rate to the net amortised cost of the financial asset. If the financial assets cures and is no longer credit-impaired, the Bank reverts to calculating interest income on a gross basis.

Interest income and expense are recognised in profit or loss on the accrual basis. Interest income and expense presented in the statement of profit or loss and other comprehensive income include interest on financial assets and financial liabilities measured at amortised cost calculated on an effective interest basis.

(ii) Fees and commission income
Fees and commission income is recognised on an accrual basis when the service is provided. This income comprises appraisal and facility fees charged on advances, commissions charged on use of channels and ledger fees levied on current and savings accounts.

(iii) Foreign exchange trading income
Foreign exchange trading income comprises gains less losses related to trading assets and liabilities and includes all realized and unrealized exchange gains or losses.

1.14 Translation of foreign currencies

Foreign currency transactions
A foreign currency transaction is recorded, on initial recognition in Shillingss, 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 Shillingss by applying to the foreign currency amount the exchange rate between the Shillings and the foreign currency at the date of the cash flow.

1.15 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 cash generating 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.

1.16 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.

Notes to the Financial Statements

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:

Plan Amendment, Curtailment or Settlement - Amendments to IAS 19

The amendment deals with the determination of past service cost and gains or losses on settlement, when a plan is amended, curtailed or settled ("the event"). Specifically, when determining the past service cost or gain or loss on settlement, the net defined benefit liability (asset) shall be remeasured using the current fair value of plan assets and current actuarial assumptions reflecting the benefits offered under the plan and plan assets both before and after the event. The effect of the asset ceiling shall not be considered in this exercise. The effect of the asset ceiling shall be determined after the event.

The amendment also specifies that when determining current service costs and net interest on the defined benefit liability (asset) in a period in which an amendment, curtailment or settlement occurs, to apply inputs at the beginning of the reporting period for the current service cost and interest up to the date of the event, and to apply inputs as at the date of the event to determine current service costs and interest for the remainder of the period.

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

Amendments to IFRS 3 Business Combinations: Annual Improvements to IFRS 2015 - 2017 cycle

The amendment clarifies that when a party to a joint arrangement obtains control of a business that is a joint operation, and had rights to the assets and obligations for the liabilities relating to that joint operation immediately before the acquisition date, the transaction is a business combination achieved in stages. The acquirer shall therefore apply the requirements for a business combination achieved in stages.

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

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.

Uncertainty over Income Tax Treatments

The interpretation clarifies how to apply the recognition and measurement requirements in IAS 12 when there is uncertainty over income tax treatments. Specifically, if it is probable that the tax authorities will accept the uncertain tax treatment, then all tax related items are measured according to the planned tax treatment. If it is not probable that the tax authorities will accept the uncertain tax treatment, then the tax related items are measured on the basis of probabilities to reflect the uncertainty. Changes in facts and circumstances are required to be treated as changes in estimates and applied prospectively.

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

The bank expects to adopt the interpretation for the first time in the 2019 annual report and financial statements.

The impact of the interpretation is not material.

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 has adopted the standard for the first time in the 2019 annual report and financial statements.

The impact of the standard is set out in note 3 Changes in Accounting Policy.

2.2 Standards and interpretations not yet effective

The bank has chosen not to early adopt the following standards and interpretations, which have been published and are mandatory for the bank's accounting periods beginning on or after January 1, 2020 or later periods:

Definition of a business - Amendments to IFRS 3

The amendment:

- confirmed that a business must include inputs and a processes, and clarified that the process must be substantive and that the inputs and process must together significantly contribute to creating outputs.
- narrowed the definitions of a business by focusing the definition of outputs on goods and services provided to customers and other income from ordinary activities, rather than on providing dividends or other economic benefits directly to investors or lowering costs; and
- added a test that makes it easier to conclude that a company has acquired a group of assets, rather than a business, if the value of the assets acquired is substantially all concentrated in a single asset or group of similar assets.

The effective date of the amendment is for years beginning on or after January 1, 2020.

The bank expects to adopt the amendment for the first time in the 2020 annual report and financial statements.

It is unlikely that the amendment will have a material impact on the bank's annual report and financial statements.

Presentation of Financial Statements: Disclosure initiative

The amendment clarify and align the definition of 'material' and provide guidance to help improve consistency in the application of that concept whenever it is used in IFRS Standards.

The effective date of the amendment is for years beginning on or after January 1, 2020.

The bank expects to adopt the amendment for the first time in the 2020 annual report and financial statements.

It is unlikely that the amendment will have a material impact on the bank's annual report and financial statements.

Accounting Policies, Changes in Accounting Estimates and Errors: Disclosure initiative

The amendment clarify and align the definition of 'material' and provide guidance to help improve consistency in the application of that concept whenever it is used in IFRS Standards.

The effective date of the amendment is for years beginning on or after January 1, 2020.

The bank expects to adopt the amendment for the first time in the 2020 annual report and financial statements.

It is unlikely that the amendment will have a material impact on the bank's annual report and financial statements.

3. 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 16 Leases

In the current year, the Company have applied IFRS 16 Leases which replaces IAS 17 leases and three interpretations namely, IFRIC 4 'Determining whether an arrangement contains a lease', SIC 15 'Operating lease incentives' and SIC 27 'Evaluating the substance of transactions involving the legal form of a lease'.

On transition, for leases previously accounted for as operating leases with a remaining lease term of less than 1 year and for leases with low value, the Company has applied the optional exemption to account for the lease expense on a straight line basis over the remaining lease term.

For leases previously classified as finance lease, the right of use asset and lease liability are measured at the date of initial application at the same amounts as under IAS 17 immediately before the date of initial application.

On transition to IFRS 16, the weighted average incremental borrowing rate applied to lease liabilities recognised under IFRS 16 was 13.50%.

Refer to note 22 for Right of use assets recognised and note 31 for lease liabilities.

4. Financial instruments and risk management

Financial risk management

Overview
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 established to identify and analyse the risks faced by the bank, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the bank's activities.

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 weightage (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 on the following page summarizes the composition of the regulatory capital.

The figures below are in Ksh ('000).

	Balance sheet nominal account		Risk weighted amount	
	2019	2018	2019	2018
Cash in hand	371,699	484,186	-	-
Balances with Central Bank of Kenya	7,463,135	5,905,928	-	-
Government securities	76,743,619	60,788,658	-	-
Placements with other banks	9,955,536	13,012,181	1,991,107	2,602,437
Other assets	627,920	588,517	627,915	588,517
Loans and advances to customers	46,941,977	41,570,848	40,821,996	37,166,041
Investment securities	19,720	55,623	19,720	55,624
Right-of -use assets	303,704	-	303,705	-
Intangible assets	5,002	3,049	5,002	3,049
Property and equipment	795,106	503,913	795,106	503,913
Deferred tax	83,917	72,221	83,917	72,221
Current tax receivable	-	29,276	-	29,276
	143,311,335	**123,014,400**	**44,648,468**	**41,021,078**
Off balance sheet position	7,020,416	132,454	2,324,767	2,680,596
Less: Market Risk qualifying Assets included in above	(19,720)	(55,623)	(19,720)	(55,623)
Adjusted credit risk weighted assets	**150,312,031**	**123,091,231**	**46,953,515**	**43,646,051**
"Market risk				
Total market risk weighted assets equipments"	11,123,615	4,655,311	11,123,615	4,655,311
Operational risk equivalent assets	11,750,778	9,979,431	11,750,778	9,979,431
Total market risk capital charge	**22,874,393**	**14,634,742**	**22,874,393**	**14,634,742**
Total market risk weighted assets	**173,186,424**	**137,725,973**	**69,827,908**	**58,280,793**

Figures in Kenyan Shilling ('000)	2019	2018
"Core capital (Tier 1)		
Paid-up ordinary share capital/Assigned Capital"	1,979,434	989,717
Retained earnings/Accumulated losses	18,626,080	16,052,168
Net After tax profits for the current year	2,113,336	2,445,005
Less: Deferred tax asset	(83,917)	(72,221)
	22,634,933	**19,414,669**
"Supplementary capital (Tier 2)		
Statutory loan loss reserve"	223,812	162,252
Total Capital	22,858,745	19,576,921
Total deposit liabilities	117,173,436	101,958,339

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	
	2019	2018	2019	2018
Core capital to total risk weighted assets	32.42 %	35.93 %	10.50 %	10.50 %
Total capital to total risk weighted assets	32.74 %	35.93 %	14.50 %	14.50 %

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.

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. 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.

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:

The bank employs a range of policies and practices to mitigate credit risk. The most common one is to obtain collateral forloans 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 committments

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 IFRS 9 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 53.55% (2018: 49.42%) of total assets; 32.76% (2018: 33.79%) represents loans and advances to customers.
- Government securities are considered stable investments as the risk is considered negligible.
- Share of Normal and Watch Accounts 91.76% (2018: 91.16%) of the loans and advances portfolio is categorised in the top two grades of the internal rating system (Normal and Watch).
- 20.54% (2018: 27.15%) 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 78.4% (2018: 78.2%) 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 31 December 2019	Up to 3 months	3 to 6 months	6 to 12 months	1 to 3 years	Over 3 years	Total
Assets						
Cash in hand	371,699	-	-	-	-	371,699
Balances with Central Bank of Kenya	204,105	-	-	-	7,259,030	7,463,135
Government Securities	499,250	6,953,784	5,060,898	10,208,575	54,021,110	76,743,619
Placements with other banks	9,955,536	-	-	-	-	9,955,536
Other Assets	21,331	594,322	-	12,262	-	627,920
Loans and advances to customers	26,412,729	881,473	1,641,662	5,877,397	12,128,719	46,941,977
Right-of-use asset	303,704	-	-	-	-	303,704
Investment Securities	-	-	-	-	19,720	19,720
Intangible assets	-	-	1,000	1,000	3,002	5,002
Property and equipment	605,459	-	41,629	124,888	23,130	795,106
Deferred tax	-	-	-	-	83,917	83,917
Total Assets	38,373,813	8,429,579	6,745,189	16,224,122	73,538,628	143,311,335
Liabilities and shareholders' equity						
Customer deposits	67,550,194	22,968,337	25,771,829	824,809	58,267	117,173,436
Placements from other banks	1,863,279	304,010	-	-	-	2,167,289
Lease Liabilities	326,361	-	-	-	-	326,361
Shareholders' equity	1,979,434	61,698	4,092,770	223,812	16,584,948	22,942,662
Other Liabilities	191,035	69,568	-	119,318	321,666	701,587
Total Liabilities and equity	71,910,300	23,403,613	29,864,599	1,167,939	16,964,881	143,311,335
Net liquidity gap as at December 31, 2019	(33,536,490)	(14,974,034)	(23,119,410)	15,056,183	56,573,747	-
Total assets	40,730,908	4,168,433	8,124,721	9,713,530	60,276,809	123,014,401
Total liabilities and equity	69,463,310	19,654,817	17,846,256	556,387	15,493,631	123,014,401
Net liquidity gap as at December 31, 2018	(28,732,402)	(15,486,384)	(9,721,535)	9,157,143	44,783,178	-

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.

At 31 December 2019	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	371,699	-	-	-	-	-	371,699
Balances with Central Bank of Kenya	204,105	-	-	-	-	7,259,030	7,463,135
Government Securities	499,250	6,953,784	5,060,899	10,208,575	54,201,110	-	76,743,618
Placements with other banks	9,955,536	-	-	-	-	-	9,955,536
Other Assets	-	-	-	-	-	627,915	627,915
Loans and advances to customers	26,412,729	881,471	1,641,661	5,877,397	9,018,805	3,109,914	46,941,977
Right-of-use asset	-	-	-	-	-	303,704	303,704
Investment Securities	-	-	-	-	-	19,720	19,720
Intangible assets	-	-	-	-	-	5,002	5,002
Property and equipment	-	-	-	-	-	795,106	795,106
Deferred tax	-	-	-	-	-	-	83,917
Total Assets	37,443,320	7,835,258	6,702,559	16,085,972	63,219,915	121,120,396	143,311,335
Liabilities and shareholders' equity							
Customer deposits	57,137,773	22,986,334	25,771,829	824,809	58,267	10,412,424	117,173,436
Placements from other banks	1,863,279	304,010	-	-	-	-	2,167,289
Lease Liabilities	326,355	-	-	-	-	-	326,355
Shareholders' equity	-	-	-	-	-	22,942,662	22,942,662
Other Liabilities	-	69,568	-	119,318	321,666	701,593	701,587
Total Liabilities and equity	59,327,407	23,359,915	25,771,829	944,127	379,933	33,546,127	143,311,335
Net liquidity gap as at December 31, 2019	(21,884,088)	(15,524,657)	(19,069,270)	15,141,845	62,659,982	(21,425,731)	-

At 31 December 2018	Up to 3 months	3 to 6 months	6 to 12 months	1 to 3 years	Over 3 years	Non-interest Bearing	Total
Total assets	40,477,054	3,955,684	8,081,350	9,572,499	60,276,809	7,774,641	123,014,401
Total liabilities and equity	56,150,904	19,512,756	14,229,660	556,387	15,493,631	32,242,657	123,014,401
Net liquidity gap as at December 31, 2018	(15,673,850)	(15,557,074)	(6,148,310)	9,016,112	44,783,178	(24,468,016)	-

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

2019	Ksh	USD	GBP	Euro
Government securities	12.39%	-%	-%	-%
Placements with other banks	6.86%	-%	-%	-%
Loans and advances to customers	13.19%	9.34%	5.97%	6.74%
Customer deposits	7.56%	0.92%	2.90%	-%
Placements from other banks	4.23%	-%	-%	-%

2018	Ksh	USD	GBP	Euro
Government securities	12.34%	-%	-%	-%
Placements with other banks	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%
Placements from other banks	2.42%	-%	-%	-%

Interest rate risk sensitivity

At 31 December 2019, if the weighted average interest had been 10% higher, with all other variables held constant, post-tax profit would have been as follows:

Figures in Kenyan Shilling ('000)	2019	2018
Effect on interest income - increase	964,967	819,185
Effect in interest expense - (increase)	(493,463)	(368,578)
Net effect on profit after tax - increase	**471,504**	**450,607**

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 2019	USD	GBP	Euro	Others	Total
Assets					
Cash and Bank balances	8,348	1,588	1,786	-	11,722
Balances with Central Bank of Kenya	42,001	142,493	17,453	2,158	204,105
Placements with other banks	4,154,797	5,500,003	73,923	225,426	9,954,149
Gross loans and advances to customers	600,595	9,600	8,177	-	618,372
Total assets	4,805,741	5,653,684	101,339	227,584	10,788,348
Liabilities and shareholders' equity					
Customer deposits	10,706,867	6,072,296	153,947	-	16,933,110
Placements from other banks	1,884,859	-	102,031	180,399	2,167,289
Total liabilities and equity	12,591,726	6,072,296	255,978	180,399	19,100,399
Net statement of financial position gap	**(7,785,985)**	**(418,612)**	**(154,639)**	**47,185**	**(8,312,051)**
Off balance sheet net notional position	3,712,745	16,471	775,719	2,709	4,507,644
At December 31, 2018					
Total assets	12,971,828	7,241,821	182,283	43,180,220	63,576,152
Total liabilities and equity	13,089,086	7,249,833	203,445	81,464,467	102,006,831
Net statement of financial position gap	**(117,258)**	**(8,012)**	**(21,162)**	**(38,284,247)**	**(38,430,679)**

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 management of operational risk is 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.

Figures in Kenyan Shilling ('000)	2019	2018
5. Interest income		
Revenue other than from contracts with customers		
Corporate bonds	2,572	7,020
Loans and advances to customers	5,144,402	5,123,781
Government securities	8,386,685	6,351,590
Placements with other banks	24,803	41,154
Income earned on forex transactions	226,781	179,099
	13,785,243	**11,702,644**

Disaggregation of revenue from contracts with customers

The bank disaggregates revenue from customers as follows:

Timing of revenue recognition

	2019	2018
At a point in time		
Income earned on forex transactions	226,781	179,099
Over time		
Corporate bonds	2,572	7,020
Loans and advances to customers	5,144,402	5,123,781
Government securities	8,386,685	6,351,590
Placements with other banks	24,803	41,154
	13,558,462	**11,523,545**
6. Interest expense		
Customer deposits	7,009,571	5,209,729
Placements from other banks	39,905	55,664
	7,049,476	**5,265,393**
7. Other income		
Recoveries of advances previously impaired	521,547	114,689
Dividend income	766	829
Securites trading income	147,630	-
Miscellaneous income	251	248
Rental income	2,874	116
Profit on disposal of property and equipment	-	460
	673,082	**116,342**
8. Operating expenses		
The following items are included within operating expenses:		
Staff costs (Note 9)	722,179	641,007
Directors remuneration	12,812	14,789
Administration expenses	336,701	269,057
Operating lease rent	20,958	130,363
Contribution to Deposit Protection Fund	135,755	107,320
Establishment expenses	74,333	74,793
Loss on disposal of property and equipment	2,569	-
Depreciation and amortisation	150,057	42,761
Auditors remuneration	12,169	13,652
	1,467,533	**1,293,742**

Figures in Kenyan Shilling ('000)	2019	2018
9. Staff costs		
indirect employee costs		
Salaries and wages	491,535	424,430
Other staff costs	150,645	148,701
National Social Security Fund (NSSF)	33,406	29,351
Staff medical	29,011	28,103
Staff leave	15,090	8,253
Fringe benefits	476	1,227
Staff training	2,016	942
	722,179	**641,007**
Average number of persons employed during the year		
Management	130	109
Supervisory	1	1
Unionisable	92	102
	223	**212**
10. Impairment losses on loans and advances		
Provisions for credit losses	773,408	359,142
11. Finance costs		
Interest on lease liabilities	42,601	-
12. Taxation		
Major components of the tax expense		
Current		
Local income tax - current period	1,385,128	1,232,023
Deferred		
Local deferred tax - current period	(11,696)	(2,528)
	1,373,432	**1,229,495**
Reconciliation of the tax expense		
Reconciliation between accounting profit and tax expense.		
Accounting profit	5,466,202	5,159,075
Tax at the applicable tax rate of 30% (2018: 30%)	1,639,861	1,547,723
Tax effect of adjustments on taxable income		
Expenses not deductible for tax purposes	139,525	91,134
Income not subject to tax	(405,954)	(409,362)
	1,373,432	**1,229,495**

Figures in Kenyan Shilling ('000)	2019	2018
13. Tax paid		
Balance at beginning of the year	29,276	(145,121)
Current tax for the year recognised in profit or loss	(1,385,128)	(1,232,023)
Balance at end of the year	29,903	(29,276)
	(1,325,949)	**(1,406,420)**

14. Other comprehensive income

Components of other comprehensive income - 2019

	Gross	Tax	Net
Items that may be reclassified to profit (loss)			
Fair value through other comprehensive income financial assets adjustments			
Government securities	(80,797)	-	(80,797)
Corporate bonds	(624)	-	(624)
Quoted shares	1,063	-	1,063
	(80,358)	**-**	**(80,358)**

Components of other comprehensive income - 2018

	Gross	Tax	Net
Fair value through other comprehensive income financial assets adjustments			
Government securities	209,301	-	209,301
Corporate bonds	(320)	-	(320)
Quoted shares	1,704	-	1,704
	210,685	**-**	**210,685**

15. Cash in hand

Cash and cash equivalents consist of:	2019	2018
Cash on hand	**371,699**	**484,186**

Exposure to currency risk

Refer to note 4 Financial risk management for details of currency risk management for cash in hand.

Figures in Kenyan Shilling ('000)	2019	2018
16. Balance with Central Bank of Kenya		
Balances with Central Bank of Kenya	7,463,135	5,905,928

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 December 31, 2019 the cash reserve ratio requirement was 5.25% (2018: 5.25%) of all customer deposits. These funds are not available for the bank's day to day operations.

	2019	2018
- Cash reserve ratio	7,259,030	5,763,918
- Other	204,105	142,010
	7,463,135	5,905,928

Exposure to credit risk: Balances with Central Bank of Kenya inherently expose the bank to credit risk, being the risk that the bank will incur financial loss if counterparties fail to make payments as they fall due.

Exposure to currency risk: Refer to note 4 Financial risk management for details of currency risk management for Balances with Central Bank of Kenya.

17. Government securities

	2019	2018
Available-for-sale		
Treasury bonds	27,388,743	10,927,394
Held to maturity		
Treasury bonds	46,438,018	46,051,100
Treasury bills	2,916,858	3,810,164
	49,354,876	**49,861,264**
Total government securities	**76,476,619**	**60,788,658**
Current assets		
Fair value through other comprehensive income	27,388,743	10,927,394
Amortised cost	49,354,876	49,861,264
	76,743,619	**60,788,658**
Government securities comprise of:		
Maturing within 91 days	3,031,958	2,188,946
Maturing within 91 days and within an year	4,421,077	9,367,937
Maturing after an year	15,269,476	14,198,894
Maturing after three years	54,021,108	35,032,881
	76,743,619	**60,788,658**

The fair values of the government securities classified as 'Fair value through other comprehensive income' 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 2019 and 2018, as all the financial assets were disposed of at their redemption date.

Exposure to credit risk: Government securities inherently expose the bank to credit risk, being the risk that the bank will incur financial loss if counterparties fail to make payments as they fall due.

Exposure to currency risk: Refer to note 3 Financial risk management for details of currency risk management for Government securities.

There were no gains or losses realised on the disposal of held to maturity financial assets in 2019 and 2018, as all the financial assets were disposed of at their redemption date.

Figures in Kenyan Shilling ('000)	2019	2018
18. Placements with other banks		
Placements with banking institutions in Kenya	1,389	349,789
Placements with banking institutions abroad	9,766,381	12,659,685
Placements with parent bank	187,768	2,707
	9,955,536	**13,012,181**

Exposure to credit risk: Placements with other banks inherently expose the bank to credit risk, being the risk that the bank will incur financial loss if counterparties fail to make payments as they fall due.

Exposure to currency risk: Refer to note 4 Financial risk management for details of currency risk management for placements with other banks.

19. Other assets

Items in transit	228,976	340,073
Other receivables and prepayments	398,944	248,444
	627,920	**588,517**

In the opinion of the management, the bank's exposure to credit risk from other assets is low as these are expected to be collected within no more than 12 months after the date of this report.

20. Loan and advances to customers

Financial instruments:		
Overdrafts	22,317,301	20,571,313
Commercial loans	27,607,457	23,463,183
Bills	127,133	139,361
Gross loans and advances	**50,051,891**	**44,173,857**
Provision for loans and advances	(2,871,382)	(2,367,993)
Interest in suspense	(238,534)	(235,016)
Net loans and advances	**46,941,977**	**41,570,848**
Provision for loans and advances		
At start of the year	2,367,993	1,545,448
Additional provision during the year	773,407	938,150
Provision utilised during the year for write off	-	(911)
Recoveries	(270,018)	(114,694)
At year end	**2,871,382**	**2,367,993**

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 4.126 billion (2018: Ksh 3.903 billion). These are included in the statement of financial position net of provisions at Ksh 1.016 billion (2018: Ksh 1.3 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 238.53 million (2018: Ksh 235.02 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:

Figures in Kenyan Shilling ('000)	2019	2018
At amortised cost	46,941,977	41,570,848

Concentration

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

Sector	2019 Kes	2019 %	2018 Kes	2018 %
Agriculture	1,335,070	2.67%	506,097	1.15%
Manufacturing	11,353,433	22.68%	10,642,383	24.09%
Building and construction	4,945,552	9.88%	3,474,673	7.87%
Mining and quarrying	309,765	0.62%	440,449	1.00%
Energy and water	175,132	0.35%	174,793	0.40%
Trade	18,080,654	36.12%	16,439,028	37.21%
Tourism, restaurants and hotels	1,239,089	2.48%	1,285,715	2.91%
Transport and communication	1,589,512	3.18%	1,632,599	3.70%
Real estate	6,143,491	12.27%	4,198,073	9.50%
Financial services	333,426	0.67%	702,689	1.59%
Social, community and personal households	4,546,767	9.08%	4,677,358	10.59%
	50,051,891	**100%**	**44,173,857**	**100%**

Figures in Kenyan Shilling ('000)	2019	2018
20. Loan and advances to customers (continued)		
Loans and advances neither past due nor impaired, past due but not impaired and individually impaired		
Neither past due nor impaired	38,099,427	31,670,863
Past due but not impaired	7,826,318	8,599,686
Individually impaired	4,126,146	3,903,308
Gross loans and advances to customers	**50,051,891**	**44,173,857**
Less: Provision for impaired loans and advances and suspended interest	(3,109,914)	(2,603,009)
	(3,109,914)	**(2,603,009)**
Net loans and advances to customers	**46,941,977**	**41,570,848**

The loans and advances past due but not impaired are aged between 30 to 90 days. Loans and advances that are aged past 80 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:

Figures in Kenyan Shilling ('000)	2019	2018
Watch	7,826,318	8,599,686

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 for loans and advances individually impaired is Ksh 1,733.47 million (2018: Ksh 2,034.927 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 repossessed 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 for details of currency risk management for loans and advances.

Figures in Kenyan Shilling ('000)	2019	2018
21. Investments securities		
Quoted equity investments:		1,225
At start of year	512	(713)
Fair value (loss)	(83)	**512**
At end of the year	**429**	
Unquoted equity investments:		19,391
At start and end of year	19,391	-
Fair value (loss)	-100	**19,391**
	19,291	
Corporate bonds:		73,777
At start of year	35,720	(37,302)
Redemption	-35,720	756
Accrued interest income	-	(1,511)
Fair value (loss)	-	**35,720**
	-	19,720
	19,720	

22. Right-of-use asset

Details pertaining to leasing arrangements, where the bank is lessee are presented below:

Net carrying amounts of right-of-use assets

The carrying amounts of right-of-use assets are included in the following line items:

Figures in Kenyan Shilling ('000)	2019	2018
Leased premises	303,704	-
Additions to right-of-use assets.		
Leased premises	412,132	-

Depreciation recognised on right-of-use assets
Depreciation recognised on each class of right-of-use assets, is presented below. It includes depreciation which has been expensed in the total depreciation charge in profit or loss (note), as well as depreciation which has been capitalised to the cost of other assets.

Figures in Kenyan Shilling ('000)	2019	2018
Leased premises	108,427	-

The company leases rental space for office. Each lease is reflected in the balance sheet as a right-of-use asset and a lease liability. The table below describes the nature of the company's leasing activities by type of right-of-use lease asset recognised on balance sheet:

Right-of-use asset -2019	No of right-of-use assets leased	Range of remaining term	Average remaining lease term	No of leases with extension options	No of leases with options to purchase	No of leases with variable assets linked to an index	No of leases with termination options
Leased premises	28	1 to 9 years	5 years	12	-	-	16

23. Intangible assets

	2019			2018		
	Cost/Valuation	Accumulated amortisation	Carrying Value	Cost/Valuation	Accumulated amortisation	Carrying Value
Computer software	22,328	(17,326)	5,002	18,268	(15,219)	3,049

Reconciliation of intangible assets - 2019

	Opening balance	Additions	Amortisation	Total
Computer software	3,049	4,060	(2,107)	5,002

Reconciliation of intangible assets - 2018

	Opening balance	Additions	Amortisation	Total
Computer software	4,312	731	(1,994)	3,049

Other information
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

	2019			2018		
	Cost/ Revaluation	Accumulated depreciation	Carrying Value	Cost/ Revaluation	Accumulated depreciation	Carrying Value
Buildings	33,277	(8,046)	25,231	38,240	(8,824)	29,416
Furniture and fittings	188,276	(104,610)	83,666	178,848	(93,009)	85,839
Motor vehicles	29,650	(21,378)	8,272	33,506	(25,584)	7,922
IT equipment	189,766	(178,930)	10,836	181,730	(170,695)	11,035
Leasehold improvements	189,417	(127,773)	61,644	188,307	(113,080)	75,227
Capital - Work in progess	605,457	-	605,457	294,474	-	294,474
Total	**1,235,843**	**(440,737)**	**795,106**	**915,105**	**(411,192)**	**503,913**

Reconciliation of property and equipment - 2019

	Opening balance	Additions	Disposals	Depreciation	Total
Buildings	29,416	-	(3,637)	(548)	25,231
Furniture and fixtures	85,839	10,440	(661)	(11,952)	83,666
Motor vehicles	7,922	3,390	(283)	(2,757)	8,272
IT equipment	11,035	9,374	-	(9,573)	10,836
Leasehold improvements	75,227	1,110	-	(14,693)	61,644
Capital - Work in progress	294,474	310,983	-	-	605,457
	503,913	**335,297**	**(4,581)**	**(39,523)**	**795,106**

Reconciliation of property and equipment - 2018

	Opening balance	Additions	Disposals	Depreciation	Total
Buildings	30,312	-	(610)	(610)	29,416
Furniture and fixtures	90,474	7,713	(86)	(86)	85,839
Motor vehicles	5,979	4,975	(390)	(390)	7,922
IT equipment	7,811	13,644	-	-	11,035
Leasehold improvements	90,022	-	-	-	75,227
Capital - Work in progress	31,725	262,749	-	-	294,474
	256,323	**289,081**	**(1,086)**	**(1,086)**	**503,913**

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

Figures in Kenyan Shilling ('000)	2019	2018
25. Deferred tax		
Deferred tax asset		
Deferred tax	83,917	72,221
Reconciliation of deferred tax asset		
Unquoted equity investments:	72,221	69,694
At start and end of year	(4,785)	(6,085)
Fair value (loss)	16,481	16,481
	83,917	**72,221**

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.

26. Customer deposits

Figures in Kenyan Shilling ('000)	2019	2018
Financial instruments:		
Term deposits	97,709,944	81,530,420
Current and savings deposits	19,463,492	20,427,919
	117,173,436	**101,958,339**
Analysis of customer deposits by maturity		
Payable within 90 days	67,550,200	67,778,273
Payable after 90 days and within one year	48,740,160	33,568,376
Insurance companies	883,076	611,692
	117,173,436	**101,958,341**

	2019	2019	2018	2018
	Ksh.	%	Ksh.	%
Non-profit institution and individuals	99,030,981	84.52	86,898,815	85.23
Private companies	17,653,821	15.07	14,524,045	14.25
Insurance companies	488,634	0.42	535,481	0.53
	117,173,436	**100**	**101,958,341**	**100**

Included in customer accounts were deposits of Ksh 5,416.15 million (2018: Ksh 3,715.22 million) collateral for loans and advances. The fair value of those deposits approximates the cerrying amount.

27. Share capital

Figures in Kenyan Shilling ('000)	2019	2018
Authorised		
98,971,676 Ordinary shares of Ksh 20/= each (2018: 49,485,538 Ordinary shares of Ksh 20/= each)	1,979,434	989,717
Issued		
98,971,676 Ordinary shares of Ksh 20/= each	1,979,434	989,717

All issued shares have been fully paid.

The bank issued bonus share at a ratio of 1:1 to all their shareholders during the year.

28. 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: 14).

29. 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.

30. Placements from other banks

Figures in Kenyan Shilling ('000)	2019	2018
Placement from parent bank	180,399	19,869
Placement from other banks	1,986,890	28,622
Split between non-current and current portions		
Current Liabilities	2,167,289	48,491

31. Lease liabilities

The maturity analysis of lease liabilities is as follows:

	2019	2018
Within one year	54,587	-
Two to five years	190,051	-
More than five years	81,717	-
	326,355	-
Less finance charges component	(144,365)	-
	181,990	-
Non-current liabilities	271,768	-
Current liabilities	54,593	-
	326,361	-

The Bank has elected not to recognise a lease laibility for short term leases (leases of expected term of 12 months or less) or for leases of low value assets. Payments made under such leases are expensed on a straight line basis. In addition, certain variable lease payments are not permitted to be recognised as lease liabilities and are expensed as incurred lease rentals on operating lease expense.

Comparative information for lease liabilities under IAS 17

The information presented for lease liabilities for the comparative period has been prepared on the basis of IAS 17, and therefore only represents the liability as at that date for finance leases and not for operating leases. In addition to the information presented in the table above, IAS 17 required an entity to present a reconciliation of the present value of lease payments for finance leases. This information is presented in the table which follows:

	2019	2018
Present value of minimum lease payments due		
- within 1 year		128,378
- in second to fifth year inclusive		376,050
- later than five years		94,769
		599,197

32. Other liabilities

	2019	2018
Staff leave and gratuity accrual	302,252	245,567
Other accounts payable	250,114	220,852
Provisions for impairment on unutilised facilities and off balance sheet items	119,318	126,326
	671,684	**592,745**

Figures in Kenyan Shilling ('000)

33. Cash generated from operations

	2019	2018
Profit before taxation	5,466,202	5,159,075
Adjustments for:		
Depreciation and amortisation	150,057	42,761
(Profit)/Loss on sale of assets	(2,566)	460
Finance costs	42,601	-
Changes in working capital:		
Loan and advances to customers	(5,371,132)	636,433
Placements with other banks	3,056,643	(10,998,506)
Other assets	(39,398)	(165,588)
Placements from other banks	2,118,798	(4,640,447)
Customer deposits	15,215,099	28,953,452
Other liabilities	577,427	199,525
	21,213,731	19,187,165

Dividends proposed are from capital profits.

34. Off-balance sheet financial instruments, contingent liabilities and commitments

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

	2019	2018
Spots	50,725	132,454
Letters of credit	1,958,613	2,750,738
Letters of guarantees	3,319,570	3,574,439
Bills sent for collection	1,691,508	1,431,761
	7,020,416	**7,889,392**

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

	2019	2018
Undrawn formal stand-by facilities, credit lines	4,735,719	4,626,868

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, 2019. The directors are of the opinion that no liabilities will crystallise.

There were no gains or losses realised on the disposal of held to maturity financial assets in 2019 and 2018, as all the financial assets were disposed of at their redemption date.

Figures in Kenyan Shilling ('000)	2019	2018
Net income for the period attributable to shareholders	4,092,766	3,999,532
Adjusted weighted average number of ordinary shares in issue (absolute)	98,971,676	49,485,838
Earnings per share - basic and diluted	41.35	80.82

There were no potentially dilutive shares outstanding as at December 31, 2019 and 2018.

35. Related parties

Included in loans and advances and customer deposits are amounts advanced to/received from certain directors and companies in which directors are involved either as shareholders or directors (related companies). In addition, contingent liabilities include guarantees and letters of credit which have been issued to related companies.

Key management includes the directors and other members of key management.

(a) Compensation to key management		
Short-term employee benefits	36,639	35,490
Post-employment benefits	11,729	9,770
	48,368	**45,260**
(b) Interest received from loans and advances to:		
Senior management employees	1,260	3,771
Other employees	38,825	169,400
	40,085	**173,171**
(c) Interest paid on deposits from:		
Senior management employees	28	42
Other employees	2,848	4,375
	2,874	**4,417**
(d) Management fees paid		
Related companies	63,045	23,866

(e) Outstanding loans and advances	Directors		Related companies		Senior management employees		Other employees	
	2019	2018	2019	2018	2019	2018	2019	2018
At start of year	-	9,020	15,793	14,342	15,887	16,666	444,730	365,119
Advances during the year	-	-	18,370	15,793	2,119	1,896	109,907	41,440
Interest charged	-	1,173	4,441	2,107	1,260	1,008	38,825	172,163
Repayments during the year	-	(10,193)	(20,234)	(16,449)	(4,445)	(3,683)	(87,920)	(133,992)
	-	-	**18,370**	**15,793**	**14,821**	**15,887**	**505,542**	**444,730**

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		Related companies		Senior management employees		Other employees	
	2019	2018	2019	2018	2019	2018	2019	2018
At start of year	665	137	-	177,149	476	764	88,470	56,163
Deposits received during the year	594,299	481	2,234	-	675	2,801	38,109	174,986
Interest paid during the year	39,565	7	149	-	26	42	2,848	4,375
Withdrawals during the year	(318,741)	(714)	(2,355)	(177,149)	(920)	(3,131)	(44,405)	(147,054)
	315,788	**(89)**	**28**	-	**257**	**476**	**85,022**	**88,470**

Figures in Kenyan Shilling ('000)	2019	2018
g) Directors emoluments		
Fees	1,325	980
Others	11,487	13,809
	12,812	**14789**

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

36. Dividend payable

Proposed dividends	1,979,434	1,484,575
Dividends proposed are from capital profits		

37. Capital commitments

Authorised capital expenditure

Already contracted for but not provided for		
• Construction of Head Office building	700,000	228,000

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.

38. Comparative figures

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

39. Fair value

Fair value hierarchy

he 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.

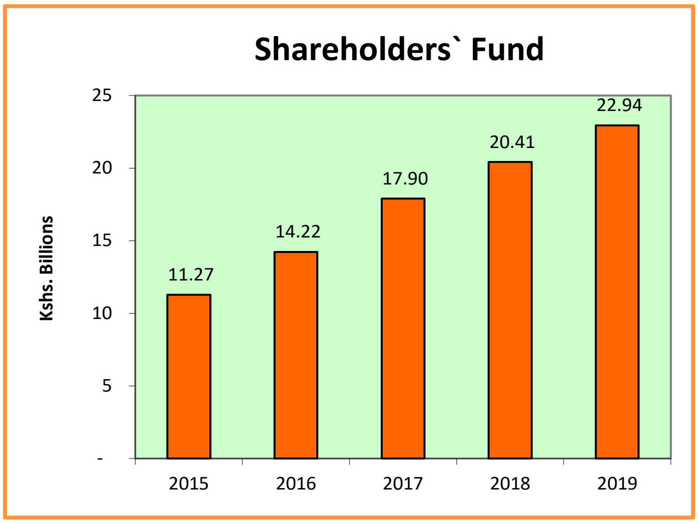
Level 3: Unobservable inputs for the asset or liability.

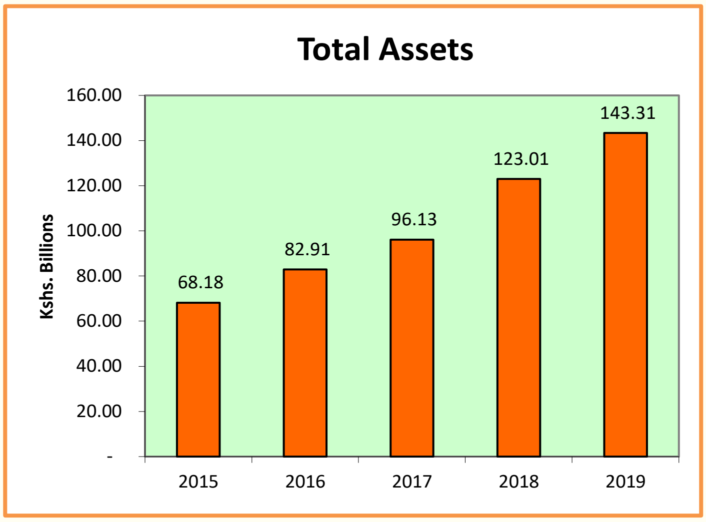
Previous year's figures have been regrouped / rearranged wherever necessary in order to make them comparable with that of current financial period.

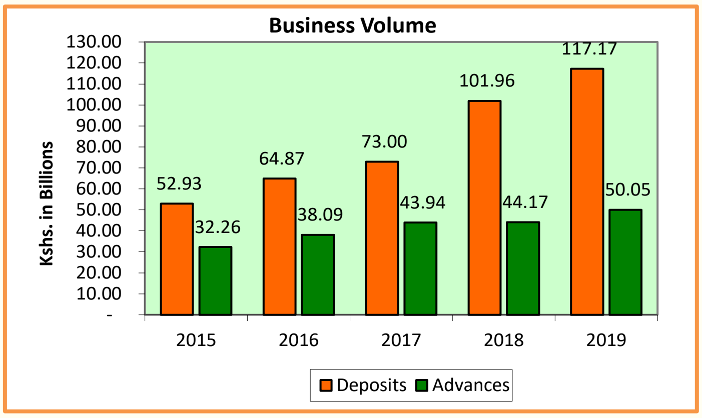
40. Events after the reporting period

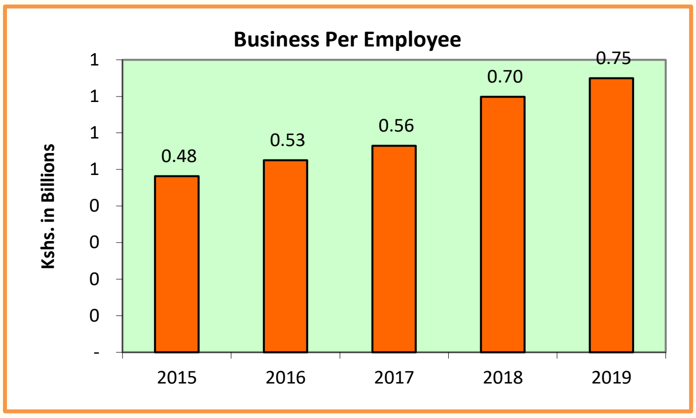
The directors of the bank are not aware of any events after the reporting period; which may have a significant impact on the operational existance or on the financial performance of the bank for the period.

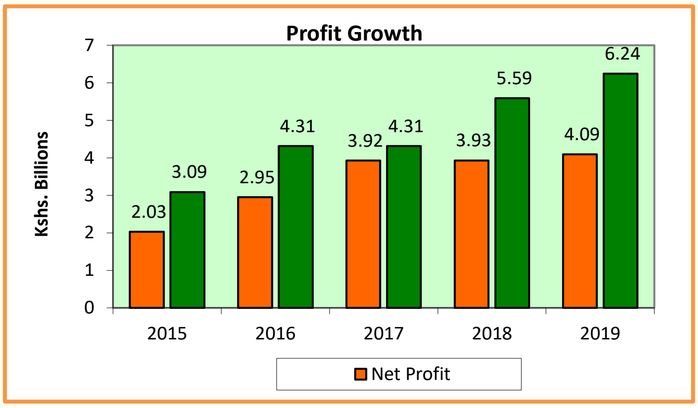
Appendix

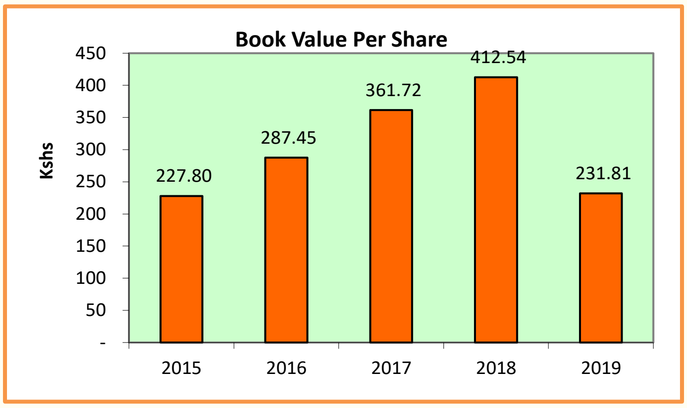

Shareholders` Fund
Kshs. Billions
25
20
15
10
5
-
11.27
14.22
17.90
20.41
22.94
2015
2016
2017
2018
2019


Total Assets
Kshs. Billions
160.00
140.00
120.00
100.00
80.00
60.00
40.00
20.00
-
68.18
82.91
96.13
123.01
143.31
2015
2016
2017
2018
2019


Business Volume
Kshs. in Billions
130.00
120.00
110.00
100.00
90.00
80.00
70.00
60.00
50.00
40.00
30.00
20.00
10.00
-
52.93
32.26
64.87
38.09
73.00
43.94
101.96
44.17
117.17
50.05
2015
2016
2017
2018
2019
Deposits
Advances


Business Per Employee
Kshs. in Billions
1
1
1
1
0
0
0
0
-
0.48
0.53
0.56
0.70
0.75
2015
2016
2017
2018
2019


Profit Growth
Kshs. Billions
7
6
5
4
3
2
1
0
2.03
3.09
2.95
4.31
3.92
4.31
3.93
5.59
4.09
6.24
2015
2016
2017
2018
2019
Net Profit


Book Value Per Share
Kshs
450
400
350
300
250
200
150
100
50
-
227.80
287.45
361.72
412.54
231.81
2015
2016
2017
2018
2019

III Other Disclosures

		2019	2018
1.0	NON-PERFORMING LOANS AND ADVANCES		
	(a) Gross Non-performing loans and advances	4,126,146	3,903,308
	(b) Less: Interest in Suspense	238,534	235,016
	(c)Total Non-Performing Loans and Advances (a-b)	**3,887,612**	**3,668,292**
	(d) Less: Loan Loss Provision	2,154,146	1,633,371
	(e) Net Non-Performing Loans and Advances(c-d)	**1,733,466**	**2,034,921**
	(f) Discounted Value of Securities	1,733,466	2,034,921
	(g) Net NPLs Exposure (e-f)	-	-
2.0	INSIDER LOANS AND ADVANCES		
	(a) Directors, Shareholders and Associates	18,370	-
	(b) Employees	521,875	476,410
	(c)Total Insider Loans and Advances and other facilities	**540,246**	**476,410**
3.0	OFF-BALANCE SHEET ITEMS		
	(a)Letters of credit,guarantees, acceptances	5,278,183	6,325,177
	(b) Forwards, swaps and options	50,725	132,454
	(c)Other contingent liabilities	1,691,508	1,431,761
	(d)Total Contingent Liabilities	**7,020,416**	**7,889,391**
4.0	CAPITAL STRENGTH		
	(a)Core capital	22,634,933	20,038,296
	(b) Minimum Statutory Capital	1,000,000	1,000,000
	(c)Excess/(Dificiency)(a-b)	**21,634,933**	**19,038,296**
	(d) Supplementary Capital	223,812	162,252
	(e) Total Capital (a+d)	**22,858,745**	**20,200,548**
	(f)Total risk weighted assets	69,827,913	58,280,792
	(g) Core Capital/Total deposits Liabilities	19.32%	19.65%
	(h) Minimum statutory Ratio	8.00%	8.00%
	(I) Excess/(Deficiency) (g-h)	11.32%	11.65%
	(j) Core Capital / total risk weighted assets	32.42%	34.38%
	(k) Minimum Statutory Ratio	10.50%	10.50%
	(l) Excess (Deficiency) (j-k)	21.92%	23.88%
	(m) Total Capital/total risk weighted assets	32.74%	34.66%
	(n) Minimum statutory Ratio	14.50%	14.50%
	(o) Excess/(Deficiency) (m-n)	18.24%	20.16%
	(p) Adjusted Core Capital/Total Deposit Liabilities*	19.52%	0.20
	(q) Adjusted Core Capital/Total Risk Weighted Assets*	32.75%	0.36
	(r) Adjusted Total Capital/Total Risk Weighted Assets*	33.07%	0.36
14	LIQUIDITY		
	(a) Liquidity Ratio	78.37%	78.15%
14.2	(b) Minimum Statutory Ratio	20.0%	20.0%
14.3	(c) Excess (Deficiency) (a-b)	58.4%	58.1%

Photo Gallery

Mr. Vikramaditya Singh Khichi, Chairman, (bottom centre), seen with (L-R) Mr. Venugopal Menon, (GM-Intl. Banking), Mr. Sunil Kumar Srivastava, (CGM - Intl. Banking), Dr. M K Chary, (Head Intl. Banking - Africa), Mr. Sanjay Mudaliar (Head Intl. IT Ops.), Mr. K B Gupta, (GM - Facilities Mgmt.) during the virtual launch of Mobile Banking - Baroda Mobi Kenya.

Extraordinary General Meeting of shareholders held on 8th August 2019 at Movenpick Hotel, Nairobi for approval of Bonus Share.

Dr. Patrick Njoroge, Governor CBK is seen visiting Bank's Stall at Inua Biashara Day event. Managing Director and other Bank officials are explaining him Bank's offerings.

Bank sponsored a breakfast meeting on May 16, 2019 in collaboration with The High Commission of India and KNCCI. The Meeting was attended and addressed by The Indian High Commissioner, His Excellency Rahul Chhabra and President, KNCCI.

Mr. Saravanakumar A, Managing Director and Dr. Winifred N Karugu is seen as Bank obtained Golden Membership of KNCCI.

Managing Director, Mr. Saravanakumar A along with other Bank officials receiving the Think Business Awards for Best Bank Tier II category and Most Efficient Bank.

Dr. Winifred N Karugu, Dr. M K Chary - Head International Banking - Africa and Mr. Saravanakumar A, Managing Director seen launching Baroda Jamii, Bank's monthly newsletter for staff members during Town Hall Meeting held on 17th Jan, 2020.

Staff members of Bank during the Town Hall Meeting held on 17th Jan, 2020.

Financial Literacy Camp organized by Mombasa Road Branch, Nairobi.

Mr. Yogendra Singh Saini, Deputy Managing Director along with company secretary Mr. Robert Ndungu and Mr. Kennedy Machoka, Manager-Administration, seen at a CSR activity at Thangira Umoja Secondary School.

Mr. Yogendra Singh Saini, Deputy Managing Director along with with Team Bank of Baroda Kenya participated at the Beyond Zero Marathon organised by Her Excellency Margaret Kenyatta, First Lady of Kenya.

Mr. Saravanakumar A, Managing Director and other staff members of the the Bank is seen with Chief Guest Mr. Abhishek Rana, Secretary, Hindi Samiti of Kenya during World Hindi Day at Bank's Head Office.

www.bankofbarodakenya.com

Bank of Baroda (Kenya) Ltd is regulated by Central Bank of Kenya