GTBank

Guaranty Trust Bank (Kenya) Ltd

GUARANTY TRUST BANK (KENYA) LIMITED

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019

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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)	Independent Non Executive Director
Mr. Julius Olusegun Agbaje	(Nigerian)	Non Executive Director
Mr. Ademola Ayodeji Odeyemi	(Nigerian)	Non Executive Director
Mr. John Mark Wandolo		Independent Non Executive Director
Ms. Mary Kimotho M'Mukindia		Independent Non Executive Director
Mr. Olabayo Veracruz	(Nigerian)	Chief Executive Officer
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. Samwel Ngahu		Head of Systems and Control
Mr. Peter Ng'ang'a		Head of Corporate Banking
Mr. Robert Ochieng'		Head, Technology Services Group

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 LLP PwC Tower Waiyaki way/Chiromo Road, Westlands P.O. Box 43963 - 00100 Nairobi, Kenya
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 2019 is detailed below:

	Board	Audit	Risk	Credit	HR	BSC
Number of meetings during the year	4	5	4	4	4	1
Mr. Dhanji Hansraj Chandaria	100%	-	-	-	-	-
Mr. Nalinkumar Narshi Shah	100%	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%
Mr. Olabayo Veracruz	100%	100%	100%	100%	100%	100%
Mr. Victor Ezaga	100%	100%	100%	100%	100%	100%
Average Attendance	100%	100%	100%	100%	100%	100%

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 (Adhoc committee)

These committees with the exception of the BSC, 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. The Executive committee 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 of Guaranty Trust Bank (Kenya) Limited (the "Bank") and its subsidiaries (together, the "Group") for the year ended 31 December 2019.

PRINCIPAL ACTIVITIES

The principal activities of the Bank and the Group is provision of retail and business banking services.

BUSINESS REVIEW

East Africa's macro-economic environment remained relatively stable in the year 2019. This was mainly attributed to to a stable interest rate environment, relatively stable currencies, low inflation rates and improved overall business confidence.

The Group witnessed improved performance in most key indices in the year attributed to quality customer service and provision of cutting edge financial solutions to our customers. Balance sheet growth as a result of effective deposit mobilization led to an upper trajectory growth in the risk assets of the Group. Interest income remained flat year on year, attributed to macro-economic factors, mainly interest rate capping in Kenya with a lower benchmark rate which affected growth in the top line revenue. Balance sheet optimization strategies by the Group, 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 10% year on year. The Group maintained its focus on growth of non funded income and this was evidenced by a significant growth of 19% year on year, mainly from increased fees and commissions and increased forex trading volumes and margins. Our strategic initiative of ensuring efficient operational capability that the GTBank Group is known for paid off as we streamlined our operations, and registered significant cost efficiencies as a result with operating expenses dropping 9% year on year. The Group continues to build on it's digital capabilities to include a rich variety of channels and services, while ensuring that our customers enjoy the same superior experience across our channels and platforms. This will improve the customer experience across all our touch points and will result in a positive growth trajectory. The key financial ratios are as below;

	Bank	Group	Bank	Group
Performance Ratios	**2019**	**2019**	**2018**	**2018**
Net Interest Margin	7%	8%	8%	8%
Return on Asset	2%	2%	1%	1%
Return on Equity	6%	11%	4%	4%
Cost to Income Ratio	63%	64%	75%	79%

The net profit for the year of Shs 572 million (2018: Shs 91 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 1.

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 retire from office at the conclusion of the 2019 audit in accordance with section 719(1) (b) of the Kenyan Companies Act 2015. In their place Deloitte & Touche were appointed into office as the Company's auditor in accordance with section 717(2) of the Kenyan Companies Act 2015.

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

By order of the board

Director

I.O. Venmm

....2020
07 | March | 2020

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

The directors accept responsibility for the preparation and presentation of these 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 presentation 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 and the Bank's ability to continue as a going concern, the directors are not aware of any material uncertainties related to events or conditions that may cast doubt upon the Group's and the Bank'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 07 March 2020 and signed on its behalf by:

Director

Olabayo Veracruz

Director

Mary Kimotho M'Mukindia

pwc

INDEPENDENT AUDITOR'S REPORT
TO THE SHAREHOLDERS OF GUARANTY TRUST BANK (KENYA) LIMITED

Report on the audit of the 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 70, which comprise the consolidated statement of financial position at 31 December 2019 and the consolidated statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, together with the Bank's statement of financial position at 31 December 2019 and the statement of profit or loss and other comprehensive income, changes in equity and 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 financial statements give a true and fair view of the financial position of the Group and the Bank at 31 December 2019 and of their financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards and the 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 Bank in accordance with the International Ethics Standards Board for Accountants (IESBA) International Code of Ethics for Professional Accountants (including International Independence Standards) (the IESBA Code) together with the ethical requirements that are relevant to our audit of the financial statements in Kenya. We have fulfilled our ethical responsibilities in accordance with the IESBA Code.

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

Other information

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

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

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

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INDEPENDENT AUDITOR'S REPORT

TO THE SHAREHOLDERS OF GUARANTY TRUST BANK (KENYA) LIMITED (CONTINUED)

Other information (continued)

If, based on the work we have performed on the other information we have received prior to the date of this auditor's report we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

When we read the rest of the other information in the annual report and we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

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 and Bank's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or the Bank 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 and Bank's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's and Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion.

INDEPENDENT AUDITOR'S REPORT
TO THE SHAREHOLDERS OF GUARANTY TRUST BANK (KENYA) LIMITED (CONTINUED)

Auditor's responsibilities for the audit of the financial statements (continued)

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 or Bank to cease to continue as a going concern.

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

Auditor's responsibilities for the audit of the financial statements (continued)

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 Director's report on page 7 is consistent with the financial statements.

PricewaterhouseCoopers LLP

Certified Public Accountants
Nairobi

30 March **2020**

CPA Bernice Kimacia, Practising certificate P/1457
Signing partner responsible for the independent audit

Consolidated statement of profit or loss and other comprehensive income

	Notes	2019 Shs'000	2018 Shs'000
Interest income	5	3,902,373	3,902,803
Interest expense	6	(1,116,112)	(1,247,022)
Net interest income		2,786,261	2,655,781
Fee and commission income	7 (a)	570,928	474,980
Fee and commission expense	7 (b)	(130,539)	(130,972)
Net fee and commission income		440,389	344,008
Foreign exchange income	8	224,387	212,458
Other operating income	8	161,660	13,947
Credit impairment losses	15	(439,592)	(370,564)
Operating expenses	9	(2,307,417)	(2,538,411)
Profit before income tax		865,688	317,219
Current income tax	11	(338,072)	(158,633)
Deferred income tax	11	44,542	(67,847)
Profit for the year		572,158	90,739
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	28	7,416	21,173
Currency translation differences		(13,968)	(142,220)
Other comprehensive loss, net of tax		(6,552)	(121,047)
Total comprehensive income/(loss) for the year		565,606	(30,308)
Profit or loss attributable to:			
Equity holders of the Company		564,911	86,218
Non-controlling interest		7,247	4,521
		572,158	90,739
Total comprehensive income attributable to:			
Equity holders of the company		559,482	(31,524)
Non-controlling interest		6,124	1,216
Total comprehensive income/(loss) for the year		565,606	(30,308)

Bank statement of profit or loss and other comprehensive income

	Notes	2019 Shs'000	2018 Shs'000
Interest income	5	2,435,417	2,463,691
Interest expense	6	(818,408)	(962,379)
Net interest income		1,617,009	1,501,312
Fee and commission income	7 (a)	190,930	150,804
Fee and commission expense	7 (b)	(29,685)	(39,835)
Net fee and commission income		161,245	110,969
Foreign exchange income	8	72,698	66,369
Other operating income	8	724	965
Credit impairment losses	15	(191,344)	(118,814)
Operating expenses	9	(1,169,135)	(1,253,722)
Profit before income tax		491,197	307,079
Current income tax	11	(195,288)	(66,031)
Deferred income tax	11	51,408	4,887
Profit for the year		347,317	245,935
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	28	7,416	21,173
Other comprehensive income, net of tax		7,416	21,173
Total comprehensive Income for the Year		354,733	267,108

Consolidated statement of financial position

	Notes	2019 Shs'000	2018 Shs'000
ASSETS			
Cash and balances with Central Banks	12	4,114,132	3,020,841
Deposits and balances due from other banks	14	1,608,827	2,076,271
Financial assets held at amortised cost	13	2,890,443	2,983,411
Financial assets held at FVTOCI	13	8,742,167	5,922,191
Due from group companies	31	1,034,222	2,172,463
Loans and advances to customers	15	20,716,760	19,681,830
Property and equipment	17	674,986	671,117
Intangible assets	18	344,832	412,708
Right-of-use assets	19	746,915	-
Deferred income tax	20	447,729	402,540
Current income tax	11	-	73,799
Other assets	21	730,796	527,682
Total assets		42,051,809	37,944,853
LIABILITIES			
Deposits due to other banks	23	1,588,480	1,072,379
Customer deposits	22	30,788,917	28,688,558
Due to group companies	31	-	2,049
Other liabilities	25	558,229	528,447
Lease liabilities	24	750,843	-
Current income tax	11	154,699	-
Total liabilities		33,841,168	30,291,433
EQUITY ATTRIBUTABLE TO THE OWNERS OF THE COMPANY			
Share capital	26	1,280,934	1,280,934
Share premium	26	4,225,323	4,225,323
Statutory reserve	27	28,349	-
Other reserves	28	(361,192)	(355,763)
Retained earnings		2,969,741	2,441,564
		8,143,155	7,592,058
Non controlling interests		67,486	61,362
Total equity		8,210,641	7,653,420
TOTAL LIABILITIES AND EQUITY		42,051,809	37,944,853

The financial statements on pages 12 to 70 were approved for issue by the board of directors on 27 March 2020 and were signed on its behalf by:

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

Bank statement of financial position

	Notes	2019 Shs'000	2018 Shs'000
ASSETS			
Cash and balances with Central Bank of Kenya	12	1,058,681	1,273,328
Deposits and balances due from other banks	14	301,268	187,981
Financial assets held at amortised cost	13	510,892	883,580
Financial assets held at FVTOCI	13	8,742,167	5,922,191
Due from group companies	31	13,554	19,784
Loans and advances to customers	15	13,544,305	12,669,666
Investment in subsidiary	16	3,375,990	3,375,990
Property and equipment	17	243,578	247,442
Intangible assets	18	151,018	181,428
Right-of-use assets	19	334,959	-
Deferred income tax	20	308,085	259,855
Current income tax	11	-	84,059
Other assets	21	497,898	259,592
		29,082,395	25,364,896
LIABILITIES			
Deposits due to other banks	23	1,474,504	712,511
Customer deposits	22	17,457,969	16,048,551
Due to group companies	31	685,872	2,957
Other liabilities	25	212,147	147,869
Lease liabilities	24	332,933	-
Current income tax	11	111,229	-
Total liabilities		20,274,654	16,911,888
EQUITY ATTRIBUTABLE TO OWNERS OF THE COMPANY			
Share capital	26	1,280,934	1,280,934
Share premium	26	4,225,323	4,225,323
Other reserves	28	10,032	2,616
Retained earnings		3,291,452	2,944,135
Total equity		8,807,741	8,453,008
TOTAL LIABILITIES AND EQUITY		29,082,395	25,364,896

The financial statements on pages 12 to 70 were approved for issue by the board of directors on 07 March 2020 and were signed on its behalf by:

Director
Olabayo Veracruz

Director
Mary Kimotho M'Mukindia

Director
Dhanji Hansraj Chandaria

Consolidated statement of changes in equity

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	2,344,246	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 losses	-	-	-	-	(117,742)	(117,742)	(3,305)	(121,047)
Total comprehensive losses	-	-	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

Consolidated statement of changes in equity (continued)

Year ended 31 December 2019

	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	2,441,564	-	(355,763)	7,592,058	61,362	7,653,420
Effect of change in accounting policy (Note 32)	-	-	(8,385)	-	-	(8,385)	-	(8,385)
Restated Balance at 1 January 2019	1,280,934	4,225,323	2,433,179	-	(355,763)	7,583,673	61,362	7,645,035
Total comprehensive income for the year:								
Profit for the year	-	-	564,911	-	-	564,911	7,247	572,158
Other comprehensive losses	-	-	-	-	(5,429)	(5,429)	(1,123)	(6,552)
Total comprehensive income	-	-	564,911	-	(5,429)	559,482	6,124	565,606
Transfer to regulatory reserves	-	-	(28,349)	28,349	-	-	-	-
At end of year	1,280,934	4,225,323	2,969,741	28,349	(361,192)	8,143,155	67,486	8,210,641

Bank statement of changes in equity

Year ended 31 December 2018

	Share capital Shs'000	Share premium Shs'000	Retained earnings Shs'000	Other reserves Shs'000	Total Shs'000
At start of year	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

Bank statement of changes in equity (continued)

Year ended 31 December 2019

	Share capital	Share premium	Retained earnings	Other reserves	Total
	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000
At start of year	1,280,934	4,225,323	2,944,135	2,616	8,453,008
Total comprehensive income for the year:					
Profit for the year	-	-	347,317	-	347,317
Other comprehensive income	-	-	-	7,416	7,416
Total comprehensive income	-	-	347,317	7,416	354,733
At end of year	1,280,934	4,225,323	3,291,452	10,032	8,807,741

Consolidated statement of cash flows

	Notes	2019 Shs'000	2018 Shs'000
Cash flows from operating activities			
Interest receipts		3,772,845	3,954,549
Interest payments		(1,116,112)	(1,247,022)
Net fee and commission receipts		440,389	344,008
Other income received		224,387	212,458
Recoveries from loans previously written off		161,202	10,809
Payments to employees and suppliers		(1,862,107)	(2,244,451)
Income tax paid		(83,243)	(109,347)
Cash flows from operating activities before changes in operating assets and liabilities		1,537,361	921,004
Changes in operating assets and liabilities:			
Loans and advances		(1,344,994)	(285,320)
Cash reserve requirement		(84,714)	(4,888)
Corporate bonds		26,015	26,964
Government securities		(3,947,286)	978,831
Other assets		(203,114)	33,211
Customer deposits		2,100,359	1,093,847
Other liabilities		29,782	34,463
Due from group companies		1,136,192	(489,787)
Net cash (used in)/generated from operating activities		(750,399)	2,308,325
Cash flows from investing activities			
Purchase of property and equipment	17	(224,589)	(137,344)
Purchase of intangible assets	18	(20,819)	(61,179)
Proceeds from sale of property and equipment		6,193	6,030
Net cash used in investing activities		(239,215)	(192,493)
Cash flows from financing activities			
Long term debt - IFC		-	(2,053,126)
Payments of principal portion of the lease liability	24	(155,641)	-
Net cash used in financing activities		(155,641)	(2,053,126)
Net (decrease)/increase in cash and cash equivalents		(1,145,255)	62,706
Cash and cash equivalents at start of year		6,677,301	6,713,039
Effects of foreign currency translation		21,480	(98,444)
Cash and cash equivalents at end of year	30	5,553,526	6,677,301

Bank statement of cash flows

	Notes	2019 Shs'000	2018 Shs'000
Cash flows from operating activities			
Interest receipts		2,304,706	2,517,120
Interest payments		(818,408)	(962,379)
Net fee and commission receipts		161,245	110,969
Other income received		72,698	66,369
Recoveries from loans previously written off		344	733
Payments to employees and suppliers		(943,034)	(1,128,085)
Cash flows from operating activities before changes in operating assets and liabilities		777,551	604,727
Changes in operating assets and liabilities:			
Loans and advances		(934,961)	(242,546)
Cash reserve requirement		(74,339)	(24,838)
Corporate bonds		26,015	26,964
Government securities maturing 90 days after date of acquisition		(3,823,412)	511,620
Other assets		(238,306)	(6,114)
Customer deposits		1,409,418	907,821
Other liabilities		64,278	(3,214)
Due to group companies		689,145	(217,253)
Net cash (used in)/generated from operating activities		(2,104,611)	1,557,167
Cash flows from investing activities			
Purchase of property and equipment	17	(92,476)	(58,642)
Purchase of intangible assets	18	(11,405)	(39,196)
Proceeds from sale of property and equipment		5,385	232
Investment in subsidiary	16	-	(102,600)
Net cash used in investing activities		(98,496)	(200,206)
Cash flows from financing activities			
Long term debt - IFC		-	(2,053,126)
Payments of principal portion of the lease liability	24	(65,040)	-
Net cash used in financing activities		(65,040)	(2,053,126)
Net decrease in cash and cash equivalents		(2,268,147)	(696,165)
Cash and cash equivalents at start of year		2,524,670	3,220,835
Cash and cash equivalents at end of year	30	256,523	2,524,670

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 2019 comprise the Bank and its subsidiaries (together referred to as the "Group"). The Group is primarily involved in business 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 2019:

IFRS 16 Leases

The Group has adopted IFRS 16, Leases, which replaced IAS 17, Leases, and which became effective from 1 January 2019.

At this date, the Group elected to measure the right-of-use assets at an amount equal to the lease liability adjusted for any prepaid or accrued lease payments that existed at the date of transition plus provision for restoration costs. The right-of-use assets have been recognised, measured as if the bank's new accounting policy (see note 2.16) had been applied since the commencement of each lease but discounted using the lessee's incremental borrowing rate at 1 January 2019. As permitted by the transition provisions in the new standard, comparative amounts have not been restated.

On adoption of IFRS 16, the group recognised lease liabilities in relation to leases which had previously been classified as 'operating leases' under the principles of IAS 17 Leases. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as of 1 January 2019.

The Group applied the following practical expedients when applying IFRS 16 to leases previously classified as operating leases under IAS 17:

Apply a single discount rate to a portfolio of leases with reasonably similar characteristics;
Exclude initial direct costs from the measurement of right-of-use assets at the date of initial application for leases where the right-of-use asset was determined as if IFRS 16 had been applied since the commencement date;
Reliance on previous assessments on whether leases are onerous as opposed to preparing an impairment review under IAS 36 as at the date of initial application; and
Applied the exemption not to recognise right-of-use assets and liabilities for leases with less than 12 months of lease term remaining as of the date of initial application.

On transition to IFRS 16 the weighted average incremental borrowing rates applied to lease liabilities recognised under IFRS 16 were as shown below;

	Rate Applied "LCY"	Rate Applied "USD"
GT Bank Kenya	10.32%	N/A
GT Bank Uganda	10.87%	2.75%
GT Bank Rwanda	8.50%	N/A

For adjustments recognised on adoption of IFRS 16 on 1st January 2019, see Note 32.

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)

There were also a number of amendments to standards arising from the annual improvements to IFRSs that became effective for the first time in the financial year commencing 1 January 2019 and have been adopted by the Group. None of them has had a material effect on the Group financial statements.

Amendments to IFRS 9 – 'Financial instruments' on prepayment features with negative compensation and modification of financial

The narrow-scope amendment covers two issues:
The amendments allow companies to measure particular prepayable financial assets with so-called negative compensation at amortised cost or at fair value through other comprehensive income if a specified condition is met—instead of at fair value through profit or loss. It is likely to have the biggest impact on banks and other financial services entities.
How to account for the modification of a financial liability. The amendment confirms that most such modifications will result in immediate recognition of a gain or loss. This is a change from common practice under IAS 39 today and will affect all kinds of entities that have renegotiated borrowings.

Amendments to IAS 19, 'Employee benefits' on plan amendment, curtailment or settlement

These amendments require an entity to:
Use updated assumptions to determine current service cost and net interest for the remainder of the period after a plan amendment, curtailment or settlement; and
Recognise in profit or loss as part of past service cost, or a gain or loss on settlement, any reduction in a surplus (recognised or unrecognised). This reflects the substance of the transaction, because a surplus that has been used to settle an obligation or provide additional benefits is recovered. The impact on the asset ceiling is recognised in other comprehensive income, and it is not reclassified to profit or loss. The impact of the amendments is to confirm that these effects are not offset.

Amendments to IAS 28, 'Investments in associates and joint ventures' – long-term interests in associates and joint ventures

The amendments clarified that companies account for long-term interests in an associate or joint venture, to which the equity method is not applied, using IFRS 9.

IFRIC 23, 'Uncertainty over income tax treatments'

IFRIC 23 provides a framework to consider, recognise and measure the accounting impact of tax uncertainties. The Interpretation provides specific guidance in several areas where previously IAS 12 was silent. The Interpretation also explains when to reconsider the accounting for a tax uncertainty. Most entities will have developed a model to account for tax uncertainties in the absence of specific guidance in IAS 12. These models might, in some circumstances, be inconsistent with IFRIC 23 and the impact on tax accounting could be material. Management should assess the existing models against the specific guidance in the Interpretation and consider the impact on income tax accounting.

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 2019, 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 17 Insurance Contracts (issued in May 2017)

The new standard, effective for annual periods beginning on or after 1st January 2021, establishes principles for the recognition, measurement, presentation and disclosure of insurance contracts issued. It also requires similar principles to be applied to reinsurance contracts held and investment contracts with discretionary participation features issued. The objective is to ensure that entities provide relevant information in a way that faithfully represents those contracts. The group does not issue insurance contracts.

Amendments to IFRS 3 titled Definition of a Business (issued in October 2018)

The amendments, applicable to business combinations for which the acquisition date is on or after the annual reporting period beginning 1 January 2020 and to asset acquisitions that occur on or after the beginning of that period, clarify the definition of a business, with the objective of assisting entities to determine whether a transaction should be accounted for as a business combination or as an asset acquisition.

To be considered a business, an acquisition would have to include an input and a substantive process that together significantly contribute to the ability to create outputs. The new guidance provides a framework to evaluate when an input and a substantive process are present (including for early stage companies that have not generated outputs). To be a business without outputs, there will now need to be an organised workforce.

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 revised standards and interpretations that have been issued but are not yet effective (continued)

Amendments to IAS 1 and IAS 8 titled Definition of Material (issued in October 2018)

The amendments, applicable to annual periods beginning on or after 1 January 2020, clarify the definition of material and how it should be applied by including in the definition guidance that until now has not featured elsewhere in IFRS.

These amendments to IAS 1 and IAS 8 and consequential amendments to other IFRSs:
- use a consistent definition of materiality through IFRSs and the Conceptual Framework for Financial Reporting;
- clarify the explanation of the definition of material; and
- incorporate some of the guidance in IAS 1 about immaterial information.

The amended definition is:
"Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity."

Amendments to IFRS 9, IAS 39 and IFRS 7 – Interest rate benchmark reform

The amendments, applicable for annual periods beginning on or after 1 January 2020, provide certain reliefs in connection with interest rate benchmark reform. The reliefs relate to hedge accounting and have the effect that IBOR reform should not generally cause hedge accounting to terminate. However, any hedge ineffectiveness should continue to be recorded in the profit or loss account.

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.

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 consistency with policies adopted by the Group.

Notes (continued)

2 Summary of significant accounting policies (continued)

2.2 Consolidation (continued)

(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 profit or loss, 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 profit or loss 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 fair value through other comprehensive income 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.

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.

Notes (continued)

2 Summary of significant accounting policies (continued)

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 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 ***("FVTOCI")***;

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

Financial assets that do not meet the criteria for amortised cost or FVTOCI 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 FVTPL, 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 FVTPL, are measured through other comprehensive income (FVTOCI). 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)

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

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.

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

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

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

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).

Notes (continued)

2 Summary of significant accounting policies (continued)

2.6 Financial assets and liabilities (continued)

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

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:

<table>
<tr><td colspan="2">Category</td><td colspan="2">Class</td><td>Subclasses</td></tr>
<tr><td colspan="2">(as defined by IFRS 9)</td><td colspan="2">(as determined by the Group)</td><td></td></tr>
<tr><td rowspan="14">Financial assets</td><td rowspan="3">Financial assets at fair value through other comprehensive income</td><td rowspan="3">Financial Assets Available for sale</td><td>Debt securities</td><td></td></tr>
<tr><td>Derivatives – non-hedging</td><td></td></tr>
<tr><td>Equity securities</td><td></td></tr>
<tr><td rowspan="7">Measured at Amortised Cost</td><td colspan="2">Loans and advances to banks</td><td></td></tr>
<tr><td rowspan="5">Loans and advances to customers</td><td rowspan="3">Loans to individuals (retail)</td><td>Overdrafts</td></tr>
<tr><td>Term loans</td></tr>
<tr><td>Personal Loans</td></tr>
<tr><td rowspan="2">Loans to corporate entities</td><td>Overdrafts</td></tr>
<tr><td>Term loans</td></tr>
<tr><td>Investment securities - debt instruments</td><td>Debt securities</td><td></td></tr>
<tr><td rowspan="4">Financial liabilities at amortised cost</td><td colspan="2">Deposits from banks</td><td></td></tr>
<tr><td rowspan="3">Deposits from customers</td><td>Retail customers</td><td></td></tr>
<tr><td>Mid - corporate</td><td></td></tr>
<tr><td>SMEs</td><td></td></tr>
<tr><td rowspan="2">Off-balance sheet financial Instruments</td><td colspan="3">Loan commitments</td><td></td></tr>
<tr><td colspan="2">Guarantees, acceptances and other financial</td><td colspan="2"></td></tr>
</table>

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 ECL associated with its debt instrument assets carried at amortised cost and FVTOCI 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:

Notes (continued)

2 Summary of significant accounting policies (continued)

2.6.7 Impairment of financial assets (continued)

· 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").

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	5 years
Leasehold Improvements	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.

Notes (continued)

2 Summary of significant accounting policies (continued)

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;
- 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 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.

Notes (continued)

2 Summary of significant accounting policies (continued)

2.11 Employee benefits (continued)

(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.

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.

Notes (continued)

2 Summary of significant accounting policies (continued)

2.16 Accounting for leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. All other leases are classified as finance leases.

Leases under which the Group is the lessee

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

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

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

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

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

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

The above policy has been applied from 1st January 2019. Note 32 sets out the impact of the change in the accounting policy.

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.

Notes (continued)

2 Summary of significant accounting policies (continued)

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

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.

3 Critical accounting estimates and judgments

The Group's financial statements and its financial results 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 profit or loss, 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.

Notes (continued)

3 Critical accounting estimates and judgments (continued)

(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.

(e) Incremental borrowing rate

The Group had to determine a discount rate to be used on implementation of IFRS 16. The standard requires determination of the interest rate implicit in the lease; this is the rate of interest that causes the present value of (a) lease payments and (b) the unguaranteed residual value to equal the sum of (i) the fair value of the underlying asset and (ii) any initial direct costs of the lessor. The Group could not be able to determine the implicit rate in the leases and instead estimated the incremental borrowing rate as permitted by the standard. The incremental borrowing rate is defined as the rate of interest that a lessee would have to pay to borrow, over a similar term and with a similar security, the funds necessary to obtain an asset of a similar value to the cost of the right-of-use asset in a similar economic environment. In determination of this rate management used judgement and estimates observable in the economic environment the Group operates.

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 Group's risk management are to identify all key risks for the Group, measure these risks, manage the risk positions and determine capital allocations. The Group 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 Group's financial performance. The Group 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 and Risk and Compliance are responsible for the independent review of risk management and the control environment.

The risks arising from financial instruments to which the Group 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
- Charges over financial instruments such as debt securities and equities ; and
- Cash collateral

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 Group 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 Group 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 31 December 2019, 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:

<u>Quantitative Criteria</u>

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

The Group 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.

<u>Qualitative Criteria</u>

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 31 December 2019 are set out below. The scenarios "base", "upside" and "downside" were used for all portfolios.

	All Customers		
Macroeconomic Data	**Base**	**Upside**	**Downside**
Inflation	5.2%	4.9%	5.5%
GDP	5.9%	6.2%	5.61%

The weightings and overall macroeconomic overlay assigned to each economic scenario at 31 December 2019 were as follows:

	All Customers		
	Base	**Upside**	**Downside**
Weightings	77%	15%	8%
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 2019 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%	87%	10%	3%	408
Weightings -10%	67%	20%	13%	(496)

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%	(1,399)
Upside overlay -5%	0%	5%	-5%	1,311
Downside overlay -10%	0%	10%	-15%	1,402

Notes (continued)

4 Financial Risk Management (Continued)

(a) Credit risk (continued)

(iv) Maximum exposure to credit risk before collateral

	Group		Bank	
	2019	2018	2019	2018
	Shs'000	Shs'000	Shs'000	Shs'000
Balances with Central Banks	3,492,818	2,330,706	908,686	1,120,905
Government & other securities at amortised cost	2,890,443	2,983,411	510,892	883,580
Government & other securities at FVOCI	8,742,167	5,922,191	8,742,167	5,922,191
Deposits and balances due from other banks	1,608,827	2,076,271	301,268	187,981
Due from group companies	1,034,222	2,172,463	13,554	19,784
Loans and advances to customers	20,716,760	19,681,830	13,544,305	12,669,666
Other assets	620,054	415,171	439,271	213,192
Credit exposure relating to off-balance sheet items:				
- Acceptances and letters of credit	1,931,355	1,068,433	1,151,743	761,064
- Guarantees and performance bonds	4,615,377	3,773,205	1,043,184	873,403
- Commitments to lend	1,837,125	1,737,471	1,286,484	1,183,835
	47,489,148	42,161,152	27,941,554	23,835,601

The above table represents a worst case scenario of credit risk exposure to the Bank at 31 December 2019 and 31 December 2018, without taking account of any collateral held or other credit enhancements attached. For on-balance sheet assets, the exposures set out above are based on carrying amounts as reported in the statement of financial position.

As shown above, 44% 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 Group resulting from both its loan and advances portfolio and debt securities based on the following:

- 83% of the loans and advances portfolio are neither past due nor impaired
- 100% of the investments in debt securities are government securities.

Loans and advances are categorized as follows:

	Group		Bank	
	2019	2018	2019	2018
	Shs'000	Shs'000	Shs'000	Shs'000
Stage 1 Loans	14,205,015	14,216,242	9,682,980	8,666,406
Stage 2 Loans	2,399,783	1,540,632	1,441,762	1,189,039
Stage 3 Loans	5,264,372	5,542,145	3,400,822	3,700,965
Gross	21,869,170	21,299,019	14,525,564	13,556,410
Less: allowance for impairment (Note 15)	1,152,410	1,617,189	981,259	886,744
Net	20,716,760	19,681,830	13,544,305	12,669,666

No other financial assets are in stage 2 or stage 3. All financial assets that are in stage 1 are within their approved exposure limits and none have had their terms renegotiated.

Loans and advances in stage 1

The credit quality of the portfolio of loans and advances that were in stage 1 can be assessed by reference to the internal rating system adopted by the Group:

	Group		Bank	
	2019	2018	2019	2018
	Shs'000	Shs'000	Shs'000	Shs'000
Standard	14,205,015	14,216,242	9,682,980	8,666,406

Notes (continued)

4 Financial Risk Management (Continued)

(a) Credit risk (continued)

Loans and advances in stage 2

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	
	2019	2018	2019	2018
	Shs'000	Shs'000	Shs'000	Shs'000
Past due but not impaired	2,399,783	1,540,632	1,441,762	1,189,039

Loans and advances in stage 3

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

	Group		Bank	
	2019	2018	2019	2018
	Shs'000	Shs'000	Shs'000	Shs'000
Individually assessed impaired loans and advances	5,264,372	5,542,145	3,400,822	3,700,965
Fair value of collateral held	5,441,675	5,734,781	4,520,055	4,943,724

(b) Concentration of risk

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

(i) Loans and advances	Group		Bank	
	2019	2018	2019	2018
	Shs'000	Shs'000	Shs'000	Shs'000
Manufacturing	4,399,019	3,594,258	3,083,201	2,202,277
Wholesale and retail trade	5,019,998	4,173,055	2,690,920	2,404,158
Transport and communications	774,923	1,307,376	420,011	758,406
Agricultural	1,462,236	1,634,624	1,376,313	1,548,464
Hotel,Restaurant&tourism	1,579,618	1,149,326	1,579,618	1,149,326
Social community & Other services	2,262,358	1,281,421	2,262,358	1,281,421
Building ,Construction and Real Estate	2,058,369	2,923,031	864,803	1,148,058
Mining	445,232	485,473	445,232	485,473
Finance and Insurance	756,125	885,624	756,125	885,624
Energy	593,599	806,460	65,724	806,459
Others	1,365,283	1,441,182	-	-
Gross	20,716,760	19,681,830	13,544,305	12,669,666

Notes (continued)

4 Financial Risk Management (Continued)

(b) Concentration of risk (continued)

(ii) Off-balance sheet Items

	Group		Bank	
	2019	2018	2019	2018
	Shs'000	Shs'000	Shs'000	Shs'000
Manufacturing	1,029,882	431,239	787,728	351,599
Wholesale and retail trade	796,950	802,409	494,825	573,685
Transport and communications	257,866	258,491	242,771	185,256
Business services	227,172	222,025	189,169	78,727
Agricultural	144,115	102,873	144,014	97,887
Individuals	643	96,442	-	5,300
Real estate and construction	1,581,424	2,234,779	4,490	75,555
Information and Technolgy	128,733	137,249	6,170	137,249
Mining	9,638	-	9,638	-
Energy	-	90,020	-	90,020
Others*	2,388,762	466,077	316,122	39,187
Gross	6,565,185	4,841,604	2,194,927	1,634,465

*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 2019	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	15,087,079	8,200,105	6,119,672	1,498,839	-	30,905,695
Deposits and balances due to banking institutions	1,588,480	-	-	-	-	1,588,480
Lease liabilities	-	-	48,751	159,741	542,351	750,843
Other liabilities	558,229	-	-	-	-	558,229
Total financial liabilities	17,233,788	8,200,105	6,168,423	1,658,580	542,351	33,803,247
Assets						
Cash and balances with Central Banks	4,114,132	-	-	-	-	4,114,132
Government and other securities held	801,815	1,889,094	7,615,510	1,326,191	-	11,632,610
Deposits and balances due from banking institutions	1,608,827	-	-	-	-	1,608,827
Deposits and balances due from group companies	1,034,222	-	-	-	-	1,034,222
Loans and advances to customers	3,398,949	3,155,271	5,070,589	9,570,464	2,189,662	23,384,935
Other financial assets	730,796	-	-	-	-	730,796
Total financial assets	11,688,741	5,044,365	12,686,099	10,896,655	2,189,662	42,505,522
Net liquidity gap	5,545,047	3,155,740	(6,517,676)	(9,238,075)	(1,647,311)	(8,702,275)

Notes (continued)

4 Financial Risk Management (Continued)

(c) Liquidity risk (continued)

(i) Group (Continued)

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	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)

(ii) Bank

At December 2019	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	9,553,781	6,647,244	1,372,938	783	-	17,574,746
Deposits and balances due to banking institutions	1,474,504	-	-	-	-	1,474,504
Amounts due to group companies	685,872	-	-	-	-	685,872
Lease liabilities	-	-	76,222	256,711	-	332,933
Other liabilities	212,147	-	-	-	-	212,147
Total financial liabilities	11,926,304	6,647,244	1,449,160	257,494	-	20,280,202
Assets						
Cash and balances with Central	1,058,681	-	-	-	-	1,058,681
Government and other securities held	274,149	976,051	6,943,599	1,059,260	-	9,253,059
Deposits and balances due from banking institutions	301,268	-	-	-	-	301,268
Due from group companies	13,554	-	-	-	-	13,554
Loans and advances to customers	1,390,189	2,098,821	3,471,211	7,370,408	2,189,661	16,520,290
Other financial assets	497,898	-	-	-	-	497,898
Total financial assets	3,535,739	3,074,872	10,414,810	8,429,668	2,189,661	27,644,750
Net liquidity gap	8,390,565	3,572,372	(8,965,650)	(8,172,174)	(2,189,661)	(7,364,548)

Notes (continued)

4 Financial Risk Management (Continued)

(c) Liquidity risk (continued)

(ii) Bank (Continued)

At December 2018	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	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 Banks	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	15,584,319
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	4,693,554	(474,396)	(964,053)	(7,174,053)	(3,163,284)	(7,082,232)

(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 Bank's exposure to foreign currency exchange rate risk as at 31 December 2019. Included in the table are the Group's and the Bank's financial instruments categorized by currency. All figures are in thousands of Kenya Shillings.

Group

At 31 December 2019	USD Shs'000	GBP Shs'000	EURO Shs'000	OTHER Shs'000	Total Shs'000
Assets					
Cash and balances with Central Banks	544,942	13,225	263,236	280	821,683
Deposits and balances due from banking institutions	2,576,866	20,738	75,886	2,995	2,676,485
Loans and advances to customers	6,083,010	3,596	491,897	-	6,578,503
Other financial assets	98,241	-	4,081	-	102,322
Total Assets	9,303,059	37,559	835,100	3,275	10,178,993
Liabilities					
Customer deposits	8,293,116	390,735	488,256	1,253	9,173,360
Deposits and balances due to banking institutions	2,155,806	-	1	-	2,155,807
Other liabilities	29,561	1	735	357	30,654
Total liabilities	10,478,483	390,736	488,992	1,610	11,359,821
Net on Balance sheet position	(1,175,424)	(353,177)	346,108	1,665	(1,180,828)
Net off Balance sheet position	1,684,124	346,453	(352,660)	3,254	1,681,171
Overall position	508,700	(6,724)	(6,552)	4,919	500,343
At 31 December 2018					
Total Assets	8,833,652	112,092	879,443	25,145	9,850,332
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)

Notes (continued)

4 Financial Risk Management (Continued)

(d) Market risk (continued)

(i) Currency risk (continued)

Bank

At 31 December 2019	USD Shs'000	GBP Shs'000	EURO Shs'000	Other Shs'000	Total Shs'000
Assets					
Cash and balances with Central Bank of Kenya	92,998	7,525	2,149	172	102,844
Deposits and balances due from banking institutions	218,326	15,975	4,786	2,330	241,417
Loans and advances to customers	4,383,969	3,570	491,874	-	4,879,413
	4,695,293	27,070	498,809	2,502	5,223,674
Liabilities					
Customer deposits	3,279,315	373,549	140,868	1,237	3,794,969
Deposits and balances due to banking institutions	2,155,806	-	1	-	2,155,807
Total liabilities	5,435,121	373,549	140,869	1,237	5,950,776
Net on Balance sheet position	(739,828)	(346,479)	357,940	1,265	(727,101)
Net off Balance sheet position	594,360	346,453	(354,048)	3,254	590,019
Overall position	(145,468)	(26)	3,892	4,519	(137,082)
At 31 December 2018					
Total Assets	3,757,869	87,882	303,609	23,131	4,172,491
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 2019, 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 4 million (2018: Shs 21 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 2019	Upto 1 month	1 - 3 months	3 - 12 months	Over 1 year	Non interest bearing	Total
Assets						
Cash and balances with Central Banks	907,571	-	-	-	3,206,561	4,114,132
Government and other securities at amortised cost	527,666	913,043	717,876	731,858	-	2,890,443
Government and other securities at FVOCI	274,149	976,051	6,907,974	583,993	-	8,742,167
Deposits and balances due from banking institutions	1,608,827	-	-	-	-	1,608,827
Amounts due from group companies	1,034,222	-	-	-	-	1,034,222
Loans and advances to customers	3,291,211	2,966,589	4,266,532	10,192,428	-	20,716,760
Other financial assets	-	-	-	-	730,796	730,796
Total financial assets	7,643,646	4,855,683	11,892,382	11,508,279	3,937,357	39,837,347
Liabilities						
Customer deposits	9,242,428	7,224,671	2,961,966	812	11,359,040	30,788,917
Deposits and balances due to banking institutions	1,588,480	-	-	-	-	1,588,480
Lease liabilities	-	-	-	750,843	-	750,843
Other financial liabilities	-	-	-	-	558,229	558,229
Total financial liabilities	10,830,908	7,224,671	2,961,966	751,655	11,917,269	33,686,469
Total interest repricing gap	(3,187,262)	(2,368,988)	8,930,416	10,756,624	(7,979,912)	6,150,878
At 31 December 2018						
Total financial Assets	7,470,543	5,716,554	10,189,530	9,459,539	3,515,448	36,351,614
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

Notes (continued)

4 Financial Risk Management (Continued)

(d) Market risk (continued)

(ii) Interest rate risk (continued)

(b) Bank

At December 2019	Upto 1 month	1 - 3 months	3 - 12 months	Over 1 year	Non interest bearing	Total
Assets						
Cash and balances with Central Banks	-	-	-	-	1,058,681	1,058,681
Government and other securities at amortised	-	-	45,965	464,927	-	510,892
Government and other securities at FVOCI	274,149	976,051	6,907,974	583,993	-	8,742,167
Deposits and balances due from banking institutions	301,268	-	-	-	-	301,268
Due from group companies	13,554	-	-	-	-	13,554
Loans and advances to customers	1,282,450	1,910,139	2,667,154	7,684,562	-	13,544,305
Other financial assets	-	-	-	-	497,898	497,898
Total financial assets	1,871,421	2,886,190	9,621,093	8,733,482	1,556,579	24,668,765
Liabilities						
Customer deposits	4,258,994	6,599,680	1,356,585	751	5,241,959	17,457,969
Deposits and balances due to banking institutions	1,474,504	-	-	-	-	1,474,504
Due to group companies	685,872	-	-	-	-	685,872
Lease liabilities	-	-	-	332,933	-	332,933
Other financial liabilities	-	-	-	-	212,147	212,147
Total financial liabilities	6,419,370	6,599,680	1,356,585	333,684	5,454,106	20,163,425
Total interest repricing gap	(4,547,949)	(3,713,490)	8,264,508	8,399,798	(3,897,527)	4,505,340
At 31 December 2018						
Total Assets	2,140,176	4,274,038	6,825,439	6,443,549	1,532,920	21,216,122
Total 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

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 2019, an increase/decrease of 75 basis points would have resulted in an increase/decrease in consolidated post tax profit of Group; Shs 95 million (2018: Shs 125million) and Bank Shs 55 million (2018: Shs 73 million) , mainly as a result of higher/lower interest charges on variable rate borrowings.

(e) Fair values of financial assets, financial liabilities and land and buildings

The fair value of investment securities at fair value through other comprehensive income as at 31 December 2019 is estimated at; Shs 8,756 million (2018: Shs 5,951 million) for the Group and Bank as compared to their carrying values of Shs 8,742 million (2018: Shs 5,948 million). The fair value of freehold land and building is estimated at; Shs 95 million (2018: Shs 98million) for the Group as compared to their carrying values of Shs 61 million (2018: Shs 62 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.

<u>Fair value estimation</u>

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 2019			
Assets			
Financial assets at fair value through OCI	-	8,742,167	-
Freehold Land & Building	-	-	95,193
31 December 2018			
Assets			
Financial assets at fair value through OCI	-	5,922,191	-
Freehold Land & Building	-	-	97,708
Bank			
31 December 2019			
Assets			
Financial assets at fair value through OCI	-	8,742,167	-
31 December 2018			
Assets			
Financial assets at fair value through OCI	-	5,922,191	-

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 2019; (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-19 Shs'000	31-Dec-18 Shs'000	31-Dec-19 Shs'000	31-Dec-18 Shs'000
Tier 1 capital	8,229,897	8,434,397	5,248,059	5,059,129
Tier 1 + Tier 2 capital	8,229,897	8,434,397	5,248,059	5,059,129
Risk - weighted assets				
On Balance sheet	24,326,690	22,445,501	14,941,481	13,391,214
Off Balance sheet	3,235,078	2,559,317	895,025	625,572
Total market risk weighted assets	1,293,447	1,257,312	1,189,088	1,073,667
Total operational risk weighted assets	6,698,601	6,833,383	3,581,891	3,878,308
Total risk weighted assets	35,553,816	33,095,513	20,607,485	18,968,761
Basel ratio				
Tier 1	23.15%	25.49%	25.47%	26.67%
Tier 1 + Tier 2	23.15%	25.49%	25.47%	26.67%

The capital adequacy ratios for the subsidiaries are summarised below;

Tier 1	**2019**	**2018**
GTBank Kenya (CBK minimum - 10.5%)	25.47%	26.67%
GTBank Rwanda PLC (BNR minimum - 10.5%)	16.20%	15.00%
GTBank Uganda (BOU minimum - 8%)	18.63%	17.26%
Tier 1 + Tier 2	**2019**	**2018**
GTBank Kenya (CBK minimum - 14.5%)	25.47%	26.67%
GTBank Rwanda PLC (BNR minimum - 15%)	16.36%	15.17%
GTBank Uganda (BOU minimum - 12%)	18.85%	18.15%

Notes (continued)

5 Interest income

	Group		Bank	
	31-Dec-19 Shs'000	31-Dec-18 Shs'000	31-Dec-19 Shs'000	31-Dec-18 Shs'000
Loans and advances	2,525,740	2,664,716	1,509,479	1,610,157
Credit related fees and commissions	267,548	236,658	180,838	134,823
Government securities - Amortised cost	340,259	330,378	75,003	101,155
Government securities - FVOCI	643,985	585,368	643,985	585,368
Cash and short term funds	115,913	75,955	17,184	22,460
Other securities*	8,928	9,728	8,928	9,728
	3,902,373	3,902,803	2,435,417	2,463,691

*Interest income on other securities comprises of interest income on corporate bonds and discount on swap contracts

6 Interest expense

	Group		Bank	
	31-Dec-19 Shs'000	31-Dec-18 Shs'000	31-Dec-19 Shs'000	31-Dec-18 Shs'000
Customer deposits	1,006,372	1,110,573	737,354	836,976
Borrowed funds	-	113,414	-	113,414
Deposits by banks	41,586	19,022	37,112	7,976
Interest expense on lease liabilities	63,157	-	38,945	-
Other interest expenses*	4,997	4,013	4,997	4,013
	1,116,112	1,247,022	818,408	962,379

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

7 Fees and commission

	Group		Bank	
	31-Dec-19	31-Dec-18	31-Dec-19	31-Dec-18
(a) Fees and commission income	Shs'000	Shs'000	Shs'000	Shs'000
Clearing and Funds transfer commission	155,155	111,220	33,015	34,099
Other fee income	96,532	88,066	36,696	15,544
Commissions on guarantees	103,557	83,045	26,406	26,726
Current account ledger fees	61,391	64,420	26,002	26,319
Letters of credit commissions	31,919	37,457	10,480	8,249
Master card commission	42,369	26,963	26,757	17,677
Cash withdrawal commissions	17,080	20,694	-	-
Mobile and Ebanking commissions	40,205	19,675	22,980	12,600
ATM commissions	14,132	14,589	5,457	6,160
Cheque book charges	8,588	8,851	3,137	3,430
	570,928	474,980	190,930	150,804
(b) Fees and commission expense				
Master card expense	21,889	38,125	21,889	38,125
Banking services	19,796	12,519	6,783	1,372
Foreign currency import/export charges	18,625	7,678	1,013	338
Other fee expenses	70,229	72,650	-	-
	130,539	130,972	29,685	39,835

8 Other operating income

Gain/(loss) on disposal of assets	458	3,138	69	232
Bad debts recovered	161,202	10,809	655	733
	161,660	13,947	724	965
Foreign exchange gains				
Unrealised foreign exchange losses	(12,549)	(8,431)	(4,541)	(1,239)
Realised foreign exchange gains	236,936	220,889	77,239	67,608
	224,387	212,458	72,698	66,369

Notes (continued)

9 Operating expenses

	31-Dec-19 Shs'000	31-Dec-18 Shs'000	31-Dec-19 Shs'000	31-Dec-18 Shs'000
	Group		Bank	
Employee benefits expense (Note 10)	977,895	1,014,943	497,969	508,017
Depreciation (Note 17)	179,174	212,462	91,144	87,827
Depreciation of right-of-use assets (Note 19)	178,309	-	93,438	-
Repairs and maintenance	125,645	72,266	64,446	40,997
Other administrative expenses	119,747	159,784	15,217	38,973
Director fees (Note 30)	95,476	72,732	72,384	41,131
Amortisation of intangible assets (Note 18)	87,827	81,498	41,519	37,810
Mobile and E - Banking charges	34,335	88,874	26,258	24,347
Operating lease rentals	49,690	234,367	46,792	143,281
Advertising and publicity	40,908	107,300	22,394	90,334
Deposit protection insurance	40,911	41,504	23,835	24,844
Security costs	38,618	37,645	19,871	19,600
Water and electricity costs	33,085	37,194	11,739	12,075
Communication	32,451	36,765	12,370	15,840
Consultancy costs	31,700	40,324	1,206	4,473
ATM expenses	27,871	23,833	24,645	23,814
Travel and accomodation	23,582	36,536	7,788	18,859
Insurance	22,742	31,271	11,444	18,100
Legal fees	20,792	30,501	3,954	2,633
Printing and stationery	20,759	24,127	7,286	6,981
Auditors' remuneration	18,723	30,780	7,875	9,435
Reuters and Bloomberg charges	18,693	21,742	15,599	15,829
Subscriptions expenses	15,475	8,365	15,475	8,365
Office cash handling charges	13,053	12,209	2,764	1,984
Periodicals and other book subscriptions	12,762	10,520	558	1,210
Correspondent bank charges	12,092	10,880	5,677	6,164
Office housekeeping	11,249	12,289	8,666	9,635
Motor vehicle expenses	7,781	8,589	4,838	5,253
Operating licence fees	4,640	4,587	4,298	4,176
Courier charges	4,381	6,356	4,157	4,633
Outsourced service fees	3,764	873	2,318	873
Sundry losses	2,448	(479)	647	(1,528)
Donation and grants	803	647	528	647
Fines and Penalties	36	38	36	21
IFC processing fees expense	-	27,089	-	27,089
	2,307,417	2,538,411	1,169,135	1,253,722

10 Employee benefits expense

Salaries and wages	764,056	837,621	371,031	394,159
Pension fund contribution	43,778	47,914	15,912	18,008
Other staff costs and benefits	170,061	129,408	111,026	95,850
	977,895	1,014,943	497,969	508,017

The average number of staff in the year for the group was 555 while the bank had 180 (2018: For the group was 578 and for the bank was 202)

11 Taxation

Current income tax	338,072	158,633	195,288	66,031
Deferred income tax (Note 20)	(44,542)	67,847	(51,408)	(4,887)
	293,530	226,480	143,880	61,144

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-19	31-Dec-18	31-Dec-19	31-Dec-18
	Shs'000	Shs'000	Shs'000	Shs'000
Profit before income tax	865,688	317,219	491,197	307,079
Tax calculated at domestic rates applicable to profits in the respective countries - 30% (2018- 30%)	259,706	95,166	147,359	92,123
Tax effect of:				
- Income not subject to tax	(155,346)	(47,066)	(11,903)	(23,562)
- Expenses not deductible for tax purposes	82,405	58,473	8,424	5,984
- Tax losses not recognised	106,765	53,984	-	-
- Deferred tax writen off	-	79,324	-	-
- Under provision of deferred income tax in prior years	-	(13,401)	-	(13,401)
- Final tax on interest earned on treasury bills	-	-	-	-
	293,530	226,480	143,880	61,144
Corporate tax recoverable				
At the beginning of the year	73,799	121,838	84,059	150,090
Charge for the year	(312,270)	(158,633)	(195,288)	(66,031)
Taxation paid	83,243	109,347	-	-
Translation difference	529	1,247	-	-
At the end of the year	(154,699)	73,799	(111,229)	84,059
Comprising of:				
Corporate tax recoverable	-	84,059	-	84,059
Corporate tax payable	(154,699)	(10,260)	(111,229)	-
	(154,699)	73,799	(111,229)	84,059

12 Cash and balances with the Central Bank

Cash in hand	621,314	690,135	149,995	152,423
Balances with the Central Banks	3,492,818	2,330,706	908,686	1,120,905
	4,114,132	3,020,841	1,058,681	1,273,328

13 Financial assets

(a) Held at amortised cost

Government securities – at amortised cost				
- Maturing within 90 days of acquisition date	1,440,643	1,294,797	-	10,000
- Maturing after 90 days of acquisition date	1,449,800	1,688,614	510,892	873,580
	2,890,443	2,983,411	510,892	883,580

(b) Held at FVOCI

Government securities				
- Maturing within 90 days of acquisition date	1,250,200	2,570,655	1,250,200	2,570,655
- Maturing after 90 days of acquisition date	7,491,967	3,325,521	7,491,967	3,325,521
Debt securities	-	26,015	-	26,015
	8,742,167	5,922,191	8,742,167	5,922,191

14 Deposits and balances due from other banks

Due from local banking institutions	73,700	81,420	73,700	81,420
Due from foreign banking institutions	1,535,127	1,994,851	227,568	106,561
	1,608,827	2,076,271	301,268	187,981

Notes (continued)

15 Loans and advances to customers	Group 31-Dec-19 Shs'000	Group 31-Dec-18 Shs'000	Bank 31-Dec-19 Shs'000	Bank 31-Dec-18 Shs'000
Overdrafts	5,444,302	5,765,051	3,169,143	3,192,184
Commercial loans	14,649,555	13,670,630	10,740,533	9,938,268
Personal loans	1,252,426	1,057,747	611,696	421,310
Mortgages	522,887	805,591	4,192	4,648
Gross loans and advances	21,869,170	21,299,019	14,525,564	13,556,410
Less: Provision for impairment losses				
- Stage 1 loans	224,389	180,587	55,141	105,050
- Stage 2 loans	119,099	87,547	92,487	49,773
- Stage 3 loans	808,922	1,349,055	833,631	731,921
	1,152,410	1,617,189	981,259	886,744
Net loans and advances	20,716,760	19,681,830	13,544,305	12,669,666

(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 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	-	-	(236,907)	(236,907)
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)	-	(3,850,504)
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

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 01 January 2019	14,216,242	1,540,632	5,542,145	21,299,019
Changes in the gross carrying amount				
– Transfer from stage 1 to stage 2	(942,238)	942,238	-	-
– Transfer from stage 1 to stage 3	(147,588)	-	147,588	-
– Transfer from stage 2 to stage 3	-	(45,263)	45,263	-
– Transfer from stage 3 to stage 2	-	4,190	(4,190)	-
– Transfer from stage 2 to stage 1	286,793	(286,793)	-	-
– Write-offs	-	-	(890,855)	(890,855)
New financial assets originated or purchased	6,334,374	772,702	439,429	7,546,505
Financial assets that have been derecognised	(5,488,505)	(527,652)	-	(6,016,157)
Translation differences	(54,063)	(271)	(15,008)	(69,342)
Gross carrying amount as at 31 December 2019	14,205,015	2,399,783	5,264,372	21,869,170

Notes (continued)

15 Loans and advances to customers (continued)

(i) Loans and advances to customers at amortised cost (continued)

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 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	-	-	(208,679)	(208,679)
New financial assets originated or purchased	1,587,357	15,315	-	1,602,672
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

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 01 January 2019	8,666,406	1,189,039	3,700,965	13,556,410
Changes in the gross carrying amount				
– Transfer from stage 1 to stage 2	(262,062)	262,062	-	-
– Transfer from stage 1 to stage 3	(106,375)	-	106,375	-
– Transfer from stage 2 to stage 3	-	(12,438)	12,438	-
– Transfer from stage 3 to stage 2	-	67,135	(67,135)	-
– Transfer from stage 2 to stage 1	146,149	(146,149)	-	-
– Write-offs	-	-	(101,275)	(101,275)
New financial assets originated or purchased	3,069,658	366,617	8,046	3,444,321
Financial assets that have been derecognised	(1,830,796)	(284,504)	(258,592)	(2,373,892)
Gross carrying amount as at 31 December 2019	9,682,980	1,441,762	3,400,822	14,525,564

(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 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	-	(66,086)	66,086	-
– Transfer from stage 3 to stage 2	-	-	-	-
– Transfer from stage 2 to stage 1	35,783	(35,783)	-	-
New financial assets originated or purchased	-	-	404,216	404,216
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

Notes (continued)

15 Loans and advances to customers (continued)

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

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 01 January 2019	180,587	87,547	1,349,055	1,617,189
Charge to profit or loss	45,698	31,915	361,979	439,592
– Transfer from stage 1 to stage 2	(793)	793	-	-
– Transfer from stage 1 to stage 3	(28,149)	-	28,149	-
– Transfer from stage 2 to stage 3	428	(443)	15	-
– Transfer from stage 3 to stage 2	-	-	-	-
– Transfer from stage 2 to stage 1	350	(350)	-	-
Financial assets that have been derecognised	(22,591)	(26,492)	(9,406)	(58,489)
New financial assets originated or purchased	96,453	58,407	343,221	498,081
Write-offs	-	-	(899,905)	(899,905)
Translation Differences	(1,896)	(363)	(2,207)	(4,466)
Loss allowance as at 31 December 2019	224,389	119,099	808,922	1,152,410

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 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)	129,429	-
– Transfer from stage 3 to stage 2	-	-	-	-
– Transfer from stage 2 to stage 1	7,660	(7,660)	-	-
New financial assets originated or purchased	-	7,660	111,154	118,814
Write-offs	-	-	(145,613)	(145,613)
Loss allowance as at 31 December 2018	105,050	49,773	731,921	886,744

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 01 January 2019	105,050	49,773	731,921	886,744
Charge to profit or loss	(49,909)	42,714	198,539	191,344
– Transfer from stage 1 to stage 2	(793)	793	-	-
– Transfer from stage 1 to stage 3	(26,637)	-	26,637	-
– Transfer from stage 2 to stage 3	-	(15)	15	-
– Transfer from stage 3 to stage 2	-	-	-	-
– Transfer from stage 2 to stage 1	112	(112)	-	-
Financial assets that have been derecognised	(22,591)	-	-	(22,591)
New financial assets originated or purchased	-	42,048	171,887	213,935
Write-offs	-	-	(96,829)	(96,829)
Loss allowance as at 31 December 2019	55,141	92,487	833,631	981,259

Notes (continued)

16 Investment in subsidiaries

Name	Country of incorporation	2019 % interest held	2019 Shs'000	2018 % interest held	2018 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%	1,726,772
At 31 December			3,375,990		3,375,990

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

	31-Dec-19 Shs'000	31-Dec-18 Shs'000
At start of year	3,375,990	3,273,390
Additional investment in Guaranty Trust Bank (Uganda) Limited	-	102,600
	3,375,990	3,375,990

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 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

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 2019							
Opening net book amount	97,708	133,739	35,947	52,958	308,685	42,080	671,117
Additions	-	24,817	18,717	54,149	64,389	62,517	224,589
Reclassification	-	-	6,538	-	39,174	(45,712)	-
Disposals	2,969	(4,060)	(429)	-	(6,092)	-	(7,612)
Depreciation charge	(3,710)	(13,990)	(15,323)	(26,829)	(117,854)	-	(177,706)
Currency translation difference	(1,774)	(2,339)	61	120	(79)	(31,391)	(35,402)
Closing net book amount	95,193	138,167	45,511	80,398	288,223	27,494	674,986
At 31 December 2019							
Cost or valuation	139,970	253,960	203,644	190,970	1,504,394	27,494	2,320,432
Accumulated depreciation	(44,777)	(115,793)	(158,133)	(110,572)	(1,216,171)	-	(1,645,446)
Net book Amount	95,193	138,167	45,511	80,398	288,223	27,494	674,986

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:

	2019	2018
	Shs'000	Shs'000
Cost	108,814	110,870
Accumulated depreciation	(47,672)	(48,572)
Net book amount	61,142	62,298

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 2018					
Opening net book amount	34,680	5,143	236,804	-	276,627
Additions	8,724	19,354	28,253	2,311	58,642
Depreciation charge	(13,393)	(7,171)	(67,263)	-	(87,827)
Reclassification	1,266	2,406	(3,672)	-	-
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

	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 2019					
Opening net book amount	31,277	19,732	194,122	2,311	247,442
Additions	18,717	33,675	40,058	26	92,476
Disposals	(364)	-	(4,832)	-	(5,196)
Depreciation charge	(12,204)	(10,612)	(68,328)	-	(91,144)
Reclassification	2,492	-	(181)	(2,311)	-
Closing net book amount	39,918	42,795	160,839	26	243,578
At 31 December 2019					
Cost or valuation	109,879	64,436	726,984	26	901,325
Accumulated depreciation	(69,961)	(21,641)	(566,145)	-	(657,747)
Net book Amount	39,918	42,795	160,839	26	243,578

18 Intangible assets

(a) Group

	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

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 2019				
Opening net book amount	390,147	21,812	749	412,708
Additions	20,819	-	-	20,819
Disposals	(296)	-	-	(296)
Amortization	(87,827)	-	-	(87,827)
Transfer	749	-	(749)	-
Currency translation difference	(572)	-	-	(572)
At end of year	323,020	21,812	-	344,832
At 31 December 2019				
Cost	862,382	21,812	-	884,194
Accumulated depreciation	(539,362)	-	-	(539,362)
Net book amount	323,020	21,812	-	344,832

(b) Bank

	Computer Software Shs'000	Goodwill Shs'000	Work-in-progress Shs'000	Total Shs'000
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
Year ended 31 December 2019				
Opening net book amount	180,679	-	749	181,428
Additions	11,405	-	-	11,405
Disposals	(296)	-	-	(296)
Transfer	749	-	(749)	-
Amortization	(41,519)	-	-	(41,519)
At end of year	151,018	-	-	151,018
At 31 December 2019				
Cost	387,753	-	-	387,753
Accumulated depreciation	(236,735)	-	-	(236,735)
Net book amount	151,018	-	-	151,018

The goodwill arose from the Bank's acquisition of its subsidiary in Rwanda.

Notes (continued)

18 Intangible assets (continued)

Impairment tests for goodwill

For the purpose of impairment testing, goodwill acquired in a business combination is allocated to each of the Cash Generating Units (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.

The recoverable amount of a CGU is determined based on value-in-use calculations. These calculations use cash flow projections based on financial budgets approved by management covering a three-year period. Cash flows beyond the three-year period are extrapolated using estimated growth rates. The growth rates do not exceed the long-term average growth rates for the Guaranty Trust Bank (Rwanda) Limited business in which the CGUs operate.

Goodwill relating to Guaranty Trust Bank (Rwanda) Limited was tested for impairment at 31 December 2019. 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 8.0%. 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 3.91% 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 Right-of-use assets

(a) Group	Buildings Shs'000	Total Shs'000
Year ended 31 December 2019		
At start of year		
Effect of adoption of IFRS 16 (note 32)	925,008	925,008
	925,008	925,008
Depreciation charge	(178,309)	(178,309)
Currency translation difference	216	216
At end of year	746,915	746,915

(b) Bank	Buildings Shs'000	Total Shs'000
Year ended 31 December 2019		
At start of year		
Effect of adoption of IFRS 16 (note 32)	428,397	428,397
	428,397	428,397
Depreciation charge	(93,438)	(93,438)
At end of year	334,959	334,959

The Group leases various office buildings,branches and equipment in the normal course of business. The leases for buildings and branches are typically for a period of between 3 and 10 years, with option for renewal at the end of the term. Leases of equipment are typically short term for periods of less than 12 months. None of these leases contains any restrictions or covenants other than the protective rights of the lessor or carries a residual value guarantee.

For information on the related lease liabilities, see Note 24.

Notes (continued)

20 Deferred income tax

Deferred income tax is calculated using the enacted income tax rate of 30% (2018: 30%). The gross movement on the deferred income tax account is as follows:

	Group		Bank	
	2019	2018	2019	2018
	Shs'000	Shs'000	Shs'000	Shs'000
At start of year	402,540	488,612	259,855	264,042
Credit/(charge) to profit or loss (Note 11)	44,542	(67,847)	51,408	4,887
Credit/(charge) to other comprehensive income	647	(18,225)	(3,178)	(9,074)
At end of year	447,729	402,540	308,085	259,855

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

	01.01.2019	(Charged)/credit to profit or loss	Charged to equity	31.12.2019
	Shs'000	Shs'000	Shs'000	Shs'000
Year ended 31 December 2019	*(restated)*			
Deferred income tax assets				
Other temporary differences	245,941	29,394	-	275,335
Lease liability	119,392	(19,512)	-	99,880
Restoration costs	9,127	-	-	9,127
Revaluation of FVOTCI	7,952	-	-	7,952
Tax losses carried forward	199,956	-	-	199,956
Translation differences	(11,959)	-	3,030	(8,929)
	570,409	9,882	3,030	583,321
Deferred income tax liabilities				
Property and equipment	(3,929)	6,629	-	2,700
Revaluation of FVOTCI	(9,074)	-	(3,178)	(12,252)
Right-of-use assets	(128,519)	28,031	-	(100,488)
Translation differences	(26,347)	-	795	(25,552)
	(167,869)	34,660	(2,383)	(135,592)
Net deferred tax asset	402,540	44,542	647	447,729

Notes (continued)

20 Deferred income tax (continued)

(a) Group (continued)

	01.01.2018	(Charged)/credited to profit or loss	Charged to equity	31.12.2018
	Shs'000	Shs'000	Shs'000	Shs'000
Year ended 31 December 2018				
Deferred income tax assets				
Other temporary differences	259,879	(13,938)	-	245,941
Revaluation of available for sale securities	7,952	-	-	7,952
Tax losses carried forward	272,360	(72,404)	-	199,956
Translation differences	1,019	-	(12,978)	(11,959)
Deferred income tax assets	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)
Deferred income tax liabilities	(52,598)	18,495	(5,247)	(39,350)
Net deferred tax asset	488,612	(67,847)	(18,225)	402,540

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

	01.01.2019	(Charged)/credited to profit or loss	Charged to equity	31.12.2019
	Shs'000	Shs'000	Shs'000	Shs'000
Year ended 31 December 2019	*(restated)*			
Deferred income tax				
Property and equipment	(5,988)	13,495	-	7,507
Right-of-use assets	(128,519)	28,031	-	(100,488)
Lease liability	119,392	(19,512)	-	99,880
Restoration costs	9,127	-	-	9,127
Revaluation of available for sale securities	(1,121)	-	(3,178)	(4,299)
Other temporary differences	266,964	29,394	-	296,358
Deferred income tax asset	259,855	51,408	(3,178)	308,085

	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				
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	270,961	(3,997)	-	266,964
Deferred income tax asset	264,042	4,887	(9,074)	259,855

Notes (continued)

21 Other assets

	Group		Bank	
	31-Dec-19	31-Dec-18	31-Dec-19	31-Dec-18
	Shs'000	Shs'000	Shs'000	Shs'000
Items in the course of collection	70,408	82,309	70,408	81,432
Prepayments	110,742	112,511	58,627	46,400
Other receivables	549,646	332,530	368,863	131,428
Derivative financial instruments	-	332	-	332
	730,796	527,682	497,898	259,592

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

22 Customer deposits

	Group		Bank	
	31-Dec-19	31-Dec-18	31-Dec-19	31-Dec-18
	Shs'000	Shs'000	Shs'000	Shs'000
Current and demand deposits	14,836,425	14,403,817	5,621,755	5,087,104
Savings accounts	2,611,429	2,660,068	1,145,729	1,288,128
Time deposit accounts	13,341,063	11,624,673	10,690,485	9,673,319
	30,788,917	28,688,558	17,457,969	16,048,551
Current	30,788,105	28,684,120	17,457,218	16,044,817
Non current	812	4,438	751	3,734
	30,788,917	28,688,558	17,457,969	16,048,551

23 Deposits due to other banks

Due to local banking institution	1,474,503	1,072,378	1,474,503	712,510
Due to foreign banking Institution	113,977	1	1	1
	1,588,480	1,072,379	1,474,504	712,511

24 Lease liabilities

	Group		Bank	
	31-Dec-19	31-Dec-18	31-Dec-19	31-Dec-18
	Shs'000	Shs'000	Shs'000	Shs'000
Expected to be settled within 12 months after the year end	124,973	-	76,222	-
Expected to be settled more than 12 months after the year end	625,870	-	256,711	-
	750,843	-	332,933	-
The total cash outflow for leases in the year was :				
Payments of principal portion of the lease liability	155,641	-	65,040	-
Interest paid on lease liabilities	62,964	-	38,945	-
	218,605	-	103,985	-

In 2018 the group recognised lease assets and lease liabilities only for those leases that were classified as finance leases under the accounting policy at that time.The assets were included in property,plant and equipment and the liabilities were included in borrowings. For adjustments recognised on adoption of IFRS 16 on 1st January 2019, see Note 32.

For more information on the nature of the leases entered into and the related right-of-use assets, see Note 19.

Notes (continued)

24 Lease liabilities (continued)

Movement in lease liability	Group 31-Dec-19 Shs'000	Group 31-Dec-18 Shs'000	Bank 31-Dec-19 Shs'000	Bank 31-Dec-18 Shs'000
Lease liability at 1 January 2019	906,484	-	397,973	-
Interest expense charged	63,157	-	38,945	-
Interest paid	(62,964)	-	(38,945)	-
Principal elements of lease payments	(155,641)	-	(65,040)	-
Currency translation difference	(193)	-	-	-
	750,843	-	332,933	-

Amounts recognised in the statement of profit or loss	Group 31-Dec-19 Shs'000	Group 31-Dec-18 Shs'000	Bank 31-Dec-19 Shs'000	Bank 31-Dec-18 Shs'000
Depreciation charge of right-of-use assets	178,309	-	93,438	-
Interest expense	63,157	-	38,945	-

25 Other liabilities

	Group 31-Dec-19 Shs'000	Group 31-Dec-18 Shs'000	Bank 31-Dec-19 Shs'000	Bank 31-Dec-18 Shs'000
Outstanding bankers cheques	26,438	21,882	20,433	14,243
*Derivative financial instruments	13,200	-	13,200	-
Other payables and accrued expenses	472,333	467,765	178,514	133,626
**Accrued tax liability	46,258	38,800	-	-
	558,229	528,447	212,147	147,869

*Derivative financial instruments in the current year relates 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

26 Share capital

	Number of shares	Ordinary shares Shs'000	Share premium Shs'000	Total Shs'000
At 1 January and 31 December 2019	1,280,934	1,280,934	4,225,323	5,506,257
At 1 January and 31 December 2018	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.

27 Statutory reserve

	Group 31-Dec-19 Shs'000	Group 31-Dec-18 Shs'000
At start of year	-	16,523
Transfer (to)/ from retained earnings	28,349	(11,100)
Transfer to other reserves	-	(5,423)
At end of year	28,349	-

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.

Notes (continued)

28 Other reserves (continued)

	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 2018	**Shs'000**	**Shs'000**	**Shs'000**	**Shs'000**	**Shs'000**
At start of year:	(18,557)	68,623	(293,510)	(243,444)	(18,557)
Fair value gain on FVTOCI assets	21,173	-	-	21,173	21,173
Currency translation differences	-	-	(133,492)	(133,492)	-
At end of year:	2,616	68,623	(427,002)	(355,763)	2,616
Year ended 31 December 2019					
At start of year:	2,616	68,623	(427,002)	(355,763)	2,616
Fair value gain on FVTOCI assets	7,416	-	-	7,416	7,416
Currency translation differences	-	-	(12,845)	(12,845)	-
At end of year:	10,032	68,623	(439,847)	(361,192)	10,032

29 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-19	31-Dec-18	31-Dec-19	31-Dec-18
	Shs'000	Shs'000	Shs'000	Shs'000
- Acceptances and letters of credit	1,931,355	1,068,433	1,151,743	761,064
- Guarantees and performance bonds	4,615,377	3,773,205	1,043,184	873,403
	6,546,732	4,841,638	2,194,927	1,634,467

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-19	31-Dec-18	31-Dec-19	31-Dec-18
	Shs'000	Shs'000	Shs'000	Shs'000
Not later than one year	118,882	124,806	110,584	116,638
Later than 1 year and not later than 5 years	-	357,806	-	357,806
Later than 5 years	-	42,925	-	42,925
	118,882	525,537	110,584	517,369

Notes (continued)

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

Other Commitments

	Group		Bank	
	31-Dec-19	31-Dec-18	31-Dec-19	31-Dec-18
	Shs'000	Shs'000	Shs'000	Shs'000
Undrawn formal stand-by facilities, credit lines and other commitments to lend	1,837,125	1,737,471	1,286,484	1,183,835
Foreign exchange forward and swap contracts	972,562	524,516	972,562	524,516
	2,809,687	2,261,987	2,259,046	1,708,351

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.

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

	Group		Bank	
	31-Dec-19	31-Dec-18	31-Dec-19	31-Dec-18
	Shs'000	Shs'000	Shs'000	Shs'000
Cash and balances with Central Banks (Note 12)	4,114,132	3,020,841	1,058,681	1,273,328
Less: Cash reserve ratio	(1,297,598)	(1,212,884)	(879,122)	(804,783)
Government securities maturing within 90 days of the date of acquisition (Note 13)	2,690,843	3,865,452	1,250,200	2,580,655
Balances due from other banks (Note 14)	1,608,827	2,076,271	301,268	187,981
Deposits due to other banks (Note 23)	(1,588,480)	(1,072,379)	(1,474,504)	(712,511)
	5,527,724	6,677,301	256,523	2,524,670

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

31 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-19	31-Dec-18	31-Dec-19	31-Dec-18
	Shs'000	Shs'000	Shs'000	Shs'000
(a) Amounts due:				
From group companies	1,034,222	2,172,463	13,554	19,784
From other related parties	4,436	7,932	2,702	7,932
Interest income earned	22,530	10,656	580	113

Due from group companies includes balances due from GTBank UK; Shs 874 MM (2018: Shs 1,845 MM) GTBank PLC; Shs 120 MM (2018: Shs 327MM)and GTBank TZ; Shs 41 MM

Notes (continued)

31 Related party transactions (continued)

(b) Amounts due to:	Group 31-Dec-19 Shs'000	Group 31-Dec-18 Shs'000	Bank 31-Dec-19 Shs'000	Bank 31-Dec-18 Shs'000
Group companies	-	2,049	685,872	2,957
Other related parties	1,408,629	1,520,990	1,404,354	1,520,990
Interest expense incurred	3,405	1,240	3,405	1,240

(c) Loans to directors and their associates

Advances to customers at 31 December 2019 include loans to directors, loans to companies controlled by directors and their associates, and loans to employees as follows:

	Group 31-Dec-19 Shs'000	Group 31-Dec-18 Shs'000	Bank 31-Dec-19 Shs'000	Bank 31-Dec-18 Shs'000
At start of year	12,049	24,717	7,932	27,676
Advances/utilisation during the year	-	1,742	-	-
Repayments	(8,776)	(14,523)	(5,810)	(19,857)
Interest charged	1,162	113	580	113
At end of year	4,435	12,049	2,702	7,932
Interest income earned	1,162	113	580	113

At 31 December 2019, advances to companies controlled by directors and their associates amounted to Shs 4 million (2018: Shs 7 million).

At 31 December 2019 advances to employees amounted to Shs 23 million (2018: Shs 35 million).

(d) Deposits by directors and their associates

	Group 31-Dec-19 Shs'000	Group 31-Dec-18 Shs'000	Bank 31-Dec-19 Shs'000	Bank 31-Dec-18 Shs'000
At start of year	1,521,470	1,042,872	1,520,990	1,043,468
Net movement	(181,342)	417,883	(177,036)	416,807
Interest credited	60,400	60,715	60,400	60,715
At end of year	1,400,528	1,521,470	1,404,354	1,520,990
Interest expense incurred	60,400	60,715	60,400	60,715

(e) Key management compensation

	Group 31-Dec-19 Shs'000	Group 31-Dec-18 Shs'000	Bank 31-Dec-19 Shs'000	Bank 31-Dec-18 Shs'000
Salaries and other short-term employment	200,038	250,090	77,484	111,390

(f) Directors remuneration

	Group 31-Dec-19 Shs'000	Group 31-Dec-18 Shs'000	Bank 31-Dec-19 Shs'000	Bank 31-Dec-18 Shs'000
Fees for services as a director	129,760	73,563	72,384	41,131

(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-19 Shs'000	Group 31-Dec-18 Shs'000	Bank 31-Dec-19 Shs'000	Bank 31-Dec-18 Shs'000
IT Related costs	20,230	32,273	17,459	29,502
Communication and Advertising	25,484	27,009	6,547	8,072
Electronic Channels	31,295	27,892	19,641	16,238
	77,009	87,174	43,647	53,812

Notes (continued)

32 Effect of change of accounting policy - leases

As explained in Note 2.1(c), the group changed its accounting policy for leases where the Group is a lessee. The Group's new policy is described in Note 2.16. As permitted by the transition provisions in the new Standard, comparative amounts have not been restated. The Group's accounting policy for leases under which the group was lessee was, up to 31st December 2018, as follows:

Leases of property and equipment including hire purchase contracts where the group assumes substantially all the risks and rewards incidental to ownership are classified as finance leases. Finance leases are recognised as a liability at the inception of the lease at the lower of the fair value of the leased assets and the present value of the minimum lease payments. The interest rate implicit in the lease is used as the discount factor in determining the present value. Each lease payment is allocated between the liability and finance cost using the interest rate implicit in the lease. The finance cost is charged to the profit or loss account in the year in which it is incurred. Property and equipment acquired under finance leases are capitalised and depreciated over the estimated useful life of the asset.

Leases of assets where a significant proportion of the risk and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases are charged to the profit or loss account on a straight-line basis over the lease period.

The measurement of assets and liabilities that were recognised as finance leases under the previous accounting policy has continued unchanged, but the assets have been reclassified from property and equipment to right-of-use assets. Right-of-use assets and lease liabilities in respect of operating leases (excluding leases with a term, on commencement, of 12 months or less and leases for which the underlying asset is of low value) in force at 1st January 2019 have been recognised in accordance with the transition requirements of IFRS 16, as described in Note 2.1(c). The resulting adjustment passed at 1st January 2019 because of applying IFRS 16 was as follows:

	Group	Bank
	Shs'000	Shs'000
Lease liabilities	906,484	397,973
Right-of-use asset	928,523	428,397
Restoration costs	30,424	30,424
Net adjustment to retained earnings	8,385	-

In addition, assets held under finance leases and previously included under property, plant and equipment have been transferred from property and equipment to right-of-use assets, and amounts previously recognised as prepaid operating lease rentals have been transferred from prepaid operating lease payments to right-of-use assets.