Guaranty Trust Bank (Kenya) Ltd

GUARANTY TRUST BANK (KENYA) LIMITED
ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018

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DIRECTORS

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

Mr. Dhanji Hansraj Chandaria	(British)	Chairman and Non Executive Director
Mr. Nalinkumar Narshi Shah		Non Executive Director
Mr. Hanish Chandaria	(British)	Non Executive Director
Mr. Julius Olusegun Agbaje	(Nigerian)	Non Executive Director
Mr. Ademola Ayodeji Odeyemi	(Nigerian)	Non Executive Director
Mr. John Mark Wandolo		Non Executive Director
Ms. Mary Kimotho M'Mukindia		Non Executive Director
Mr. Olabayo Veracruz	(Nigerian)	Chief Executive Officer (Appointed on 24th Aug 2018)
Ms. Ibukunoluwa Odegbaike	(Nigerian)	Group CEO East Africa (Resigned on 23rd Aug 2018)
Mr. Victor Ezaga	(Nigerian)	Executive Director

KEY MANAGEMENT

Mr. Olabayo Veracruz	(Nigerian)	Chief Executive Officer
Mr. Victor Ezaga	(Nigerian)	Executive Director
Ms. Angela Koech		Group CFO, East Africa
Mr. Villupuram Abiraman		Head of Commercial Banking
Mr. Martin Runo		Head of Treasury
Mr. Dipan Goshar Shah		Head of Risk and Compliance
Mr. Samwel Ngahu		Head of Systems and Control
Ms. Ruth Muiruri		Head of Legal Services
Ms. Stacy Gachanja		Head of Human Resources
Dr. Wanjiru Kibe		Head of Credit
Ms. Jacqueline Abuga		Head of Communications and Corporate affairs

BOARD CREDIT COMMITTEE

Mr. John Mark Wandolo	Chairman
Mr. Julius Olusegun Agbaje	Member
Mr. Ademola Ayodeji Odeyemi	Member
Mr. Hanish Chandaria	Member
Mr. Nalinkumar Narshi Shah	Member

BOARD AUDIT COMMITTEE

Ms. Mary Kimotho M'Mukindia	Chairman
Mr. Ademola Ayodeji Odeyemi	Member
Mr. John Mark Wandolo	Member
Mr. Nalinkumar Narshi Shah	Member

BOARD RISK MANAGEMENT COMMITTEE

Mr. Nalinkumar Narshi Shah	Chairman
Mr. Julius Olusegun Agbaje	Member
Mr. Ademola Ayodeji Odeyemi	Member

BOARD HUMAN RESOURCE COMMITTEE

Ms. Mary Kimotho M'Mukindia	Chairman
Mr. Hanish Chandaria	Member
Mr. John Mark Wandolo	Member

BOARD STRATEGY COMMITTEE

Mr. Ademola Ayodeji Odeyemi	Chairman
Mr. Hanish Chandaria	Member
Mr. John Mark Wandolo	Member
Mr. Nalinkumar Narshi Shah	Member
Ms. Mary Kimotho M'Mukindia	Member

REGISTERED OFFICE	Sky Park Towers Plot 1870/IX/167 Woodvale Close - Westlands P.O. Box 20613 Nairobi - 00200
AUDITOR	PricewaterhouseCoopers Certified Public Accountants PwC Tower Chiromo Road P.O. Box 43963 Nairobi - 00100
PRINCIPAL LEGAL ADVISORS	Macharia Mwangi & Njeru Advocates ACK Garden Annex 1st Ngong Avenue P.O. Box 10627 Nairobi - 00100 Iseme Kamau & Maema Advocates IKM Place, 5th Floor, 5th Ngong Avenue P.O. Box 11866 Nairobi - 00400 Oraro & Company Advocates ACK Garden Annex, 6th Floor, 1st Ngong Avenue P.O. Box 51236 Nairobi - 00100
CORRESPONDENT BANKS	US Dollar (USD) Standard Chartered Bank, New York Guaranty Trust Bank (UK) Limited, London Euro (EUR) Standard Chartered Bank, Frankfurt Societe Generale, Paris Guaranty Trust Bank (UK) Limited, London Indian Rupee (INR) Standard Chartered Bank, India South African Rand (ZAR) Standard Bank of SA Limited, Johannesburg British Pound (GBP) Standard Chartered Bank, London Guaranty Trust Bank (UK) Limited, London Japanese Yen (JPY) Standard Chartered Bank, Tokyo Chinese Yuan (CNY) Standard Chartered Bank, China

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Guaranty Trust Bank is committed to adhering to the highest standards of good corporate governance at all levels of its operations. This commitment is rooted in our core values and beliefs. We have put in place elaborate governance processes which comply with industry best practice.

Board charter and work plan

The Board's responsibilities are set out in the Board Charter. The Board Charter contains provisions which ensure that the Board observes best practice in corporate governance and contains among other things policies on: the size, role and functions of the Board, appointments and induction of directors, board performance evaluation, and remuneration of directors.

The work plan has a formal schedule of matters specifically reserved for the Board's attention to ensure it exercises full control over all significant matters. It sets out the schedule of meetings of the Board and its committees and the main business to be dealt with at those meetings. Additional meetings are scheduled as and when necessary.

Board composition and appointments

The Board currently consists of:

• Chairman	1
• Chief Executive Officer	1
• Executive Directors	1
• Non-Executive Directors	6

The Non-Executive Directors are drawn from a wide range of business and other backgrounds. This diversity is considered by the members as one of the strengths of the Board.

The Board evaluates the performance of the management in order to be satisfied as to the integrity and strength of financial information, controls and risk management. Through the Board Human Resource Committee, they have a prime role in appointing, removal and succession planning of senior management and are responsible for determining appropriate levels of remuneration for the executive directors and senior management.
All directors receive regular and timely information about the Bank prior to Board meetings.

Board meetings

The full Board meets at least four times a year. The Board deals with all significant matters including strategic direction for the Bank and Group; ensuring competent management of the business; internal control; compliance with laws and regulations and reporting performance to shareholders.

Attendance at meetings

The attendance of members of the board at meetings of the Board of Directors, Audit, Risk, Human Resources, Credit and Strategy committees as at 31 December 2018 is detailed below:

	Board	Audit	Risk	Credit	HR	BSC
Number of meetings during the year	3	3	3	3	3	1
Mr. Dhanji Hansraj Chandaria	100%	-	-	-	-	-
Mr. Nalinkumar Narshi Shah	100%	100%	100%	-	-	100%
Mr. Hanish Chandaria	100%	-	-	100%	100%	100%
Mr. Julius Olusegun Agbaje	100%	-	100%	100%	-	-
Mr. Ademola Ayodeji Odeyemi	100%	100%	100%	100%	-	100%
Mr. John Mark Wandolo	100%	100%	-	100%	100%	100%
Mrs. Mary Kimotho M'Mukindia	100%	100%	-	-	100%	100%
Ms. Ibukunoluwa Odegbaike *	67%	-	67%	67%	-	100%
Mr. Olabayo Veracruz *	33%	-	-	-	-	-
Mr. Victor Ezaga	100%	-	100%	100%	-	100%
Average Attendance	100%	100%	93%	95%	100%	100%

* The Group CEO Ms Ibukunoluwa Odegbaike resigned on August 23rd 2018 and was replaced by Mr Olabayo Veracruz effective August 24th 2018

Attendance at meetings (continued)

The directors are given appropriate and timely information on key activities of the business in order to carry out their roles. Specifically the directors are provided with supporting papers and relevant information for each meeting and are expected to attend, unless there are exceptional circumstances that prevent them from doing so. They may also seek independent professional advice, at the Bank's expense, concerning the affairs of the Bank and Group in consultation with the Chairman and the Chief Executive Officer.

The Board annually conducts self and peer performance evaluation. The results are used to improve the Board's performance.

Separation of roles and responsibilities

The roles of the Chairman and Chief Executive Officer are separate. The Chairman's main responsibility is to lead and manage the work of the Board to ensure that it operates effectively and fully discharges its legal and regulatory responsibilities. The Board has delegated the responsibility for the day-to-day management of the Bank to the Chief Executive Officer, who is responsible for recommending strategy to the Board, and for making and implementing operational decisions.

The Board has a collective responsibility for the success of the Bank and Group. However, the Executive Directors have direct responsibility for business operations, whereas Non Executive Directors are responsible for bringing independent judgment and scrutiny to decisions taken by the Management, providing objective challenge to the management.

Committees of the Board

In order for the Board to carry out its functions and to ensure independent oversight of internal control and risk management, certain aspects of its role are delegated to Board Committees, whose members are Executive and Non Executive Directors. The specific matters for which delegated authority have been given are set out in each Board Committee's terms of reference, which are reviewed annually.

The Board had delegated authority to five principal Board Committees:

Board Audit Committee
Board Credit Committee
Board Risk Committee
Board Human Resources Committee
Board Strategy Committee

These committees meet at least on a quarterly basis or whenever there are urgent matters to attend to.

In addition, the Executive Committee, comprising the Chief Executive Officer and the Senior Management meet on a monthly basis. Its main function is to implement and monitor the Bank's strategy, operational plans and financial performance. It is also responsible for the assessment and control of risk.

Internal control and risk management

Internal control

The directors are responsible for reviewing the effectiveness of the Bank's system of internal control, including internal financial control. This is designed to provide reasonable, but not absolute, assurance regarding (a) the safeguarding of assets against unauthorized use or disposition and (b) the maintenance of proper accounting records and the reliability of financial information used within the business or for publication. These controls are designed to manage rather than eliminate the risk of failure to achieve business objectives due to circumstances which may reasonably be foreseen and can only provide reasonable and not absolute assurance against material misstatement or loss.

Internal control framework

Effective corporate governance remains key to the business. The Bank continues to review its internal control framework to ensure it maintains a strong and effective internal control environment. The effectiveness of the framework has been under regular review by the senior management.

Risk management

The Bank has a structure and process to help identify, assess and manage risks. This process has been in place throughout the year.

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

PRINCIPAL ACTIVITIES

The principal activities of the Company and the group is provision of retail and corporate banking services.

BUSINESS REVIEW

The regional economic climate has been stable over the past year, with recovery witnessed in the year compared to the slow growth in the prior year. The Kenyan economy improved in 2018 with gross domestic product growth projected to accelerate to 6.0% in comparison to 4.9% in 2017.

Slow balance sheet growth due to economic downturn from 2017 and increased non performing loans had a material impact on financial performance in the year with interest income dropping slightly year on year. Balance sheet optimization strategies by the Bank, however resulted in lower interest expense as the Bank repriced liabilities and improved the low cost:high cost deposit mix as evidenced by interest expense dropping by 6% year on year. Non funded income dropped marginally from fees and commissions and also reduced forex trading volumes, marginal volatility and pressure on price resulted in lower trading income. Cost containment strategies yielded fruit with operating expenses dropping 4% year on year. The group continues to make investment in technology and alternative channel enhancement, which together with our unique service proposition will result in a positive growth trajectory. The key financial ratios are as below;

	Bank	Group	Bank	Group
Performance Ratios	**2018**	**2018**	**2017**	**2017**
Net Interest Margin	8%	8%	7%	7%
Return on Asset	1%	1%	1%	1%
Return on Equity	4%	4%	3%	4%
Cost to Income Ratio	75%	79%	78%	82%

RECOMMENDED DIVIDEND

The net profit for the year of Shs 91 million (2017: Shs 213 million) has been added to retained earnings. The directors do not recommend the payment of a dividend.

DIRECTORS

The directors who held office during the year and to the date of this report are presented on page one.

STATEMENT AS TO DISCLOSURE TO THE COMPANY'S AUDITOR

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

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

(b) the director has taken all the steps that the director ought to have taken as a director so as to be aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

TERMS OF APPOINTMENT OF THE AUDITOR

PricewaterhouseCoopers continue in office in accordance with the Company's Articles of Association and Section 719 of the Kenyan Companies Act, 2018.

The directors monitor the effectiveness, objectivity and independence of the auditor. The directors also approve the annual audit engagement contract which sets out the terms of the auditor's appointment and the related fees.

By order of the board

Director

I.O. Venn

Nairobi......3 March......**2019**

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

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

(i) Designing, implementing and maintaining internal control as they determine necessary to enable the preparation of financial statements that are free from material misstatements, whether due to fraud or error;
(ii) Selecting suitable accounting policies and then apply them consistently; and
(iii) Making judgements and accounting estimates that are reasonable in the circumstances

Having made an assessment of the Group's ability to continue as a going concern, the directors are not aware of any material uncertainties related to events or conditions that may cast doubt upon the Group's ability to continue as a going concern.

The directors acknowledge that the independent audit of the financial statements does not relieve them of their responsibility.

Approved by the board of directors on 3 March 2019 and signed on its behalf by:

....	....
Director	Director
Olabayo Veracruz	Mary Kimotho M'Mukindia

Independent auditor's report to the shareholders of Guaranty Trust Bank (Kenya) Limited

Report on the audit of the Group financial statements

Opinion

We have audited the accompanying financial statements of Guaranty Trust Bank (Kenya) Limited (the Bank) and its subsidiaries (together, the Group) set out on pages 12 to 69, which comprise the consolidated statement of financial position at 31 December 2018, the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, together with the Bank's statement of financial position at 31 December 2018, statement of profit or loss and other comprehensive income, the statement of changes in equity and statement of cash flows for the year then ended, and the notes to the financial statements, including a summary of significant accounting policies.

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

Basis for opinion

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

We are independent of the company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements that are relevant to our audit of the financial statements in Kenya, and we have fulfilled our ethical responsibilities in accordance with these requirements and the IESBA Code.

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

Other information

The other information comprises Company information, Corporate governance statement, the Directors Report, Statement of Directors' Responsibilities which we obtained prior to the date of this auditor's report, and the rest of the other information in the Annual Report which are expected to be made available to us after that date, but does not include the financial statements and our auditor's report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

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

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Independent auditor's report to the shareholders of Guaranty Trust Bank (Kenya) Limited (continued)

Responsibilities of the directors for the financial statements

The directors are responsible for the preparation of financial statements that give a true and fair view in accordance with International Financial Reporting Standards and the requirements of the Kenyan Companies Act 2015, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's responsibilities for the audit of the financial statements

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

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

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

Independent auditor's report to the shareholders of Guaranty Trust Bank (Kenya) Limited (continued)

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with 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.

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

In our opinion the information given in the report of the directors' on page 7 is consistent with the financial statements.

PricewaterhouseCoopers

Certified Public Accountants
Nairobi

27 March **2019**

CPA Bernice Kimacia, Practising certificate No. 1457
Signing partner responsible for the independent audit

Consolidated statement of profit or loss and other comprehensive income

For the year ended 31 December	Notes	2018 Shs'000	2017 Shs'000
Interest income	5	3,902,803	3,985,390
Interest expense	6	(1,247,022)	(1,322,438)
Net interest income		2,655,781	2,662,952
Fee and commission income	7 (a)	474,980	434,830
Fee and commission expense	7 (b)	(130,972)	(128,102)
Net fee and commission income		344,008	306,728
Foreign exchange income	8	212,458	222,809
Other operating income	8	13,947	22,695
Credit Impairment losses	15	(370,564)	(254,295)
Operating expenses	9	(2,538,411)	(2,640,034)
Profit before income tax		317,219	320,855
Current income tax	11	(158,633)	(128,713)
Deferred income tax	11	(67,847)	20,803
Profit for the year		90,739	212,945
Other comprehensive income:			
Other comprehensive income for the year, net of tax;			
Items that may be subsequently reclassified to profit or loss			
Fair value changes on financial assets held at fair value through OCI	27	21,173	12,711
Currency translation differences		(142,220)	(33,712)
Other comprehensive loss, net of tax		(121,047)	(21,001)
Total comprehensive (loss)/income for the year		(30,308)	191,944
Profit or loss attributable to:			
Equity holders of the Company		86,218	210,148
Non-controlling interest		4,521	2,797
		90,739	212,945
Total comprehensive income attributable to:			
Equity holders of the company		(31,524)	190,419
Non-controlling interest		1,216	1,525
Total comprehensive (loss)/income for the Year		(30,308)	191,944

Bank statement of profit or loss and other comprehensive income

For the year ended 31 December	Notes	2018 Shs'000	2017 Shs'000
Interest income	5	2,463,691	2,511,199
Interest expense	6	(962,379)	(1,008,435)
Net interest income		1,501,312	1,502,764
Fee and commission income	7 (a)	150,804	146,194
Fee and commission expense	7 (b)	(39,835)	(35,629)
Net fee and commission income		110,969	110,565
Foreign exchange income	8	66,369	69,027
Other operating income	8	965	3,617
Credit Impairment losses	15	(118,814)	(131,213)
Operating expenses	9	(1,253,722)	(1,313,455)
Profit before income tax		307,079	241,305
Current income tax	11	(66,031)	(57,370)
Deferred income tax	11	4,887	9,076
Profit for the year		245,935	193,011
Other comprehensive income for the year, net of tax;			
Items that may be subsequently reclassified to profit or loss			
Fair value changes on financial assets held at fair value through OCI	27	21,173	12,711
Other comprehensive income, net of tax		21,173	12,711
Total comprehensive Income for the Year		267,108	205,722

Consolidated statement of financial position

At 31 December	Notes	2018 Shs'000	2017 Shs'000
ASSETS			
Cash and balances with Central Banks	12	3,020,841	3,898,688
Deposits and balances due from other banks	14	2,076,271	2,344,608
Financial assets held at amortised cost	13	2,983,411	3,664,706
Financial assets held at FVOCI	13	5,922,191	5,764,282
Due from group companies	30	2,172,463	1,681,220
Loans and advances to customers	15	19,681,830	20,542,673
Property and equipment	17	671,117	776,895
Intangible assets	18	412,708	441,131
Deferred income tax	19	402,540	307,228
Current income tax	11	73,799	121,838
Other assets	20	527,682	560,893
Total assets		37,944,853	40,104,162
LIABILITIES			
Deposits due to other banks	22	1,072,379	1,735,551
Customer deposits	21	28,688,558	27,594,711
Due to group companies	30	2,049	593
Other liabilities	24	528,447	493,984
Borrowings	23	-	2,053,126
Total liabilities		30,291,433	31,877,965
EQUITY ATTRIBUTABLE TO THE OWNERS OF THE COMPANY			
Share capital	25	1,280,934	1,280,934
Share premium	25	4,225,323	4,225,323
Statutory reserve	26	-	121,906
Other reserves	27	(355,763)	(243,444)
Retained earnings		2,441,564	2,781,332
		7,592,058	8,166,051
Non controlling interests		61,362	60,146
Total equity		7,653,420	8,226,197
TOTAL LIABILITIES AND EQUITY		37,944,853	40,104,162

The financial statements on pages 12 to 69 were approved for issue by the board of directors on 3 March 2019 and were signed on its behalf by:

Director	Director	Director
Olabayo Veracruz	Mary Kimotho M'Mukindia	Dhanji Hansraj Chandaria

Bank statement of financial position

At 31 December	Notes	2018 Shs'000	2017 Shs'000
ASSETS			
Cash and balances with Central Bank of Kenya	12	1,273,328	1,754,934
Deposits and balances due from other banks	14	187,981	1,482,613
Financial assets held at amortised cost	13	883,580	1,193,069
Financial assets held at FVOCI	13	5,922,191	5,764,282
Due from group companies	30	19,784	12,685
Loans and advances to customers	15	12,669,666	13,203,981
Investment in subsidiary	16	3,375,990	3,273,390
Property and equipment	17	247,442	276,627
Intangible assets	18	181,428	180,042
Deferred income tax	19	259,855	82,658
Current income tax	11	84,059	150,090
Other assets	20	259,592	253,478
		25,364,896	27,627,849
LIABILITIES			
Deposits due to other banks	22	712,511	1,460,665
Customer deposits	21	16,048,551	15,140,730
Due to group companies	30	2,957	213,111
Other liabilities	24	147,869	151,083
Borrowings	23	-	2,053,126
Total liabilities		16,911,888	19,018,715
EQUITY ATTRIBUTABLE TO OWNERS OF THE COMPANY			
Share capital	25	1,280,934	1,280,934
Share premium	25	4,225,323	4,225,323
Statutory reserve	26	-	97,779
Other reserves	27	2,616	(18,557)
Retained earnings		2,944,135	3,023,655
Total equity		8,453,008	8,609,134
TOTAL LIABILITIES AND EQUITY		25,364,896	27,627,849

The financial statements on pages 12 to 69 were approved for issue by the board of directors on 3 March 2019 and were signed on its behalf by:

Director	Director	Director
Olabayo Veracruz	Mary Kimotho M'Mukindia	Dhanji Hansraj Chandaria

Consolidated statement of changes in equity

For the year ended 31 December 2017

	Share capital Shs'000	Share premium Shs'000	Retained earnings Shs'000	Statutory reserve Shs'000	Other reserves Shs'000	Total Shs'000	Non Controlling Interest Shs'000	Total Equity Shs'000
At start of year	1,276,480	4,192,814	2,586,014	107,076	(223,715)	7,938,669	58,621	7,997,290
Total comprehensive income for the year:								
Profit for the year	-	-	210,148	-	-	210,148	2,797	212,945
Other comprehensive Income	-	-	-	-	(19,729)	(19,729)	(1,272)	(21,001)
Total comprehensive Income	-	-	210,148	-	(19,729)	190,419	1,525	191,944
Transfer to regulatory reserves	-	-	(14,830)	14,830	-	-	-	-
Transactions with owners recorded directly in equity:								
Issue of shares (Note 25)	4,454	32,509	-	-	-	36,963	-	36,963
At end of year	1,280,934	4,225,323	2,781,332	121,906	(243,444)	8,166,051	60,146	8,226,197

Consolidated statement of changes in equity (continued)

For the year ended 31 December 2018

	Share capital Shs'000	Share premium Shs'000	Retained earnings Shs'000	Statutory reserve Shs'000	Other reserves Shs'000	Total Shs'000	Non Controlling Interest Shs'000	Total Equity Shs'000
At start of year	1,280,934	4,225,323	2,781,332	121,906	(243,444)	8,166,051	60,146	8,226,197
Changes on initial application of IFRS 9 net of tax (Note 15 iii)	-	-	(437,086)	(105,383)	-	(542,469)	-	(542,469)
Restated Balance at 1 January 2018	1,280,934	4,225,323	2,344,246	16,523	(243,444)	7,623,582	60,146	7,683,728
Total comprehensive income for the year:								
Profit for the year	-	-	86,218	-	-	86,218	4,521	90,739
Other comprehensive Loss	-	-	-	-	(117,742)	(117,742)	(3,305)	(121,047)
Total comprehensive Loss	-	-	86,218	-	(117,742)	(31,524)	1,216	(30,308)
Transfer to regulatory reserves	-	-	11,100	(16,523)	5,423	-	-	-
At end of year	1,280,934	4,225,323	2,441,564	-	(355,763)	7,592,058	61,362	7,653,420

Bank statement of changes in equity

For the year ended 31 December 2017

	Share capital	Share premium	Retained earnings	Statutory reserve	Other reserves	Total
	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000
At start of year	1,276,480	4,192,814	2,850,787	77,636	(31,268)	8,366,449
Total comprehensive income for the year:						
Profit for the year	-	-	193,011	-	-	193,011
Other comprehensive income	-	-	-	-	12,711	12,711
Total comprehensive income	-	-	193,011	-	12,711	205,722
Transfer to regulatory reserves	-	-	(20,143)	20,143	-	-
Transactions with owners recorded directly in equity:						
Issue of shares (Note 25)	4,454	32,509	-	-	-	36,963
At end of year	1,280,934	4,225,323	3,023,655	97,779	(18,557)	8,609,134

Bank statement of changes in equity (continued)

For the year ended 31 December 2018

	Share capital	Share premium	Retained earnings	Statutory reserve	Other reserves	Total
	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000
At start of year	1,280,934	4,225,323	3,023,655	97,779	(18,557)	8,609,134
Changes on initial application of IFRS 9 net of tax (Note 15 iii)	-	-	(325,455)	(97,779)	-	(423,234)
Restated Balance at 1 January 2018	1,280,934	4,225,323	2,698,200	-	(18,557)	8,185,900
Total comprehensive income for the year:						
Profit for the year	-	-	245,935	-	-	245,935
Other comprehensive income	-	-	-	-	21,173	21,173
Total comprehensive income	-	-	245,935	-	21,173	267,108
At end of year	1,280,934	4,225,323	2,944,135	-	2,616	8,453,008

Consolidated statement of cash flows

For the year ended 31 December	Notes	2018 Shs'000	2017 Shs'000
Cash flows from operating activities			
Interest receipts		3,954,549	3,696,662
Interest payments		(1,247,022)	(1,322,438)
Net fee and commission receipts		344,008	595,456
Other income received		212,458	222,809
Recoveries from loans previously written off		10,809	21,156
Payments to employees and suppliers		(2,244,451)	(2,306,771)
Income tax paid		(109,347)	(267,840)
Cash flows from operating activities before changes in operating assets and liabilities		921,004	639,034
Changes in operating assets and liabilities:			
Loans and advances		(285,320)	(1,355,166)
Cash reserve requirement		(4,888)	20,961
Corporate bonds		26,964	26,848
Government securities		978,831	3,442,043
Other assets		33,211	71,934
Customer deposits		1,093,847	402,603
Other liabilities		34,463	109,246
Due from group companies		(489,787)	(2,555,376)
Net cash generated from operating activities		2,308,325	802,127
Cash flows from investing activities			
Purchase of property and equipment	17	(137,344)	(95,376)
Purchase of intangible assets	18	(61,179)	(35,302)
Proceeds from sale of property and equipment		6,030	2,192
Net cash used in investing activities		(192,493)	(128,486)
Cash flows from financing activities			
Long term debt - IFC	23	(2,053,126)	1,043,846
Long term debt - Medium Term Note	23	-	(194,800)
Issue of shares	25	-	36,963
Net cash (used in)/generated from financing activities		(2,053,126)	886,009
Net increase in cash and cash equivalents		62,706	1,559,650
Cash and cash equivalents at start of year		6,713,039	5,222,578
Effects of foreign currency translation		(98,444)	(69,189)
Cash and cash equivalents at end of year	29	6,677,301	6,713,039

Bank statement of cash flows

For the year ended December	Notes	2018 Shs'000	2017 Shs'000
Cash flows from operating activities			
Interest receipts		2,517,120	2,219,046
Interest payments		(962,379)	(1,070,627)
Net fee and commission receipts		110,969	275,215
Other income received		66,369	69,027
Recoveries from loans previously written off		733	2,558
Payments to employees and suppliers		(1,128,085)	(1,073,342)
Income tax paid		-	(221,403)
Cash flows from operating activities before changes in operating assets and liabilities		604,727	200,474
Changes in operating assets and liabilities:			
Loans and advances		(242,546)	(297,785)
Cash reserve requirement		(24,838)	78,887
Corporate Bonds		26,964	26,848
Government securities maturing 90 days after date of acquisition		511,620	3,737,033
Other assets		(6,114)	60,382
Customer deposits		907,821	(1,420,947)
Other liabilities		(3,214)	(194,420)
Due to group companies		(217,253)	(1,040,617)
Net cash generated from operating activities		1,557,167	1,149,855
Cash flows from investing activities			
Purchase of property and equipment	17	(58,642)	(9,196)
Purchase of intangible assets	18	(39,196)	(10,201)
Proceeds from sale of property and equipment		232	1,719
Investment in subsidiary	16	(102,600)	(415,700)
Net cash used in investing activities		(200,206)	(433,378)
Cash flows from financing activities			
Long term debt - IFC	23	(2,053,126)	1,043,846
Long term debt - Medium Term Note	23	-	(194,800)
Issue of shares	25	-	36,963
Net cash (used in)/generated from financing activities		(2,053,126)	886,009
Net (decrease)/increase in cash and cash equivalents		(696,165)	1,602,486
Cash and cash equivalents at start of year		3,220,835	1,618,349
Cash and cash equivalents at end of year	29	2,524,670	3,220,835

Notes

1 General Information

Guaranty Trust Bank (Kenya) Limited (the Bank) is incorporated in Kenya under the Companies Act as a limited liability company, and is domiciled in Kenya. The ultimate holding company of the bank is Guaranty Trust Bank plc which is a limited liability company incorporated and domiciled in Nigeria. The consolidated financial statements of the Bank as at and for the year ended 31 December 2018 comprise the Bank and its subsidiaries (together referred to as the "Group"). The Group is primarily involved in corporate and retail banking.

2 Summary of significant accounting policies

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

2.1 Basis of preparation

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and interpretations issued by the IFRS Interpretations Committee (IFRS IC) applicable to companies reporting under IFRS. The financial statements comply with IFRS as issued by the International Accounting Standards Board (IASB).

(a) Basis of measurement

The financial statements have been prepared on a historical cost basis except for financial assets held at fair value through other comprehensive income, financial assets and liabilities (including derivative instruments) and certain classes of property and equipment measured at fair value.

(b) Use of estimates

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

(c) Changes in accounting policies and disclosures

New and amended standards adopted by the Group

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

- **IFRS 9 - Financial Instruments**

The Group has adopted IFRS 9 as issued by the IASB in July 2014 with a date of transition of 1 January 2018, which resulted in changes in accounting policies and adjustments to the amounts previously recognised in the financial statements. The Group did not early adopt any of IFRS 9 in previous periods.

As permitted by the transitional provisions of IFRS 9, the Group elected not to restate comparative figures. Any adjustments to the carrying amounts of financial assets and financial liabilities at the date of transition were recognised in the opening retained earnings and other reserves of the current period.

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

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

***A.* Classification and measurement of financial instruments**

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

Group

	Original classification under IAS 39	New classification under IFRS 9	Original carrying amount under IAS 39	New carrying amount under IFRS 9
Financial assets			**Shs' 000**	**Shs' 000**
Cash and balances due to financial institutions	Loans and receivables	Amortised cost	5,625,487	5,625,487
Investment securities:				
-Investment securities held at fair value through OCI	AFS	FVOCI	5,764,282	5,764,282
-Investment securities held to maturity (amortised cost)	HTM	Amortised cost	3,664,706	3,664,706
Loans and advances from customers	Loans and receivables	Amortised cost	20,542,673	20,542,673
Other assets (financial)	Loans and receivables	Amortised cost	392,627	392,627
Total Financial Assets			**35,989,775**	**35,989,775**

Notes (continued)

2 Summary of significant accounting policies (continued)

2.1 Basis of preparation (continued)

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

New and amended standards adopted by the Group (continued)

A. Classification and measurement of financial instruments (continued)

Group

Financial liabilities				
Customers deposits	Other liabilities	Amortised cost	27,594,711	27,594,711
Borrowed funds	Other liabilities	Amortised cost	3,788,677	3,788,677
Other liabilities (financial)	Other liabilities	Amortised cost	493,984	493,984
Total financial liabilities			**31,877,372**	**31,877,372**

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

Bank

	Original classification under IAS 39	**New classification under IFRS 9**	**Original carrying amount under IAS 39**	**New carrying amount under IFRS 9**
Financial assets			**Shs' 000**	**Shs' 000**
Cash and balances due to financial institutions	Loans and receivables	Amortised cost	3,078,165	3,078,165
Investment securities:				
-Investment securities held at fair value through OCI	AFS	FVOCI	5,764,282	5,764,282
-Investment securities held to maturity (amortised cost)	HTM	Amortised cost	1,193,069	1,193,069
Loans and advances from customers	Loans and receivables	Amortised cost	13,203,981	13,203,981
Other assets (financial)	Loans and receivables	Amortised cost	142,702	142,702
Total Financial Assets			**23,382,199**	**23,382,199**
Financial liabilities				
Customers deposits	Other liabilities	Amortised cost	15,140,730	15,140,730
Borrowed funds	Other liabilities	Amortised cost	3,513,791	3,513,791
Other liabilities (financial)	Other liabilities	Amortised cost	151,083	151,083
Total financial liabilities			**18,805,604**	**18,805,604**

B. Reconciliation of statement of financial position balances from IAS 39 to IFRS 9

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

- Loans and receivables and Held to Maturity financial investments (held at amortised cost under IAS 39) were classified as Financial assets at amortised cost (under IFRS 9);
- Loan notes at fair value, derivative assets and other financial investments (held at FVTPL under IAS 39 were classified as Financial assets at FVTPL (under IFRS 9); and
- Financial investments held as available for sale (under IAS 39) were classified as Financial Assets at FVOCI (under IFRS 9).

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

Notes (continued)

2 Summary of significant accounting policies (continued)

2.1 Basis of preparation (continued)

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

New and amended standards adopted by the Group (continued)

B. Reconciliation of statement of financial position balances from IAS 39 to IFRS 9 (continued)

Group

Financial assets	IAS 39 carrying amount 31 December 2017 Shs' 000	Reclassifications Shs' 000	Remeasurements Shs' 000	IFRS 9 carrying amount 1 January 2018 Shs' 000
Amortised cost:				
Cash and balances due from financial institutions				
Opening balance as per IAS 39 and closing balance as per IFRS 9	5,625,487	-	-	5,625,487
Investment securities at amortised cost				
Opening balance as per IAS 39	-	-	-	-
Additions: From financial assets held to maturity (IAS 39)	-	3,664,706	-	3,664,706
Remeasurement: ECL allowance	-	-	-	-
Closing balance as per IFRS 9	-	**3,664,706**	-	**3,664,706**
Investment securities held to maturity				
Opening balance as per IAS 39	3,664,706	-	-	3,664,706
Subtraction: To amortised cost (IFRS 9)	-	(3,664,706)	-	(3,664,706)
Closing balance as per IFRS 9	**3,664,706**	**(3,664,706)**	-	-
Loans and advances from customers				
Opening balance as per IAS 39	20,542,673	-	-	20,542,673
Remeasurement: ECL allowance	-	-	(723,853)	(723,853)
Closing balance as per IFRS 9	**20,542,673**	-	**(723,853)**	**19,818,820**
Other assets				
Opening balance as per IAS 39 and closing balance as per IFRS 9	**392,627**	-	-	**392,627**
Total financial assets measured at amortised cost	**30,225,493**	-	**(723,853)**	**29,501,640**

Group

Financial assets	IAS 39 carrying amount 31 December 2017 Shs' 000	Reclassifications Shs' 000	Remeasurements Shs' 000	IFRS 9 carrying amount 1 January 2018 Shs' 000
Fair value through other comprehensive income (FVOCI):				
Investment securities – FVOCI (debt, unit trusts and other investments)				
Opening balance as per IAS 39	-	-	-	-
Additions: From available for sale (IAS 39)	-	5,764,282	-	5,764,282
Closing balance as per IFRS 9	-	**5,764,282**	-	**5,764,282**
Available for sale investment securities				
Opening balance as per IAS 39	5,764,282	-	-	5,764,282
Subtraction: To FVOCI (IFRS 9)	-	(5,764,282)	-	(5,764,282)
Closing balance as per IFRS 9	**5,764,282**	**(5,764,282)**	-	-
Total financial assets measured at FVOCI	**5,764,282**	-	-	**5,764,282**

Notes (continued)

2 Summary of significant accounting policies (continued)

2.1 Basis of preparation (continued)

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

New and amended standards adopted by the Group (continued)

B. Reconciliation of statement of financial position balances from IAS 39 to IFRS 9 (continued)

Bank

Financial assets	IAS 39 carrying amount 31 December 2017 Shs' 000	Reclassifications Shs' 000	Remeasurements Shs' 000	IFRS 9 carrying amount 1 January 2018 Shs' 000
Amortised cost:				
Cash and balances due from financial institutions				
Opening balance as per IAS 39 and closing balance as per IFRS 9	3,078,165	-	-	3,078,165
Investment securities at amortised cost				
Opening balance as per IAS 39	-	-	-	-
Additions: From financial assets held to maturity (IAS 39)	-	1,193,069	-	1,193,069
Remeasurement: ECL allowance	-	-	-	-
Closing balance as per IFRS 9	-	1,193,069	-	1,193,069
Investment securities held to maturity				
Opening balance as per IAS 39	1,193,069	-	-	1,193,069
Subtraction: To amortised cost (IFRS 9)	-	(1,193,069)	-	(1,193,069)
Closing balance as per IFRS 9	1,193,069	(1,193,069)	-	-
Loans and advances from customers				
Opening balance as per IAS 39	13,203,981	-	-	13,203,981
Remeasurement: ECL allowance	-	-	(604,618)	(604,618)
Closing balance as per IFRS 9	13,203,981	-	(604,618)	12,599,363
Other assets				
Opening balance as per IAS 39 and closing balance as per IFRS 9	142,702	-	-	142,702
Total financial assets measured at amortised cost	17,617,917	-	(604,618)	17,013,299

Bank

Financial assets	IAS 39 carrying amount 31 December 2017 Shs' 000	Reclassifications Shs' 000	Remeasurements Shs' 000	IFRS 9 carrying amount 1 January 2018 Shs' 000
Fair value through other comprehensive income (FVOCI):				
Investment securities – FVOCI (debt, unit trusts and other investments)				
Opening balance as per IAS 39	-	-	-	-
Additions: From available for sale (IAS 39)	-	5,764,282	-	5,764,282
Remeasurement: ECL allowance	-	-	-	-
Closing balance as per IFRS 9	-	5,764,282	-	5,764,282
Available for sale investment securities				
Opening balance as per IAS 39	5,764,282	-	-	5,764,282
Subtraction: To FVOCI (IFRS 9)	-	(5,764,282)	-	(5,764,282)
Closing balance as per IFRS 9	5,764,282	(5,764,282)	-	-
Total financial assets measured at FVOCI	5,764,282	-	-	5,764,282

Notes (continued)

2 Summary of significant accounting policies (continued)

2.1 Basis of preparation (continued)

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

New and amended standards adopted by the Group (continued)

C. Reconciliation of impairment allowance balances from IAS 39 to IFRS 9

The total re-measurement loss for the Group as at 1 January 2018 was Shs 723,853,000 (Bank: Shs 604,618,000).

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

Group **Measurement category**	**Loan loss allowance under IAS 39**	**Reclassifications**	**Remeasurements**	**Loan loss allowance under IFRS 9**
	Shs' 000	**Shs' 000**	**Shs' 000**	**Shs' 000**
Loans and receivables (IAS 39) / Financial assets at amortised cost (IFRS 9)				
Cash and balances with financial institutions	-	-	-	-
Loans and advances to customers	937,068	-	723,853	**1,660,921**
Other assets	-	-	-	-
Held to maturity investments (IAS 39) / Financial assets at amortised cost (IFRS 9)				
Investment securities at amortised cost	-	-	-	-
Available for Sale investments (IAS 39) / Financial assets at FVOCI (IFRS 9)				
Investment securities at amortised cost	-	-	-	-
Financial guarantees				
Financial guarantee contracts	-	-	-	-
Total	**937,068**	-	**723,853**	**1,660,921**

Bank **Measurement category**	**Loan loss allowance under IAS 39**	**Reclassifications**	**Remeasurements**	**Loan loss allowance under IFRS 9**
	Shs' 000	**Shs' 000**	**Shs' 000**	**Shs' 000**
Loans and receivables (IAS 39) / Financial assets at amortised cost (IFRS 9)				
Cash and balances with financial institutions	-	-	-	-
Loans and advances to customers	308,925	-	604,618	**913,543**
Other assets	-	-	-	-
Held to maturity investments (IAS 39) / Financial assets at amortised cost (IFRS 9)				
Investment securities at amortised cost	-	-	-	-
Available for Sale investments (IAS 39) / Financial assets at FVOCI (IFRS 9)				
Investment securities at amortised cost	-	-	-	-
Financial guarantees	-	-	-	-
Financial guarantee contracts				
Total	**308,925**	-	**604,618**	**913,543**

The group did not recognise the remeasurement losses of other financial instruments other than loans and advances to customers as they were immaterial.

Notes (continued)

2 Summary of significant accounting policies (continued)

2.1 Basis of preparation (continued)

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

New and amended standards adopted by the Group (continued)

- **IFRS 15 Revenue from contracts with customers**

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

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

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

- **IFRS 16 Leases**

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

The standard will affect primarily the accounting for the group's operating leases. As at the reporting date, the group has non-cancellable operating lease commitments of Kshs 525M, see note 28. The group estimates that approximately 23% of these relate to payments for short-term and low value leases which will be recognised on a straight-line basis as an expense in profit or loss. However, the group has not yet assessed what other adjustments, if any, are necessary for example because of the change in the definition of the lease term and the different treatment of variable lease payments and of extension and termination options. It is therefore not yet possible to estimate the amount of right-of-use assets and lease liabilities that will have to be recognised on adoption of the new standard and how this may affect the group's profit or loss and classification of cash flows going forward.

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

2.2 Consolidation

(a) Subsidiaries

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

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

Acquisition-related costs are expensed as incurred.

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

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

Notes (continued)

2 Summary of significant accounting policies (continued)

2.2 Consolidation (continued)

(a) Subsidiaries (continued)

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired is recorded as goodwill. If the total of consideration transferred, non-controlling interest recognised and previously held interest measured is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in the statement of profit or loss (note 2.6).

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairement of the transferred asset. Accounting policies of subisidaries have been changed where necessary to ensure concistency with policies adopted by the group.

(b) Changes in ownership interests in subsidiaries without change of control

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

(c) Disposal of subsidiaries

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

2.3 Foreign currency translation

(a) Functional and presentation currency

Items included in the financial statements of each of the group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The consolidated financial statements are presented in Kenya shillings, which is the group's presentation currency.

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement, except when deferred in other comprehensive income as qualifying cash flow hedges and qualifying net investment hedges. Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented in the income statement within "finance income or costs". All other foreign exchange gains and losses are presented in the statement of profit or loss for the year within "other gains/losses-net".

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

Translation differences on non-monetary financial assets and liabilities such as equities held at fair value through profit or loss are recognised in profit or loss as part of the fair value gain or loss. Translation differences on non-monetary financial assets, such as equities classified as available for sale, are included in other comprehensive income.

(c) Group companies

The results and financial position of all the group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

(i) assets and liabilities for each statement of financial position presented are translated at the closing rate at the end of the reporting period;
(ii) income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and
(iii all resulting exchange differences are recognised in other comprehensive income and accumulated in 'transaction reserve' in equity. On disposal of foreign operations, such exchange differences are recognised (reclassified) in profit or loss when the gain or loss on disposal is recognised.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate. Exchange differences arising are recognised in other comprehensive income.

Notes (continued)

2 Summary of significant accounting policies (continued)

2.4 Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Amounts disclosed as revenue are net interest income, fees and commission income and net trading income. The group recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and specific criteria have been met for each of the activities. The group bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

2.5 Sale and repurchase agreements

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

2.6 Financial assets and liabilities

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

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

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

- The business model adopted
- Contractual cash flow characteristics

2.6.1 Financial assets

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

The Group classifies its financial assets into the following categories:

- financial assets at fair value through profit or loss ***("FVTPL")***;
- financial assets measured at ***amortised cost***; and
- financial assets at fair value through other comprehensive income ***("FVOCI")***;

(a) Financial assets at fair value through profit or loss

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

(b) Financial assets measured at amortised cost

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

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

(c) Financial assets at fair value through other comprehensive income

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

Notes (continued)

2 Summary of significant accounting policies (continued)

2.6 Financial assets and liabilities (continued)

2.6.1 Financial assets (continued)

Group's business model: The business model reflects how the Group manages the assets in order to generate cash flows. That is, whether the Group's objective is solely to collect the contractual cash flows from the assets or is to collect both the contractual cash flows and cash flows arising from sale of assets. If neither of these is applicable (e.g. financial assets are held for trading purposes), then the financial assets are classified as part of "other" business model and measured at FVPL. Factors considered by the Group in determining the business model for a group of assets include past experience on how cash flows for these assets were collected, how the asset's performance is evaluated and reported by key management personnel, how risks are assessed and managed and how managers are compensated. For example, the liquidity portfolio of assets is held by the Group as part of liquidity management and is generally classified with the hold to collect and sell business model. Securities held for trading are held principally for the purpose of selling in the near term or are part of a portfolio of financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking. These securities are classified in the "other" business model and measured at FVPL.

Contractual characteristics of a financial asset / SPPI: Where the business model is to hold assets to collect contractual cash flows or to collect contractual cash flows and sell, the Group assesses whether the financial instruments' cash flows represents solely payments of principal and interest (the "SPPI test"). In making this assessment, the Group considers whether the contractual cash flows are consistent with a basic lending arrangement i.e. interest includes only consideration for the time value of money, credit risk and a profit margin that is consistent with a basic lending arrangement. Where the contractual terms introduce exposure to risk or volatility that are inconsistent with a basic lending arrangement, the related financial asset is classified and measured at fair value through profit or loss.

Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest.

The Group reclassifies debt investments when and only when its business model for managing those assets changes. The reclassification takes place from the start of the first reporting period following the change. The changes are expected to be very infrequent and none occurred during the year.

2.6.2 Financial liabilities

The Group's holding in financial liabilities represents mainly deposits from banks and customers and other liabilities. Such financial liabilities are initially recognised at fair value and subsequently measured at amortised cost. Financial liabilities are derecognised when they have been redeemed or otherwise extinguished.

2.6.3 Recognition and subsequent measurement

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

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

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

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

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

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

Notes (continued)

2 Summary of significant accounting policies (continued)

2.6 Financial assets and liabilities (continued)

2.6.3 Recognition and subsequent measurement (continued)

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

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

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

2.6.4 Derecognition

• **Modifications leading to Derecognition**

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

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

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

• **Modifications not leading to Derecognition**

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

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

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

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

When the Group transfers a financial asset but neither retains nor transfers substantially all of the risks and rewards of ownership of a financial asset, and retains control of that asset, the Group continues to recognise the asset to the extent of its continuing involvement. A corresponding liability is also recognized in accordance with and measured so that the net carrying amount of the asset and the liability is:
The amortised cost of the rights and obligations retained, if the asset is measured at amortized cost; or the fair value of the rights and obligations retained (if the asset is measured at fair value).

2.6.5 Disclosures

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

For purposes of reporting, the group will disclose impairment movements based on
- On- Balance Sheet Assets and
- Off – Balance Sheet Assets

Notes (continued)

2 Summary of significant accounting policies (continued)

2.6 Financial assets and liabilities (continued)

2.6.6 Classes of financial instruments

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

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

2.6.7 Impairment of financial assets

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

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

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

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

The Group assesses on a forward-looking basis the expected credit losses ('ECL') associated with its debt instrument assets carried at amortised cost and FVOCI and with the exposure arising from loan commitments and financial guarantee contracts. The Group recognises a loss allowance for such losses at each reporting date. The measurement of ECL reflects:

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

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

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

Notes (continued)

2 Summary of significant accounting policies (continued)

2.6 Financial assets and liabilities (continued)

2.6.8 Offsetting financial instruments

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

2.7 Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held at call with banks and other short-term highly liquid investments with original maturities of three months or less. Funds restricted for a period of more than three months on origination and cash reserve deposits with the Central Bank of Kenya are excluded from cash and cash equivalents. Cash and cash equivalents are carried at amortised cost.

2.8 Property and equipment

Land and buildings are shown at fair value, based on valuations by external independent valuers, less subsequent depreciation for buildings. Valuations are performed every four years to ensure that the fair value of a revalued asset does not differ materially from its carrying amount. Any accumulated depreciation at the date of revaluation is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset. All other property and equipment are stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent expenditures are included in the asset's carrying amount or are recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Bank and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repair and maintenance costs are charged to profit or loss during the financial period in which they are incurred.

Increases in the carrying amount arising on revaluation of land and buildings are credited to other comprehensive income and shown as other reserves in shareholders' equity. Decreases that offset previous increases of the same asset are charged in other comprehensive income and debited against other reserves directly in equity; all other decreases are charged to profit or loss.

Land is not depreciated. Depreciation of other assets is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives, as follows:

Leasehold Buildings	Over Remaining Period of Land Lease
Freehold Buildings	50 years
Fixtures, fittings and equipment	8 years
Computer hardware	5 years
Motor vehicles	4 years
ATM's	5 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period. Assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in 'other operating expenses' in statement of profit or loss.

2.9 Intangible assets

(a) Goodwill

Goodwill arises on the acquisition of subsidiaries and associates and represents the excess of the consideration transferred over the Company's interest in net fair value of the net identifiable assets, liabilities and contingent liabilities of the acquiree and the fair value of the non-controlling interest in the acquiree.

For the purpose of impairment testing, goodwill acquired in a business combination is allocated to each of the CGUs, or groups of CGUs, that is expected to benefit from the synergies of the combination. Each unit or group of units to which the goodwill is allocated represents the lowest level within the entity at which the goodwill is monitored for internal management purposes. Goodwill is monitored at the operating segment level.

Goodwill impairment reviews are undertaken annually or more frequently if events or changes in circumstances indicate a potential impairment. The carrying value of goodwill is compared to the recoverable amount, which is the higher of value in use and the fair value less costs to sell. Any impairment is recognised immediately as an expense and is not subsequently reversed.

(b) Computer software

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

- it is technically feasible to complete the software product so that it will be available for use;
- management intends to complete the software product and use or sell it;
- there is an ability to use or sell the software product;

Notes (continued)

2 Summary of significant accounting policies (continued)

2.9 Intangible assets (continued)

(b) Computer software (continued)

- it can be demonstrated how the software product will generate probable future economic benefits;
- adequate technical, financial and other resources to complete the development and to use or sell the software product are available; and
- the expenditure attributable to the software product during its development can be reliably measured.

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

Other development expenditures that do not meet these criteria are recognised as an expense as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period.

Computer software development costs recognised as assets are amortised over their estimated useful lives. Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised on the basis of the expected useful lives of 5-10 years.

2.10 Impairment of non-financial assets

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

2.11 Employee benefits

(i) Retirement benefit obligations

The Group operates defined contribution plan for its employees. The Group and all its employees also contribute to the appropriate National Social Security Fund, which are defined contribution schemes. A defined contribution plan is a pension plan under which the Group pays fixed contributions into a separate entity. The Group has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods.

The assets of the scheme are held in separate trustee administered fund, which is funded by contributions from both the Group and employees.

The Group's contributions to the defined contribution schemes are recognised as employee benefit expense in the income statement in the year in which they fall due.

(ii) Other employee benefit obligations

Employee entitlements to long service awards are categorized 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 balance sheet date.

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

2.12 Provisions for liabilities

Provisions for restructuring costs and legal claims are recognised when: the Bank has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

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

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

Notes (continued)

2 Summary of significant accounting policies (continued)

2.13 Income tax

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

(a) Current income tax

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

(b) Deferred income tax

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

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

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

2.14 Dividend payable

Dividends on ordinary shares are charged to equity in the period in which they are declared. Proposed dividends are reported as a component of equity at year end.

2.15 Share capital

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

2.16 Accounting for leases

Leases are divided into finance leases and operating leases.

(a) The Bank is the lessee

(i) Operating lease

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

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

(ii) Finance lease

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

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

(b) The Bank is the lessor

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

Notes (continued)

2 Summary of significant accounting policies (continued)

2.16 Accounting for leases (continued)

(c) Fees paid in connection with arranging leases

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

2.17 Interest income and expense

Interest income and interest expense on interest bearing financial instruments is calculated by applying the effective interest rate to the gross carrying amount, except for:

(a) Purchased or originated credit impaired (POCI) financial assets, for which the original credit-adjusted effective interest rate is applied to the amortised cost of the financial asset; and

(b) Financial assets that are not "POCI" but have subsequently become credit-impaired, for which interest revenue is calculated by applying the effective interest rate to their amortised cost (i.e.net of the expected credit loss provision) in subsequent reporting periods.

The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial asset or financial liability to the gross carrying amount of a financial asset (i.e. its amortised cost before any impairment allowance) or to the amortised cost of a financial liability. The calculation does not consider expected credit losses and includes transaction costs, premiums or discounts and fees paid or received that are integral to the effective interest rate, such as origination fees. For purchased or originated credit-impaired financial assets – assets that are credit-impaired at initial recognition, the Group calculates the credit adjusted effective interest rate, which is calculated based on the amortised cost of the financial asset instead of its gross carrying amount and incorporates the impact of expected credit losses in estimated future cash flows.

2.18 Fees and commission income and expense

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

2.19 Cash and cash equivalents

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

2.20 Borrowings

Borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in profit or loss over the period of the borrowings using the effective interest method. Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a prepayment for liquidity services and amortised over the period of the facility to which it relates.

Borrowings are removed from the balance sheet when the obligation specified in the contract is discharged, cancelled or expired. The difference between the carrying amount of a financial liability that has been extinguished or transferred to another party and the consideration paid, including any noncash assets transferred or liabilities assumed, is recognised in profit or loss as other income or finance costs.

Borrowings are classified as current liabilities unless the group has an unconditional right to defer settlement of the liability for at least 12 months after the reporting period.

2.21 Financial guarantee contracts and Loan commitments

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

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

Notes (continued)

2 Summary of significant accounting policies (continued)

2.21 Financial guarantee contracts and Loan commitments (continued)

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

3 Critical accounting estimates and judgments

The Group's financial statements and its financial result are influenced by accounting policies, assumptions, estimates and management judgment, which necessarily have to be made in the course of preparation of the financial statements.

The Group makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. All estimates and assumptions required in conformity with IFRS are best estimates undertaken in accordance with the applicable standard. Estimates and judgments are evaluated on a continuous basis, and are based on past experience and other factors, including expectations with regard to future events.

Accounting policies and management's judgments for certain items are especially critical for the Group's results and financial situation due to their materiality.

(a) Impairment losses on loans and advances

The Group reviews its loan portfolios to assess impairment at least on a monthly basis. The Group estimates the expected credit loss as per requirements of IFRS 9. In determining whether an impairment loss should be recorded in the income statement, the group makes judgments as to whether there is any observable data indicating an impairment trigger or a significant increase in credit risk followed by measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the group. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience. Management also uses judgement in determination of the inputs used in the calculation of the Expected credit losses for loans and advances as per the IFRS 9 framework adopted by the group. These include; macroeconomic overlays, forward looking information assumptions, haircut assumptions and staging criteria assumptions.

(b) Fair value of financial instruments

The fair value of financial instruments where no active market exists or where quoted prices are not otherwise available are determined by using valuation techniques. In these cases, the fair values are estimated from observable data in respect of similar financial instruments or using models. Where market observable inputs are not available, they are estimated based on appropriate assumptions. Where valuation techniques (for example, models) are used to determine fair values, they are validated and periodically reviewed by qualified personnel independent of those that sourced them. All models are certified before they are used, and models are calibrated to ensure that outputs reflect actual data and comparative market prices. To the extent practical, models use only observable data; however, areas such as credit risk (both own credit risk and counterparty risk), volatilities and correlations require management to make estimates.

(c) Impairment of goodwill

The Group tests annually whether goodwill has suffered any impairment, in accordance with the accounting policy stated in Note 2.10. The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. The carrying amount of the goodwill and the key assumptions made are set out in Note 18.

(d) Income taxes

The Group is subject to income taxes in various jurisdictions. Significant judgment is required in determining the Group's provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

Notes (continued)

4 Financial risk management

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

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

Financial risk management is carried out by the Treasury and Credit department under policies approved by the Board of Directors. Treasury identifies, evaluates and hedges financial risks in close cooperation with the operating units. The Board provides written principles for overall risk management, as well as written policies covering specific areas such as foreign exchange risk, interest rate risk, credit risk, use of derivative and non-derivative financial instruments. In addition, internal audit is responsible for the independent review of risk management and the control environment.

The risks arising from financial instruments to which the Bank is exposed are financial risks, which includes credit risk, liquidity risk and market risk.

(a) Credit risk

The Group takes on exposure to credit risk, which is the risk that a counterparty will cause a financial loss to the Group by failing to pay amounts in full when due. Credit risk is the most important risk for the Group's business: management therefore carefully manages the exposure to credit risk. Credit exposures arise principally in lending and investment activities. There is also credit risk in off-balance sheet financial instruments, such as loan commitments. Credit risk management and control is categorized in the credit risk management department, which reports regularly to the Board Credit Committee.

(i) Risk limit control and mitigation policies

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

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

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

- Mortgages over properties;
- All asset debenture charges over business assets such as premises, plant and equipment; and
- Charges over financial instruments such as debt securities and equities.

Longer-term finance and lending to corporate entities are generally secured.

(ii) Credit Risk measurement

Loans and advances (including loan commitments and guarantees)

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

Notes (continued)

4 Financial risk management (continued)

(a) Credit risk (continued)

(ii) Credit Risk measurement (continued)

Credit Risk Grading

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

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

Debt Securities and Placements with Banks

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

The group has not yet established internal models for measurement of expected credit loss(ECL) on non loan financial instruments such as investment securities,interbank balances and other financial assets. However as at 1 Jan 2018 and 31 December 2018, the Group estimated the ECL for these financial assets using external data as proxy and concluded that no material exposures existed.

The Group's rating method comprises 7 rating levels for instruments not in default (1 to 7) and 3 default classes (8 to 10). The rating methods are subject to an annual validation and recalibration so that they reflect the latest projections in the light of actually observed defaults.

(iii) Expected Credit Loss Measurement

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

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

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

Change in Credit Quality since Initial Recognition

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

Notes (continued)

4 Financial risk management (continued)

(a) Credit risk (continued)

(iii) Expected Credit Loss Measurement (continued)

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

1. Significant Increase in Credit Risk (SICR)

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

Quantitative Criteria

The quantitative criteria is based on relative and not absolute changes in credit quality driven by ratings and days past due.

The bank considers that financial instruments for which default patterns are not concentrated at a specific point during the expected life of the financial instrument, changes in the risk of a default occurring over the next 12 months may be a reasonable approximation of the changes in the lifetime risk of a default occurring and could be used to determine whether credit risk has increased significantly since initial recognition.

The Group considers if there has been an increase of 2 or more in the customer's rating, the facility is deemed to have a significant increase in credit risk. The standard also sets out a rebuttable presumption that the credit risk on a financial asset has increased significantly since initial recognition when contractual payments are more than 30 days past due. This 30 days past due simplification permits the use of delinquency or past due status to identify a significant increase in credit risk. In adherence to the standard, the Bank shall at every reporting period assess the loan portfolio individually for possible breach of the 30 days past due SICR criterion. Where there is a breach and the loan has not been transferred to stage 2, the Bank shall rebut the 30 days rebuttable presumption based on availability of supportable and reasonable information to justify that credit quality has not deteriorated significantly since initial recognition.

Qualitative Criteria

In addition to the above, the Group considers other qualitative factors in determining the classification above, and may accelerate the classification of credit facilities where deemed appropriate. They include but not limited to the following:

a. Significant changes in the terms of the same instrument if it were issued at the reporting date that indicate a change in credit risk since initial recognition, e.g. increase in credit spread; more stringent covenants; increased amounts of collateral or guarantees; or higher income coverage.

b. Significant changes in external market indicators of credit risk for the same financial instrument (or similar instrument of the borrower), e.g. other market information related to the borrower, such as changes in the price of a borrower's debt and equity instruments; or external credit rating (actual or expected).

c. Actual or expected adverse changes in business, financial or economic conditions significantly affecting borrower's ability to meet its debt obligations

d. Significant changes in the value of collateral which are expected to reduce the borrower's economic incentive to pay or otherwise affect the probability of default.

e. Expected changes in the loan documentation (e.g. breach of contract leading to covenant waivers or amendments, interest payment holidays, interest rate step-ups, requiring additional collateral or guarantees).

f. Significant changes in the expected performance and behavior of the borrower, including changes in the payment status of borrowers in the group (e.g. increase in delayed contractual payments or number of credit card borrowers expected to approach or exceed their credit limit or who are expected to be paying the minimum monthly amount)

Notes (continued)

4 Financial risk management (continued)

(a) Credit risk (continued)

(iii) Expected Credit Loss Measurement (continued)

2. Definition of default and credit-impaired assets

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

Qualitative Criteria

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

Quantitative Criteria

The Group considers a facility that is more than 90 days past due and its rating is greater than or equal to 8 as credit impaired as per internal risk rating.

The above criteria have been applied to all financial instruments held by the Group and are consistent with the definition of default used for internal credit risk management purposes. The default definition has been applied consistently to model the Probability of Default (PD), Exposure at Default (EAD) and Loss Given Default (LGD) throughout the Group's expected loss calculations.
An instrument is considered to no longer be in default (i.e. to have cured) when it no longer meets any of the default criteria for a consecutive period of six months. This period of six months has been determined based on an analysis which considers the likelihood of a financial instrument returning to default status after cure using different possible cure definitions.

3. Measuring Expected Credit loss - Explanation of inputs, assumptions and estimation techniques

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

- The PD represents the likelihood of a borrower defaulting on its financial obligation, either over the next 12 months (12M PD), or over the remaining lifetime (Lifetime PD) of the obligation.

- EAD is based on the amounts the Group expects to be owed at the time of default, over the next 12 months (12M EAD) or over the remaining lifetime (Lifetime EAD).

- LGD represents the Group's expectations of the extent of loss on a defaulted exposure. LGD varies by type of counterparty, type of seniority of claim and availability of collateral or other credit support. LGD is calculated on a 12-month or lifetime basis, where 12 month LGD is the percentage of loss expected to be made if the default occurs over the next 12 months and lifetime LGD is the percentage of loss expected to be made if the default occurs over the remaining expected lifetime of the loan.

Forward-looking economic information is also included in determining the 12-month and lifetime PD, EAD and LGD. These assumptions vary by product type.

ECL is formula driven, i.e. **ECL= PD x LGD x EAD**

Notes (continued)

4 Financial risk management (continued)

(a) Credit risk (continued)

(iii) Expected Credit Loss Measurement (continued)

4. Forward-looking information incorporated in the ECL models

The assessment of SICR and the calculation of ECL both incorporate forward-looking information. The Group has performed historical analysis and identified the key economic variables impacting credit risk and expected credit losses for the loan portfolio. These economic variables and their associated impact on PD, EAD and LGD vary by financial instrument.

Economic variable assumptions

The most significant period-end assumptions used for the ECL estimate as at 1 January 2018 and 31 December 2018 are set out below. The scenarios "base", "upside" and "downside" were used for all portfolios.

All Customers			
Macroeconomic Data	**Base**	**Upside**	**Downside**
Exchange rate USD	100.89	90.80	105.93
Inflation	4.7%	4.2%	4.9%
Unemployment	11%	10%	12%
GDP	6.0%	6.60%	5.70%
Interest Rate	13%	14%	12%

The weightings and overall macroeconomic overlay assigned to each economic scenario at 1 January 2018 and 31 December 2018 were as follows:

All Customers			
	Base	**Upside**	**Downside**
Weightings	60%	20%	20%
Overall Macro overlay	0%	10%	-5%

Other forward-looking considerations not otherwise incorporated within the above scenarios, such as the impact of any regulatory, legislative or political changes, have been considered, but are not deemed to have a material impact therefore no adjustment has been made to the ECL for such factors. This is reviewed and monitored for appropriateness on a quarterly basis.

Sensitivity analysis

Set out below are the changes to the ECL at 31 December 2018 that would result from reasonably possible changes in the group,s overall macro-economic overlay and the probability weightings from actual assumptions used in the Group's economic variable assumptions:

Impact of 10% increase/decrease in base case probability weighting

	Base	**Upside**	**Downside**	**ECL change '000**
Weightings +10%	70%	15%	15%	334
Weightings -10%	50%	25%	25%	(334)

Impact of 5% increase/decrease in upside expected macroeconomic overlay and 10% increase in downside expected macroeconomic overlay

	Base	**Upside**	**Downside**	**ECL change '000**
Upside overlay +5%	0%	15%	-5%	(1,337)
Upside overlay -5%	0%	5%	-5%	1,337
Downside overlay -10%	0%	10%	-15%	2,675

Notes (continued)

4 Financial Risk Management (Continued)

(a) Credit risk (continued)

(iv) Maximum exposure to credit risk before collateral

	Group		Bank	
	2018	**2017**	**2018**	**2017**
	Shs'000	**Shs'000**	**Shs'000**	**Shs'000**
Balances with Central Banks	2,330,706	3,280,879	1,120,905	1,595,552
Government & other securities at amortised cost	2,983,411	3,664,706	883,580	1,193,069
Government & other securities at FVOCI	5,922,191	5,764,282	5,922,191	5,764,282
Deposits and balances due from other banks	2,076,271	2,344,608	187,981	1,482,613
Due from group companies	2,172,463	1,681,220	19,784	12,685
Loans and advances to customers	19,681,830	20,542,673	12,669,666	13,203,981
Other assets	415,171	392,627	213,192	142,702
Credit exposure relating to off-balance sheet items:				
- Acceptances and letters of credit	1,068,433	1,266,983	761,064	727,652
- Guarantees and performance bonds	3,773,205	3,536,977	873,403	1,484,588
- Commitments to lend	1,737,471	2,243,786	1,183,835	1,484,968
	42,161,152	44,718,741	23,835,601	27,092,092

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

As shown above, 47% of the total maximum exposure of the Group is derived from loans and advances to banks and customers

Management is confident on 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 debt securities based on the following:

- 75% of the loans and advances portfolio are neither past due nor impaired
- 99% of the investments in debt securities are government securities.

Loans and advances are categorized as follows:

	Group		Bank	
	2018	**2017**	**2018**	**2017**
	Shs'000	**Shs'000**	**Shs'000**	**Shs'000**
Neither past due nor impaired	16,147,195	16,808,568	9,737,779	11,396,449
Past due but not impaired	2,079,065	2,235,804	1,654,136	973,963
Individually Impaired	3,072,759	2,435,369	2,164,495	1,142,494
Gross	21,299,019	21,479,741	13,556,410	13,512,906
Less: allowance for impairment (Note 15)	1,617,189	937,068	886,744	308,925
Net	19,681,830	20,542,673	12,669,666	13,203,981

No other financial assets are either past due or impaired. All financial assets that are neither past due nor impaired are within their approved exposure limits and none have had their terms renegotiated.

<u>Loans and advances neither past due nor impaired</u>

The credit quality of the portfolio of loans and advances that were neither past due nor impaired can be assessed by reference to the internal rating system adopted by the Group:

	Group		Bank	
	2018	**2017**	**2018**	**2017**
	Shs'000	**Shs'000**	**Shs'000**	**Shs'000**
Standard	16,147,195	16,808,568	9,737,779	11,396,449

Notes (continued)

4 Financial Risk Management (Continued)

(a) Credit risk (continued)

Loans and advances past due but not impaired

Loans and advances less than 90 days past due are not considered impaired, unless other information is available to indicate the contrary. The gross amounts of loans and advances that were past due but not impaired were as follows:

	Group		Bank	
	2018	2017	2018	2017
	Shs'000	Shs'000	Shs'000	Shs'000
Past due up to 30 days	1,245,861	1,445,808	820,932	222,207
Past due 31 – 60 days	508,886	214,110	508,886	212,889
Past due 61 – 90 days	324,318	575,886	324,318	538,867
Total	2,079,065	2,235,804	1,654,136	973,963

Loans and advances individually impaired

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

	Group		Bank	
	2018	2017	2018	2017
	Shs'000	Shs'000	Shs'000	Shs'000
Individually assessed impaired loans and advances	3,072,759	2,435,369	2,164,495	1,142,494
Fair value of collateral held	4,012,308	2,606,594	3,221,251	1,166,186

(b) Concentration of risk

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

(i) Loans and advances	Group		Bank	
	2018	2017	2018	2017
	Shs'000	Shs'000	Shs'000	Shs'000
Manufacturing	3,594,258	3,313,768	2,202,277	1,965,375
Wholesale and retail trade	4,173,055	3,931,543	2,404,458	2,455,590
Transport and communications	1,307,376	1,907,050	758,406	1,383,504
Agricultural	1,634,624	2,193,648	1,548,464	1,933,485
Hotel,Restaurant&tourism	1,149,326	2,008,302	1,149,326	1,215,427
Social community & Other services	1,281,421	2,556,042	1,281,421	1,182,320
Building ,Construction and Real Estate	2,923,031	2,521,305	1,148,058	1,416,603
Mining	485,473	493,944	485,473	484,853
Finance and Insurance	885,624	449,997	885,624	445,451
Energy	806,460	1,001,716	806,459	721,373
Others *	1,441,182	165,358	-	-
Gross	19,681,830	20,542,673	12,669,966	13,203,981

*Other loans and advances include education sector and Information technology.

Notes (continued)

4 Financial Risk Management (Continued)

(b) Concentration of risk (continued)

(ii) Off-balance sheet Items

	Group		Bank	
	2018	**2017**	**2018**	**2017**
	Shs'000	**Shs'000**	**Shs'000**	**Shs'000**
Manufacturing	431,239	387,801	351,599	185,525
Wholesale and retail trade	802,409	866,925	573,685	540,649
Transport and communications	258,491	411,588	185,256	311,845
Business services	222,025	543,632	78,727	478,422
Agricultural	102,873	6,183	97,887	3,693
Individuals	96,442	5,052	5,300	4,998
Real estate and construction	2,234,779	2,002,882	75,555	370,042
Information and Technolgy	137,249	82,060	137,249	82,060
Mining	-	280,767	-	24,920
Energy	90,020	114,870	90,020	110,188
Others*	466,077	102,200	39,187	99,898
Gross	4,841,604	4,803,960	1,634,465	2,212,240

*Other off - balance sheet items includes arts and entertainment, accomodation and food services,professional services and tourism.

The group identified and reviewed the impairment of off balance sheet items within the scope of IFRS 9 and concluded that the impairment did not materially impact the financial statements and that there were no material adjustments required in the year.

(c) Liquidity risk

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

The Group is exposed to daily calls on its available cash resources from overnight deposits, current accounts, maturing deposits, and calls on cash settled contingencies. The Group does not maintain cash resources to meet all of these needs as experience shows that a minimum level of reinvestment of maturing funds can be predicted with a high level of certainty. The regulatory bodies of the respective countries require that the Group maintain a cash reserve ratio. In addition, the Board sets limits on the minimum proportion of maturing funds available to meet such calls and on the minimum level of inter-bank and other borrowing facilities that should be in place to cover withdrawals at unexpected levels of demand. The Treasury department monitors liquidity ratios on a daily basis.

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

(i) Group

At December 2018	**Upto 1 month**	**1 - 3 months**	**3 - 12 months**	**1 - 5 years**	**Over 5 years**	**Total**
	Shs'000	**Shs'000**	**Shs'000**	**Shs'000**	**Shs'000**	**Shs'000**
Liabilities						
Customer deposits	11,013,637	4,045,453	12,306,518	1,459,605	-	28,825,213
Deposits and balances due to banking institutions	1,072,379	-	-	-	-	1,072,379
Amounts due to group companies	2,049	-	-	-	-	2,049
Other liabilities	528,447	-	-	-	-	528,447
Total financial liabilities	12,616,512	4,045,453	12,306,518	1,459,605	-	30,428,088
Assets						
Cash and balances with Central Banks	2,987,766	-	-	-	-	2,987,766
Government and other Securities held	1,232,523	2,072,374	4,174,763	1,034,922	391,019	8,905,601
Deposits and balances due from banking institutions	2,076,271	-	-	-	-	2,076,271
Deposits and balances due from group companies	2,172,463	-	-	-	-	2,172,463
Loans and advances to customers	1,247,922	2,759,493	6,620,181	8,800,619	3,168,267	22,596,482
Other financial assets	527,682	-	-	-	-	527,682
Total financial assets	10,244,627	4,831,867	10,794,944	9,835,541	3,559,286	39,266,265
Net liquidity gap	2,371,885	(786,414)	1,511,574	(8,375,936)	(3,559,286)	(8,838,177)

Notes (continued)

4 Financial Risk Management (Continued)

(c) Liquidity risk (continued)

(i) Group (Continued)

At December 2017	Upto 1 month Shs'000	1 - 3 months Shs'000	3 - 12 months Shs'000	1 - 5 years Shs'000	Over 5 years Shs'000	Total Shs'000
Liabilities						
Customer deposits	20,368,856	5,974,363	1,400,472	3,980	-	27,747,671
Deposits and balances due to banking institutions	1,735,551	-	-	-	-	1,735,551
Amounts due to group companies	593	-	-	-	-	593
Borrowings	2,471,338	-	-	-	-	2,471,338
Other liabilities	493,984	-	-	-	-	493,984
Total financial liabilities	25,070,322	5,974,363	1,400,472	3,980	-	32,449,137
Assets						
Cash and balances with Central Banks	3,028,345	870,343	-	-	-	3,898,688
Government and other Securities held	755,299	2,628,068	4,502,908	1,467,949	1,546,601	10,900,825
Deposits and balances due from banking institutions	2,344,608	-	-	-	-	2,344,608
Deposits and balances due from group companies	1,681,220	-	-	-	-	1,681,220
Loans and advances to customers	2,881,892	3,716,983	4,515,092	12,275,959	1,714,114	25,104,040
Other financial assets	560,893	-	-	-	-	560,893
Total financial assets	11,252,257	7,215,394	9,018,000	13,743,908	3,260,715	44,490,274
Net liquidity gap	13,818,065	(1,241,031)	(7,617,528)	(13,739,928)	(3,260,715)	(12,041,137)

(ii) Bank

At December 2018	Upto 1 month Shs'000	1 - 3 months Shs'000	3 - 12 months Shs'000	1 - 5 years Shs'000	Over 5 years Shs'000	Total Shs'000
Liabilities						
Customer deposits	6,761,950	2,914,955	6,466,800	41,500	-	16,185,205
Deposits and balances due to banking institutions	712,511	-	-	-	-	712,511
Amounts due to group companies	2,957	-	-	-	-	2,957
Other liabilities	147,869	-	-	-	-	147,869
Total financial liabilities	7,625,287	2,914,955	6,466,800	41,500	-	17,048,542
Assets						
Cash and balances with Central	1,273,328	-	-	-	-	1,273,328
Government and other Securities held	697,111	1,873,545	2,935,963	908,133	391,019	6,805,771
Deposits and balances due from banking institutions	187,981	-	-	-	-	187,981
Due from group companies	19,784	-	-	-	-	19,784
Loans and advances to customers	493,937	1,515,806	4,494,890	6,307,420	2,772,266	15,584,318
Other financial assets	259,592	-	-	-	-	259,592
Total financial assets	2,931,733	3,389,351	7,430,853	7,215,553	3,163,284	24,130,774
Net liquidity gap	4,693,555	(474,396)	(964,053)	(7,174,053)	(3,163,284)	(7,082,232)

Notes (continued)

4 Financial Risk Management (Continued)

(c) Liquidity risk (continued)

(ii) Bank (Continued)

At December 2017	Upto 1 Shs'000	1 - 3 months Shs'000	3 - 12 Shs'000	1 - 5 years Shs'000	Over 5 years Shs'000	Total Shs'000
Liabilities						
Customer deposits	9,606,848	5,128,966	556,420	1,457	-	15,293,691
Deposits and balances due to banking institutions	1,460,665	-	-	-	-	1,460,665
Amounts due to group companies	213,111	-	-	-	-	213,111
Borrowings	2,471,338	-	-	-	-	2,471,338
Other liabilities	151,083	-	-	-	-	151,083
Total financial liabilities	13,903,045	5,128,966	556,420	1,457	-	19,589,888
Assets						
Cash and balances with Central Bank of Kenya	1,754,934	-	-	-	-	1,754,934
Government and other Securities held	504,534	1,689,441	3,242,062	726,273	1,546,601	7,708,911
Deposits and balances due from banking institutions	1,482,613	-	-	-	-	1,482,613
Due from group companies	12,685	-	-	-	-	12,685
Loans and advances to customers	1,075,513	2,584,066	2,627,133	9,686,355	1,243,307	17,216,374
Other financial assets	253,478	-	-	-	-	253,478
Total financial assets	5,083,757	4,273,507	5,869,195	10,412,628	2,789,908	28,428,995
Net liquidity gap	8,819,288	855,459	(5,312,775)	(10,411,171)	(2,789,908)	(8,839,107)

(d) Market risk

Market risk is the risk that changes in market prices, which include currency exchange rates and interest rates, will affect the fair value or future cash flows of a financial instrument. 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 the return on risk. Overall responsibility for managing market risk rests with the Board Risk Management Committee (BRMC). The Treasury department is responsible for the development of detailed risk management policies (subject to review and approval by BRMC) and for the day to day implementation of those policies.

Notes (continued)

4 Financial Risk Management (Continued)

(d) Market risk (continued)

(i) Currency risk

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

The table below summarizes the Group's and the Company's exposure to foreign currency exchange rate risk as at 31 December 2018. Included in the table are the Group's and the Company's financial instruments categorized by currency. All figures are in thousands of Kenya Shillings.

Group

At 31 December 2018	USD Shs'000	GBP Shs'000	EURO Shs'000	OTHER Shs'000	Total Shs'000
Assets					
Cash and balances with Central Banks	373,552	18,524	59,355	1,735	453,166
Deposits and balances due from banking institutions	3,182,726	86,406	538,001	23,407	3,830,540
Loans and advances to customers	5,250,315	7,159	282,085	3	5,539,562
Other financial assets	27,059	3	2	-	27,064
Total Assets	8,833,652	112,092	879,443	25,145	9,850,332
Liabilities					
Customer deposits	7,933,523	382,809	803,844	14,209	9,134,385
Deposits and balances due to banking institutions	828,182	964	68	1,686	830,900
Other liabilities	472,139	36	259	-	472,434
Total liabilities	9,233,844	383,809	804,171	15,895	10,437,719
Net on Balance sheet position	(400,192)	(271,717)	75,272	9,250	(587,387)
Net off Balance sheet position	(198,582)	261,631	(73,943)	(5,876)	(16,770)
Overall position	(598,774)	(10,086)	1,329	3,374	(604,157)
At 31 December 2017					
Total Assets	6,993,633	131,703	897,989	2,504,549	10,527,874
Total Liabilities	7,926,002	106,061	546,223	2,401,618	10,979,904
Net on Balance sheet position	(932,369)	25,642	351,766	102,931	(452,030)
Net off Balance sheet position	1,271,001	(23,727)	(342,348)	468,186	1,373,112
Overall position	338,632	1,915	9,418	571,117	921,082

Notes (continued)

4 Financial Risk Management (Continued)

(d) Market risk (continued)

(i) Currency risk (continued)

Bank

At December 2018	**USD Shs'000**	**GBP Shs'000**	**EURO Shs'000**	**Other Shs'000**	**Total Shs'000**
Assets					
Cash and balances with Central Bank of Kenya	20,285	1,710	3,739	-	25,734
Deposits and balances due from banking institutions	147,228	79,062	17,800	23,127	267,217
Loans and advances to customers	3,590,356	7,110	282,070	4	3,879,540
	3,757,869	87,882	303,609	23,131	4,172,491
Liabilities					
Customer deposits	2,757,997	359,599	228,339	14,190	3,360,125
Deposits and balances due to banking institutions	713,402	-	-	-	713,402
Total liabilities	3,471,399	359,599	228,339	14,190	4,073,527
Net on Balance sheet position	286,470	(271,717)	75,270	8,941	98,964
Net off Balance sheet position	(198,582)	261,631	(73,943)	(5,876)	(16,770)
Overall position	87,888	(10,086)	1,327	3,065	82,194
At 31 December 2017					
Total Assets	3,924,447	117,373	432,879	16,705	4,491,404
Total Liabilities	4,275,352	94,010	87,900	14,951	4,472,213
Net on Balance sheet position	(350,905)	23,363	344,979	1,754	19,191
Net off Balance sheet position	390,590	(23,727)	(342,348)	-	24,515
Overall position	39,685	(364)	2,631	1,754	43,706

At 31 December 2018, if the Shilling had weakened/strengthened by 10% against the US dollar with all other variables held constant, consolidated post tax profit for the year would have been Shs 21 million (2017: Shs 11 million) lower/higher, mainly as a result of US dollar loans and advances and bank balances.

Notes (continued)

4 Financial Risk Management (Continued)

(d) Market risk (continued)

(ii) Interest rate risk

The Group takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on both its fair value and cash flow risks. Interest margins may increase as a result of such changes but may reduce or create losses in the event that unexpected movements arise. The Board of Directors sets limits on the level of mismatch of interest rate repricing that may be undertaken, which is monitored daily.

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

(a) Group

At December 2018	Upto 1 month	1 - 3 months	3 - 12 months	Over 1 year	Non interest bearing	Total
Assets						
Cash and balances with Central Banks	-	-	-	-	2,987,766	2,987,766
Government and other Securities at amortised cost	545,412	198,829	1,488,505	750,665	-	2,983,411
Government and other Securities at FVOCI	697,111	1,873,545	2,677,636	673,899	-	5,922,191
Deposits and balances due from banking institutions	2,076,271	-	-	-	-	2,076,271
Amounts due from group companies	2,172,463	-	-	-	-	2,172,463
Loans and advances to customers	1,979,286	3,644,180	6,023,389	8,034,975	-	19,681,830
Other financial assets	-	-	-	-	527,682	527,682
Total financial assets	7,470,543	5,716,554	10,189,530	9,459,539	3,515,448	36,351,614
Liabilities						
Customer deposits	9,312,841	8,083,990	1,540,904	4,438	9,746,385	28,688,558
Deposits and balances due to banking institutions	1,072,379	-	-	-	-	1,072,379
Amounts due to group companies	2,049	-	-	-	-	2,049
Other liabilities	-	-	-	-	528,447	528,447
Total financial liabilities	10,387,269	8,083,990	1,540,904	4,438	10,274,832	30,291,433
Total interest repricing gap	(2,916,726)	(2,367,436)	8,648,626	9,455,101	(6,759,384)	6,060,181
At 31 December 2017						
Total financial Assets	14,036,693	9,281,375	4,640,307	6,039,114	4,459,581	38,457,070
Total financial Liabilities	10,334,771	7,433,329	3,878,723	3,858	10,227,284	31,877,965
Total interest repricing gap	3,701,922	1,848,046	761,584	6,035,256	(5,767,703)	6,579,105

Notes (continued)

4 Financial Risk Management (Continued)

(d) Market risk (continued)

(ii) Interest rate risk (continued)

(b) Bank

At December 2018	Upto 1 month	1 - 3 months	3 - 12 months	Over 1 year	Non interest bearing	Total
Assets						
Cash and balances with Central Bank of Kenya	-	-	-	-	1,273,328	1,273,328
Government and other Securities at amortised cost	10,000	-	249,705	623,875	-	883,580
Government and other Securities at FVOCI	697,111	1,873,545	2,677,636	673,899	-	5,922,191
Deposits and balances due from banking institutions	187,981	-	-	-	-	187,981
Due from group companies	19,784	-	-	-	-	19,784
Loans and advances to customers	1,225,300	2,400,493	3,898,098	5,145,775	-	12,669,666
Other financial assets	-	-	-	-	259,592	259,592
Total financial assets	2,140,176	4,274,038	6,825,439	6,443,549	1,532,920	21,216,122
Liabilities						
Customer deposits	5,444,534	5,896,055	711,654	3,734	3,992,574	16,048,551
Deposits and balances due to banking institutions	712,511	-	-	-	-	712,511
Amounts due from group companies	2,957	-	-	-	-	2,957
Other financial liabilities	-	-	-	-	147,869	147,869
Borrowings	-	-	-	-	-	-
Total financial liabilities	6,160,002	5,896,055	711,654	3,734	4,140,443	16,911,888
Total interest repricing gap	(4,019,826)	(1,622,017)	6,113,785	6,439,815	(2,607,523)	4,304,234
At 31 December 2017						
Total Assets	9,857,712	7,489,986	1,608,184	2,700,748	2,008,412	23,665,042
Total Liabilities	6,353,980	5,437,793	3,034,671	1,335	4,190,936	19,018,715
Total interest repricing gap	3,503,732	2,052,193	(1,426,487)	2,699,413	(2,182,524)	4,646,327

Notes (continued)

4 Financial Risk Management (Continued)

(d) Market risk (continued)

(ii) Interest rate risk (continued)

The matching and controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental to the management of the Group. 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 maturities 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 liquidity of the Group and its exposure to changes in interest rates and exchange rates.

The Group has various financial assets and liabilities at variable rates, which expose the Group to cash flow interest rate risk. The Group regularly monitors financing options available to ensure optimum interest rates are obtained. At 31 December 2018, an increase/decrease of 75 basis points would have resulted in an increase/decrease in consolidated post tax profit of Group; Shs 125 million (2017: Shs 115 million) and Bank Shs 73 million (2017: Shs 74 million) , mainly as a result of higher/lower interest charges on variable rate borrowings.

(e) Fair values of financial assets and liabilities

The fair value of investment securities at fair value through other comprehensive income as at 31 December 2018 is estimated at; Shs 5,951 million (2017: Shs 5,790 million) for the Group and Bank as compared to their carrying values of Shs 5,948 million (2017: Shs 5,817 million). The fair value of freehold land and building is estimated at; Shs 98 million (2017: Shs 133 million) for the Group as compared to their carrying values of Shs 62 million (2017: Shs 66 million) based on the historical cost basis. The fair values of the Group and Bank's other financial assets and liabilities approximate the respective carrying amounts, due to the generally short periods to contractual repricing or maturity dates as set out above. Fair values of the investment securities are based on discounted cash flows using a discount rate based upon the borrowing rate that the directors expect would be available to the Group at the balance sheet date.

Fair value estimation

The table below analyses assets carried at fair value by valuation method. The different levels are defined as follows:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1).
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2).
- Inputs for the asset or liability that are not based on observable market data (that is, un observable inputs) (level 3).

	Level 1	Level 2	Level 3
Group	**Shs'000**	**Shs'000**	**Shs'000**
31 December 2018			
Assets			
Financial assets at fair value through OCI	-	5,922,191	-
Freehold Land & Building	-	-	97,708
31 December 2017			
Assets			
Financial assets at fair value through OCI	-	5,764,282	-
Freehold Land & Building	-	-	132,816
Bank			
31 December 2018			
Assets			
Financial assets at fair value through OCI	-	5,922,191	-
31 December 2017			
Assets			
Financial assets at fair value through OCI	-	5,764,282	-

Notes (continued)

4 Financial Risk Management (Continued)

(f) Capital Management

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

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

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

The Central Bank of Kenya requires each bank to: (a) hold the minimum level of regulatory capital of Shs 1 Billion as at 31 December 2018; (b) maintain a ratio of total regulatory capital to the risk-weighted assets plus risk-weighted off-balance sheet assets (the 'Basel ratio') at or above the required minimum of 8%; (c) maintain core capital of not less than 8% of total deposit liabilities; and (d) maintain total capital of not less than 12% of risk-weighted assets plus risk-weighted off-balance sheet items.

Central Bank of Kenya (CBK), National Bank of Rwanda (BNR) and Bank of Uganda (BOU) largely segregate the total regulatory capital into two tiers:

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

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

The table below summarizes the composition of regulatory capital and the ratios of the Bank.

	Group		Bank	
	31-Dec-18	31-Dec-17	31-Dec-18	31-Dec-17
	Shs'000	Shs'000	Shs'000	Shs'000
Tier 1 capital	8,434,397	8,287,589	5,059,129	5,256,521
Tier 1 + Tier 2 capital	8,434,397	8,389,762	5,059,129	5,354,300
Risk - weighted assets				
On Balance sheet	22,445,501	23,287,093	13,391,214	13,768,804
Off Balance sheet	2,559,317	3,655,748	625,572	1,032,014
Total market risk weighted assets	1,257,312	1,644,697	1,073,667	1,266,738
Total operational risk weighted assets	6,833,383	6,556,276	3,878,308	3,855,627
Total risk weighted assets	33,095,513	35,143,814	18,968,761	19,923,183
Basel ratio				
Tier 1	25.49%	23.58%	26.67%	26.38%
Tier 1 + Tier 2	25.49%	23.87%	26.67%	26.87%

The capital adequacy ratios for the subsidiaries are summarised below;

Tier 1	**2018**	**2017**
GTBank Kenya (CBK minimum - 10.5%)	26.67%	26.38%
GTBank Rwanda PLC (BNR minimum - 10.5%)	15.00%	14.82%
GTBank Uganda (BOU minimum - 8%)	17.26%	22.03%
Tier 1 + Tier 2	**2018**	**2017**
GTBank Kenya (CBK minimum - 14.5%)	26.67%	26.87%
GTBank Rwanda PLC (BNR minimum - 15%)	15.17%	14.99%
GTBank Uganda (BOU minimum - 12%)	18.15%	22.92%

Notes (continued)

5 Interest income

	Group		Bank	
	31-Dec-18 Shs'000	31-Dec-17 Shs'000	31-Dec-18 Shs'000	31-Dec-17 Shs'000
Loans and advances	2,664,716	2,641,921	1,610,157	1,595,789
Credit related fees and commissions*	236,658	288,728	134,823	164,650
Government securities - Amortised cost	330,378	359,947	101,155	126,549
Government securities - FVOCI	585,368	542,004	585,368	542,004
Cash and short term funds	75,955	139,014	22,460	68,431
Other securities**	9,728	13,776	9,728	13,776
	3,902,803	3,985,390	2,463,691	2,511,199

*Credit related fees and commisions previously classified under fees and commission income have been classified under interest income
**Interest income on other securities comprises of interest income on corporate bonds and discount on swap contracts

6 Interest expense

	Group		Bank	
	31-Dec-18 Shs'000	31-Dec-17 Shs'000	31-Dec-18 Shs'000	31-Dec-17 Shs'000
Customer deposits	1,110,573	1,160,399	836,976	858,060
Borrowed funds	113,414	127,846	113,414	127,846
Deposits by banks	19,022	33,378	7,976	21,714
Other interest expenses*	4,013	815	4,013	815
	1,247,022	1,322,438	962,379	1,008,435

*Interest expense on other securities comprises of premium on swap contracts

7 Fees and commission

	Group		Bank	
(a) Fees and commission income	31-Dec-18 Shs'000	31-Dec-17 Shs'000	31-Dec-18 Shs'000	31-Dec-17 Shs'000
Clearing and Funds transfer commission	111,220	109,390	34,099	37,511
Other fee income	88,066	50,813	15,544	9,669
Commissions on guarantees	83,045	116,130	26,726	28,017
Current account ledger fees	64,420	58,981	26,319	25,409
Letters of credit commissions	37,457	28,546	8,249	13,597
Master card commission	26,963	13,707	17,677	13,707
Cash withdrawal commissions	20,694	16,922	-	-
Mobile and Ebanking commissions	19,675	17,158	12,600	8,784
ATM commissions	14,589	13,713	6,160	5,964
Cheque book charges	8,851	9,470	3,430	3,536
	474,980	434,830	150,804	146,194
(b) Fees and commission expense				
Master card expense	38,125	34,017	38,125	34,017
Banking services	12,519	10,547	1,372	1,043
Foreign currency import/export charges	7,678	7,446	338	569
Other fee expenses	72,650	76,092	-	-
	130,972	128,102	39,835	35,629

8 Other operating income

Gain/(loss) on disposal of assets	3,138	1,539	232	1,059
Bad debts recovered	10,809	21,156	733	2,558
	13,947	22,695	965	3,617
Foreign exchange gains				
Unrealised foreign exchange losses	(8,431)	(8,364)	(1,239)	(1,180)
Realised foreign exchange gains	220,889	231,173	67,608	70,207
	212,458	222,809	66,369	69,027

Notes (continued)

9 Operating expenses

	31-Dec-18 Shs'000	31-Dec-17 Shs'000	31-Dec-18 Shs'000	31-Dec-17 Shs'000
	Group		Bank	
Employee benefits expense (Note 10)	1,014,943	1,043,889	508,017	469,903
Operating lease rentals	234,367	222,168	143,281	136,812
Depreciation (Note 17)	212,462	275,084	87,827	128,662
Other administrative expenses	160,195	90,474	31,338	28,796
Advertising and publicity	107,300	108,976	90,334	91,810
Amortization of intangible assets (Note 18)	81,498	75,317	37,810	32,599
Mobile and E - Banking charges	77,660	62,079	24,347	43,108
Director fees (Note 30)	72,732	76,440	41,131	39,584
Repairs and maintenance	72,266	174,205	40,997	103,301
Deposit protection insurance	41,504	42,660	24,844	28,129
Consultancy costs	40,324	26,999	4,473	10,677
Security costs	37,645	43,913	19,600	23,558
Communication	36,765	61,167	15,840	19,141
Water and electricity costs	37,194	40,111	12,075	12,674
Travel and Accomodation	36,536	29,820	18,859	8,490
Auditors' remuneration	30,780	25,262	17,070	13,700
Insurance	31,271	31,946	18,100	19,299
Legal fees	30,501	33,804	2,633	7,000
IFC processing fees expense	27,089	6,478	27,089	6,478
Printing and stationery	24,127	25,243	6,981	5,704
ATM expenses	23,833	10,996	23,814	10,996
Reuters and Bloomberg charges	21,742	22,570	15,829	16,336
Periodicals and other book subscriptions	18,885	20,241	9,575	9,488
Operating licence fees	15,390	8,817	4,176	7,850
Office housekeeping	12,289	9,075	9,635	9,075
Office Cash Handling Charges	12,209	14,218	1,984	2,208
Correspondent bank charges	10,880	7,547	6,164	7,547
Motor vehicle expenses	8,589	10,087	5,253	4,620
Courier charges	6,356	4,640	4,633	4,640
Outsourced service fees	873	3,158	873	3,158
Donation and grants	647	1,362	647	1,300
Fines and Penalties	38	6,837	21	3,993
Sundry Losses	(479)	21,292	(1,528)	2,819
Accrued tax liability expense	-	3,159	-	-
	2,538,411	2,640,034	1,253,722	1,313,455

10 Employee benefits expense

Salaries and wages	837,621	828,761	394,159	373,067
Pension fund contribution	47,914	55,707	18,008	19,790
Other staff costs and benefits	129,408	159,421	95,850	77,046
	1,014,943	1,043,889	508,017	469,903

The average number of staff in the year for the group was 578 while the bank had 202 (2017: For the group was 573 and for the bank was 201)

11 Taxation

Current income tax	158,633	128,713	66,031	57,370
Deferred income tax (Note 19)	67,847	(20,803)	(4,887)	(9,076)
	226,480	107,910	61,144	48,294

Notes (continued)

11 Taxation (continued)

The tax on the Group's profit before income tax differs from the theoretical amount that would arise using the statutory income tax rate as follows:

	Group		Bank	
	31-Dec-18	**31-Dec-17**	**31-Dec-18**	**31-Dec-17**
	Shs'000	**Shs'000**	**Shs'000**	**Shs'000**
Profit before income tax	317,219	320,855	307,079	241,305
Tax calculated at domestic rates applicable to profits in the respective countries - 30% (2017 - 30%)	95,166	96,257	92,123	72,391
Tax effect of:				
- Income not subject to tax	(57,923)	(31,017)	(23,562)	(31,014)
- Expenses not deductible for tax purposes	58,473	25,550	5,984	12,869
- Tax losses not recognised	53,984	27,911	-	-
- Deferred tax writen off	79,324	-	-	-
- Under provision of deferred income tax in prior years	(19,991)	(26,163)	(13,401)	(5,952)
- Final tax on interest earned on treasury bills	17,447	15,372	-	-
	226,480	107,910	61,144	48,294
Corporate tax recoverable				
At the beginning of the year	121,838	(17,785)	150,090	(13,944)
Charge for the year	(158,633)	(128,713)	(66,031)	(57,370)
Taxation paid	109,347	267,840	-	221,404
Translation difference	1,247	496	-	-
At the end of the year	73,799	121,838	84,059	150,090
Comprising of:				
Corporate tax recoverable	84,059	121,838	84,059	150,090
Corporate tax payable	(10,260)	-	-	-
	73,799	121,838	84,059	150,090

12 Cash and balances with the Central Bank

	Group		Bank	
	31-Dec-18	**31-Dec-17**	**31-Dec-18**	**31-Dec-17**
	Shs'000	**Shs'000**	**Shs'000**	**Shs'000**
Cash in hand	690,135	617,809	152,423	159,382
Balances with the Central Banks	2,330,706	3,280,879	1,120,905	1,595,552
	3,020,841	3,898,688	1,273,328	1,754,934

13 Financial assets

(a) Held at amortised cost

Government securities – at amortised cost				
- Maturing within 90 days of acquisition date	1,294,797	1,189,392	10,000	-
- Maturing after 90 days of acquisition date	1,688,614	2,475,314	873,580	1,193,069
	2,983,411	3,664,706	883,580	1,193,069

(b) Held at FVOCI

Government securities				
- Maturing within 90 days of acquisition date	2,570,655	2,223,898	2,570,655	2,223,898
- Maturing after 90 days of acquisition date	3,325,521	3,487,405	3,325,521	3,487,405
Debt securities	26,015	52,979	26,015	52,979
	5,922,191	5,764,282	5,922,191	5,764,282

14 Deposits and balances due from other banks

Due from local banking institutions	81,420	1,262,885	81,420	1,262,885
Due from foreign banking institutions	1,994,851	1,081,723	106,561	219,728
	2,076,271	2,344,608	187,981	1,482,613

Notes (continued)

	Group		Bank	
	31-Dec-18	31-Dec-17	31-Dec-18	31-Dec-17
15 Loans and advances to customers	Shs'000	Shs'000	Shs'000	Shs'000
Overdrafts	5,765,051	5,342,571	3,192,184	2,814,694
Commercial loans	13,670,630	14,074,175	9,938,268	10,375,800
Personal loans	1,057,747	1,023,141	421,310	317,408
Mortgages	805,591	1,039,854	4,648	5,004
Gross loans and advances	21,299,019	21,479,741	13,556,410	13,512,906
Less: Provision for impairment losses				
- Stage 1 loans	180,587	135,892	105,050	31,412
- Stage 2 loans	87,547	6,855	49,773	-
- Stage 3 loans	1,349,055	794,321	731,921	277,513
	1,617,189	937,068	886,744	308,925
Net loans and advances	19,681,830	20,542,673	12,669,666	13,203,981

(i) Loans and advances to customers at amortised cost

Group	Stage 1 12-month ECL Shs'000	Stage 2 Lifetime ECL Shs'000	Stage 3 Lifetime ECL Shs'000	Total Shs'000
Gross carrying amount as at 31 December 2017	17,317,561	1,727,402	2,434,778	21,479,741
Restatement of the prior year	(1,792,953)	(4,571)	1,797,524	-
Gross carrying amount as at 01 January 2018	15,524,608	1,722,831	4,232,302	21,479,741
Changes in the gross carrying amount				
– Transfer from stage 1 to stage 2	(1,139,549)	1,139,549	-	-
– Transfer from stage 1 to stage 3	(1,153,498)	-	1,153,498	-
– Transfer from stage 2 to stage 3	-	(687,958)	687,958	-
– Transfer from stage 3 to stage 2	-	277,385	(277,385)	-
– Transfer from stage 2 to stage 1	7,945	(7,945)	-	-
– Write-offs	-	-	(611,403)	(611,403)
New financial assets originated or purchased	3,986,836	267,647	52,477	4,306,960
Financial assets that have been derecognised	(2,719,540)	(1,130,964)	374,496	(3,476,008)
Translation Differences	(290,560)	(39,913)	(69,798)	(400,271)
Gross carrying amount as at 31 December 2018	14,216,242	1,540,632	5,542,145	21,299,019

Bank	Stage 1 12-month ECL Shs'000	Stage 2 Lifetime ECL Shs'000	Stage 3 Lifetime ECL Shs'000	Total Shs'000
Gross carrying amount as at 31 December 2017	11,403,863	973,963	1,135,080	13,512,906
Restatement of the prior year	(1,713,793)	1,394	1,712,399	-
Gross carrying amount as at 01 January 2018	9,690,070	975,357	2,847,479	13,512,906
Changes in the gross carrying amount				
– Transfer from stage 1 to stage 2	(563,959)	563,959	-	-
– Transfer from stage 1 to stage 3	(1,020,542)	-	1,020,542	-
– Transfer from stage 2 to stage 3	-	(379,007)	379,007	-
– Transfer from stage 3 to stage 2	-	277,385	(277,385)	-
– Transfer from stage 2 to stage 1	7,945	(7,945)	-	-
– Write-offs	-	-	(207,485)	(207,485)
New financial assets originated or purchased	1,587,357	15,315	(1,194)	1,601,478
Financial assets that have been derecognised	(1,034,465)	(256,025)	(59,999)	(1,350,489)
Gross carrying amount as at 31 December 2018	8,666,406	1,189,039	3,700,965	13,556,410

Notes (continued)

15 Loans and advances to customers (continued)

(ii) Loss allowance – Loans and advances to customers at amortised cost

Group	**Stage 1 12-month ECL Shs'000**	**Stage 2 Lifetime ECL Shs'000**	**Stage 3 Lifetime ECL Shs'000**	**Total Shs'000**
Loss allowance as at 31 December 2017	135,892	6,855	794,321	937,068
Restatement of the prior year	28,220	185,004	510,629	723,853
Loss allowance as at 01 January 2018	164,112	191,859	1,304,950	1,660,921
Charge to profit or loss	21,360	(104,070)	453,274	370,564
– Transfer from stage 1 to stage 2		-	-	-
– Transfer from stage 1 to stage 3	-		-	-
– Transfer from stage 2 to stage 3	-	(101,869)	461,202	359,333
– Transfer from stage 3 to stage 2	-	-	-	-
– Transfer from stage 2 to stage 1	35,783	-		35,783
New financial assets originated or purchased	-	-	9,100	9,100
Financial assets that have been derecognised	(14,423)	(2,201)	(17,028)	(33,652)
Changes in model/risk parameters	-	-	169,981	169,981
Write-offs	-	-	(549,276)	(549,276)
Translation Differences	(4,885)	(242)	(29,874)	(35,001)
Loss allowance as at 31 December 2018	180,587	87,547	1,349,055	1,617,189

Bank	**Stage 1 12-month ECL Shs'000**	**Stage 2 Lifetime ECL Shs'000**	**Stage 3 Lifetime ECL Shs'000**	**Total Shs'000**
Loss allowance as at 31 December 2017	31,412	-	277,513	308,925
Restatement of the prior year	65,978	179,202	359,438	604,618
Loss allowance as at 01 January 2018	97,390	179,202	636,951	913,543
Charge to profit or loss	7,660	(129,429)	240,583	118,814
– Transfer from stage 1 to stage 2	-	-	-	-
– Transfer from stage 1 to stage 3	-	-	-	-
– Transfer from stage 2 to stage 3	-	(129,429)	240,583	111,154
– Transfer from stage 3 to stage 2	-	-	-	-
– Transfer from stage 2 to stage 1	7,660	-	-	7,660
Write-offs	-	-	(145,613)	(145,613)
Loss allowance as at 31 December 2018	105,050	49,773	731,921	886,744

Movement in provisions for impairment of loans and advances in 2017 were as follows:	**Group 2017 Shs'000**	**Bank 2017 Shs'000**
At start of the year	754,785	323,949
Charge to profit or loss	254,295	131,213
-Provision for loan impairment losses	509,777	283,891
-Amounts recovered during the year	(255,482)	(152,678)
-Written off as uncollectible	(177,021)	(128,246)
-Currency translation difference	23,560	-
-Repatriation from/(to) reserves	81,449	(17,991)
At end of the year	937,068	308,925

(iii) Loss allowance restatement on adoption of IFRS 9	**Group 2018 Shs'000**	**Bank 2018 Shs'000**
Loss allowance restatement	723,853	604,618
Deferred tax on loss allowance (Note 19)	(181,384)	(181,384)
Net loss allowance restatement	542,469	423,234

Notes (continued)

16 Investment in subsidiaries

Name	Country of incorporation	2018 % interest held	2018 Shs'000	2017 % interest held	2017 Shs'000
Guaranty Trust Bank (Rwanda) Limited	Rwanda	96.38%	1,649,218	96.38%	1,649,218
Guaranty Trust Bank (Uganda) Limited	Uganda	100.00%	1,726,772	100.00%	1,624,172
At 31 December			3,375,990		3,273,390

The movement in the investment in subsidiary during the period is as follows:

	31-Dec-18 Shs'000	31-Dec-17 Shs'000
At start of year	3,273,390	2,857,690
Additional investment in Guaranty Trust Bank (Rwanda) Limited	-	207,600
Additional investment in Guaranty Trust Bank (Uganda) Limited	102,600	208,100
	3,375,990	3,273,390

17 Property and Equipment

(a) Group	Buildings and freehold land Shs'000	Leasehold Improvements Shs'000	Computer Equipment Shs'000	Motor Vehicles Shs'000	Fixtures, fittings and equipment Shs'000	Work-in-progress Shs'000	Total Shs'000
Year ended 31 December 2017							
Opening net book amount	160,450	102,699	54,261	64,168	395,844	220,829	998,251
Additions	-	4,022	8,572	18,458	38,613	25,711	95,376
Reclassification	-	-	15,538	-	-	(15,538)	-
Disposals	-	(14,814)	(32,128)	-	(8,547)	(7,288)	(62,777)
Depreciation charge	(23,124)	(25,482)	(24,705)	(33,573)	(168,200)	-	(275,084)
Elimination on disposal	-	14,814	32,043	-	7,665	-	54,522
Currency translation difference	(4,510)	(2,685)	(1,738)	685	(8,912)	(16,233)	(33,393)
Closing net book amount	132,816	78,554	51,843	49,738	256,463	207,481	776,895
At 31 December 2017							
Cost or valuation	205,530	169,007	209,693	179,103	1,374,192	207,481	2,345,006
Accumulated depreciation	(72,714)	(90,453)	(157,850)	(129,365)	(1,117,729)	-	(1,568,111)
Net book Amount	132,816	78,554	51,843	49,738	256,463	207,481	776,895

Notes (continued)

17 Property and Equipment (continued)

(a) Group (continued)

	Buildings and freehold land	Leasehold Improvements	Computer Equipment	Motor Vehicles	Fixtures, fittings and equipment	Work-in-progress	Total
	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000
Year ended 31 December 2018							
Opening net book amount	132,816	78,554	51,843	49,738	256,463	207,481	776,895
Additions	-	3,877	13,089	41,842	55,631	22,905	137,344
Reclassification	8,232	72,231	(11,045)	(6,996)	121,538	(183,960)	-
Disposals	-	-	(1,808)	(42,116)	(5,575)	-	(49,499)
Depreciation charge	(36,319)	(13,001)	(17,715)	(27,417)	(118,010)	-	(212,462)
Elimination on disposal	-	-	1,796	39,525	5,257	-	46,578
Currency translation difference	(7,021)	(7,922)	(213)	(1,618)	(6,619)	(4,346)	(27,739)
Closing net book amount	97,708	133,739	35,947	52,958	308,685	42,080	671,117
At 31 December 2018							
Cost or valuation	206,741	237,193	209,716	170,215	1,539,167	42,080	2,405,112
Accumulated depreciation	(109,033)	(103,454)	(173,769)	(117,257)	(1,230,482)	-	(1,733,995)
Net book Amount	97,708	133,739	35,947	52,958	308,685	42,080	671,117

Land and buildings in Guaranty Trust Bank (Rwanda) Limited were last revalued as at 31 December 2013 by engineer Alphonse Nkabije, an independent certified real property valuer, on the basis of the market value for existing use. The resultant revaluation surplus net of applicable deferred income taxes was credited to other comprehensive income. If the land and buildings were stated on the historical cost basis, the amounts would be as follows:

	2018	2017
	Shs'000	Shs'000
Cost	110,870	117,189
Accumulated depreciation	(48,572)	(51,341)
Net book amount	62,298	65,848

Notes (continued)

17 Property and Equipment (continued)

(b) Bank

	Computer Equipment Shs'000	Motor Vehicles Shs'000	Fixtures, fittings and Shs'000	Work-in-progress Shs'000	Total Shs'000
Year ended 31 December 2017					
Opening net book amount	23,571	18,716	339,259	15,538	397,084
Additions	6,385	-	2,811	-	9,196
Disposals	(28,666)	-	(5,528)	-	(34,194)
Depreciation charge	(10,705)	(13,573)	(104,384)	-	(128,662)
Reclassification	15,538	-	-	(15,538)	-
Elimination on disposal	28,557	-	4,646	-	33,203
Closing net book amount	34,680	5,143	236,804	-	276,627
At 31 December 2017					
Cost or valuation	109,705	53,009	777,377	-	940,091
Accumulated depreciation	(75,025)	(47,866)	(540,573)	-	(663,464)
Net book Amount	34,680	5,143	236,804	-	276,627

	Computer Equipment Shs'000	Motor Vehicles Shs'000	Fixtures, fittings and Shs'000	Work-in-progress Shs'000	Total Shs'000
Year ended 31 December 2018					
Opening net book amount	34,680	5,143	236,804	-	276,627
Additions	8,724	19,354	28,253	2,311	58,642
Disposals	-	(19,016)	-	-	(19,016)
Depreciation charge	(13,393)	(7,171)	(67,263)	-	(87,827)
Reclassification	1,266	2,406	(3,672)		-
Elimination on disposal	-	19,016	-	-	19,016
Closing net book amount	31,277	19,732	194,122	2,311	247,442
At 31 December 2018					
Cost or valuation	119,695	55,753	801,958	2,311	979,717
Accumulated depreciation	(88,418)	(36,021)	(607,836)	-	(732,275)
Net book Amount	31,277	19,732	194,122	2,311	247,442

18 Intangible assets

(a) Group	Computer Software Shs'000	Goodwill Shs'000	Work-in-progress Shs'000	Total Shs'000
Year ended 31 December 2017				
Opening net book amount	461,818	21,812	-	483,630
Additions	32,971	-	2,331	35,302
Amortization	(75,317)	-	-	(75,317)
Currency translation difference	(2,484)	-	-	(2,484)
At end of year	416,988	21,812	2,331	441,131
At 31 December 2017				
Cost	802,509	21,812	2,331	826,652
Accumulated depreciation	(385,521)	-	-	(385,521)
Net book amount	416,988	21,812	2,331	441,131

Notes (continued)

18 Intangible assets (continued)

(a) Group (continued)

	Computer Software Shs'000	Goodwill Shs'000	Work-in-progress Shs'000	Total Shs'000
Year ended 31 December 2018				
Opening net book amount	416,988	21,812	2,331	441,131
Additions	61,179	-	-	61,179
Amortization	(81,498)	-	-	(81,498)
Transfer	1,582	-	(1,582)	-
Currency translation difference	(8,104)	-	-	(8,104)
At end of year	390,147	21,812	749	412,708
At 31 December 2018				
Cost	845,178	21,812	749	867,739
Accumulated depreciation	(455,031)	-	-	(455,031)
Net book amount	390,147	21,812	749	412,708

(b) Bank

	Computer Software Shs'000	Goodwill Shs'000	Work-in-progress Shs'000	Total Shs'000
Year ended 31 December 2017				
Opening net book amount	202,440	-	-	202,440
Additions	7,870	-	2,331	10,201
write off	(3,397)	-	-	(3,397)
Amortization	(32,599)	-	-	(32,599)
Elimination on disposal	3,397	-	-	3,397
At end of year	177,711	-	2,331	180,042
At 31 December 2017				
Cost	335,267	-	2,331	337,598
Accumulated depreciation	(157,556)	-	-	(157,556)
Net book amount	177,711	-	2,331	180,042
Year ended 31 December 2018				
Opening net book amount	177,711	-	2,331	180,042
Additions	39,196	-	-	39,196
Transfer	1,582	-	(1,582)	-
Amortization	(37,810)	-	-	(37,810)
At end of year	180,679	-	749	181,428
At 31 December 2018				
Cost	376,045	-	749	376,794
Accumulated depreciation	(195,366)	-	-	(195,366)
Net book amount	180,679	-	749	181,428

Notes (continued)

18 Intangible assets (continued)

Impairment tests for goodwill

Goodwill relating to Guaranty Trust Bank (Rwanda) Limited was tested for impairment at 31 December 2018. The recoverable amount was determined on the basis of value in use. Key assumptions relating to this valuation include the discount rate and cash flows used to determine the value in use. A five-year forecast was used as a basis for future cash flows, extrapolated in perpetuity to reflect the long-term plans for the entity, using a nominal growth rate of 5.8%. The after-tax discount rate used was based on an assessment of the risks applicable to GTBank Rwanda and the country in which it operates. The discount rate calculated for the forecast years was 2.74% per annum. These variables are established on the basis of management judgement and current market conditions. Management judgement is also applied in estimating the future cash flows of the cash-generating units. These values are sensitive to the cash flows projected for the periods for which detailed forecasts are not available and to the assumptions regarding the long-term sustainability of the cash flows thereafter. Based on the testing performed, the directors believe that the goodwill is not impaired.

19 Deferred income tax

Deferred income tax is calculated using the enacted income tax rate of 30% (2017: 30%). The gross movement on the deferred income tax account is as follows:

	Group		Bank	
	2018	2017	2018	2017
	Shs'000	Shs'000	Shs'000	Shs'000
At start of year	307,228	289,727	82,658	79,030
Changes on initial application of IFRS 9	181,384	-	181,384	-
Restated Balance at start of year	488,612	289,727	264,042	79,030
(Charge)/credit to profit or loss (Note 11)	(67,847)	20,803	4,887	9,076
Charge to other comprehensive income	(18,225)	(3,302)	(9,074)	(5,448)
At end of year	402,540	307,228	259,855	82,658

The movement in deferred income tax assets and liabilities during the year, without taking into consideration the offsetting of balances within the same tax jurisdiction is as follows;

(a) Group

	01.01.2018	Charged to income statement	Charged to equity	31.12.2018
	Shs'000	Shs'000	Shs'000	Shs'000
Year ended 31 December 2018	*(restated)*			
Deferred income tax assets				
Other temporary differences	78,495	167,446	-	245,941
Revaluation of available for sale securities	7,952	-	-	7,952
Tax losses carried forward	272,360	(72,404)	-	199,956
Deferred Tax on IFRS 9 adoption	181,384	(181,384)	-	-
Translation differences	1,019	-	(12,978)	(11,959)
	541,210	(86,342)	(12,978)	441,890
Deferred income tax liabilities				
Property and equipment	(22,424)	18,495	-	(3,929)
Revaluation of available for sale securities	-	-	(9,074)	(9,074)
Translation differences	(30,174)	-	3,827	(26,347)
	(52,598)	18,495	(5,247)	(39,350)
Net deferred tax asset	488,612	(67,847)	(18,225)	402,540

Notes (continued)

19 Deferred income tax (continued)

(a) Group (continued)

	01.01.2017	Charged to income statement	Charged to equity	31.12.2017
	Shs'000	Shs'000	Shs'000	Shs'000
Year ended 31 December 2017				
Deferred income tax assets				
Other temporary differences	76,971	1,524	-	78,495
Revaluation of available for sale securities	13,400	-	(5,448)	7,952
Tax losses carried forward	264,005	8,355	-	272,360
Translation differences	1,019	-	-	1,019
Deferred income tax assets	355,395	9,879	(5,448)	359,826
Deferred income tax liabilities				
Property and equipment	(40,920)	18,496	-	(22,424)
Translation differences	(24,748)	(7,572)	2,146	(30,174)
Deferred income tax liabilities	(65,668)	10,924	2,146	(52,598)
Net deferred tax asset	289,727	20,803	(3,302)	307,228

The deferred income tax asset and liability and deferred income tax charge/(credit) in the income statement are attributable to the following items:

(b) Bank

	01.01.2018	Charged to income statement	Charged to equity	31.12.2018
	Shs'000	Shs'000	Shs'000	Shs'000
Year ended 31 December 2018	*(restated)*			
Deferred income tax				
Property and equipment	(14,872)	8,884	-	(5,988)
Revaluation of available for sale securities	7,953	-	(9,074)	(1,121)
Other temporary differences	89,577	177,387	-	266,964
Deferred Tax on IFRS 9 adoption	181,384	(181,384)	-	-
Deferred income tax asset	264,042	4,887	(9,074)	259,855

	01.01.2017	Charged to income statement	Charged to equity	31.12.2017
	Shs'000	Shs'000	Shs'000	Shs'000
Year ended 31 December 2017				
Deferred income tax				
Property and equipment	(14,872)	-	-	(14,872)
Revaluation of available for sale securities	13,401	-	(5,448)	7,953
Other temporary differences	80,501	9,076	-	89,577
Deferred income tax asset	79,030	9,076	(5,448)	82,658

Notes (continued)

20 Other assets

	Group		Bank	
	31-Dec-18	31-Dec-17	31-Dec-18	31-Dec-17
	Shs'000	Shs'000	Shs'000	Shs'000
Items in course of collection	82,309	40,242	81,432	38,054
Prepayments	112,511	168,266	46,400	110,776
Other receivables	332,530	352,385	131,428	104,648
Derivative financial instruments	332	-	332	-
	527,682	560,893	259,592	253,478

Derivative financial instruments at the year end relate to fair value gains on exchange derivatives consisting of currency forwards and currency swaps contracts.

21 Customer deposits

Current and demand deposits	14,403,817	14,537,997	5,087,104	5,224,149
Savings accounts	2,660,068	2,262,377	1,288,128	886,923
Time deposit accounts	11,624,673	10,794,337	9,673,319	9,029,658
	28,688,558	27,594,711	16,048,551	15,140,730
Current	28,684,120	27,590,853	16,044,817	15,139,395
Non current	4,438	3,858	3,734	1,335
	28,688,558	27,594,711	16,048,551	15,140,730

22 Deposits due to other banks

Due to local banking institution	1,072,378	1,735,044	712,510	1,460,665
Due to foreign banking Institution	1	507	1	-
	1,072,379	1,735,551	712,511	1,460,665

23 Borrowings

	Group		Bank	
	31-Dec-18	31-Dec-17	31-Dec-18	31-Dec-17
	Shs'000	Shs'000	Shs'000	Shs'000
IFC Long term debt	-	2,047,256	-	2,047,256
Accrued interest on IFC long term debt	-	5,870	-	5,870
	-	2,053,126	-	2,053,126
Movement				
At start of year	2,053,126	1,202,201	2,053,126	1,202,201
Receipts	-	1,043,846	-	1,043,846
Payments	(2,053,126)	(198,791)	(2,053,126)	(198,791)
Accrued interest	-	5,870	-	5,870
At end of year	-	2,053,126	-	2,053,126

The long term debt was a USD 20,000,000 loan from the International Financial Corporation (IFC). The loan was priced at libor + 4.01 % margin and a maturity date of 15 June 2021 with a two year grace period on principal repayment ending in June 2018. Interest and principal was payable semi annually. The Bank fully repaid the outstanding principal and interest on the loan in December 2018.

Notes (continued)

24 Other liabilities

	Group		Bank	
	31-Dec-18 Shs'000	31-Dec-17 Shs'000	31-Dec-18 Shs'000	31-Dec-17 Shs'000
Outstanding bankers cheques	21,882	30,114	14,243	26,450
*Derivative financial instruments	-	1,682	-	1,682
Other payables and accrued expenses	467,765	400,730	133,626	122,951
**Accrued tax liability	38,800	61,458	-	-
	528,447	493,984	147,869	151,083

*Derivative financial instruments in the prior year related to fair value losses on exchange derivatives consisting of currency forwards and currency swaps contracts.

**Accrued tax liability relates to outstanding WHT and reverse-charge VAT due to URA on payments made to foreign suppliers by GTBank Uganda

25 Share Capital

	Number of shares	Ordinary shares Shs'000	Share premium Shs'000	Total Shs'000
At 1 January and 31 December 2018	1,280,934	1,280,934	4,225,323	5,506,257
At 1 January 2017	1,276,480	1,276,480	4,192,814	5,469,294
Additional capital injection	4,454	4,454	32,509	36,963
At 31 December 2017	1,280,934	1,280,934	4,225,323	5,506,257

The total authorised number of ordinary shares is 1,500,000 with a par value of Shs 1,000 per share; 1,280,934 of these have been issued and fully paid.

26 Statutory Reserve

	Group		Bank	
	31-Dec-18 Shs'000	31-Dec-17 Shs'000	31-Dec-18 Shs'000	31-Dec-17 Shs'000
At start of year	121,906	107,076	97,779	77,636
Changes on initial application of IFRS 9	(105,383)	-	(97,779)	-
Restated Balance at start of year	16,523	107,076	-	77,636
Transfer (to)/ from retained earnings	(11,100)	14,830	-	20,143
Transfer to other reserves	(5,423)	-	-	-
At end of year	-	121,906	-	97,779

The statutory reserve represents an appropriation from retained earnings to comply with the Central Banks Prudential Regulations on impairment charges on loans and advances of the respective countries in which the Group operates. The balance in the reserve represents the excess of impairment provisions determined in accordance with the Prudential Regulations over the impairment provisions recognized in accordance with the International Financial Reporting Standards. The balance in the reserve is nil for both the group and bank as at end of the year, attributable to the adoption of IFRS 9 in the year which has led to higher impairment provisions as per the standard as compared to the regulatory impairment provisions.

Notes (continued)

27 Other reserves

	Group				Bank
	Fair value on available for sale assets	Revaluation reserves	Currency translation reserve	Total	Fair value on available for sale
Year ended 31 December 2017	**Shs'000**	**Shs'000**	**Shs'000**	**Shs'000**	**Shs'000**
At start of year:	(31,268)	68,623	(261,070)	(223,715)	(31,268)
Fair value gain on available for sale assets	12,711	-	-	12,711	12,711
Currency translation differences	-	-	(32,440)	(32,440)	-
Balance at 31 December 2017	(18,557)	68,623	(293,510)	(243,444)	(18,557)
At start of year:	(18,557)	68,623	(293,510)	(243,444)	(18,557)
Fair value gain on available for sale assets	21,173	-	-	21,173	21,173
Currency translation differences	-	-	(133,492)	(133,492)	-
Balance at 31 December 2018	2,616	68,623	(427,002)	(355,763)	2,616

28 Off-balance sheet financial instruments, contingent liabilities and commitments

In common with other banks, the Group conducts business involving acceptances, letters of credit, guarantees, performance bonds and indemnities. The majority of these facilities are offset by corresponding obligations of third parties. In addition, there are other off-balance sheet financial instruments including forward contracts for the purchase and sale of foreign currencies, the nominal amounts for which are not reflected in the balance sheet.

	Group		Bank	
	31-Dec-18	31-Dec-17	31-Dec-18	31-Dec-17
	Shs'000	Shs'000	Shs'000	Shs'000
- Acceptances and letters of credit	1,068,433	1,266,983	761,064	727,652
- Guarantees and performance bonds	3,773,205	3,536,977	873,403	1,484,588
	4,841,638	4,803,960	1,634,467	2,212,240

Nature of contingent liabilities

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

Operating lease commitments

	Group		Bank	
	31-Dec-18	31-Dec-17	31-Dec-18	31-Dec-17
	Shs'000	Shs'000	Shs'000	Shs'000
Not later than one year	124,806	157,202	116,638	125,708
Later than 1 year and not later than 5 years	357,806	366,669	357,806	366,669
Later than 5 years	42,925	27,127	42,925	27,127
	525,537	550,998	517,369	519,504

Notes (continued)

28 Off-balance sheet financial instruments, contingent liabilities and commitments (continued)

Other Commitments

	Group		Bank	
	31-Dec-18	31-Dec-17	31-Dec-18	31-Dec-17
	Shs'000	Shs'000	Shs'000	Shs'000
Undrawn formal stand-by facilities, credit lines and other commitments to lend	1,737,471	2,243,786	1,183,835	1,484,968
Foreign exchange forward and swap contracts	524,516	398,849	524,516	398,849
	2,261,987	2,642,635	1,708,351	1,883,817

Nature of contingent liabilities

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

Foreign exchange forward contracts are agreements to buy or sell a specified quantity of foreign currency, usually on a specified future date at an agreed rate.

29 Analysis of cash and cash equivalents as shown in the cash flow statement

	Group		Bank	
	31-Dec-18	31-Dec-17	31-Dec-18	31-Dec-17
	Shs'000	Shs'000	Shs'000	Shs'000
Cash and balances with Central Banks (Note 12)	3,020,841	3,898,688	1,273,328	1,754,934
Less: Cash reserve ratio	(1,212,884)	(1,207,996)	(804,783)	(779,945)
Government securities maturing within 90 days of the date of acquisition (Note 13)	3,865,452	3,413,290	2,580,655	2,223,898
Balances due from other banks (Note 14)	2,076,271	2,344,608	187,981	1,482,613
Deposits due to other banks (Note 22)	(1,072,379)	(1,735,551)	(712,511)	(1,460,665)
	6,677,301	6,713,039	2,524,670	3,220,835

For the purposes of the cash flow statement, cash and cash equivalents comprise balances with less than 90 days maturity from the date of acquisition including: cash and balances with central banks, treasury bills and other eligible bills, and amounts due from other banks. Cash and cash equivalents exclude the cash reserve requirement held with the Central Banks.

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

30 Related party transactions

The Bank is controlled by Guaranty Trust Bank Plc registered in Nigeria with a 70% shareholding in the bank. The ultimate parent and ultimate controlling party is Guaranty Trust Bank Plc.

In the normal course of business, current accounts are operated and placements made between the group companies and other related parties (Other Shareholders, directors and associates) at interest rates in line with market. The relevant balances at the end of the year and income/ expense thereon are shown below:

	Group		Bank	
	31-Dec-18	31-Dec-17	31-Dec-18	31-Dec-17
	Shs'000	Shs'000	Shs'000	Shs'000
(a) Amounts due:				
From group companies	2,172,463	1,681,220	19,784	12,685
From other related parties	7,932	27,676	7,932	27,676
Interest income earned	10,656	6,225	113	58

Due from group companies includes balances due from GTBank UK; Shs 1,845MM (2017: Shs 1,633MM) and GTBank PLC; Shs 327MM (2017: Shs 48MM)

Notes (continued)

30 Related party transactions (continued)

(b) Amounts due to:	Group 31-Dec-18 Shs'000	Group 31-Dec-17 Shs'000	Bank 31-Dec-18 Shs'000	Bank 31-Dec-17 Shs'000
Group companies	2,049	593	2,957	213,111
Other related parties	1,520,990	1,043,468	1,520,990	1,043,468
Interest expense incurred	1,240	15,915	1,240	15,915

Advances to customers at 31 December 2018 include loans to directors, loans to companies controlled by directors and their associates, and loans to employees as follows:

(c) Loans to directors and their associates

	Group 31-Dec-18 Shs'000	Group 31-Dec-17 Shs'000	Bank 31-Dec-18 Shs'000	Bank 31-Dec-17 Shs'000
At start of year	24,717	357,402	27,676	360,205
Advances/utilization during the year	1,742	840,224	-	840,224
Repayments	(19,808)	(1,175,640)	(19,857)	(1,175,468)
Interest charged	113	2,731	113	2,715
At end of year	6,764	24,717	7,932	27,676
Interest income earned	113	2,731	113	2,715

At 31 December 2018, advances to companies controlled by directors and their associates amounted to Shs 7 million (2017: Shs 28 million).

At 31 December 2018 advances to employees amounted to Shs 35 million (2017: Shs 42 million).

(d) Deposits by directors and their associates

	Group 31-Dec-18 Shs'000	Group 31-Dec-17 Shs'000	Bank 31-Dec-18 Shs'000	Bank 31-Dec-17 Shs'000
At start of year	1,042,872	1,043,004	1,043,468	1,043,923
Net movement	417,883	(319)	416,807	(642)
Interest credited	60,715	187	60,715	187
At end of year	1,521,470	1,042,872	1,520,990	1,043,468
Interest expense incurred	60,715	187	60,715	187

(e) Key management compensation

	Group 31-Dec-18 Shs'000	Group 31-Dec-17 Shs'000	Bank 31-Dec-18 Shs'000	Bank 31-Dec-17 Shs'000
Salaries and other short-term employment	250,090	272,157	111,390	120,513

(f) Directors remuneration

	Group 31-Dec-18 Shs'000	Group 31-Dec-17 Shs'000	Bank 31-Dec-18 Shs'000	Bank 31-Dec-17 Shs'000
Fees for services as a director	73,563	76,440	41,131	39,584

(g) Payments to the group for shared services

Payments relate to shared services costs for use of proprietory assets of Guaranty Trust Bank plc and advertising charges which are reimbursed on a monthly basis as part of operating expenses. The costs for the year are as follows:

	Group 31-Dec-18 Shs'000	Group 31-Dec-17 Shs'000	Bank 31-Dec-18 Shs'000	Bank 31-Dec-17 Shs'000
IT Related costs	32,273	52,030	29,502	44,959
Communication and Advertising	27,009	19,188	8,072	12,301
Electronic Channels	27,892	26,835	16,238	24,742
	87,174	98,053	53,812	82,002