Institute of Certified Public Accountants of Kenya

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KWELI NA HAKI
Institute of
Certified Public Accountants
of Kenya

Illustrative Financial Statements for a Bank

INTRODUCTION

This publication provides an illustrative set of financial statements, prepared in accordance with International Financial Reporting Standards, for a fictitious Kenyan Bank with subsidiaries.

These financial statements illustrate the disclosures required by International Financial Reporting Standards effective for accounting periods beginning on or after 1 January 2007. The example disclosures in the illustrative financial statements should not be considered to be the only acceptable form of presentation. The form and content of a reporting entity's financial statements are the responsibility of the entity's management, and other forms of presentation which are equally acceptable may be preferred and adopted, provided they include the specific disclosures prescribed in International Financial Reporting Standards.

The references in the left margin of the illustrative financial statements represent the paragraph of the standards in which the disclosure requirements appear.

These illustrative financial statements are not a substitute for reading the Standards themselves or for professional judgement as to fairness of presentation. They do not cover all possible disclosures required by International Financial Reporting Standards. Depending on the circumstances, further specific information may be required in order to ensure fair presentation under International Financial Reporting Standards.

The specimen does not cover the following standards:

IAS 2 -	Inventories
IAS 11 -	Construction Contracts
IAS 20 -	Accounting for Government Grants and Disclosures of Government Assistance
IAS 26 -	Accounting and Reporting by Retirement Benefits Plans
IAS 27 -	Consolidated and Separate Financial Statements
IAS 28 -	Investment in Associates
IAS 29-	Financial Reporting in Hyperinflationary Economies.
IAS 31 -	Investments in Joint Ventures
IAS 33 -	Earnings per Share
IAS 41 -	Agriculture
IFRS 1-	First time Adoption of International Financial Reporting Standards
IFRS 2 -	Share-based Payment
IFRS 3 -	Business Combinations
IFRS 4 -	Insurance Contracts
IFRS 5-	Non- current Assets Held for Sale and Discontinued Operations.
IFRS 6 -	Exploration for and Evaluation for Mineral Resources

The references in the left margin of the financial statements represent the paragraph of the Standards in which the disclosure requirements appear- for example '1p17' indicates IAS 1 Paragraph 17. Additional notes and explanations are shown in italics.

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*** Not illustrated – would need to be tailored to describe individual circumstances**

Reference Report of the directors

For the year ended 31 December

The directors have pleasure in submitting their report together with the audited financial statements for the year ended 31 December in accordance with Section 22 of the Banking Act and Section 157 of the Kenyan Companies Act which discloses the state of affairs of the Group and Company.

1. Activities

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The Group is engaged in the business of banking and provision of related services and is licensed under the Banking Act.

2. Results

The results for the year are set out on page 5.

3. Dividends

The Board has resolved to recommend to the shareholders at the forthcoming Annual General Meeting, the payment of a final dividend for the year of KShsXXX for every ordinary share of KShsXXX Interim dividends of KShsXXX each for every ordinary share of KShsXXX were paid in xxxxxx 20xx. The total dividend therefore, is KShsXXX (20xx – KShsXXX).

The dividends will be payable to the shareholders registered on the Company's Register at the close of business on xxxxxx 20xx and will be paid on or after xxxxxx 20xx The Register will remain closed on xxxxxx 20xx for the preparation of dividend warrants.

4. Directors

The directors who served during the year are set out on page xx.

5. Auditor

The auditor, xxxxxx, has indicated its willingness to continue in office in accordance with Section 159(2) of the Kenyan Companies Act and subject to Section 24(1) of the Banking Act.

6. Approval of financial statements

The financial statements were approved by the Board of Directors on 20xx.

BY ORDER OF THE BOARD

Company Secretary

Date: 20xx

Reference

Statement of directors' responsibilities

For the year ended 31 December

The Kenyan Companies Act requires the Directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the group and company as at the end of the financial year and of the operating results of the group and company for that year. It also requires the Directors to ensure the company keeps proper accounting records which disclose with reasonable accuracy the financial position of the group. They are also responsible for designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of financial statements that are free from material misstatements, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. The Directors are also responsible for safeguarding the assets of the group and company.

The Directors accept responsibility for the annual financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgements and estimates, in conformity with International Financial Reporting Standards and in the manner required by the Kenyan Companies Act. The Directors are of the opinion that the financial statements give a true and fair view of the state of the financial affairs of the group and company and of the group operating results In accordance with International Financial Reporting Standards

The Directors further accept responsibility for the maintenance of accounting records which may be relied upon in the preparation of financial statements, as well as adequate systems of internal financial control.

Nothing has come to the attention of the Directors to indicate that the company and its subsidiaries will not remain a going concern for at least the next twelve months from the date of this statement.

Director:_______________________________

Director:_______________________________

Director:_______________________________

Date: 20xx

Reference	## Consolidated profit and loss account.			
IAS 1.8(b)	**For the year ended 31 December**			
IFRS 7.7	*In millions of Kenya Shillings*	***Note***	**20XX**	**20XX**
IFRS 7.20(b)	Interest income	*8*	XXX	XXX
IFRS 7.20(b), IAS 1.81(b)	Interest expense	*8*	XXX	XXX
	Net interest income		XXX	XXX
IFRS 7.20(c)	Fee and commission income	*9*	XXX	XXX
IFRS 7.20(c)	Fee and commission expense	*9*	XXX	XXX
	Net fee and commission income		XXX	XXX
IFRS 7.20(a)	Net trading income	*10*	XXX	XXX
IFRS 7.20(a)	Net income from other financial instruments carried at fair value	*11*	XXX	XXX
IFRS 7.20(a)	Other operating income	*12*	XXX	XXX
			XXX	XXX
IAS 1.83	**Operating income**		XXX	XXX
IFRS 7.20(e)	Net impairment loss on financial assets	*21, 22, 23*	XXX	XXX
IAS 1.88	Employee benefits	*13*	XXX	XXX
IAS 17.35(c)	Operating lease expenses	*23*	XXX	XXX
IAS 1.88, 38.118(d)	Depreciation and amortisation	*23*	XXX	XXX
IAS 1.88	Other expenses	*14*	XXX	XXX
IAS 1.83	**Profit before income tax**		XXX	XXX
IAS 1.81(d), 12.77	Income tax expense	*15*	XXX	XXX
IAS 1.81(f)	**Profit for the period**		XXX	XXX
	Attributable to:			
IAS 1.82(b)	Equity holders of the Bank		XXX	XXX
IAS 1.82(a), 27.33	Minority interest		XXX	XXX
	Profit for the period		XXX	XXX
IAS 33.66	**Basic and diluted earnings per share (KShs)**	*16* (a)	XX.X	XX.X
	Dividends per share (KShs)	17	XX.X	XX.X

Reference	Consolidated balance sheet			
IAS 1.8(a), 51	**As at 31 December**			
IFRS 7.7	*In millions of KShs*	***Note***	**20XX**	**20XX**
	Assets			
IAS 1.68(i)	Cash and cash equivalents	*18*	XXX	XXX
IAS 1.68(d)	Trading assets	*19*	XXX	XXX
IAS 1.68(d)	Derivative assets held for risk management	*20*	XXX	XXX
IAS 1.68(d),	Loans and advances to customers	*21*	XXX	XXX
IAS 1.68(d),	Investment securities	*22*	XXX	XXX
IAS 1.68(a)	Property and equipment	*23*	XXX	XXX
IAS 1.68(c)	Intangible assets	*24*	XXX	XXX
IAS 1.68(n)	Deferred income tax	*25*	XXX	XXX
IAS 1.68 A(a)	Assets held for sale		XXXX	XXXX
IAS 1.68(i)	Accounts receivable and prepayments		XXXX	XXXX
IAS 1.68(b)	Investment property		XXXX	XXXX
IAS 1.68A	Assets held for sale		XXXX	XXXX
IAS 1.68(b)	Investment property		XXXX	XXXX
	Other assets	*26*	XXXX	XXXX
	Total assets		XXX	XXX
	Liabilities			
IAS 1.68(l)	Trading liabilities	*19*	XXX	XXX
IAS 1.68(l)	Derivative liabilities held for risk management	*20*	XXX	XXX
IAS 1.68(l),	Deposits from banks	*27*	XXX	XXX
IAS 1.68(l),	Deposits from customers	*28*	XXX	XXX
IAS 1.68(k)	Provisions	29	XXX	XXX
IAS 1.68(m)	Current income tax		XXX	XXX
IAS 1.68(n)	Deferred income tax	*25*	XXX	XXX
IAS 1.75(d)	Retirement benefits obligations	*30*	XXX	XXX
	Redeemable preference shares		XXXX	XXXX
	Other liabilities	*30*	XXX	XXX
	Total liabilities		XXX	XXX
	Equity			
IAS 1.68(p)	Share capital	*31*	XXX	XXX
IAS 1.68(p)	Share premium	*31*	XXX	XXX
IAS 1.68(p)	Fair value reserve		XXX	XXX
IAS 1.68(p)	Regulatory reserve		XXX	XXX
IAS 1.68(p)	Retained earnings		XXX	XXX
IAS 1.68(p)	Proposed dividends		XXX	XXX
IAS 1.68(p)	Other reserves	31	XXX	XXX
IAS 1.68(p)	**Total equity attributable to equity holders of the Bank**		XXX	XXX
IAS 1.68(o), 27.33	**Minority interest**	*31*	XXX	XXX
	Total equity		XXX	XXX
	Total liabilities and equity		XXX	XXX

The financial statements on pages 5 to 75 were approved for issue by the board of directors on __________2007 and were signed on its behalf by:

_________________________ _________________________

Director Director

Reference	Company balance sheet	Note	20XX	20XX
IAS 1.8(a), 51	**As at 31 December**			
IFRS 7.7	*In millions of KShs*			
	Assets			
IAS 1.68(i)	Cash and cash equivalents	18	XXX	XXX
IAS 1.68(d)	Trading assets	19	XXX	XXX
IAS 1.68(d)	Derivative assets held for risk management	20	XXX	XXX
IAS 1.68(d),	Loans and advances to customers	21	XXX	XXX
IAS 1.68(d),	Investment securities	22	XXX	XXX
IAS 1.68(a)	Property and equipment	23	XXX	XXX
IAS 1.68(c)	Intangible assets	24	XXX	XXX
IAS 1.68(n)	Deferred income tax	25	XXX	XXX
	Other assets	26	XXX	XXX
	Total assets		XXX	XXX
	Liabilities			
IAS 1.68(l)	Trading liabilities	19	XXX	XXX
IAS 1.68(l)	Derivative liabilities held for risk management	20	XXX	XXX
IAS 1.68(l),	Deposits from banks	27	XXX	XXX
IAS 1.68(l),	Deposits from customers	28	XXX	XXX
IAS 1.68(k)	Provisions	29	XXX	XXX
IAS 1.68(m)	Current income tax		XXX	XXX
IAS 1.68(n)	Deferred income tax	25	XXX	XXX
	Retirement benefits obligations	32	XXX	XXX
	Redeemable preference shares		XXXX	XXXX
	Other liabilities	30	XXX	XXX
	Total liabilities		XXX	XXX
	Equity			
IAS 1.68(p)	Share capital	31	XXX	XXX
IAS 1.68(p)	Share premium	31	XXX	XXX
IAS 1.68(p)	Fair value reserve		XXX	XXX
IAS 1.68(p)	Regulatory reserve		XXX	XXX
IAS 1.68(p)	Retained earnings		XXX	XXX
IAS 1.68(p)	Proposed dividends		XXX	XXX
IAS 1.68(p)	Available for sale reserve		XXX	XXX
IAS 1.68(p)	Foreign currency translation reserve		XXX	XXX
IAS 1.68(p)	Other reserves	31	XXX	XXX
IAS 1.68(p)	**Total equity attributable to equity holders of the Bank**		XXX	XXX
IAS 1.68(o), 27.33	**Minority interest**	31	XXX	XXX
	Total equity		XXX	XXX
	Total liabilities and equity		XXX	XXX

The financial statements on pages 5 to 75 were approved for issue by the board of directors ________________ 2007 and were signed on its behalf by:

_________________________ Director

_________________________ Director

Consolidated statement of cash flows

	For the year ended 31 December			
	In millions of Kenya Shillings	***Note***	**20XX**	**20XX**
IAS7.19. (b), 18 (a),	***Cash* flows from operating activities**			
IAS 7.33(p)	Interest income		XXX	XXX
IFRS 7.20(c)	Fee and commission income	*9*	XXX	XXX
IAS 7.33(p)	Interest paid	Q	(XXX)	(XXX)
	Net trading income	10	XXX	XXX
IAS7.16 (f)	Recoveries on loans previously written off	Q	XXX	XXX
IAS7.16 (f)	Cash payments to employees and suppliers	Q	(XXX)	(XXX)
IAS 7.31,33	Dividends received	Q	XXX	XXX
IAS 7.35	Income tax expense	Q	(XXX)	(XXX)
	Cash flows from operating profits before changes in operating assets and liabilities.		**XXX**	**XXX**
	Changes in operating assets and liabilities:			
	- Change in derivative financial instruments		XXX	XXX
	– Change in loans and advances to banks		XXX	XXX
	– Change in loans and advances to customers		XXX	XXX
	– Change in other asset		XXX	XXX
	– Change in deposits from other banks		XXX	XXX
	– Change in other deposits		XXX	XXX
	– Change in trading liabilities		XXX	XXX
	– Change in amounts due to customers		XXX	XXX
	– Change in other liabilities		XXX	XXX
IAS 7.21, 10	**Net Cash flows generated from operating activities**		**XXX**	**XXX**
IAS 7.21	**Cash flows from investing activities**			
IAS 7.39	Acquisition of a subsidiary, net of cash acquired	Q	(XXX)	(XXX)
IAS 7.16(c)	Purchase of investment securities	Q	(XXX)	(XXX)
IAS 7.16(c)	Increase in subordinated liabilities		(XXX)	(XXX)
IAS 7.16(d)	Proceeds from sale of investment securities	Q	XXX	XXX
IAS 7.16(a)	Purchase of property, plant and equipment (PPE)	*23*	(XXX)	(XXX)
IAS 7.16 (b)	Proceeds from the sale of property, plant and equipment (PPE)	*23*	XXX	XXX
IAS 7.16(a)	Purchase of intangible assets	*24*	(XXX)	(XXX)
	Net cash used in investing activities		**XXX**	**XXX**
IAS 7.21& 10	**Cash flows from financing activities**			
IAS 7.17(c)	Increase/proceeds from issuance of debt securities or convertible bonds		XXX	XXX
IFRS 2.45(a)	Issue of shares on exercise of share options	Q	XXX	XXX
IAS 7.17(a)	Proceeds from issuance of ordinary shares	Q	XXX	XXX
IAS 7.17(c)	Proceeds from borrowings		XXX	XXX
IAS 7.17(d)	Repayments of borrowings		(XXX)	(XXX)
IAS 7.31(p)	Dividened paid to company's shareholders	17	(XXX)	(XXX)
IAS 7.31(p)	Dividened paid to holders of redeemable	17	(XXX)	(XXX)
IAS 7.31(p)	Dividened paid to minority interest	17	(XXX)	(XXX)
	Net cash from financing activities		**XXX**	**XXX**
	Net increase / (decrease) in cash and cash equivalents		XXX	XXX
	Cash and cash equivalents at the beginning of the year	Q	XXX	XXX
	Effect of exchange rate fluctuations on cash held		XXX	XXX
	Cash and cash equivalents at 31 December	*18*	XXX	XXX

Reference

Consolidated statement of changes in equity

For the year ended 31 December

In millions of Kenya Shillings

IAS 1.97(b), (c)

Reconciliation of movement in capital and reserves

IFRS 7.20(a) (ii)

Reference		Attributable to equity holders of the Bank									
		Share	**Share**	**Translation**	**Fair value**	**Regulatory**	**Retained**	**Proposed**		**Minority**	**Total**
IFRS 7.23(c)		**capital**	**premium**	**reserve**	**reserve**	**reserve**	**earnings**	**dividends**	**Total**	**interest**	**equity**
	Balance at 1 January 20XX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX
IAS 1.97(b)	Profit for the year	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX
	Net gains on available for sale reserve	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX
	Foreign currency translation	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX
IAS 1.97(b)	Share-based payments	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX
	Transfer to Regulatory reserve	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX
IAS 1.97(a)	Dividends to equity holders	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX
IAS 1.97(a)	Proposed dividends to equity holders	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX
IAS 1.96(b)	***Net income recognised directly in equity***										
IAS 1.75(e)	Balance at 31 December 20XX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX
	Balance at 1 January 20XX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX
IAS 1.97(b)	Profit for the year	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX
	Net gains on available for sale reserve	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX
	Foreign currency translation	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX
	Share options exercised	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX
IAS 1.97(b)	Share-based payments	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX
	Transfer to Regulatory reserve	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX
IAS 1.97(a)	Dividends to equity holders	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX
IAS 1.97(a)	Proposed dividends to equity holders	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX
IAS 1.96(b)	***Net income recognised directly in equity***										
IAS 1.75(e)	Balance at 31 December 20XX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX

Reference

Company statement of changes in equity

For the year ended 31 December

In millions of Kenya Shillings

IAS 1.97(b), (c)

Reconciliation of movement in capital and reserves

IFRS 7.20(a)(ii)

Reference		Share capital	Share premium	Translation reserve	Fair value reserve	Regulatory reserve	Retained earnings	Proposed dividends	Total	Minority interest	Total equity
		Attributable to equity holders of the Bank									
IFRS 7.23(c)											
	Balance at 1 January 20XX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX
IAS 1.97(b)	Profit for the year	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX
	Net gains on available for sale reserve	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX
	Foreign currency translation	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX
IAS 1.97(b)	Share-based payments	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX
	Transfer to Regulatory reserve	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX
IAS 1.97(a)	Dividends to equity holders	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX
IAS 1.97(a)	Proposed dividends to equity holders	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX
IAS 1.96(b)	***Net income recognised directly in equity***										
IAS 1.75(e)	Balance at 31 December 20XX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX
	Balance at 1 January 20XX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX
IAS 1.97(b)	Profit for the year	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX
	Net gains on available for sale reserve	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX
	Foreign currency translation	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX
	Share options exercised	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX
IAS 1.97(b)	Share-based payments	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX
	Transfer to Regulatory reserve	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX
IAS 1.97(a)	Dividends to equity holders	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX
IAS 1.97(a)	Proposed dividends to equity holders	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX
IAS 1.96(b)	***Net income recognised directly in equity***										
IAS 1.75(e)	Balance at 31 December 20XX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX

Notes

1. Reporting entity

IAS 1.126(b) (c))
IAS 1.46 (a) (b))

[Name] (The "Bank") is a company domiciled in Kenya. The address of the Bank's registered office is [address]. The ultimate holding company of the Bank is XXXXXXXXX Limited, which is a limited liability company incorporated and domiciled in XXXXXX. The consolidated financial statements of the Bank as at and for the year ended 31 December 20xx[1] comprise the Bank and its subsidiaries (together referred to as the "Group"). The Group primarily is involved in corporate and retail banking.

2. Basis of preparation

(a) Statement of compliance

IAS 1.14

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs).

IAS 10.17

The financial statements were approved by the Board of Directors on [date]

(b) Basis of measurement

The consolidated financial statements have been prepared on the historical cost basis except for the following:

- Derivative financial instruments are measured at fair value
- financial instruments at fair value through profit or loss are measured at fair value
- available-for-sale financial assets are measured at fair value
- Investment property is measured at fair value

(c) Functional and presentation currency

These consolidated financial statements are presented in Kenya Shillings, which is the Bank's functional currency.

(d) Use of estimates and judgements

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

In particular, information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amount recognised in the financial statements are described in notes 4 and 5.

8p30 (p)

Adoption of New and revised standards

The Bank has adopted all of the new and revised Standards and Interpretations issued by the International Accounting Standards Board (the IASB) that are relevant to its operations and effective for annual reporting periods beginning on 1 January 2007. These are:

- IFRS 7 *Financial Instruments: Disclosures.* The impact of the new Standard has been to expand the disclosures regarding the entity's financial instruments.
- IAS 1 *Presentation of Financial Statements* which requires the entity to present information regarding its objectives, policies and processes for managing capital.

Notes to the consolidated financial statements

At the date of authorization of these financial statements the following standards and interpretations had been issued or revised:

- IAS 1; *Presentation of Financial Statements* had been issued by IASB. This will be effective for the year beginning 1st January 2009 and will affect the format presentations of financial statements.
- IFRIC 14; IAS 19 The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their interaction. This will be effective for the year beginning 1st January 2008 and will affect the determination of defined benefit obligations.

The board anticipates that the adoption of these revisions in future periods will have no material financial impact on the financial statements of the entity.

3. Significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements, and have been applied consistently by Group entities.

(a) Basis of consolidation

(i) Subsidiaries[3]

Subsidiaries are entities controlled by the Group. Control exists when the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable are taken into account. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

(ii) Transactions eliminated on consolidation

Intra-group balances, and any unrealised income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

(iii) Associates

An associated company is that in which the Group has significant influence, but not control, over the financial and operating policies. The consolidated financial statements include the Group's share of the total recognised gains and losses of the associated company on an equity accounting basis, from the date that significant influence commences until the date that significant influence ceases. Consolidation adjustments are also made to ensure consistency with the group's accounting policies. At the company level, associates are recognised using the equity method.

(b) Foreign currency

(i) Foreign currency transactions

Transactions in foreign currencies are translated to the functional currency of the respective entity at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortised cost in foreign currency translated at the exchange rate at the end of the period. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined.

Notes to the consolidated financial statements

Significant accounting policies. (Continued)

Foreign currency differences arising on retranslation are recognised in profit or loss, except for differences arising on the retranslation of available-for-sale equity instruments or a financial liability designated as a hedge of the net investment in a foreign operation (see (iii) below).

(ii) Foreign operations

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition, are translated to Kenya Shillings at exchange rates at the reporting date. The income and expenses of foreign operations, excluding foreign operations in hyperinflationary economies, are translated to Kenya Shillings at exchange rates at the dates of the transactions.

Foreign currency differences are recognised directly in equity.

(c) Interest

Interest income and expense are recognised in the income statement using the effective interest method. The effective interest rate is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset or liability (or, where appropriate, a shorter period) to the carrying amount of the financial asset or liability. The effective interest rate is established on initial recognition of the financial asset and liability and is not revised subsequently.

The calculation of the effective interest rate includes all fees and points paid or received, transaction costs, and discounts or premiums that are an integral part of the effective interest rate. Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or liability.

Interest income and expense presented in the income statement include:[1]

- Interest on financial assets and liabilities at amortised cost on an effective interest rate basis
- Interest on available-for-sale investment securities on an effective interest basis
- the effective portion of qualifying hedge derivatives designated in a cash flow hedge if the hedged item is recorded in interest income / expense
- fair value changes in qualifying derivatives (including hedge ineffectiveness) and related hedged items when interest rate risk is the hedged risk.

Interest income and expense on all trading assets and liabilities are considered to be incidental to the Group’s trading operations and are presented together with all other changes in the fair value of trading assets and liabilities in net trading income.

Fair value changes on other derivatives held for risk management purposes, and other financial assets and liabilities carried at fair value through profit or loss, are presented in net income on other financial instruments carried at fair value in the income statement.

(d) Fees and commission

Fees and commission income and expenses that are integral to the effective interest rate on a financial asset or liability are included in the measurement of the effective interest rate.

Notes to the consolidated financial statements

3. Significant accounting policies[1, 2] (continued)

Other fees and commission income, including account servicing fees, investment management fees, placement fees and syndication fees, are recognised as the related services are performed. When a loan commitment is not expected to result in the draw-down of a loan, loan commitment fees are recognised on a straight-line basis over the commitment period.

Other fees and commission expense relates mainly to transaction and service fees, which are expensed as the services are received.

(e) Other income

Net trading income comprises gains less losses related to trading assets and liabilities, and includes all realised and unrealised fair value changes, interest, dividends and foreign exchange differences.

(f) Net income from other financial instruments at fair value

Net income from other financial instruments at fair value relates to non-qualifying derivatives held for risk management purposes and financial assets and liabilities designated at fair value through profit or loss, and includes all realised and unrealised fair value changes, interest, dividends and foreign exchange differences.

(g) Lease payments made

Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognised as an integral part of the total lease expense, over the term of the lease.

Minimum lease payments made under finance leases are apportioned between the finance expense and the reduction of the outstanding liability. The finance expense is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability. Contingent lease payments are accounted for by revising the minimum lease payments over the remaining term of the lease when the lease adjustment is confirmed.

(h) Income tax expense

Income tax expense comprises current and deferred tax. Income tax expense is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for the following temporary differences: the initial recognition of goodwill, the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit, and differences relating to investments in subsidiaries to the extent that they probably will not reverse in the foreseeable future. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

Notes to the consolidated financial statements

3. Significant accounting policies (continued)

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Additional income taxes that arise from the distribution of dividends are recognised at the same time as the liability to pay the related dividend is recognised.

(i) Financial assets and liabilities

(i) Date of recognition

The Group initially recognises loans and advances, deposits and debt securities issued on the date that they are originated. All other financial assets and liabilities (including assets and liabilities designated at fair value through profit or loss) are initially recognised on the trade date at which the Group becomes a party to the contractual provisions of the instrument

Financial assets and liabilities (including assets and liabilities designated at fair value through profit or loss) are initially measured at their fair values plus, in the case of financial assets and financial liabilities not at fair value through profit and loss, any directly attributable incremental costs at acquisition of acquisition or issue. .

(ii) Derecognition

The Group derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Group is recognised as a separate asset or liability.

The Group derecognises a financial liability when its contractual obligations are discharged or cancelled or expire.

The Group enters into transactions whereby it transfers assets recognised on its balance sheet, but retains both all risks and rewards of the transferred assets or a portion of them. If all or substantially all risks and rewards are retained, then the transferred assets are not derecognised from the balance sheet. Transfers of assets with retention of all or substantially all risks and rewards include, for example, securities lending and repurchase transactions

(iii) Offsetting

Financial assets and liabilities are set off and the net amount presented in the balance sheet when, and only when, the Group has a legal right to set off the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

Income and expenses are presented on a net basis only when permitted by the accounting standards, or for gains and losses arising from a group of similar transactions such as in the Group's trading activity.

Notes to the consolidated financial statements

3. Significant accounting policies (continued)

(iv) Amortised cost measurement

The amortised cost of a financial asset or liability is the amount at which the financial asset or liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initial amount recognised and the maturity amount, minus any reduction for impairment.

(v) Fair value measurement

The determination of fair values of financial assets and financial liabilities is based on quoted market prices or dealer price quotations for financial instruments traded in active markets. For all other financial instruments fair value is determined by using valuation techniques. Valuation techniques include net present value techniques, the discounted cash flow method, comparison to similar instruments for which market observable prices exist, and valuation models. The Group uses widely recognised valuation models for determining the fair value of common and more simple financial instruments like options and interest rate and currency swaps. For these financial instruments, inputs into models are market observable.

For more complex instruments, the Group uses proprietary models, which usually are developed from recognised valuation models. Some or all of the inputs into these models may not be market observable, and are derived from market prices or rates or are estimated based on assumptions. When entering into a transaction, the financial instrument is recognised initially at the transaction price, which is the best indicator of fair value, although the value obtained from the valuation model may differ from the transaction price. This initial difference, usually an increase, in fair value indicated by valuation techniques is recognised in income depending upon the individual facts and circumstances of each transaction and not later than when the market data becomes observable.

The value produced by a model or other valuation technique is adjusted to allow for a number of factors as appropriate, because valuation techniques cannot appropriately reflect all factors market participants take into account when entering into a transaction. Valuation adjustments are recorded to allow for model risks, bid-ask spreads, liquidity risks, as well as other factors. Management believes that these valuation adjustments are necessary and appropriate to fairly state financial instruments carried at fair value on the balance sheet.

(vi) Identification and measurement of impairment

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

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

Notes to the consolidated financial statements

3. Significant accounting policies (continued)

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

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

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

Impairment losses on available-for-sale investment securities are recognised by transferring the difference between the amortised acquisition cost and current fair value out of equity to profit or loss. When a subsequent event causes the amount of impairment loss on an available-for-sale debt security to decrease, the impairment loss is reversed through profit or loss.

However, any subsequent recovery in the fair value of an impaired available-for-sale equity security is recognised directly in equity. Changes in impairment provisions attributable to time value are reflected as a component of interest income.

(vii) Designation at fair value through profit or loss

The Group has designated financial assets and liabilities at fair value through profit or loss when either:

- the assets or liabilities are managed, evaluated and reported internally on a fair value basis;
- the designation eliminates or significantly reduces an accounting mismatch which would otherwise arise; or
- the asset or liability contains an embedded derivative that significantly modifies the cash flows that would otherwise be required under the contract.

Note 7 sets out the amount of each class of financial asset or liability that has been designated at fair value through profit or loss. A description of the basis for each designation is set out in the note for the relevant asset or liability class.

(j) Cash and cash equivalents

Cash and cash equivalents include notes and coins on hand, unrestricted balances held with central banks and highly liquid financial assets with original maturities of less than three months, which are subject to insignificant risk of changes in their fair value, and are used by the Group in the management of its short-term commitments.

Cash and cash equivalents are carried at amortised cost in the balance sheet.

Notes to the consolidated financial statements

3. Significant accounting policies (continued)

(k) Trading assets and liabilities

Trading assets and liabilities are those assets and liabilities that the Group acquires or incurs principally for the purpose of selling or repurchasing in the near term, or holds as part of a portfolio that is managed together for short-term profit or position taking.

Trading assets and liabilities are initially recognised and subsequently measured at fair value in the balance sheet with transaction costs taken directly to profit or loss. All changes in fair value are recognised as part of net trading income in profit or loss. Trading assets and liabilities are not reclassified subsequent to their initial recognition.

(l) Derivatives held for risk management purposes[1]

Derivatives held for risk management purposes include all derivative assets and liabilities that are not classified as trading assets or liabilities. Derivatives held for risk management purposes are measured at fair value in the balance sheet. The treatment of changes in their fair value depends on their classification into the following categories:

(l) Derivatives held for risk management (continued)

(iv) Other non-trading derivatives

When a derivative is not held for trading, and is not designated in a qualifying hedge relationship, all changes in its fair value are recognised immediately in profit or loss as a component of net income on other financial instruments carried at fair value.

(v) Embedded derivatives

Derivatives may be embedded in another contractual arrangement (a “host contract”). The Group accounts for embedded derivatives separately from the host contract when the host contract is not itself carried at fair value through profit or loss, and the characteristics of the embedded derivative are not clearly and closely related to the host contract. Separated embedded derivatives are accounted for depending on their classification, and are presented in the balance sheet together with the host contract.

(m) Loans and advances

Loans and advances are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and that the Group does not intend to sell immediately or in the near term.

When the Group is the lessor in a lease agreement that transfers substantially all of the risks and rewards incidental to ownership of an asset to the lessee, the arrangement is presented within loans and advances.

When the Group purchases a financial asset and simultaneously enters into an agreement to resell the asset (or a substantially similar asset) at a fixed price on a future date (“reverse repo or stock borrowing”), the arrangement is accounted for as a loan or advance, and the underlying asset is not recognised in the Group’s financial statements.

Loans and advances are initially measured at fair value plus incremental direct transaction costs, and subsequently measured at their amortised cost using the effective interest method, except when the Group chooses to carry the loans and advances at fair value through profit or loss as described in accounting policy (j)(vii).

Notes to the consolidated financial statements

3. Significant accounting policies (continued)

(n) Investment securities

Investment securities are initially measured at fair value plus incremental direct transaction costs and subsequently accounted for depending on their classification as either held-to-maturity, fair value through profit or loss, or available-for-sale.

(i) Held-to-maturity

Held-to-maturity investments are non-derivative assets with fixed or determinable payments and fixed maturity that the Group has the positive intent and ability to hold to maturity, and which are not designated at fair value through profit or loss or available-for-sale.

Held-to-maturity investments are carried at amortised cost using the effective interest method. Any sale or reclassification of a significant amount of held-to-maturity investments not close to their maturity would result in the reclassification of all held-to-maturity investments as available-for-sale, and prevent the Group from classifying investment securities as held-to-maturity for the current and the following two financial years.

(ii) Fair value through profit or loss

The Group carries some investment securities at fair value, with fair value changes recognised immediately in profit or loss as described in accounting policy (j)(vii).

(iii) Available-for-sale

Available-for-sale investments are non-derivative investments that are not designated as another category of financial assets. Unquoted equity securities whose fair value cannot be reliably measured are carried at cost. All other available-for-sale investments are carried at fair value.

Interest income is recognised in profit or loss using the effective interest method. Dividend income is recognised in profit or loss when the Group becomes entitled to the dividend. Foreign exchange gains or losses on available-for-sale debt security investments are recognised in profit or loss.

Other fair value changes are recognised directly in equity until the investment is sold or impaired and the balance in equity is recognised in profit or loss.

(o) Property and equipment

(i) Recognition and measurement

Items of property and equipment are measured at cost less accumulated depreciation and impairment losses.

Cost includes expenditures that are directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the asset to a working condition for its intended use, and the costs of dismantling and removing the items and restoring the site on which they are located. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

When parts of an item of property or equipment have different useful lives, they are accounted for as separate items (major components) of property and equipment.

Notes to the consolidated financial statements

3. Significant accounting policies[1, 2] (continued)

(ii) Subsequent costs

The cost of replacing part of an item of property or equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Group and its cost can be measured reliably. The costs of the day-to-day servicing of property and equipment are recognised in profit or loss as incurred.

(iii) Depreciation

Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful lives of each part of an item of property and equipment. Leased assets are depreciated over the shorter of the lease term and their useful lives. Land is not depreciated.

The estimated useful lives for the current and comparative periods are as follows:

- Buildings 40 years
- IT equipment 3 - 5 years
- Fixtures and fittings 5 - 10 years

Depreciation methods, useful lives and residual values are reassessed at the reporting date.

(p) Investment property

Investment property is property held either to earn rental income or for capital appreciation or for both. The Group holds some investment property as a consequence of the ongoing rationalisation of its retail branch network. Other property has been acquired through the enforcement of security over loans and advances. Investment property is measured at fair value with any change therein recognised in profit or loss in other operating income.

(q) Intangible assets

(i) Goodwill

IFRS 3.51(b) Goodwill arises on the acquisition of subsidiaries. Goodwill acquired in a business combination is initially measured at cost, being the excess of the cost of the business combination over the bank's interest in the net value of the indentifiable assets, liabilities, and contingent liabilities acquired.assets Goodwill is reviewed for impairment, annually or more frequently if events or changes in circumstances indicate that carrying value has been impaired. Goodwill is measured at cost less accumulated impairment losses.

(ii) Software

Software acquired by the Group is stated at cost less accumulated amortisation and accumulated impairment losses.

Expenditure on internally developed software is recognised as an asset when the Group is able to demonstrate its intention and ability to complete the development and use the software in a manner that will generate future economic benefits, and can reliably measure the costs to complete the development. The capitalised costs of internally developed software include all costs directly attributable to developing the software, and are amortised over its useful life. Internally developed software is stated at capitalised cost less accumulated amortisation and impairment.

Subsequent expenditure on software assets is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is expensed as incurred.

Notes to the consolidated financial statements

3. Significant accounting policies[1, 2] (continued)

Software continued.

Amortisation is recognised in profit or loss on a straight-line basis over the estimated useful life of the software, from the date that it is available for use. The estimate useful life of software is three to five years.

(r) Leased assets – lessee

Leases in terms of which the Group assumes substantially all the risks and rewards of ownership are classified as finance leases. Upon initial recognition the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset.

Other leases are operating leases and, except for investment property, the leased assets are not recognised on the Group's balance sheet. Investment property held under an operating lease is recognised on the Group's balance sheet at its fair value.

(s) Impairment of non-financial assets

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

(s) Impairment of non-financial assets (continued)

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

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

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

(t) Provisions

A provision is recognised if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation.

Notes to the consolidated financial statements

3. Significant accounting policies (continued)

Provisions continued.

Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

A provision for restructuring is recognised when the Group has approved a detailed and formal restructuring plan, and the restructuring either has commenced or has been announced publicly. Future operating costs are not provided for.

A provision for onerous contracts is recognised when the expected benefits to be derived by the Group from a contract are lower than the unavoidable cost of meeting its obligations under the contract. The provision is measured at the present value of the lower of the expected cost of terminating the contract and the expected net cost of continuing with the contract. Before a provision is established, the Group recognises any impairment loss on the assets associated with that contract.

(u) Employee benefits

(i) Defined contribution plans

Obligations for contributions to defined contribution pension plans are recognised as an expense in profit or loss when they are due.

(u) Employee benefits (continued)

(ii) Defined benefit plans

The Group's net obligation in respect of defined benefit pension plans is calculated separately for each plan by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value, and any unrecognised past service costs and the fair value of any plan assets are deducted. The discount rate is the yield at the reporting date on AA credit-rated bonds that have maturity dates approximating the terms of the Group's obligations. The calculation is performed by a qualified actuary using the projected unit credit method. When the calculation results in a benefit to the Group, the recognised asset is limited to the net total of any unrecognised past service costs and the present value of any future refunds from the plan or reductions in future contributions to the plan.

When the benefits of a plan are improved, the portion of the increased benefit relating to past service by employees is recognised in profit or loss on a straight-line basis over the average period until the benefits become vested. To the extent that the benefits vest immediately, the expense is recognised immediately in profit or loss.

In respect of actuarial gains and losses that arise in calculating the Group's obligation in respect of a plan, to the extent that any cumulative unrecognised actuarial gain or loss exceeds 10 percent of the greater of the present value of the defined benefit obligation and the fair value of plan assets, that portion is recognised in profit or loss over the expected average remaining working lives of the employees participating in the plan. Otherwise, the actuarial gain or loss is not recognised.

Notes to the consolidated financial statements

3. Significant accounting policies[1, 2] (continued)

(iii) Other long-term employee benefits

The Group's net obligation in respect of long-term employee benefits other than pension plans is the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value, and the fair value of any related assets is deducted. The discount rate is the yield at the reporting date on AA credit-rated bonds that have maturity dates approximating the terms of the Group's obligations. The calculation is performed using the projected unit credit method. Any actuarial gains or losses are recognised in profit or loss in the period in which they arise.

(iv) Termination benefits

Termination benefits are recognised as an expense when the Group is demonstrably committed, without realistic possibility of withdrawal, to a formal detailed plan to terminate employment before the normal retirement date. Termination benefits for voluntary redundancies are recognised if the Group has made an offer encouraging voluntary redundancy, it is probable that the offer will be accepted, and the number of acceptances can be estimated reliably.

(u) Employee benefits (continued)

(v) Short-term benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided.

A provision is recognised for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

(vi) Share-based payment transactions

The grant date fair value of options granted to employees is recognised as an employee expense, with a corresponding increase in equity, over the period in which the employees become unconditionally entitled to the options. The amount recognised as an expense is adjusted to reflect the actual number of share options that vest.

The fair value of the amount payable to employees in respect of share appreciation rights, which are settled in cash, is recognised as an expense, with a corresponding increase in liabilities, over the period in which the employees become unconditionally entitled to payment. The liability is remeasured at each reporting date and at settlement date. Any changes in the fair value of the liability are recognised as personnel expense in profit or loss.

(vii) Share-based payment transactions

The fair value of employee stock options is measured using a binomial lattice model. The fair value of share appreciation rights is measured using the Black-Scholes formula.[1] Measurement inputs include share price on measurement date, exercise price of the instrument, expected volatility (based on weighted average historic volatility adjusted for changes expected due to publicly available information), weighted average expected life of the instruments (based on historical experience and general option holder behaviour), expected dividends, and the risk-free interest rate (based on government bonds). Service and non-market performance conditions attached to the transactions are not taken into account in determining fair value.

Notes to the consolidated financial statements

3. Significant accounting policies (continued)

(v) Share capital and reserves

(i) Perpetual bonds

The Group classifies capital instruments as financial liabilities or equity instruments in accordance with the substance of the contractual terms of the instrument. The Group's perpetual bonds are not redeemable by holders, and bear an entitlement to distributions that is non-cumulative and at the discretion of the directors. Accordingly, they are presented as a component of issued capital within equity.

(ii) Share issue costs

Incremental costs directly attributable to the issue of an equity instrument are deducted from the initial measurement of the equity instruments.

(w) Earnings per share

The Group presents basic and diluted earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Bank by the weighted average number of ordinary shares outstanding during the period. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares, which comprise convertible notes and share options granted to employees.

(x) Segment reporting

A segment is a distinguishable component of the Group that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments. The Group's primary format for segment reporting is based on business segments. Segment income, segment expenses and segment performance includes transfers between business segments and geographical segments.

(y) Dividends

Dividends are recognised as a liability in the period in which they are declared. Proposed dividends are disclosed as a separate component of equity.

(z) Offsetting of financial assets and liabilities

Financial assets and liabilities are offset and the net amount reported on the balance sheet when there is a legally enforceable right to set-off the recognised amount and there is an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously.

(aa) Sale and repurchase agreements

Securities sold under sale and repurchase agreements (Repos) are retained in the financial statements with the counterparty liability included in amounts due to banking institutions.

Securities purchased from the Central Bank of Kenya under agreement to resell (reverse Repos), are disclosed as treasury bills as they are held to maturity after which they are repurchased and are not negotiable or discounted during the tenure.

Notes to the consolidated financial statements

3. Significant accounting policies (continued)

(ab) Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost using the effective interest method, any differences between proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings.

Financial risk management

(a) Introduction and overview

The Group has exposure to the following risks from its use of financial instruments:

- credit risk
- liquidity risk
- market risks
- operational risks.

This note presents information about the Group's exposure to each of the above risks, the Group's objectives, policies and processes for measuring and managing risk, and the Group's management of capital.

IFRS7p33
IFRS 7IG 15(b) (ii)

4. Risk management framework

The Board of Directors has overall responsibility for the establishment and oversight of the Group's risk management framework. The Board has established the Group Asset and Liability (ALCO), Credit and Operational Risk committees, which are responsible for developing and monitoring Group risk management policies in their specified areas. All Board committees have both executive and non-executive members and report regularly to the Board of Directors on their activities.

The Group's risk management policies are established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions, products and services offered. The Group, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment, in which all employees understand their roles and obligations.

The Group Audit Committee is responsible for monitoring compliance with the Group's risk management policies and procedures, and for reviewing the adequacy of the risk management framework in relation to the risks faced by the Group. The Group Audit Committee is assisted in these functions by Internal Audit. Internal Audit undertakes both regular and ad-hoc reviews of risk management controls and procedures, the results of which are reported to the Audit Committee.

Notes to the consolidated financial statements

Financial risk management

(b) Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's loans and advances to customers and other banks and investment securities. For risk management reporting purposes, the Group considers and consolidates all elements of credit risk exposure.

For risk management purposes, credit risk arising on trading securities is managed independently, but reported as a component of market risk exposure.

Management of credit risk

The Board of Directors has delegated responsibility for the management of credit risk to its Group Credit Committee. A separate Group Credit department, reporting to the Group Credit Committee, is responsible for oversight of the Group's credit risk, including:

- *Formulating credit policies* in consultation with business units, covering collateral requirements, credit assessment, risk grading and reporting, documentary and legal procedures, and compliance with regulatory and statutory requirements.
- *Establishing the authorisation structure* for the approval and renewal of credit facilities. Authorisation limits are allocated to business unit Credit Officers. Larger facilities require approval by Group Credit, Head of Group Credit, Group Credit Committee or the Board of Directors as appropriate.
- *Reviewing and assessing credit risk*. Group Credit assesses all credit exposures in excess of designated limits, prior to facilities being committed to customers by the business unit concerned. Renewals and reviews of facilities are subject to the same review process.
- *Limiting concentrations of exposure* to counterparties, geographies and industries (for loans and advances), and by issuer, credit rating band, market liquidity and country (for investment securities).
- *Developing and maintaining the Group's risk gradings* in order to categorise exposures according to the degree of risk of financial loss faced and to focus management on the attendant risks. The risk grading system is used in determining where impairment provisions may be required against specific credit exposures. The current risk grading framework consists of eight grades reflecting varying degrees of risk of default and the availability of collateral or other credit risk mitigation. The responsibility for setting risk grades lies with the final approving executive / committee as appropriate. Risk grades are subject to regular reviews by Group Risk.
- *Reviewing compliance* of business units with agreed exposure limits, including those for selected industries, country risk and product types. Regular reports are provided to Group Credit on the credit quality of local portfolios and appropriate corrective action is taken.
- *Providing advice, guidance and specialist skills* to business units to promote best practice throughout the Group in the management of credit risk.

▪ Each business unit is required to implement Group credit policies and procedures, with credit approval authorities delegated from the Group Credit Committee. Each business unit has a Chief Credit Risk officer who reports on all credit related matters to local management and the Group Credit Committee. Each business unit is responsible for the quality and performance of its credit portfolio and for monitoring and controlling all credit risks in its portfolios, including those subject to central approval.

Regular audits of business units and Group Credit processes are undertaken by Internal Audit.

Notes to the consolidated financial statements

4. Financial risk management (continued)

Exposure to credit risk

Maximum exposures to credit risk before collateral or other enhancements

IFRS7 p34 (a), 36(a)
IFRS7Appx B9, 10 IFRS 7G21

Credit risk exposures relating to on balance sheet assets are as follows:

	Maximum Exposure 20XX	20XX
Treasury bills and other eligible bills	XXX	XXX
Loans and advances to banks	XXX	XXX
Loans and advances to customers	XXX	XXX
Loans and advances to individuals		
▪ Overdrafts	XXX	XXX
▪ Credit cards	XXX	XXX
▪ Term loans	XXX	XXX
▪ Mortgages	XXX	XXX
Loans to corporate entities:		
▪ Large corporate customers	XXX	XXX
▪ Small and medium size enterprises (SMEs)	XXX	XXX
▪ Others	XXX	XXX
Trading assets:		
▪ Debt securities	XXX	XXX
Derivative financial instruments	XXX	XXX
Financial assets designated at fair value:		
▪ Debt securities	XXX	XXX
▪ Loans and advances to banks	XXX	XXX
▪ Loans and advances to customers	XXX	XXX
Investment securities		
▪ Debt securities	XXX	XXX
Pledged assets	XXX	XXX
Other assets	XXX	XXX
Credit risk exposure relating to off-balance sheet items is as follows:		
Financial guarantees	XXX	XXX
Loan commitments and other credit related liabilities	XXX	XXX
At 31 December	**XXX**	**XXX**

IFRS7p36 The above table represents a worse case scenario of credit risk exposure to the Group at 31 December without taking account of any collateral held or other credit enhancements attached.

IFRS7Appx B9 For on balance sheet assets, the exposure set out above are based on net carrying amounts as supported in the balance sheet. Management is confident in 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.

Notes to the consolidated financial statements

4. Financial risk management (continued)

Exposure to credit risk

In millions of Kenya Shillings	***Note***	**Loans and advances to customers**		**Loans and advances to banks**		**Investment securities**	
		20XX	**20XX**	**20XX**	**20XX**	**20XX**	**20XX**
Carrying amount	*21, 22, 23*	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX
Individually impaired							
Grade 6: Impaired (loss)		XXXX	XXXX	XXXX	XXXX	XXXX	XXXX
Grade 7: Impaired (Loss)		XXXX	XXXX	XXXX	XXXX	XXXX	XXXX
Grade 8: Impaired (doubtful)		XXXX	XXXX	XXXX	XXXX	XXXX	XXXX
Gross amount		XXXX	XXXX	XXXX	XXXX	XXXX	XXXX
Allowance for impairment	*22, 23,24*	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX
Carrying amount		XXXX	XXXX	XXXX	XXXX	XXXX	XXXX
Collectively impaired[2]							
Grade 1-3: Normal		XXXX	XXXX	XXXX	XXXX	XXXX	XXXX
Grade 4-5: Watch list		XXXX	XXXX	XXXX	XXXX	XXXX	XXXX
Gross amount		XXXX	XXXX	XXXX	XXXX	XXXX	XXXX
Allowance for impairment	*22*	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX
Carrying amount		XXXX	XXXX	XXXX	XXXX	XXXX	XXXX
Past due but not impaired							
Grade 1-3: Normal		XXXX	XXXX	XXXX	XXXX	XXXX	XXXX
Grade 4-5: Watch list		XXXX	XXXX	XXXX	XXXX	XXXX	XXXX
Carrying amount		XXXX	XXXX	XXXX	XXXX	XXXX	XXXX
Past due comprises:							
30-60 days		XXXX	XXXX	XXXX	XXXX	XXXX	XXXX
60-90 days		XXXX	XXXX	XXXX	XXXX	XXXX	XXXX
90-180 days		XXXX	XXXX	XXXX	XXXX	XXXX	XXXX
180 days +		XXXX	XXXX	XXXX	XXXX	XXXX	XXXX
Carrying amount		XXXX	XXXX	XXXX	XXXX	XXXX	XXXX
Neither past due nor impaired							
Grade 1-3: Normal		XXXX	XXXX	XXXX	XXXX	XXXX	XXXX
Grade 4-5: Watch list		XXXX	XXXX	XXXX	XXXX	XXXX	XXXX
Carrying amount		XXXX	XXXX	XXXX	XXXX	XXXX	XXXX
Includes accounts with renegotiated terms		XXXX	XXXX	XXXX	XXXX	XXXX	XXXX
Total carrying amount		XXXX	XXXX	XXXX	XXXX	XXXX	XXXX

Impaired loans and securities

Impaired loans and securities are loans and securities for which the Group determines that it is probable that it will be unable to collect all principal and interest due according to the contractual terms of the loan / securities agreement(s). These loans are graded 6 to 8 in the Group's internal credit risk grading system.

Past due but not impaired loans

Loans and securities where contractual interest or principal payments are past due but the Group believes that impairment is not appropriate on the basis of the level of security / collateral available and / or the stage of collection of amounts owed to the Group.

Notes to the consolidated financial statements

4. Financial risk management (continued)

Loans with renegotiated terms

Loans with renegotiated terms are loans that have been restructured due to deterioration in the borrower's financial position and where the Group has made concessions that it would not otherwise consider. Once the loan is restructured it remains in this category independent of satisfactory performance after restructuring.

Allowances for impairment

The Group establishes an allowance for impairment losses that represents its estimate of incurred losses in its loan portfolio. The main components of this allowance are a specific loss component that relates to individually significant exposures, and a collective loan loss allowance established for groups of homogeneous assets in respect of losses that have been incurred but have not been identified on loans subject to individual assessment for impairment.

Write-off policy

The Group writes off a loan / security balance (and any related allowances for impairment losses) when Group Credit determines that the loans / securities are uncollectible. This determination is reached after considering information such as the occurrence of significant changes in the borrower / issuer's financial position such that the borrower / issuer can no longer pay the obligation, or that proceeds from collateral will not be sufficient to pay back the entire exposure. For smaller balance standardised loans, charge off decisions generally are based on a product specific past due status.

Set out below is an analysis of the gross and net (of allowances for impairment) amounts of individually impaired assets by risk grade.

Loans and advances	**Loans and advances to customers**		**Investment**		**securities**	
In millions of Kenya Shillings	**Gross**	**Net**	**Gross**	**Net**	**Gross**	**Net**
31 December 20XX						
Grade 6: Individually impaired	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX
Grade 7: Individually impaired	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX
Grade 8: Individually impaired	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX
Total	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX
31 December 20XX						
Grade 6: Individually impaired	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX
Grade 7: Individually impaired	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX
Grade 8: Individually impaired	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX
Total	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX

The Group holds collateral against loans and advances to customers in the form of mortgage interests over property, other registered securities over assets, and guarantees. Estimates of fair value are based on the value of collateral assessed at the time of borrowing, and generally are not updated except when a loan is individually assessed as impaired. Collateral generally is not held over loans and advances to banks, except when securities are held as part of reverse repurchase and securities borrowing activity. Collateral usually is not held against investment securities, and no such collateral was held at 31 December 20XX or 20XX.

An estimate of the fair value of collateral and other security enhancements held against financial assets is shown below:

Notes to the consolidated financial statements

4. Financial risk management (continued)

In millions of Kenya Shillings	Loans and advances to customers 20XX	Loans and advances to customers 20XX	Loans and advances to banks 20XX	Loans and advances to banks 20XX
Against individually impaired				
Property	XXXX	XXXX	XXXX	XXXX
Debt securities	XXXX	XXXX	XXXX	XXXX
Equities	XXXX	XXXX	XXXX	XXXX
Other	XXXX	XXXX	XXXX	XXXX
Against collectively impaired				
Property	XXXX	XXXX	XXXX	XXXX
Debt securities	XXXX	XXXX	XXXX	XXXX
Equities	XXXX	XXXX	XXXX	XXXX
Other	XXXX	XXXX	XXXX	XXXX
Against past due but not impaired				
Property	XXXX	XXXX	XXXX	XXXX
Debt securities	XXXX	XXXX	XXXX	XXXX
Other	XXXX	XXXX	XXXX	XXXX
Against neither past due nor impaired				
Property	XXXX	XXXX	XXXX	XXXX
Debt securities	XXXX	XXXX	XXXX	XXXX
Equities	XXXX	XXXX	XXXX	XXXX
Other	XXXX	XXXX	XXXX	XXXX
Total	XXXX	XXXX	XXXX	XXXX

The Group monitors concentrations of credit risk by sector. An analysis of concentrations of credit risk at the reporting date is shown below:

In millions of Kenya Shillings	***Note***	Loans and advances to customers 20XX	Loans and advances to customers 20XX	Loans and advances to banks 20XX	Loans and advances to banks 20XX	Investment securities 20XX	Investment securities 20XX
Carrying amount	*22, 23, 24*	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX
Concentration by sector							
Agricultural		XXXX	XXXX	XXXX	XXXX	XXXX	XXXX
Manufacturing		XXXX	XXXX	XXXX	XXXX	XXXX	XXXX
Mining		XXXX	XXXX	XXXX	XXXX	XXXX	XXXX
Building, construction and real estate		XXXX	XXXX	XXXX	XXXX	XXXX	XXXX
Hire purchase and insurance		XXXX	XXXX	XXXX	XXXX	XXXX	XXXX
Transport and communication		XXXX	XXXX	XXXX	XXXX	XXXX	XXXX
Whole sale and retail		XXXX	XXXX	XXXX	XXXX	XXXX	XXXX
Other		XXXX	XXXX	XXXX	XXXX	XXXX	XXXX
		XXXX	XXXX	XXXX	XXXX	XXXX	XXXX

Settlement risk

The Group's activities may give rise to risk at the time of settlement of transactions and trades. Settlement risk is the risk of loss due to the failure of the customer or counter party to honour its obligations to deliver cash, securities or other assets as contractually agreed.

For certain types of transactions the Group mitigates this risk by conducting settlements through a settlement / clearing agent to ensure that a trade is settled only when both parties have fulfilled their contractual settlement obligations. Settlement limits form part of the credit Approval / limit monitoring process described earlier. Acceptance of settlement risk on free settlement trades requires transaction specific or counterparty specific approvals from Group Risk.

Notes to the consolidated financial statements

4. Financial risk management (continued)

(c) Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting obligations from its financial liabilities.

Management of liquidity risk

The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

Central Treasury receives information from other business units regarding the liquidity profile of their financial assets and liabilities and details of other projected cash flows arising from projected future business. Central Treasury then maintains a portfolio of short-term liquid assets, largely made up of short-term liquid investment securities, loans and advances to banks and other inter-bank facilities, to ensure that sufficient liquidity is maintained within the Group as a whole. The liquidity requirements of business units and subsidiaries are met through short-term loans from Central Treasury to cover any short-term fluctuations and longer term funding to address any structural liquidity requirements.

When an operating subsidiary or branch is subject to a liquidity limit imposed by its local regulator, the subsidiary or branch is responsible for managing its overall liquidity within the regulatory limit in co-ordination with Central Treasury. Central Treasury monitors compliance of all operating subsidiaries and foreign branches with local regulatory limits on a daily basis.

The daily liquidity position is monitored and regular liquidity stress testing is conducted under a variety of scenarios covering both normal and more severe market conditions. All liquidity policies and procedures are subject to review and approval by ALCO. Daily reports cover the liquidity position of both the Group and operating subsidiaries and foreign branches. A summary report, including any exceptions and remedial action taken, is submitted regularly to ALCO.

Exposure to liquidity risk

The key measure used by the Group for managing liquidity risk is the ratio of net liquid assets to deposits from customers. For this purpose net liquid assets are considered as including cash and cash equivalents and investment grade debt securities for which there is an active and liquid market less any deposits from banks, debt securities issued, other borrowings and commitments maturing within the next month. Details of the reported Group ratio of net liquid assets to deposits and customers at the reporting date and during the reporting period were as follows:

Risk Analysis

	20XX	**20XX**
At 31 December	XX.X%	XX.X%
Average for the period	XX.X%	XX.X%
Maximum for the period	XX.X%	XX.X%
Minimum for the period	XX.X%	XX.X%

Notes to the consolidated financial statements

4. Financial risk management (continued)

Residual contractual maturities of financial liabilities

In millions of Kenya Shillings	*Note*	Carrying amount	Gross nominal inflow / (outflow)	Less than 1 month	1-3 months	3 months to 1 year	1-5 years	More than 5 years
31 December 20XX								
Non-derivative liabilities								
Trading liabilities	*19*	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX
Deposits from banks	*27*	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX
Deposits from customers	*28*	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX
Debt securities issued	29	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX
Subordinated liabilities	*30*	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX
		XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX
Derivative liabilities								
Trading: outflow	*19*	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX
Trading: inflow		XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX
Risk management: outflow	*20*	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX
Risk management: inflow		XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX
		XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX
Unrecognised loan Commitments		XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX
		XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX
31 December 20XX								
Non-derivative liabilities								
Trading liabilities	*19*	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX
Deposits from banks	*27*	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX
Deposits from customers	*28*	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX
Debt securities issued	29	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX
Subordinated liabilities	*30*	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX
		XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX
Derivative liabilities								
Trading: outflow	*19*	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX
Trading: inflow		XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX
Risk management: outflow	*20*	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX
Risk management: inflow		XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX
		XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX
Unrecognised loan commitments		XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX
		XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX

The previous table shows the undiscounted cash flows on the Group's financial liabilities and unrecognised loan commitments on the basis of their earliest possible contractual maturity. The Group's expected cash flows on these instruments vary significantly from this analysis. For example, demand deposits from customers are expected to maintain a stable or increasing balance; and unrecognised loan commitments are not all expected to be drawn down immediately.

Notes to the consolidated financial statements

4. Financial risk management (continued)

The Gross nominal inflow / (outflow) disclosed in the previous table is the contractual, undiscounted cash flow on the financial liability or commitment. The disclosure for derivatives shows a net amount for derivatives that are net settled, but a gross inflow and outflow amount for derivatives that have simultaneous gross settlement (e.g., forward exchange contracts and currency swaps).

(d) Market risks

Market risk is the risk that changes in market prices, such as interest rate, equity prices, foreign exchange rates and credit spreads (not relating to changes in the obligor's / issuer's credit standing) will affect the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return on risk.

Management of market risks

The Group separates its exposure to market risk between trading and non-trading portfolios. Trading portfolios mainly are held by the corporate banking unit, and include positions arising from market making and proprietary position taking, together with financial assets and liabilities that are managed on a fair value basis.

With the exception of translation risk arising on the Group's net investment in its foreign operations, all foreign exchange risk within the Group is transferred and sold down by Central Treasury to the corporate Banking unit. Accordingly, the foreign exchange position is treated as part of the Group's trading portfolios for risk management purposes.

Overall authority for market risk is vested in ALCO. Group Risk is responsible for the development of detailed risk management policies (subject to review and approval by ALCO) and for the day-to-day review of their implementation.

Exposure to market risks – trading portfolios

The principal tool used to measure and control market risk exposure within the Group's trading portfolios is Value at Risk (VaR). The VaR of a trading portfolio is the estimated loss that will arise on the portfolio over a specified period of time (holding period) from an adverse market movement with a specified probability (confidence level). The VaR model used by the Group is based upon a 99 percent confidence level and assumes a 10-day holding period. The VaR model used is based mainly on historical simulation. Taking account of market data from the previous two years, and observed relationships between different markets and prices, the model generates a wide range of plausible future scenarios for market price movements.

Although VaR is an important tool for measuring market risk, the assumptions on which the model is based do give rise to some limitations, including the following:

- A 10-day holding period assumes that it is possible to hedge or dispose of positions within that period. This is considered to be a realistic assumption in almost all cases but may not be the case in situations in which there is severe market illiquidity for a prolonged period.
- A 99 percent confidence level does not reflect losses that may occur beyond this level. Even within the model used there is a one percent probability that losses could exceed the VaR.
- VaR is calculated on an end-of-day basis and does not reflect exposures that may arise on positions during the trading day.
- The use of historical data as a basis for determining the possible range of future outcomes may not always cover all possible scenarios, especially those of an exceptional nature.

Notes to the consolidated financial statements

4. Financial risk management (continued)

The VaR measure is dependent upon the Group's position and the volatility of market prices The VaR of an unchanged position reduces if the market price volatility declines and viceversa.

The Group uses VaR limits for total market risk and specific foreign exchange, interest rate, and equity and other price risks. The overall structure of VaR limits is subject to review and approval by ALCO. VaR limits are allocated to trading portfolios. VaR is measured at least daily and more regularly for more actively traded portfolios. Daily reports of utilisation of VaR limits are submitted to Group Risk and regular summaries are submitted to ALCO.

A summary of the VaR position of the Group's trading portfolios at 31 December and during the period is as follows:

In millions of Kenya Shillings	**At 31 Dec**	**Average**	**Maximum**	**Minimum**
20XX				
Foreign currency risk	XXXX	XXXX	XXXX	XXXX
Interest rate risk	XXXX	XXXX	XXXX	XXXX
Other price risk	XXXX	XXXX	XXXX	XXXX
Covariance	XXXX	XXXX	XXXX	XXXX
Overall	XXXX	XXXX	XXXX	XXXX
20XX				
Foreign currency risk	XXXX	XXXX	XXXX	XXXX
Interest rate risk	XXXX	XXXX	XXXX	XXXX
Other price risk	XXXX	XXXX	XXXX	XXXX
Covariance	XXXX	XXXX	XXXXXXXX	
Overall	XXXX	XXXX	XXXX	XXXX

The limitations of the VaR methodology are recognised by supplementing VaR limits with other position and sensitivity limit structures, including limits to address potential concentration risks within each trading portfolio. In addition, the Group uses a wide range of stress tests to model the financial impact of a variety of exceptional market scenarios on individual trading portfolios and the Group's overall position.

Notes to the consolidated financial statements

4. Financial risk management (continued)

Exposure to interest rate risk – non-trading portfolios

The principal risk to which non-trading portfolios are exposed is the risk of loss from fluctuations in the future cash flows or fair values of financial instrument because of a change in market interest rates. Interest rate risk is managed principally through monitoring interest rate gaps and by having pre-approved limits for repricing bands. The ALCO is the monitoring body for compliance with these limits and is assisted by Risk Management in its day-to-day monitoring activities. A summary of the Group's interest rate gap position on non-trading portfolios is as follows:

In millions of Kenya Shillings	***Note***	**Carrying amount**	**Less than 3 months**	**3-6 months**	**6-12 months**	**1-5 years**	**More than 5 years**
31 December 20XX							
Cash and cash equivalents	*18*	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX
Pledged assets	*19*	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX
Loans and advances to customers	*21*	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX
Investment securities	*22*	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX
		XXXX	XXXX	XXXX	XXXX	XXXX	XXXX
Deposits from banks	*27*	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX
Deposits from customers	*28*	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX
Debt securities issued	29	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX
Subordinated liabilities	*30*	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX
		XXXX	XXXX	XXXX	XXXX	XXXX	XXXX
Effect of derivatives held for risk management	*20*	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX
		XXXX	XXXX	XXXX	XXXX	XXXX	XXXX
31 December 20XX							
Cash and cash equivalents	*18*	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX
Pledged assets	*19*	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX
Loans and advances to customers	*21*	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX
Investment securities	*22*	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX
		XXXX	XXXX	XXXX	XXXX	XXXX	XXXX
Deposits from banks	*27*	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX
Deposits from customers	*28*	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX
Debt securities issued	29	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX
Subordinated liabilities	*30*	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX
		XXXX	XXXX	XXXX	XXXX	XXXX	XXXX
Effect of derivatives held for risk management	*20*	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX
		XXXX	XXXX	XXXX	XXXX	XXXX	XXXX

Notes to the consolidated financial statements

4. Financial risk management (continued)

The management of interest rate risk against interest rate gap limits is supplemented by monitoring the sensitivity of the Group's financial assets and liabilities to various standard and non-standard interest rate scenarios. Standard scenarios that are considered on a monthly basis include a 100 basis point (bp) parallel fall or rise in all yield curves worldwide and a 50 bp rise or fall in the greater than 12-month portion of all yield curves. An analysis of the Group's sensitivity to an increase or decrease in market interest rates (assuming no asymmetrical movement in yield curves and a constant balance sheet position) is as follows.

In millions of Kenya Shillings	**100 bp parallel increase**	**100 bp parallel decrease**	**50 bp increase after 1 year**	**50 bp decrease after 1 year**
20XX				
At 31 December	(XXX)	XXX	(XXX)	XXX
Average for the period	(XXX)	XXX	(XXX)	XXX
Maximum for the period	(XXX)	XXX	(XXX)	XXX
Minimum for the period	(XXX)	XXX	(XXX)	XXX
20XX				
At 31 December	(XXX)	XXX	(XXX)	XXX
Average for the period	(XXX)	XXX	(XXX)	XXX
Maximum for the period	(XXX)	XXX	(XXX)	XXX
Minimum for the period	(XXX)	XXX	(XXX)	XXX

Overall non-trading interest rate risk positions are managed by Central Treasury, which uses investment securities, advances to banks, deposits from banks and derivative instruments to manage the overall position arising from the Group's non-trading activities. The use of derivatives to manage interest rate risk is described in note 20.

Exposure to other market risks – non-trading portfolios[1]

Credit spread risk (not relating to changes in the obligor / issuer's credit standing) on debt securities held by Central Treasury and equity price risk is subject to regular monitoring by Group Risk, but is not currently significant in relation to the overall results and financial position of the Group.

The result of structural foreign exchange positions on the Group's net investments in foreign subsidiaries and branches, together with any related net investment hedges (see note 20), is recognised in equity. The Group's policy is only to hedge such exposures when not to do so would have a significant impact on the regulatory capital ratios of the Group and its banking subsidiaries. The result of this policy is that hedging generally only becomes necessary when the ratio of structural exposures in a particular currency to risk-weighted assets denominated in that currency diverges significantly from the capital ratio of the entity being considered.

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(e) Operational risks

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

This is a voluntary disclosure IFRS 7 – BC65

Notes to the consolidated financial statements

4. Financial risk management (continued)

(e) Operational risks (continued)

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

The Group's objective is to manage operational risk so as to balance the avoidance of financial losses and damage to the Group's reputation with overall cost effectiveness and to avoid control procedures that restrict initiative and creativity.

The primary responsibility for the development and implementation of controls to address operational risk is assigned to senior management within each business unit. This responsibility is supported by the development of overall Group standards for the management of operational risk in the following areas:

- requirements for appropriate segregation of duties, including the independent authorisation of transactions
- requirements for the reconciliation and monitoring of transactions
- compliance with regulatory and other legal requirements
- documentation of controls and procedures
- requirements for the periodic assessment of operational risks faced, and the adequacy of controls and procedures to address the risks identified
- requirements for the reporting of operational losses and proposed remedial action
- development of contingency plans
- training and professional development
- ethical and business standards
- risk mitigation, including insurance where this is effective.

Compliance with Group standards is supported by a programme of periodic reviews undertaken by Internal Audit. The results of Internal Audit reviews are discussed with the management of the business unit to which they relate, with summaries submitted to the Audit Committee and senior management of the Group.

(f) Capital management[1]

Regulatory capital

The Central Bank of Kenya sets and monitors capital requirements for the Group as a whole. The parent company and individual banking operations are directly supervised by their local regulators.

In implementing current capital requirements The Central Bank of Kenya requires the Group to maintain a prescribed ratio of total capital to total risk-weighted assets. The Group calculates requirements for market risk in its trading portfolios based upon the Group's VaR models and uses its internal gradings as the basis for risk weightings for credit risk.

Notes to the consolidated financial statements

4. Financial risk management (continued)

(f) Capital management (continued)

The Group's regulatory capital is analysed into two tiers:

- Tier 1 capital, which includes ordinary share capital, share premium, perpetual bonds (which are classified as innovative Tier 1 securities), retained earnings, translation reserve and minority interests after deductions for goodwill and intangible assets, and other regulatory adjustments relating to items that are included in equity but are treated differently for capital adequacy purposes.
- Tier 2 capital, which includes qualifying subordinated liabilities, collective impairment allowances and the element of the fair value reserve relating to unrealised gains on equity instruments classified as available-for-sale.

Various limits are applied to elements of the capital base. The amount of innovative tier 1 securities cannot exceed 15 percent of total tier 1 capital; qualifying tier 2 capital cannot exceed tier 1 capital; and qualifying term subordinated loan capital may not exceed 50 percent of tier 1 capital. There also are restrictions on the amount of collective impairment allowances that may be included as part of tier 2 capital. Other deductions from capital include the carrying amounts of investments in subsidiaries that are not included in the regulatory consolidation, investments in the capital of banks and certain other regulatory items.

Banking operations are categorised as either trading book or banking book, and risk-weighted assets are determined according to specified requirements that seek to reflect the varying levels of risk attached to assets and off-balance sheet exposures.

The Group's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The impact of the level of capital on shareholders' return is also recognised and the Group recognises the need to maintain a balance between the higher returns that might be possible with greater gearing and the advantages and security afforded by a sound capital position.

The Group and its individually regulated operations have complied with all externally imposed capital requirements throughout the period.[1]

There have been no material changes in the Group's management of capital during the period.[1]

Notes to the consolidated financial statements

4. Financial risk management (continued)

(f) Capital management (continued)

The Group's regulatory capital position at 31 December was as follows:

In millions of Kenya Shillings	**Note**	**20XX**	**20XX**
Tier 1 capital			
Ordinary share capital	*31*	XXX	XXX
Share premium	*31*	XXX	XXX
Perpetual bonds	*31*	XXX	XXX
Retained earnings	*31*	XXX	XXX
Translation reserve	*31*	XXX	XXX
Minority interests	*31*	XXX	XXX
Less intangible assets	*24*	XXX	XXX
Other regulatory adjustments		XXX	XXX
Total		XXX	XXX
Tier 2 capital			
Fair value reserve for available-for-sale equity securities	*33*	XXX	XXX
Collective allowances for impairment	*22*	XXX	XXX
Qualifying subordinated liabilities	29	XXX	XXX
Total		XXX	XXX
Total regulatory capital		XXX	XXX
Risk-weighted assets			
Investment bank		XXX	XXX
Retail bank, corporate bank and central treasury		XXX	XXX
Total risk-weighted assets		XXX	XXX
Capital ratios			
Total regulatory capital expressed as a percentage of total risk-weighted assets		XX.X%	XX.X%
Total tier 1 capital expressed as a percentage of risk-weighted assets		XX.X%	XX.X%

Capital allocation

The allocation of capital between specific operations and activities is, to a large extent, driven by optimisation of the return achieved on the capital allocated. The amount of capital allocated to each operation or activity is based primarily upon the regulatory capital, but in some cases the regulatory requirements do not reflect fully the varying degree of risk associated with different activities. In such cases the capital requirements may be flexed to reflect differing risk profiles, subject to the overall level of capital to support a particular operation or activity not falling below the minimum required for regulatory purposes. The process of allocating capital to specific operations and activities is undertaken independently of those responsible for the operation, by Group Risk and Group Credit, and is subject to review by the Group Credit Committee or ALCO as appropriate.

Although maximisation of the return on risk-adjusted capital is the principal basis used in determining how capital is allocated within the Group to particular operations or activities, it is not the sole basis used for decision making. Account also is taken of synergies with other operations and activities, the availability of management and other resources, and the fit of the activity with the Group's longer term strategic objectives. The Group's policies in respect of capital management and allocation are reviewed regularly by the Board of Directors.

Notes to the consolidated financial statements

1p116 **5. Use of estimates and judgements**

Management discussed with the Audit Committee the development, selection and disclosure of the Group's critical accounting policies and estimates, and the application of these policies and estimates.

These disclosures supplement the commentary on financial risk management (see note 4).

Key sources of estimation uncertainty

Allowances for credit losses

Assets accounted for at amortised cost are evaluated for impairment on a basis described in accounting policy 3(j) (iv).

The specific counterparty component of the total allowances for impairment applies to claims evaluated individually for impairment and is based upon management's best estimate of the present value of the cash flows that are expected to be received. In estimating these cash flows, management makes judgements about a counterparty's financial situation and the net realisable value of any underlying collateral. Each impaired asset is assessed on its merits, and the workout strategy and estimate of cash flows considered recoverable are independently approved by the Credit Risk function.

Collectively assessed impairment allowances cover credit losses inherent in portfolios of claims with similar economic characteristics when there is objective evidence to suggest that they contain impaired claims, but the individual impaired items cannot yet be identified. A component of collectively assessed allowances is for country risks. In assessing the need for collective loan loss allowances, management considers factors such as credit quality, portfolio size, concentrations, and economic factors. In order to estimate the required allowance, assumptions are made to define the way inherent losses are modelled and to determine the required input parameters, based on historical experience and current economic conditions. The accuracy of the allowances depends on how well these estimate future cash flows for specific counterparty allowances and the model assumptions and parameters used in determining collective allowances.

Determining fair values

The determination of fair value for financial assets and liabilities for which there is no observable market price requires the use of valuation techniques as described in accounting policy 3(j)(v). For financial instruments that trade infrequently and have little price transparency, fair value is less objective, and requires varying degrees of judgement depending on liquidity, concentration, uncertainty of market factors, pricing assumptions and other risks affecting the specific instrument.

Critical accounting judgements in applying the Group's accounting policies

Critical accounting judgements made in applying the Group's accounting policies include:

Financial asset and liability classification

The Group's accounting policies provide scope for assets and liabilities to be designated on inception into different accounting categories in certain circumstances:

- In classifying financial assets or liabilities as "trading", the Group has determined that it meets the description of trading assets and liabilities set out in accounting policy 3(l).
- In designating financial assets or liabilities at fair value through profit or loss, the Group has determined that it has met one of the criteria for this designation set out in accounting policy 3(j)(vii).

Notes to the consolidated financial statements

5. Use of estimates and judgements (continued)

- In classifying financial assets as held-to-maturity, the Group has determined that it has both the positive intention and ability to hold the assets until their maturity date as required by accounting policy 3(o)(i).

Details of the Group's classification of financial assets and liabilities are given in note 7.

6. Segment reporting

Segment information is presented in respect of the Group's business segments. The primary format, business segments, is based on the Group's management and internal reporting structure. The banks geographical segments are based on the location of the banks assets. Income from external customers is disclosed in geographical segments is based on the geographical location of its customers.

Business segments pay and receive interest to and from the Central Treasury on an arm's length basis to reflect the allocation of capital and funding costs.

Segment capital expenditure is the total cost incurred during the period to acquire property and equipment, and intangible assets other than goodwill.

Business segments

The Group comprises the following main business segments:

- *Investment Banking* — Includes the Group's trading and corporate finance activities
- *Corporate Banking* — Includes loans, deposits and other transactions and balances with corporate customers
- *Retail Banking* — Includes loans, deposits and other transactions and balances with retail customers
- *Asset Management* — Operates the Group's funds management activities
- *Central Treasury* — Undertakes the Group's funding and centralised risk management activities through borrowings, issues of debt securities, use of derivatives for risk management purposes and investing in liquid assets such as short-term placements and corporate and government debt securities.

The Group also has a central Shared Services operation that manages the Group's premises and certain corporate costs. Cost-sharing agreements are used to allocate central costs to business segments on a reasonable basis.

6. Segment reporting (continued)

IAS 14.50 **Business segments**[1]

20XX

Reference	*In millions of Kenya Shillings*	*Note*	Corporate banking	Retail banking	Central treasury[3]	Shared services	Unallocated	Consolidated
	External revenue[2]							
	Net interest income	*8*	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX
	Net fee and commission income	*9*	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX
	Net trading income	*10*	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX
	Net income from other financial instruments carried at fair value	*11*	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX
	Other operating income	*12*	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX
IAS 14.51	Intersegment revenue[3]		XXXX	XXXX	XXXX	XXXX	XXXX	XXXX
IAS 14.51, 67	Total segment revenue		XXXX	XXXX	XXXX	XXXX	XXXX	XXXX
IAS 14.52	Segment result[4, 5]		XXXX	XXXX	XXXX	XXXX	XXXX	XXXX
	Income tax expense	*15*						XXXX
IAS 14.67	Profit for the period							XXXX
IAS 14.55	Segment assets		XXXX	XXXX	XXXX	XXXX	XXXX	XXXX
	Unallocated assets							XXXX
IAS 14.67	Total assets							XXXX
IAS 14.56	Segment liabilities		XXXX	XXXX	XXXX	XXXX	XXXX	XXXX
	Unallocated liabilities							XXXX
IAS 14.67	Total liabilities							XXXX
IAS 14.61	Impairment losses on financial assets	*21, 22, 23*	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX
IAS 14.58	Depreciation and amortisation[6]	*23, 24*	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX
IAS 14.59	Restructuring costs	*14*	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX
IAS 14.57	Capital expenditure	*23, 24*	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX

Reference **Notes to the consolidated financial statements**

6. Segment reporting (continued)

IAS 14.50 **Business segments**

20XX

Reference	*In millions of Kenya Shillings*	***Note***	**Corporate banking**	**Retail banking**	**Central treasury**	**Shared services**	**Unallocated**	**Consolidated**
IAS 14.51	External revenue							
IAS 18.35(b)	Net interest income	*8*	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX
IAS 18.35(b)	Net fee and commission income	*9*	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX
IAS 18.35(b)	Net trading income	*10*	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX
IAS 18.35(b)	Net income from other financial instruments carried at fair value	*11*	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX
IAS 18.35(b)	Other operating income	*12*	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX
IAS 14.51	Intersegment revenue		XXXX	XXXX	XXXX	XXXX	XXXX	XXXX
IAS 14.51, 67	Total segment revenue		XXXX	XXXX	XXXX	XXXX	XXXX	XXXX
IAS 14.52	Segment result		XXXX	XXXX	XXXX	XXXX	XXXX	XXXX
	Income tax expense	*15*						XXXX
IAS 14.67	Profit for the period							XXXX
IAS 14.55	Segment assets		XXXX	XXXX	XXXX	XXXX	XXXX	XXXX
	Unallocated assets							XXXX
IAS 14.67	Total assets							XXXX
IAS 14.56	Segment liabilities		XXXX	XXXX	XXXX	XXXX	XXXX	XXXX
	Unallocated liabilities							XXXX
IAS 14.67	Total liabilities							XXXX
IAS 14.61	Impairment losses on financial assets	*21,22, 23*	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX
IAS 14.58	Depreciation and amortisation	*23, 24*	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX
IAS 14.59	Restructuring costs	*14*	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX
IAS 14.57	Capital expenditure	*23, 24*	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX

Notes to the consolidated financial statements

6. Segment reporting (continued)

IAS 14.69 **Geographical segments**

millions of Kenya Shillings		*Note*	Domestic 2007	Rest of Africa 2007	Europe 2007	Asia 2007	America 2007	Total 2007
IAS 14.51	External revenue							
IAS 18.35(b)	Net interest income	*8*	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX
IAS 18.35(b)	Net fee and commission income	*9*	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX
IAS 18.35(b)	Net trading income	*10*	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX
IAS 18.35(b)	Net income from other financial instruments carried at fair value	*11*	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX
IAS 18.35(b)	Other operating income	*12*	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX
IAS 14.51	Intersegment revenue		XXXX	XXXX	XXXX	XXXX	XXXX	XXXX
IAS 14.51, 67	Total segment revenue		XXXX	XXXX	XXXX	XXXX	XXXX	XXXX
IAS 14.52	Segment result		XXXX	XXXX	XXXX	XXXX	XXXX	XXXX
	Income tax expense	*15*						XXXX
IAS 14.67	Profit for the period							XXXX
IAS 14.55	Segment assets		XXXX	XXXX	XXXX	XXXX	XXXX	XXXX
	Unallocated assets							XXXX
IAS 14.67	Total assets							XXXX
IAS 14.56	Segment liabilities		XXXX	XXXX	XXXX	XXXX	XXXX	XXXX
	Unallocated liabilities							XXXX
IAS 14.67	Total liabilities							XXXX
IAS 14.61	Impairment losses on financial assets	*21,22, 23*	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX
IAS 14.58	Depreciation and amortisation	*23, 24*	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX
IAS 14.59	Restructuring costs	*14*	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX
IAS 14.57	Capital expenditure	*23, 24*	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX

6. Segment reporting (continued)

IAS 14.69 **Geographical segments**

	millions of Kenya Shillings	*Note*	**Domestic** 2006	**Rest of Africa** 2006	**Europe** 2006	**Asia** 2006	**America** 2006	**Total** 2006
IAS 14.51	External revenue							
IAS 18.35(b)	Net interest income	*8*	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX
IAS 18.35(b)	Net fee and commission income	*9*	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX
IAS 18.35(b)	Net trading income	*10*	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX
IAS 18.35(b)	Net income from other financial instruments carried at fair value	*11*	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX
IAS 18.35(b)	Other operating income	*12*	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX
IAS 14.51	Intersegment revenue		XXXX	XXXX	XXXX	XXXX	XXXX	XXXX
IAS 14.51, 67	Total segment revenue		XXXX	XXXX	XXXX	XXXX	XXXX	XXXX
IAS 14.52	Segment result		XXXX	XXXX	XXXX	XXXX	XXXX	XXXX
	Income tax expense	*15*						XXXX
IAS 14.67	Profit for the period							XXXX
IAS 14.55	Segment assets		XXXX	XXXX	XXXX	XXXX	XXXX	XXXX
	Unallocated assets							XXXX
IAS 14.67	Total assets							XXXX
IAS 14.56	Segment liabilities		XXXX	XXXX	XXXX	XXXX	XXXX	XXXX
	Unallocated liabilities							XXXX
IAS 14.67	Total liabilities							XXXX
IAS 14.61	Impairment losses on financial assets	*21,22, 23*	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX
IAS 14.58	Depreciation and amortisation	*23, 24*	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX
IAS 14.59	Restructuring costs	*14*	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX
IAS 14.57	Capital expenditure	*23, 24*	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX

Notes to the consolidated financial statements

7. Financial assets and liabilities

Accounting classifications and fair values

The table below sets out the Group's classification of each class of financial assets and liabilities, and their fair values (excluding accrued interest).

In millions of Kenya Shillings	*Note*	Trading	Designated at fair value	Held-to-maturity	Loans and receivables	Available-for-sale	Other amortised cost	Total carrying amount	Fair value
31 December 20XX									
Cash and cash equivalents	*18*	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX
Trading assets	*19*	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX
Pledged assets	*19*	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX
Derivative assets held for risk management	*20*	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX
Loans and advances to customers	*21*	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX
Investment securities	*22*	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX
		XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX
Trading liabilities	*19*	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX
Derivative liabilities held for risk management	*20*	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX
Deposits from banks	*27*	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX
Deposits from customers	*28*	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX
Debt securities issued	29	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX
Subordinated liabilities	*30*	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX
		XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX
31 December 20XX									
Cash and cash equivalents	*18*	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX
Trading assets	*19*	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX
Pledged assets	*19*	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX
Derivative assets held for risk management	*20*	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX
Loans and advances to customers	*21*	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX
Investment securities	*22*	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX
		XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX
Trading liabilities	*19*	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX
Derivative liabilities held for risk management	*20*	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX
Deposits from banks	*27*	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX
Deposits from customers	*28*	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX
Debt securities issued	29	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX
Subordinated liabilities	*30*	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX
		XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX

Notes to the consolidated financial statements

8. Net interest income

In millions of Kenya Shillings	***Note***	**20XX**	**20XX**
Interest income			
Cash and cash equivalents	*18*	XXXX	XXXX
Loans and advances to customers	*21*	XXXX	XXXX
Investment securities	*22*	XXXX	XXXX
Other		XXXX	XXXX
Total interest income		XXXX	XXXX
Interest expense			
Deposits from banks	*27*	XXXX	XXXX
Deposits from customers	*28*	XXXX	XXXX
Debt securities issued	29	XXXX	XXXX
Other		XXXX	XXXX
Total interest expense		XXXX	XXXX
Net interest income		XXXX	XXXX

Included within various captions under interest income for the year ended 31 December 20XX is a total of KShs …… (20XX: KShs ….) accrued on impaired financial assets.

Included within interest income on investment securities for the year ended 31 December 20XX is KShs …. (20XX: KShs ….) relating to debt securities held-to-maturity.

The only components of interest income and expense reported above that relate to financial assets or liabilities carried at fair value through profit or loss are the income and expense on derivative assets and liabilities held for risk management purposes.

9. Net fee and commission income[1]

In millions of Kenya Shillings	**20XX**	**20XX**
Fee and commission income		
Retail banking customer fees	XXXX	XXXX
Corporate banking credit related fees	XXXX	XXXX
Other	XXXX	XXXX
Total fee and commission income	XXXX	XXXX
Fee and commission expense		
Brokerage	XXXX	XXXX
Inter bank transaction fees	XXXX	XXXX
Other	XXXX	XXXX
Total fee and commission expense	XXXX	XXXX
Net fee and commission income	XXXX	XXXX

10. Net trading income

In millions of Kenya Shillings	***Note***	**20XX**	**20XX**
Fixed income		XXXX	XXXX
Foreign exchange		XXXX	XXXX
Other		XXXX	XXXX
Net trading income	*18*	XXXX	XXXX

11. Net income from other financial instruments carried at fair value

In millions of Kenya Shillings	*Note*	20XX	20XX
Net income on other derivatives held for risk management purposes:[1]	*20*		
Interest rate		XXXX	XXXX
Credit		XXXX	XXXX
Foreign exchange		XXXX	XXXX
OTC structured derivatives		XXXX	XXXX
Investment securities at fair value through profit or loss:	*22*		
Bonds		XXXX	XXXX
Loans and advances at fair value through profit or loss	*21*	XXXX	XXXX
		XXXX	XXXX

At 31 December 20XX, the accumulated amount of the change in fair value attributable to changes in credit risk on financial liabilities designated at fair value through profit or loss was KShs …. (20XX: KShs …….).

12. Other operating income

In millions of Kenya Shillings	*Note*	20XX	20XX
Gain on sale of available-for-sale securities:	*22*		
Government bonds		XXXX	XXXX
Corporate bonds		XXXX	XXXX
Foreign exchange gain		XXXX	XXXX
Change in fair value of investment property	*26*	XXXX	XXXX
Rental income		XXXX	XXXX
Other		XXXX	XXXX
		XXXX	XXXX

13. Employee Benefits

In millions of Kenya Shillings	***Note***	**20XX**	**20XX**
Salaries		XXXX	XXXX
Contributions to defined contribution plans		XXXX	XXXX
Equity-settled share-based payments		XXXX	XXXX
Cash-settled share-based payments		XXXX	XXXX
Increase in liability for defined benefit is charged to Income account(P/Lac)		XXXX	XXXX
		XXXX	**XXXX**

Share-based payments

IFRS 2.44, 45(a) On 1 January 20XX the Group established a share option programme that entitles key management personnel and senior employees to purchase shares in the Bank. On 1 January 20XX a further grant on similar terms was offered to these employee groups. In accordance with these programmes options are exercisable at the market price of the shares at the date of grant.

Additionally, two share option arrangements granted before 7 November 2002 exist. The recognition and measurement principles in IFRS 2 have not been applied to these grants.

On 1 January 20XX the Group granted share appreciation rights (SARs) to other employees that entitle the employees to a cash payment. The amount of the cash payment is determined based on the increase in the share price of the Bank between grant date and vesting date.

IFRS 2.45(a) The terms and conditions of the grants are as follows; all options are to be settled by physical delivery of shares, while share appreciation rights are settled in cash:

13. Employee benefits (continued)

In millions of options **Grant date / employees entitled**	**Number of instruments**	**Vesting conditions**	**Contractual life of options**
Option grant to senior employees at 1 January 2002	25	3 years' service and 10 percent increase in operating income each of the 3 years	10 years
Option grant to senior employees at 1 January 2003	15	3 years' service and 10 percent increase in operating income each of the 3 years	10 years
Option grant to senior employees at 1 January 20XX	10	3 years' service and 10 percent increase in operating income each of the 3 years	10 years
Option grant to other employees at 1 January 20XX	10	3 years' service	10 years
Option grant to senior employees at 1 January 20XX	25	3 years' service and 10 percent increase in operating income each of the 3 years	10 years
Option grant to other employees at 1 January 20XX	10	3 years' service	10 years
Total share options	95		
SARs granted to other employees at 1 January 2003	10	3 years' service	
SARs granted to other employees at 1 January 20XX	30	3 years' service	
Total SARs	40		

13. Employee benefits (continued)

IFRS 2.45(b) The number and weighted average exercise price of share options is as follows:[1]

Reference	*In millions of options*	Weighted average exercise price 20XX	Number of options 20XX	Weighted average exercise price 20XX	Number of options 20XX
IFRS 2.45(b)(i)	Outstanding at 1 January	KShsXX.X	XX.X	€X.X	XX.X
IFRS 2.45(b)(iii)	Forfeited during the period	KShsXX.X	XX.X	€X.X	XX.X
IFRS 2.45(b)(iv)	Exercised during the period	KShsXX.X	XX.X	€X.X	XX.X
IFRS 2.45(b)(ii)	Granted during the period	KShsXX.X	XX.X	€X.X	XX.X
IFRS 2.45(b)(vi)	Outstanding at 31 December	KShsXX.X	XX.X	€X.X	XX.X
IFRS 2.45(b)(vii)	Exercisable at 31 December	KShsXX.X	XX.X	€X.X	XX.X

IFRS 2.45(d) The options outstanding at 31 December 20XX have an exercise price in the range of KShsXX.X to KShsXX.X and a weighted average contractual life of X.X years.

IFRS 2.45(c) The weighted average share price at the date of exercise for share options exercised in 20XX was XX.X (20XX: XX.X).

IFRS 2.46, 47 (a)(i) The fair value of services received in return for share options granted is based on the fair value of share options granted,[2] measured using a binomial lattice model, with the following inputs:

13. Employee benefits (continued)

Reference	*Fair value of share options and assumptions*	Key management personnel 20XX	Key management personnel 20XX	Senior employees 20XX	Senior employees 20XX
IFRS 2.47(a)	Fair value at measurement date	KShsXX.X	KShsXX.X	KShsXX.X	KShsXX.X
IFRS 2.47(a)(i)	Share price	KShsXX.X	KShsXX.X	KShsXX.X	KShsXX.X
IFRS 2.47(a)(i)	Exercise price	KShsXX.X	KShsXX.X	KShsXX.X	KShsXX.X
IFRS 2.47(a)(i)	Expected volatility (weighted average volatility)	XX.X%	XX.X%	XX.X%	XX.X%
IFRS 2.47(a)(i)	Option life (expected weighted averaged life)	X.X years	X.X years	X.X years	X.X years
IFRS 2.47(a)(i)	Expected dividends	X.X%	X.X%	X.X%	X.X%
IFRS 2.47(a)(i)	Risk free interest rate (based on government bonds)	X.X%	X.X%	X.X%	X.X%

Employee expenses

Reference	*In millions of Kenya Shillings*	*Note*	20XX	20XX
IFRS 2.51(a)	Share options granted in 20XX		XXXX	XXXX
IFRS 2.51(a)	Share options granted in 20XX		XXXX	XXXX
IFRS 2.51(a)	Expense arising from SARs granted in 20XX		XXXX	XXXX
IFRS 2.51(a)	Effect of changes in the fair value of SARs		XXXX	XXXX
IFRS 2.51(a)	Total expense recognised as employee costs		XXXX	XXXX
IFRS 2.51(b)(i)	Total carrying amount of liabilities for cash-settled arrangements	*33*	XXXX	XXXX
IFRS 2.51(b)(ii)	Total intrinsic value of liability for vested benefits		XXXX	XXXX

The carrying amount of the liability at 31 December 20XX was settled in 20XX.

Reference	Notes to the consolidated financial statements

14. Other expenses

In millions of Kenya Shillings	*Note*	20XX	20XX
Software licensing and other information technology costs		XXXX	XXXX
Impairment loss on property and equipment	*23*	XXXX	XXXX
Branch closure cost provisions	*31*	XXXX	XXXX
Redundancy provisions	*31*	XXXX	XXXX
Auditors' remuneration		XXXX	XXXX
Depreciation		XXXX	XXXX
Amortisation of prepaid operating lease rentals		XXXX	XXXX
Other		XXXX	XXXX
		XXXX	XXXX

15. Income tax expense

Reference				
IAS 12.79	**Recognised in the income statement**			
	In millions of Kenya Shillings	*Note*	20XX	20XX
	Current tax expense			
IAS 12.80(a)	Current year		XXXX	XXXX
IAS 12.80(b)	Adjustments for prior years		XXXX	XXXX
			XXXX	XXXX
	Deferred tax expense[2]			
IAS 12.80(c)	Origination and reversal of temporary differences		XXXX	XXXX
IAS 12.80(f)	Recognition of previously unrecognised tax losses		XXXX	XXXX
		25	XXXX	XXXX
	Total income tax expense		XXXX	XXXX

IAS 12.81(c) **Reconciliation of effective tax rate**[3]

In millions of Kenya Shillings	20XX	20XX	20XX	20XX
Profit before income tax		XXXX		XXXX
Income tax using the enacted corporation tax rate	XX.X%	XXXX	XX.X%	XXXX
Non-deductible expenses	XX.X%	XXXX	XX.X%	XXXX
Tax exempt income	XX.X%	XXXX	XX.X%	XXXX
Recognition of previously unrecognised tax losses	XX.X%	XXXX	XX.X%	XXXX
(Over) provided in prior years	XX.X%	XXXX	XX.X%	XXXX
Total income tax expense in income statement	XX.X%	XXXX	XX.X%	XXXX

16 Earnings per share[1]

Basic earnings per share

The calculation of basic earnings per share at 31 December 20XX was based on the profit attributable to ordinary shareholders of KShs XX million (20XX: KShs XX million) and a weighted average number of ordinary shares outstanding of X,XXX.X million (20XX: X,XXX.X million), calculated as follows:

IAS 33.70(a)

Profit attributable to ordinary shareholders

In millions of Kenya Shillings	*Note*	20XX	20XX
Net profit for the period attributable to equity holders of the Bank		XXXX	XXXX

IAS 33.70(b)

Weighted average number of ordinary shares[2]

In millions of shares	*Note*	20XX	20XX
Issued ordinary shares at 1 January	*34*	XXXX	XXXX
Effect of share options exercised	*34*	XXXX	XXXX
Weighted average number of ordinary shares at 31 December		XXXX	XXXX

Diluted earnings per share

The calculation of diluted earnings per share at 31 December 20XX was based on the profit attributable to ordinary shareholders of KShs XXmillion (20XX: KShs XX million) and a weighted average number of ordinary shares outstanding after adjustment for the effects of all dilutive potential ordinary shares of X,XXX.X million (20XX: X,XXX.X million), calculated as follows:

IAS 33.70(a)

Profit attributable to ordinary shareholders (diluted) [3]

In millions of Kenya Shillings	20XX	20XX
Profit for the period attributable to ordinary shareholders	XXXX	XXXX

IAS 33.70(b)

Weighted average number of ordinary shares (diluted) [4]

In millions of shares	*Note*	20XX	20XX
Weighted average number of ordinary shares (basic)	*34*	XXXX	XXXX
Effect of share options on issue	*13*	XXXX	XXXX
Weighted average number of ordinary shares (diluted) at 31 December		XXXX	XXXX

17. Dividend per share

Proposed dividends are accounted for as a separate component of equity until they have been ratified at an Annual General Meeting.

At the Annual General Meeting to be held on XXXXX2008, a final dividend in respect of the year ended 31 December 2007 of KShsXXXX (20XX – KShsXXXX) for every ordinary share of KShsXXXX is to be proposed. Interim dividends of KShsXXXX for every ordinary share of KShsXXXX was declared and paid during the year. This will bring the total dividend for the year to KShsXXXX (20XX – KShsXXXX).

At the Annual General Meeting to be held on XXXXXX2008, a final dividend in respect of the year ended 31 December 2007 of KShsXXXX (20XX – KShsXXXX) for the preference shares is to be proposed. An interim dividend of KShsXXXX (20XX – KShsXXXX) was declared and paid during the year. This will bring the total dividend for the year to KShsXXXX (20XX – KShsXXXX).

Payment of dividends is subject to withholding tax at the rate of 5% for residents and 10% for non-resident shareholders.

Dividends on the preference shares are paid at the rate of XX.X% per annum on the issue price of KShsXXXX per share.

IAS 7.45

18. Cash and cash equivalents[1]

In millions of Kenya Shillings	**20XX**	**20XX**
Cash and balances with banks	XXXX	XXXX
Unrestricted balances with central bank	XXXX	XXXX
Money market placements	XXXX	XXXX
	XXXX	XXXX

19. Trading assets and liabilities[2]

In millions of Kenya Shillings	**20XX**	**20XX**
Trading assets (*IFRS 7.8(a)(ii)*)		
Government bonds	XXXX	XXXX
Corporate bonds	XXXX	XXXX
Treasury bills	XXXX	XXXX
Other	XXXX	XXXX
Derivative assets:		
Interest rate	XXXX	XXXX
Credit	XXXX	XXXX
Foreign exchange	XXXX	XXXX
OTC structured derivatives	XXXX	XXXX
	XXXX	XXXX

IFRS 7.8(e)(ii)		
Trading liabilities		
Derivative liabilities:		
Interest rate	XXXX	XXXX
Credit	XXXX	XXXX
Foreign exchange	XXXX	XXXX
OTC structured derivatives	XXXX	XXXX
	XXXX	XXXX

20. Derivatives held for risk management[1]

Reference	*In millions of Kenya Shillings*	20XX	20XX
	Derivative assets held for risk management		
	Instrument type:		
	Interest rate	XXXX	XXXX
	Credit	XXXX	XXXX
	Equity	XXXX	XXXX
	Foreign exchange	XXXX	XXXX
	OTC structured derivatives	XXXX	XXXX
		XXXX	XXXX
	Derivative liabilities held for risk management		
	Instrument type:		
	Interest rate	XXXX	XXXX
	Credit	XXXX	XXXX
	Equity	XXXX	XXXX
	Foreign exchange	XXXX	XXXX
	OTC structured derivatives	XXXX	XXXX
		XXXX	XXXX
	Net derivatives held for risk management		
IFRS 7.22(b)	Fair value hedges of interest rate risk	XXXX	XXXX
IFRS 7.22(b)	Cash flow hedges of foreign currency debt securities issued	XXXX	XXXX
IFRS 7.22(b)	Net investment hedges	XXXX	XXXX
	Other derivatives held for risk management	XXXX	XXXX
		XXXX	XXXX

IFRS 7.22

Fair value hedges of interest rate risk

The Group uses interest rate swaps to hedge its exposure to changes in the fair value of its fixed rate Kenya Shillings notes and certain loans and advances. Interest rate swaps are matched to specific issuances of fixed rate notes or loans.

20. Derivatives held for risk management (continued)

IFRS 7.22, 23(a)

Cash flow hedges of foreign currency debt securities issued

The Group uses cross-currency interest rate swaps to hedge the foreign currency and interest rate risks arising from its issuance of floating rate notes in foreign currencies. The cash flows on the cross-currency interest rate swaps substantially match the cash flow profile of the floating rate notes.

IFRS 7.22

Net investment hedges

The Group uses a mixture of forward foreign exchange contracts and foreign currency denominated debt to hedge the foreign currency translation risk on its net investment in foreign subsidiaries.

The fair value of the forward contracts used to hedge the Group's net investment in foreign subsidiaries is the amount shown in the table above. The foreign currency denominated debt used to hedge the net investment in the Group's US dollar denominated subsidiaries in the Americas has a fair value equal to its carrying amount, which is included within debt securities issued (see note 30).

Other derivatives held for risk management

The Group uses other derivatives, not designated in a qualifying hedge relationship, to manage its exposure to foreign currency, interest rate, equity market and credit risks. The instruments used include interest rate swaps, cross-currency interest rate swaps, forward contracts, futures, options, credit swaps and equity swaps. The fair values of those derivatives are shown in the table above.

Reference **Notes to the consolidated financial statements**

21. Loans and advances to customers

In millions of Kenya Shillings		**20XX**	**20XX**
IFRS 7.8(a)(i)	Loans and advances to customers at fair value through profit or loss[2]	XXXX	XXXX
	Loans and advances to customers at amortised cost	XXXX	XXXX
		XXXX	XXXX

Loans and advances to customers at amortised cost

In millions of Kenya Shillings	Gross amount	Impairment allowance	Carrying amount	Gross amount	Impairment allowance	Carrying amount
		20XX			20XX	
Retail customers:						
Mortgage lending	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX
Personal loans	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX
Credit cards	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX
Corporate customers:						
Finance leases	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX
Other secured lending	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX
Reverse repos	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX
	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX

Allowances for impairment

In millions of Kenya Shillings		**20XX**	**20XX**
IFRS 7.16	**Specific allowances for impairment**		
	Balance at 1 January	XXXX	XXXX
IFRS 7.20(e)	Impairment loss for the year		
	Charge for the year	XXXX	XXXX
	Recoveries	XXXX	XXXX
	Effect of foreign currency movements	XXXX	XXXX
	Write-offs	XXXX	XXXX
	Balance at 31 December	XXXX	XXXX

21. Loans and advances to customers[1] (continued)

IFRS 7.16	**Collective allowances for impairment**		
	Balance at 1 January	XXXX	XXXX
	Impairment loss for the year		
IFRS 7.20(e)	Charge for the year	XXXX	XXXX
	Balance at 31 December	XXXX	XXXX
	Total allowances for impairment	XXXX	XXXX

Loans and advances to customers at fair value through profit or loss

Loans and advances to customers held by the Corporate banking business have been designated at fair value through profit or loss as the Group manages these loans and advances on a fair value basis in accordance with its investment strategy. Internal reporting and performance measurement of these loans and advances are on a fair value basis.

At 31 December 20XX the maximum exposure to credit risk on loans and advances at fair value through profit or loss was KShs XX million (20XX: KShs XX million). The Group has mitigated the credit risk exposure to these loans and advances by purchasing credit risk protection in the form of credit derivatives. These derivative contracts provided a notional principal protection of KShs XX million (20XX: KShs XX million).

Details of changes in the fair value recognised on these loans and advances and related derivatives on account of credit risk changes are set out below.

	For the year	Cumulative	For the year	Cumulative
	20XX		20XX	
Loans and advances at fair value through profit or loss	XXX	XXX	XXX	XXX
Related credit derivative contracts	XXX	XXX	XXX	XXX

Reference	Notes to the consolidated financial statements			

22. Investment securities[1]

Reference	*In millions of Kenya Shillings*	20XX	20XX
IFRS 7.8(a)(i)	Investment securities at fair value through profit or loss	XXX	XXX
IFRS 7.8(b)	Held-to-maturity investment securities	XXX	XXX
IFRS 7.8(d)	Available-for-sale investment securities	XXX	XXX
		XXX	XXX

Investment securities at fair value through profit or loss[2]

		20XX	20XX
	Corporate bonds	XXX	XXX
	Treasury bonds	XXX	XXX
		XXX	XXX

IFRS 7.21, B5(a) Investment securities have upon initial recognition been designated at fair value through profit or loss when the Group holds related derivatives at fair value through profit or loss, and designation therefore eliminates or significantly reduces an accounting mismatch that would otherwise arise.

Held-to-maturity investment securities

Reference	*In millions of Kenya Shillings*	*Note*	20XX	20XX
	Government bonds		XXX	XXX
	Corporate bonds		XXX	XXX
	Less specific allowances for impairment		XXX	XXX
			XXX	XXX
	Available-for-sale investment securities			
	Government bonds		XXX	XXX
	Corporate bonds		XXX	XXX
	Less specific allowances for impairment		XXX	XXX
			XXX	XXX
IFRS 7.16	**Specific allowances for impairment**			
	Balance at 1 January		XXX	XXX
IFRS 7.20(e)	Impairment loss for the year			
	Charge for the year		XXX	XXX
	Balance at 31 December		XXX	XXX

Reference **Notes to the consolidated financial statements**

23. Property and equipment

Reference	*In millions of Kenya Shillings*	Land and buildings	IT equipment	Fixtures and fittings	Total
IAS 16.73(d), (e)	**Cost**				
	Balance at 1 January 20XX	XXXX	XXXX	XXXX	XXXX
	Acquisitions	XXXX	XXXX	XXXX	XXXX
	Disposals	XXXX	XXXX	XXXX	XXXX
	Balance at 31 December 20XX	XXXX	XXXX	XXXX	XXXX
	Balance at 1 January 20XX	XXXX	XXXX	XXXX	XXXX
	Acquisitions	XXXX	XXXX	XXXX	XXXX
	Disposals	XXXX	XXXX	XXXX	XXXX
	Balance at 31 December 20XX	XXXX	XXXX	XXXX	XXXX
	Depreciation and impairment losses				
	Balance at 1 January 20XX	XXXX	XXXX	XXXX	XXXX
	Depreciation for the period	XXXX	XXXX	XXXX	XXXX
IAS 36.126(a)	Impairment loss	XXXX	XXXX	XXXX	XXXX
	Balance at 31 December 20XX	XXXX	XXXX	XXXX	XXXX
	Balance at 1 January 20XX	XXXX	XXXX	XXXX	XXXX
	Depreciation for the period	XXXX	XXXX	XXXX	XXXX
IAS 36.126(a)	Impairment loss	XXXX	XXXX	XXXX	XXXX
	Balance at 31 December 20XX	XXXX	XXXX	XXXX	XXXX
IAS 1.75(a)	**Carrying amounts**				
	Balance at 1 January 20XX	XXXX	XXXX	XXXX	XXXX
	Balance at 31 December 20XX	XXXX	XXXX	XXXX	XXXX
	Balance at 31 December 20XX	XXXX	XXXX	XXXX	XXXX

IAS 36.129(a), 131 During 20XX and 20XX, the retail banking operations reconsidered their future requirements in relation to certain IT equipment and have recognised an impairment in line with its planned replacement in the near term.

24. Intangible assets[1]

IAS 38.118(c), (e)

In millions of Kenya Shillings	Purchased software	Developed software	Total
Cost			
Balance at 1 January 20XX	XXXX	XXXX	XXXX
Acquisitions	XXXX	XXXX	XXXX
Internal development	XXXX	XXXX	XXXX
Balance at 31 December 20XX	XXXX	XXXX	XXXX
Balance at 1 January 20XX	XXXX	XXXX	XXXX
Acquisitions	XXXX	XXXX	XXXX
Internal development	XXXX	XXXX	XXXX
Balance at 31 December 20XX	XXXX	XXXX	XXXX

24. Intangible assets[1] (continued)

Amortisation and impairment

Reference				
	Balance at 1 January 20XX	XXXX	XXXX	XXXX
	Amortisation for the period	XXXX	XXXX	XXXX
IAS 36.126(a)	Impairment loss	XXXX	XXXX	XXXX
	Balance at 31 December 20XX	XXXX	XXXX	XXXX
	Balance at 1 January 20XX	XXXX	XXXX	XXXX
	Amortisation for the period	XXXX	XXXX	XXXX
IAS 36.126(a)	Impairment loss	XXXX	XXXX	XXXX
	Balance at 31 December 20XX	XXXX	XXXX	XXXX
IAS 38.118(c)	**Carrying amounts**			
	Balance at 1 January 20XX	XXXX	XXXX	XXXX
	Balance at 31 December 20XX	XXXX	XXXX	XXXX
	Balance at 31 December 20XX	XXXX	XXXX	XXXX

IAS 36.129(a), 131 During 20XX and 20XX, the retail banking operations reconsidered their future requirements in relation to customer information software and have recognised an impairment in line with its planned replacement in the near term.

25. Deferred Income tax

Recognised deferred tax assets and liabilities[1, 2]

IAS 12.81(g)(i) Deferred tax assets and liabilities are attributable to the following:

In millions of Kenya Shillings	**Assets**	**Liabilities**	**Net**	**Assets**	**Liabilities**	**Net**
		20XX			**20XX**	
Property and equipment, and software	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX
Available-for-sale securities	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX
Allowances for loan losses	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX
Tax loss carry-forwards	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX
Share-based payments	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX
Other	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX
Net tax assets (liabilities)	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX

25. Deferred tax assets and liabilities (continued)

IAS 12.82A
IAS 12.81(e)

Unrecognised deferred tax assets

Deferred tax assets have not been recognised in respect of the following items:

In millions of Kenya Shillings	20XX	20XX
Tax losses	XXXX	XXXX
	XXXX	XXXX

The tax losses relate to an overseas investment banking subsidiary and expire in 2008. Deferred tax assets have not been recognised in respect of these losses because it is not probable that future taxable profit will be available against which the Group can utilise the benefits therefrom.

Movements in temporary differences during the year[1]

In millions of Kenya Shillings	Opening balance	Recognised in profit or loss	Recognised in equity	Closing balance
20XX				
Property and equipment, and software	XXXX	XXXX	XXXX	XXXX
Available-for-sale securities	XXXX	XXXX	XXXX	XXXX
Allowances for loan losses	XXXX	XXXX	XXXX	XXXX
Tax losses carry-forwards	XXXX	XXXX	XXXX	XXXX
Share-based payments	XXXX	XXXX	XXXX	XXXX
Other	XXXX	XXXX	XXXX	XXXX
	XXXX	XXXX	XXXX	XXXX
20XX				
Property and equipment, and software	XXXX	XXXX	XXXX	XXXX
Available-for-sale securities	XXXX	XXXX	XXXX	XXXX
Allowances for loan losses	XXXX	XXXX	XXXX	XXXX
Tax loss carry-forwards	XXXX	XXXX	XXXX	XXXX
Share-based payments	XXXX	XXXX	XXXX	XXXX
Other	XXXX	XXXX	XXXX	XXXX
	XXXX	XXXX	XXXX	XXXX

IAS 1.74

26. Other assets[2]

Reference	*In millions of Kenya Shillings*	**20XX**	**20XX**
IAS 1.68(h)	Accounts receivable and prepayments	XXXX	XXXX
IAS 1.68(h)	Accrued income	XXXX	XXXX
IAS 7.48	Restricted deposits with central banks	XXXX	XXXX
	Other	XXXX	XXXX
		XXXX	XXXX

IAS 7.48(d), (e) Restricted deposits with central banks are not available for use in the Group's day-to-day operations.

The Group holds some investment property as a consequence of the ongoing rationalisation of its retail branch network. Other properties have been acquired through enforcement of security over loans and advances.

IAS 40.75(d), (e) The carrying amount of investment property is the fair value of the property as determined by a registered independent valuer having an appropriate recognised professional qualification and recent experience in the location and category of the property being values. Fair values were determined having regard to recent market transactions for similar properties in the same location as the Group's investment property.

27. Deposits from banks

In millions of Kenya Shillings	**20XX**	**20XX**
Money market deposits	XXXX	XXXX
Other deposits from banks	XXXX	XXXX
Items in the course of collection	XXXX	XXXX
	XXXX	XXXX

28. Deposits from customers

In millions of Kenya Shillings	**20XX**	**20XX**
Retail customers:		
Term deposits	XXXX	XXXX
Current deposits	XXXX	XXXX
Corporate customers:		
Term deposits	XXXX	XXXX
Current deposits	XXXX	XXXX
Other	XXXX	XXXX
	XXXX	XXXX

29. Provisions

Reference	*In millions of Kenya Shillings*	*Note*	**Redund-ancy**	**Branch closures**	**Onerous contracts**	**Total**
IAS 37.84(a)	Balance at 1 January 20XX		XXXX	XXXX	XXXX	XXXX
IAS 37.84(b)	Provisions made during the year	*14*	XXXX	XXXX	XXXX	XXXX
IAS 37.84(d)	Provisions reversed during the year[2]	*14*	XXXX	XXXX	XXXX	XXXX
IAS 1.75(d)	Recognised liability for defined benefit obligations					XXXX
IAS 37.84(e)	Unwind of discount		XXXX	XXXX	XXXX	XXXX
IAS 37.84(a)	Balance at 31 December 20XX		XXXX	XXXX	XXXX	XXXX

IAS 37.85(a), (b), 1.87(b)

Redundancy

In accordance with the *Delivery Channel Optimisation* plans announced by the Group in November 2004, the Group is in the process of rationalising its retail branch network and related processing functions. The remaining provision relates to other regions and is expected to be used during 2007.

IAS 37.85(a), (b), 1.87(b)

Branch closures

In accordance with the plans announced by the Group in November 2004, the Group is in the process of rationalising the branch network to optimise its efficiency and improve overall services to customers. One part of this plan continues to involve the closure of some branches. Twenty three of the branches outlined on the Group's *Delivery Channel Optimisation Plan* were closed during 20XX and 20XX. The remaining provision relates to the balance of the branches set out in that plan, which will be completed during 2007.

29. Provisions (continued)

IAS 37.85(a), (b)

Onerous contracts

Partly as a result of the Group's restructuring of its retail branch network, the Group is lessee in a number of non-cancellable leases over properties that it no longer occupies. In some cases the rental income from sub-leasing these properties is lower than the rental expense. The present value of the future lease payments less the lease receivables for those properties has been provided for.

30. Other liabilities

Reference	*In millions of Kenya Shillings*	***Note***	**20XX**	**20XX**
IAS 1.75(d)	Liability for long-service leave		XXXX	XXXX
IAS 1.75(d)	Cash-settled share-based payment liability	*13*	XXXX	XXXX
IAS 1.75(d)	Short-term employee benefits		XXXX	XXXX
IAS 1.68(j)	Creditors and accruals		XXXX	XXXX
	Other		XXXX	XXXX
			XXXX	XXXX

Defined benefit obligations[1]

IAS 19.120A(b) The Group makes contributions to a non-contributory defined benefit plans that provide pension and medical benefits for employees upon retirement. Plans entitle a retired employee to receive an annual payment equal to 1/60 of final salary for each year of service the employee provided, and to the reimbursement of certain medical costs.

The amounts recognised in the balance sheet are as follows:

Reference	*In millions of Kenya Shillings*	**20XX**	**20XX**
IAS 19.120A(d), (f)	Present value of unfunded obligations	XXXX	XXXX
IAS 19.120A(d), (f)	Present value of funded obligations	XXXX	XXXX
	Total present value of obligations	XXXX	XXXX
	Fair value of plan assets	XXXX	XXXX
IAS 19.120A(d), (f)	Present value of net obligations	XXXX	XXXX
IAS 19.120A(f)(i)	Unrecognised actuarial gains and losses	XXXX	XXXX
IAS 19.120A(f)	Recognised liability for defined benefit obligations	XXXX	XXXX

30. Other liabilities (continued)

IAS 19.120A(j) Plan assets consist of the following:

Reference	*In millions of Kenya Shillings*	**20XX**	**20XX**
	Equity securities	XXXX	XXXX
	Government bonds	XXXX	XXXX
IAS 19.120A(k)(ii)	Property occupied by the Group	XXXX	XXXX
IAS 19.120A(k)(i)	Bank's own ordinary shares	XXXX	XXXX
		XXXX	XXXX

IAS 19.120A(c) **Movement in the liability for defined benefit obligations**

Reference	*In millions of Kenya Shillings*	**20XX**	**20XX**
	Liability for defined benefit obligations at 1 January	XXXX	XXXX
IAS 19.120(c)(vi)	Benefits paid by the plan	XXXX	XXXX
IAS 19.120A(c)(i), (ii)	Current service costs and interest (see below)	XXXX	XXXX
	Liability for defined benefit obligations at 31 December	XXXX	XXXX

IAS 19.120A(e) **Movement in plan assets**

Reference	*In millions of Kenya Shillings*	**20XX**	**20XX**
	Fair value of plan assets at 1 January	XXXX	XXXX
IAS 19.120A(e)(iv)	Contributions paid into the plan	XXXX	XXXX
IAS 19.120(e)(vi)	Benefits paid by the plan	XXXX	XXXX
IAS 19.120A(e)(i)	Expected return on plan assets	XXXX	XXXX
	Fair value of plan assets at 31 December	XXXX	XXXX

30. Other liabilities (continued)

IAS 19.120A(g) **Expense recognised in profit or loss**[1]

Reference	*In millions of Kenya Shillings*	*Note*	20XX	20XX
IAS 19.120A(g)(i)	Current service costs		XXXX	XXXX
IAS 19.120A(g)(ii)	Interest on obligation		XXXX	XXXX
IAS 19.120A(g)(iii)	Expected return on plan assets		XXXX	XXXX
		13	XXXX	XXXX
IAS 19.120A(m)	Actual return on plan assets		XXXX	XXXX

Actuarial assumptions

IAS 19.120A(n) Principal actuarial assumptions at the reporting date (expressed as weighted averages):[2]

Reference		20XX	20XX
IAS 19.120A(n)(i)	Discount rate at 31 December	XX.X%	XX.X%
IAS 19.120A(n)(ii)	Expected return on plan assets at 1 January	XX.X%	XX.X%
IAS 19.120A(n)(iv)	Future salary increases	XX.X%	XX.X%
IAS 19.120A(n)(v)	Medical cost trend rate	XX.X%	XX.X%
IAS 19.120A(n)(vi)	Future pension increases	XX.X%	XX.X%

IAS 19.120A(n)(vi) Assumptions regarding future mortality are based on published statistics and mortality tables. The average life expectancy of an individual retiring at age 65 is 18 for males and 20 for females.

IAS 19.120A(l) The overall expected long-term rate of return on assets is XX.X percent. The expected long-term rate of return is based on the portfolio as a whole and not on the sum of the returns on individual asset categories. The return is based exclusively on historical returns, without adjustments.

IAS 19.120A(o) Assumed healthcare cost trend rates have a significant effect on the amounts recognised in profit or loss. A one percentage point change in assumed healthcare cost trend rates would have the following effects:

Reference **Notes to the consolidated financial statements**

30. Other liabilities (continued)

		One percentage point increase	One percentage point decrease
IAS 19.120A(o)(i)	Effect on the aggregate service and interest cost	XX	XX
IAS 19.120A(o)(ii)	Effect on defined benefit obligation	XX	XX

IAS 19.120A (p) **Historical information**[3]

	In thousands of Kenya Shillings	20XX	20XX	2004	2003	2002
IAS 19.120A (p)(i)	Present value of the defined benefit obligation	XXXXXXXX	XXXX	XXXX	XXXX	
IAS 19.120A (p)(i)	Fair value of plan assets	XXXX	XXXX	XXXX	XXXX	XXXX
IAS 19.120A (p)(i)	Deficit in the plan	XXXX	XXXX	XXXX	XXXX	XXXX
IAS 19.120A (p)(ii)(A)	Experience adjustments arising on plan liabilities	XXXX	XXXX	XXXX	XXXX	XXXX
IAS 19.120A (p)(ii) (B)	Experience adjustments arising on plan assets	XXXX	XXXX	XXXX	XXXX	XXXX

IAS 19.120A (q) The Group expects to pay εXX million in contributions to defined benefit plans in 2007.

Reference **Notes to the consolidated financial statements**

31. Statement of changes in equity

IAS 1.76(a)(iv)

Share capital and share premium

In millions of shares	Ordinary shares 20XX	20XX	Perpetual bonds 20XX	20XX
On issue at 1 January	XXXX	XXXX	XXXX	XXXX
Exercise of share options	XXXX	XXXX	XXXX	XXXX
IAS 1.76(a)(ii) On issue at 31 December	XXXX	XXXX	XXXX	XXXX

The Group has also issued employee share options (see note 13).

IAS 1.76(a)(i), (iii)

At 31 December 20XX the authorised share capital comprised XX billion ordinary shares (20XX: XX billion), XXX million thousand perpetual bonds (20XX: XXX million) and XXX million redeemable preference shares (20XX: XXX million). All of these instruments have a par value of ε1. All issued shares are fully paid.

IAS 1.76(a)(v)

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Bank. Holders of perpetual bonds receive a non-cumulative discretionary coupon of X.X percent. Perpetual bonds and preference shares do not carry the right to vote. All shares rank equally with regard to the Bank's residual assets, except that perpetual bondholders and preference shareholders participate only to the extent of the face value of the shares plus any accrued coupon / dividends.

Translation reserve

IAS 1.76(b)

The translation reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations as well as from the translation of liabilities that hedge the Bank's net investment in foreign operations.

Fair value reserve

IAS 1.76(b)

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

Dividends

IAS 1.95

The following dividends were declared and paid by the Group for the year ended 31 December:

In millions of Kenya Shillings	20XX	20XX
ε0.15 per ordinary share (20XX: ε0.15)	XXXX	XXXX
	XXXX	XXXX

IAS 1.125(a), 10.13, 12.81(i)

After 31 December 20XX the following dividends were proposed by the directors in respect of 20XX. The dividends have not been provided for and there are no income taxes consequences.[1]

In millions of Kenya Shillings	
ε0.15 per ordinary share	XXXX
	XXXX

Reference **Notes to the consolidated financial statements**

32. Off balance sheet contingencies and commitments[2]

Group and company

In the ordinary course of business, the Group conducts business involving guarantees, acceptances and performance bonds. These facilities are offset by corresponding obligations of third parties. At the year end, the contingencies were as follows:

In millions of Kenya Shillings	***Note***	**20XX**	**20XX**
Guarantees and standby letters of credit		XXXX	XXXX
Letters of credit, acceptances and other documentary credits		XXXX	XXXX
Performance bonds and warranties		XXXX	XXXX
		XXXX	XXXX

Derivatives/commitments were as follows:

Forward foreign exchange contract amounts		XXXX	XXXX

Nature of contingent liabilities

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

Letters of credit commit the Bank to make payment to third parties, on production of documents, which are subsequently reimbursed by customers.

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

Forward foreign exchange contracts are commitments to either purchase or sell a designated financial instrument at a specified future date for a specified price and may be settled in cash or another financial asset. The fair values of the respective currency forwards are carried under other assets and other liabilities as appropriate.

IAS 17.35 **Operating leases**

Non-cancellable operating lease rentals are payable as follows:

In millions of Kenya Shillings	**20XX**	**20XX**
Less than one year	XXXX	XXXX
Between one and five years	XXXX	XXXX
More than five years	XXXX	XXXX
	XXXX	XXXX

IAS 17.35(d) The Group leases a number of branch and office premises under operating leases. The leases typically run for a period of up to XX years, with an option to renew the lease after that date. Lease payments are increased every three to five years to reflect market rentals.

33. Other contingencies

IAS 37.86(a), (b)

A subsidiary is defending an action brought by a consumer rights organisation in Kenya in relation to the marketing of specific pension and investment products from 1992 to 1997. While liability is not admitted, if defence against the action is unsuccessful, fines and legal costs could amount to KShs XX million. Based on legal advice, the directors do not expect the outcome of the action to have a material effect on the Group's financial position.

34. Group entities

IAS 24.12

Significant subsidiaries[1]

	Ownership interest 20XX	Ownership interest 20XX
XYX Limited	XX%	XX%
PQ Limited	XX%	XX%

35. Related parties

IAS 24.17

Transactions with key management personnel

Key management personnel and their immediate relatives have transacted with the Group during the period as follows:

IAS 124.17(a), (b)

In millions of Kenya Shillings	20XX Maximum balance	20XX Closing balance	20XX Maximum balance	20XX Closing balance
Mortgage lending and other secured loans	XXXX	XXXX	XXXX	XXXX
Credit card	XXXX	XXXX	XXXX	XXXX
Other Loans	XXXX	XXXX	XXXX	XXXX
	XXXX	XXXX	XXXX	XXXX

Interest rates charged on balances outstanding are a quarter of the rates that would be charged in an arm's length transaction. The mortgages and secured loans granted are secured over property of the respective borrowers. Other balances are not secured and no guarantees have been obtained.

No impairment losses have been recorded against balances outstanding during the period with key management personnel, and no specific allowance has been made for impairment losses on balances with key management personnel and their immediate relatives at the period end.

Key management personnel compensation for the period comprised:[1]

In millions of Kenya Shillings	20XX	20XX
Short-term employee benefits	XXXX	XXXX
Long-service leave	XXXX	XXXX
Post-employment benefits	XXXX	XXXX
Share-based payments	XXXX	XXXX
	XXXX	XXXX

In addition to their salaries, the Group also provides non-cash benefits to directors and executive officers, and contributes to a post-employment defined benefit plan on their behalf. In accordance with the terms of the plan, directors and executive officers retire at age 60 and are entitled to receive annual payments equivalent to 70 percent of their salary at the date of retirement until the age of 65, at which time their entitlement falls to 50 percent of their salary at the date of retirement.

Executive officers also participate in the Group's share option programme (see note 13).

Reference

Notes to the consolidated financial statements

35. Related parties[2] (continued)

In millions of Kenya Shillings	**20XX**	**20XX**
(a) Loans and advances to employees		
Balance at 1 January	XXXX	XXXX
Loans advanced during the year	XXXX	XXXX
Loans repayments received	XXXX	XXXX
Balance at 31 December	XXXX	XXXX

Interest earned on staff loans during the year amounted to KShsXXXXX (20XX – ShsXXXXX).

(b) Loan and advances to directors and their associates

The Group has entered into transactions with its directors and their associates as follows:

Reference	*In millions of Kenya Shillings*	**20XX**	**20XX**
	Gross amount at 1 January	XXXX	XXXX
	Interest charged	XXXX	XXXX
	Loans disbursed	XXXX	XXXX
Cos Act.	Fees /Cash received for service as directors	XXXX	XXXX
	Other emoluments (included in the key management compensation above)	XXXX	XXXX
	Net movement in overdraft balances	XXXX	XXXX
	Net amount at 31 December	XXXX	XXXX

Included in loans and advances is KShsXXXXX (20XX – KShsXXXXX) advanced to companies where relationship exists by virtue of shareholding and/or representation in the respective companies board of directors. The companies in which the group is a shareholder are set out under Note 14. The advances are at arms length in the ordinary course of business and are adequately secured.

The related interest income in 2007 was KShsXXXXX (20XX – KShsXXXXX).

(c) Included in deposits is KShsXXXXX (20XX – KShsXXXXX) due to a subsidiary company. Interest paid on these deposits during the year amounted to KShsXXXXX (20XX – KShsXXXXX).

(d) All the transactions with the related parties have been entered into in the normal course of business.