



Kenya Bank Plc
Annual report and financial statements
For the year ended 31 December 2018

INTRODUCTION

This publication provides an illustrative set of financial statements prepared in accordance with International Financial Reporting Standards and the reporting requirements of the Kenya Companies Act, 2018 for accounting periods beginning on or after 1 January 2018 for a fictitious listed Kenyan Bank with subsidiaries. The presentation format in the illustrative financial statements is not 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.

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 8 Accounting policies, changes in accounting estimates and errors
- IAS 20 Accounting for government grants and disclosures of government assistance
- IAS 26 Accounting and reporting by retirement benefits plans
- IAS 28 Investments in associates and joint ventures
- IAS 29 Financial reporting in hyperinflationary economies.
- IAS 34 Interim financial reporting
- IAS 41 Agriculture
- IAS 40 Investment property
- 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
- IFRS 11 Joint arrangements
- IFRS 14 Regulatory Deferral Accounts
- IFRS 16 Leases (not yet effective)
- IFRS 17 Insurance Contracts (not yet effective)

Each item in the illustrative financial statements is referenced (on the left) to the applicable requirements of IFRS and the Kenyan Companies Act, 2015. The following reference format has been used in this document:

- *IAS 1.120(a): refers to International Accounting Standard 1, paragraph 120(a)*
- *IFRS 7.21: refers to International Financial Reporting Standard 7, paragraph 21*
- *CAs653: refers to the reporting requirements in section 653 of the Kenyan Companies Act, 2018 BP: refers to best reporting practice adopted in Kenya*
- *DV: disclosure is voluntary*

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

Kenya Bank Plc
Report of directors
For the year ended 31 December 2018

CAs653 The directors submit their report together with the audited financial statements for the year ended 31 December 2018.

CAs654(1) Principal activities

IAS 1.138(b) The principal activities of the Company and the group is provision of retail and corporate banking services.

Recommended dividend

CAs654(3) The directors recommend the approval of a final dividend of KShs (2017: KShs). **[Or]**
The directors do not recommend the declaration of a dividend for the year.

Business review

CAs655(3) ***[This section shall include: (a) a fair review of the company's business; and (b) a description of the principal risks and uncertainties facing the company. It should be a balanced and comprehensive analysis of the development and performance of the business of the company during the company's financial year and the financial position of the company at the end of the year, consistent with the size and complexity of the business.]***

CAs655(6) ***[The review should include (to the extent necessary for an understanding of the development, performance or position of the company's business): (a) an analysis using financial key performance indicators; (b) if appropriate, an analysis using other key performance indicators (including information relating to environmental matters and employee matters); and (c) references to, and additional explanations of, amounts included in the company's annual financial statements.]***

Directors

CAs654(1) The directors who held office during the year and to the date of this report are as follows:

XXXXX

XXXXX

XXXXXX

Statement as to disclosure to the Company's auditor

CAs657(2) With respect to each director at the time this report was approved:

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

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

CAs725 Terms of appointment of the auditor

[Name of audit firm] continues in office in accordance with the company's Articles of Association and Section 719 of the Companies Act, 2018. The directors monitor the effectiveness, objectivity and independence of the auditor. The directors also approve the annual audit engagement contract which sets out the terms of the auditor's appointment and the related fees. The agreed auditor's remuneration of KShs xxx has been charged to profit or loss in the year. ***[Regulations in respect of this disclosure are yet to be issued by the Cabinet Secretary.]***

By order of the board

Company Secretary

Nairobi 2019

Kenya Bank Plc
Directors' remuneration report
For the year ended 31 December 2018

The Chairperson of the Board remuneration committee is required to present a statement of the directors' remuneration covering the matters set out below.

Information not subject to audit

- 1) The company's remuneration policy and strategy
 - overall policy and strategy for remuneration of directors
 - terms of service for the directors, including notice period and termination payments under the contract
 - nature and elements of the directors remuneration, including performance terms and conditions
 - performance conditions for entitlement to any share option arrangements or long term incentive schemes
 - methods used in assessing the performance conditions
 - a description of, and an explanation for, any significant amendment proposed to be made to the terms and conditions of any entitlement of director to share options or under a long term incentive scheme
 - an explanation why an entitlement of a director to share options, or under a long term incentive scheme, is not subject to performance conditions
- 2) Commentary on significant changes to directors remuneration
 - *the major decisions on directors' remuneration;*
 - *any substantial changes relating to directors' remuneration made during the year; and*
 - *the context in which the change above occurred and decisions taken thereto*
- 3) Statement of voting on the directors' remuneration report at the previous AGM
 - *in respect of a resolution to approve the director's remuneration report, the percentage of votes cast for and against and the number of votes withheld;*
 - *in respect of a resolution to approve the directors remuneration policy, the percentage of votes cast for and against and the number of votes withheld; and*
 - *in respect of the last general meeting at which a resolution of the following kind was moved by the company.*
 - *Where there was a significant percentage of votes against either resolution under (a) or (b), a summary of the reasons for those votes, as far as known to the directors, and any actions taken by the directors in response to those concerns.*

Kenya Bank Plc
Directors' remuneration report
For the year ended 31 December 2018

Information subject to audit

The following table shows the remuneration for the Executive Directors, Chairman and Non-Executive directors in respect of qualifying services for the year ended 31 December 2018 together with the comparative figures for 2017. The aggregate directors' emoluments are shown on page XX.

| | Salary | Fees | Bonuses | Allowances | Loss of office | Estimated value for non-cash benefits** | Total |
|------------------------------------|---------|---------|---------|------------|----------------|---|---------|
| | Shs 000 | Shs 000 | Shs 000 | Shs 000 | Shs 000 | Shs 000 | Shs 000 |
| Year ended 31 December 2017 | | | | | | | |
| Director 1 - Executive | XX | XX | XX | XX | XX | XX | XX |
| Director 2 - Executive | XX | XX | XX | XX | XX | XX | XX |
| Director 3 - Chairman | - | - | XX | XX | XX | XX | XX |
| Director 4 | - | - | XX | XX | XX | XX | XX |
| | | | | | | | XX |
| | | | | | | | XX |
| | | | | | | | XX |
| | XX | XX | XX | XX | XX | XX | XX |
| Year ended 31 December 2018 | | | | | | | |
| Director 1 - Executive | XX | | XX | XX | XX | XX | XX |
| Director 2 - Executive | XX | | XX | XX | XX | XX | XX |
| Director 3 - Chairman | - | | XX | XX | XX | XX | XX |
| Director 4 | - | | XX | XX | XX | XX | XX |
| | | | | | | | XX |
| | | | | | | | XX |
| | | | | | | | XX |
| | XX | | XX | XX | XX | XX | XX |

**the directors' report shall state the nature of any element of a remuneration package which is not cash

Kenya Bank Plc
Directors' remuneration report
For the year ended 31 December 2018

Share option scheme

| | 2018 Shs 000 | 2017 Shs 000 |
|------------------------|-------------------------------|-------------------------------|
| Director 1 - Executive | XX | XX |
| Director 2 - Executive | XX | XX |
| Director 3 - Chairman | - | XX |
| Director 4 | - | XX |
| Director 5 | - | XX |
| Director 6 | - | XX |
| Director 7 | - | XX |
| | <hr/> | <hr/> |
| | XX | XX |
| | <hr/> | <hr/> |

[The following share option information should be disclosed and shown as audited]

- a) *The number of shares subject to a share option*
 - (i) *At the beginning of the relevant financial year or if later, the date the director was appointed; and*
 - (ii) *At the end of the relevant financial year of if earlier, the date the director ceased to be one;*
- b) *The share options –*
 - (i) *Awarded;*
 - (ii) *Exercised;*
 - (iii) *Unexercised and have expired; and*
 - (iv) *Whose terms and conditions have been varied; in that relevant year/*
- c) *The unexpired share option at any time in the relevant financial year including*
 - (i) *The price paid for the award;*
 - (ii) *The date from which the option may be exercised; and*
 - (iii) *The date on which the option expires*
- d) *A description of any variation made in the relevant financial year in relation to the terms and conditions of the share option;*
- e) *A summary of any performance criteria upon which the award or exercise of a share option is conditional, including a description of any variation made in such performance criteria during the year;*
- f) *The market price of the share, at the time which each share option is exercised during the relevant financial year and*
- g) *For each unexpired share option at the end of the financial year, -*
 - (i) *The market price; and*
 - (ii) *The highest and lowest market prices during that year, of each share that is subject to the option]*

Kenya Bank Plc
Directors' remuneration report
For the year ended 31 December 2018

Long term incentives

| | 2018 | 2017 |
|------------------------|----------------|----------------|
| | Shs 000 | Shs 000 |
| Director 1 – Executive | XX | XX |
| Director 2 – Executive | XX | XX |
| Director 3 – Chairman | - | XX |
| Director 4 | - | XX |
| Director 5 | - | XX |
| Director 6 | - | XX |
| Director 7 | - | XX |
| | <hr/> | <hr/> |
| | XX | XX |
| | <hr/> | <hr/> |

[The following information on long term incentive schemes are to be provided and shown as audited:

- a) details of the scheme interest that the director has at the beginning of the relevant financial year or if later on the date of appointment as a director of the company;*
- b) details of the scheme interests awarded to the director during the year*
- c) the details of the scheme interest that the director has at the end of the financial year or if earlier on the cessation of the director of the company*
- d) for each scheme interest the following information should be disclosed*
 - i. the end of the period over which the qualifying conditions for that interest have to be fulfilled*
 - ii. a description of any variation made in the terms and conditions of the scheme interests during the financial year*
- e) for each scheme that has vested in the relevant financial year*
 - i. the relevant details of shares;*
 - ii. the amount of money; and*
 - iii. the value of other assets that have become receivable in respect of the interest]*

Pension related benefits

| | 2017 | 2016 |
|------------------------|----------------|----------------|
| | Shs 000 | Shs 000 |
| Director 1 - Executive | XX | XX |
| Director 2 - Executive | XX | XX |
| Director 3 - Chairman | - | XX |
| Director 4 | - | XX |
| Director 5 | - | XX |
| Director 6 | - | XX |
| Director 7 | - | XX |
| Director 8 | - | XX |
| | <hr/> | <hr/> |
| | XX | XX |
| | <hr/> | <hr/> |

*[*The directors remuneration report shall contain, for a director of the company who has served during the financial year and has rights under a pension scheme that is a defined benefit scheme the following information on their pension-*

- a) Provide details of the pension arrangement and any changes to those arrangements during the year*
- b) Provide details on the management of the assets and financial affairs of the pension scheme]*

Kenya Bank Plc
Directors' remuneration report
For the year ended 31 December 2018

Compensation for past directors

[The directors' remuneration report shall contain details of any significant award, made in the relevant financial year to any person who was not a director of the company at the time the award was made but had previously been a director of the Company.]

The details of the award shall include the compensation in respect of loss of office and pensions but excluding any sums which have already been shown in the detailed disclosures above]

In XX XX 2017, the Company agreed to make a one-off payment to *[Name of director]* (a former Non-Executive Director of the Company from 200X – 2017) of Shs XX,XXX. This payment was made in respect of service as the Group's nominee director of XX Limited (an associate undertaking of the Group) which position he vacated for personal reasons in XX 2017. *[and/or]*

The Company did not make *[(1) any other payments of money or other assets to former Directors; or (2) any payments to Directors for loss of office during the year ended 30 June 2017]. [Tailor as appropriate].*

Sums paid to third parties in respect of a director's services – audited

[The directors' remuneration report shall contain, in respect of each person who served as a director of the company at any time during the financial year, the aggregate amount of consideration paid to or receivable by third parties for making available the services of the person –

- a) as a director of the company, or*
- b) while a director of the company –*
 - i. as a director of any of its subsidiary undertakings, or*
 - ii. as a director of any other undertaking of which he was a director by virtue of the company's nomination (direct or indirect), or*
 - iii. dealt with the management of the affairs of the company or any such other undertaking]*

The following directors are considered third party and served the Company in capacity as directors during the financial year:

| | 2018 Shs'000 | 2017 Shs'000 |
|----|-------------------------------|-------------------------------|
| XX | XX | XX |
| XX | XX | XX |
| | <hr/> | <hr/> |
| | XX | XX |
| | <hr/> | <hr/> |

On behalf of the Board

_____ (signature)

[Name of Director]

Chairman, Remuneration Committee

_____ 2019

Kenya Bank Plc
Statement of directors' responsibilities
For the year ended 31 December 2018

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

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

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

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

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

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

Director

Director

REPORT OF THE INDEPENDENT AUDITOR TO THE SHAREHOLDERS OF KENYA BANK Plc

Report on the audit of the financial statements

Opinion

We have audited the accompanying consolidated separate financial statements of Kenya Bank Plc (the Company) and the consolidated financial statements of the Company and its subsidiaries (together, the Group) set out on pages 12 to 91, which each comprise a balance sheet at 31 December 2017 and statements of profit or loss, Comprehensive income, changes in equity, and cash flows for the year then ended, and notes, including a summary of significant accounting policies.

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

Basis for opinion

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

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

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

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

| Key audit matter | How our audit addressed the matter |
|-----------------------------------|------------------------------------|
| [Title of KAM 1] [Description] | [Description] |
| [Title of KAM 2] [Description] | [Description] |

Other information

The directors are responsible for the other information. The other information comprises the information included in the annual report but does not include the financial statements and our auditor's report thereon. *[Amend as appropriate depending on whether other information was received before or after the report signing date – refer to ISA 720 illustrative examples]*

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

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

Responsibilities of management and those charged with governance for the financial statements

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

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

Auditor's responsibilities for the audit of the financial statements

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

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

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

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

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

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

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

Report of the directors

In our opinion the information given in the report of the directors on pages 2 is consistent with the financial statements.

[Where the information in the directors' report is not consistent with the financial statements, the auditor should provide the details of the inconsistencies]

[If, in reporting on the financial statements, the auditor forms an opinion that:

The company has not kept adequate accounting records or returns adequate for the audit have not been received from the branches not visited; or

The financial statements are not in agreement with the company's accounting records

The auditor shall state that in their report.]

CA 728

CA 730

Directors' remuneration report

In our opinion the auditable part of the directors' remuneration report on page 3 to 7 has been properly prepared in accordance with the Kenyan Companies Act, 2015.

[Signature of the firm]

**Certified Public Accountants
Nairobi**

-----**2019**

**CPA [Partner Name], Practising certificate No. XXX
Signing partner responsible for the independent audit**

Note: The auditor's report should be signed in the name of the audit firm. The personal signature of the partner responsible for the report is not required.

Kenya Bank Plc
Financial statements
For the year ended 31 December 2018

| Consolidated statement of profit or loss | | | | |
|---|--|-------------|--------------|-------------|
| For the year ended 31 December | | | | |
| <i>Reference</i> | | <i>Note</i> | 2018 | 2017 |
| <i>IAS 1.10(b), (10A)</i> | | | Shs'millions | Shs'million |
| <i>IAS 1.51(c),(e)</i> | | | | |
| <i>IAS 1.113</i> | | | | |
| <i>IFRS 7.20(b)</i> | Interest income | 8 | | |
| <i>IFRS 7.20(b)</i> | Interest expense | 8 | | |
| | Net interest income | | | |
| <i>IFRS 7.20(c)</i> | Fee and commission income | 9 | | |
| <i>IFRS 7.20(c)</i> | Fee and commission expense | 9 | | |
| | Net fee and commission income | | | |
| <i>IFRS 7.20(a)</i> | Net trading income | 10 | | |
| <i>IFRS 7.20(a)</i> | Net income from financial instruments carried at fair value through profit or loss | 11 | | |
| <i>IAS 1.82(ba)</i> | Credit impairment losses | 21 | | |
| <i>IAS 1.82(aa)</i> | Net gains/(losses) on derecognition of financial assets measured at amortised cost | | | |
| <i>IFRS 7.20(a)</i> | Other operating income | 12 | | |
| | Net other operating income | | | |
| <i>IAS 1.99</i> | Personnel costs | 13 | | |
| <i>IAS 17.35(c)</i> | Operating lease expenses | | | |
| <i>IAS 1.99</i> | Depreciation of property, plant, and equipment | 23 | | |
| <i>IAS 1.99, 38.118(d)</i> | Amortisation of intangible assets | 24 | | |
| <i>IAS 1.99</i> | Other operating expenses | 14 | | |
| <i>IAS 1.85</i> | Profit before income tax | | | |
| <i>IAS 1.82(d), 12.77</i> | Income tax expense | 15 | | |
| <i>IAS 1.81 A(a)</i> | Profit for the year | | | |
| | Profit attributable to: | | | |
| <i>IAS 1.81 B(a)(ii)</i> | Equity holders of the Bank | | | |
| <i>IAS 1.81 B(a)(i)</i> | Non-controlling interest | | | |
| | Earnings per share (Shs per share): | 16 | | |
| | Basic and diluted | | | |

Kenya Bank Plc
Financial statements
For the year ended 31 December 2018

Reference

IAS 1.10A

Consolidated statement of comprehensive income

For the year ended 31 December

Notes

2018
Shs'millions

2017
Shs'millions

IAS 1.81A(a)

Profit for the year

Other comprehensive income, net of income tax

IAS 1.82A

Items that will not be reclassified to profit or loss

IFRS 9-B5.7.1

Net gains/(losses) on investments in equity instruments measured at FVOCI

- (n/a)

IAS19.93B

Remeasurements of post-employment benefit obligations

31

IAS 1.91

Income tax expense relating to the above items

IAS 1.82A

Items that may be subsequently reclassified to profit or loss when specific conditions are met

IFRS7.20 (a) ii

Fair value changes in available-for-sale assets

- (n/a)

IFRS 9-B5.7.1A

Net gains/(losses) on investments in financial instruments measured at FVOCI

- (n/a)

IFRS 9-B5.7.1A

Net loss on financial assets measured at FVOCI reclassified to profit or loss

- (n/a)

IAS 21.52(b)

Foreign currency translation differences

IAS 1.91

Income tax expense relating to the above items

Other comprehensive income for the year, net of income tax

Total comprehensive income for the year

Attributable to:

IAS 1.81 B(b)(ii)

Equity holders of the Bank

IAS 1.81(b)(i)

Non-controlling interest

Total comprehensive income for the year

Kenya Bank Plc
Financial statements
For the year ended 31 December 2018

| Reference | | Bank statement of profit or loss | | |
|-------------------------------|--|---|--------------|-------------|
| <i>IAS 1.10(b), (10A)</i> | | For the year ended 31 December | | |
| <i>IAS 1.51(c),(e)</i> | | Note | 2018 | 2017 |
| <i>IAS 1.113</i> | | | Shs'millions | Shs'million |
| <i>IFRS 7.20(b)</i> | Interest income | 8 | | |
| <i>IFRS 7.20(b)</i> | Interest expense | 8 | | |
| | Net interest income | | | |
| <i>IFRS 7.20(c)</i> | Fee and commission income | 9 | | |
| <i>IFRS 7.20(c)</i> | Fee and commission expense | 9 | | |
| | Net fee and commission income | | | |
| <i>IFRS 7.20(a)</i> | Net trading income | 11 | | |
| <i>IFRS 7.20(a)</i> | Net income from financial instruments carried at fair value through profit or loss | 10 | | |
| <i>IAS 1.82(ba)</i> | Credit impairment losses | 21 | | |
| <i>IAS 1.82(aa)</i> | Net gains/(losses) on derecognition of financial assets measured at amortised cost | | | |
| <i>IFRS 7.20(a)</i> | Other operating income | 12 | | |
| | Net other operating income | | | |
| <i>IAS 1.99</i> | Personnel costs | 13 | | |
| <i>IAS 17.35(c)</i> | Operating lease expenses | | | |
| <i>IAS 1.99</i> | Depreciation of property, plant, and equipment | 23 | | |
| <i>IAS 1.99, 38.118(d)</i> | Amortisation of intangible assets | 24 | | |
| <i>IAS 1.99</i> | Other operating expenses | 14 | | |
| <i>IAS 1.85</i> | Profit before income tax | | | |
| <i>IAS 1.82(d), 12.77</i> | Income tax expense | 16 | | |
| <i>IAS 1.81 A(a)</i> | Profit for the year | | | |
| | Profit attributable to: | | | |
| <i>IAS 1.81 B(a)(ii)</i> | Equity holders of the Bank | | | |
| <i>IAS 1.81 B(a)(i)</i> | Non-controlling interest | | | |

Kenya Bank Plc
Financial statements
For the year ended 31 December 2018

Reference

IAS 1.10A

Bank statement of comprehensive income

For the year ended 31 December

Notes

2018
Shs'millions

2017
Shs'millions

IAS 1.81A(a)

Profit for the year

Other comprehensive income, net of income tax

IAS 1.82A

Items that will not be reclassified to profit or loss

IFRS 9-B5.7.1

Net gains/(losses) on investments in equity instruments measured at FVOCI

- (n/a)

IAS19.93B

Remeasurements of post-employment benefit obligations

31

IAS 1.91

Income tax expense relating to the above items

IAS 1.82A

Items that may be subsequently reclassified to profit or loss when specific conditions are met

IFRS7.20 (a) ii

Fair value changes in available-for-sale assets

- (n/a)

IFRS 9-B5.7.1A

Net gains/(losses) on investments in financial instruments measured at FVOCI

- (n/a)

IFRS 9-B5.7.1A

Net loss on financial assets measured at FVOCI reclassified to profit or loss

- (n/a)

IAS 21.52(b)

Foreign currency translation differences

IAS 1.91

Income tax expense relating to the above items

Other comprehensive income for the year, net of income tax

Total comprehensive income for the year

Kenya Bank Plc
Financial statements
For the year ended 31 December 2018

| Reference | Consolidated balance sheet | | | |
|------------------|---|-------------|-------------|--------------|
| | At 31 December | | | |
| 38, 113 | | Note | 2018 | 2017 |
| | Assets | | Shs'million | Shs'millions |
| IAS 1-54(i) | Cash and balances with central bank | 18 | | |
| IFRS 7-8(a)(iii) | Trading assets | 19 | | |
| IAS 1-55 | Investment securities | 20 | | |
| IFRS 7-8(f) | Loans and advances to banks | | | |
| IFRS 7-8(f) | Loans and advances to customers | 21 | | |
| IAS 1-55 | Other assets and prepayments | 22 | | |
| IAS 1-54(a) | Property and equipment | 23 | | |
| IAS 1-54(c) | Intangible assets | 24 | | |
| IAS 1-54 (o)) | Deferred income tax | 25 | | |
| | Total assets | | | |
| | Liabilities | | | |
| IFRS 7-8(g) | Deposits from banks | 26 | | |
| IFRS 7-8(g) | Deposits from customers | 27 | | |
| IFRS 7-8(e)(iii) | Trading liabilities | 19 | | |
| IAS 1-55 | Other liabilities and accrued expenses | 28 | | |
| IAS 1-54(m) | Borrowings | 29 | | |
| IAS 1-54(l) | Provisions for liabilities | 30 | | |
| IAS 1-54(n) | Current income tax | | | |
| IAS 1-78(d) | Retirement benefits obligations | 31 | | |
| | Total liabilities | | | |
| | Equity | | | |
| IAS 1-54(r) | Share capital | 32 | | |
| IAS 1-78 (e) | Share premium | 32 | | |
| IAS 1-55 | Regulatory reserve | 33 | | |
| IAS 1-55 | Other reserves | 34 | | |
| IAS 1-55 | Retained earnings | | | |
| IAS 1-54(r) | Total equity attributable to equity holders of the Bank | | | |
| IAS 1-54(q) | Non-controlling interest | | | |
| | Total equity | | | |
| | Total liabilities and equity | | | |

CA 652 The financial statements on pages 12 to 91 were approved for issue by the board of directors on _____ 2019 and were signed on its behalf by:

Director

Director

Director

Secretary

Kenya Bank Plc
Financial statements
For the year ended 31 December 2018

| Reference | | Bank balance sheet | | |
|-------------------------------------|---|---------------------------|-------------|--------------|
| | | At 31 December | | |
| | | Note | 2018 | 2017 |
| | | | Shs'million | Shs'millions |
| | Assets | | | |
| IAS 1-54(i) | Cash and balances with central bank | 18 | | |
| IFRS 7-8(a)(ii) | Trading assets | 19 | | |
| IAS 1-55 | Investment securities | 20 | | |
| IFRS 7-8(f) | Loans and advances to banks | | | |
| IFRS 7-8(f) | Loans and advances to customers | 21 | | |
| IAS 1-55 | Other assets and prepayments | 22 | | |
| IAS 1-54(a) | Property and equipment | 23 | | |
| IAS 1-54(c) | Intangible assets | 24 | | |
| IAS 1-54 (o)) | Deferred income tax | 25 | | |
| Total assets | | | | |
| | Liabilities | | | |
| IFRS 7-8(g) | Deposits from banks | 26 | | |
| IFRS 7-8(g) | Deposits from customers | 27 | | |
| IFRS 7-8(e)(ii) | Trading liabilities | 19 | | |
| IAS 1-55 | Other liabilities and accrued expenses | 28 | | |
| IAS 1-54(m) | Borrowings | 29 | | |
| IAS 1-54(l) | Provisions for liabilities | 31 | | |
| IAS 1-54(n) | Current income tax | | | |
| IAS 1-78(d) | Retirement benefits obligations | 31 | | |
| Total liabilities | | | | |
| | Equity | | | |
| IAS 1-54(r) | Share capital | 32 | | |
| IAS 1-78 (e) | Share premium | 32 | | |
| IAS 1-55 | Regulatory reserve | 33 | | |
| IAS 1-55 | Other reserves | 34 | | |
| IAS 1-55 | Retained earnings | | | |
| IAS 1-54(r) | Total equity attributable to equity holders of the Bank | | | |
| IAS 1-54(q) | Non-controlling interest | | | |
| Total equity | | | | |
| Total liabilities and equity | | | | |

CA 652 The financial statements on pages 7 to 84 were approved for issue by the board of directors on _____ 2016 and were signed on its behalf by:

Director

Director

Director

Secretary

Kenya Bank Plc
Financial statements
For the year ended 31 December 2018

| Reference | Consolidated statement of changes in equity For the year ended 31 December 2018 <i>In millions of Kenya Shillings</i> | Attributable to equity holders of the Bank | | | | | Non-controlling Total interest | Total equity |
|-------------------|---|--|------------------|-------------------|-----------------------|----------------------|-----------------------------------|-----------------|
| | | Share capital | Share premium | Other reserves | Regulatory reserve | Retained earnings | | |
| | At 1 January 2017 | | | | | | | |
| | Total comprehensive income for the year | | | | | | | |
| IAS 1-106(d)(i) | Profit for the year | | | | | | | |
| IAS 1-106 | Other comprehensive income, net of tax | | | | | | | |
| IAS 1-106(a) | Total comprehensive income for the year | | | | | | | |
| | Transfers in regulatory reserve | | | | | | | |
| IAS 1-106(d)(iii) | Transactions with owners, recorded directly in equity | | | | | | | |
| | Dividends to equity holders | | | | | | | |
| | Dividends to non-controlling interests | | | | | | | |
| | Issue of bonus shares | | | | | | | |
| | Total transactions with owners | | | | | | | |
| | At 31 December 2017 | | | | | | | |
| | At 1 January 2018 | | | | | | | |
| IAS 1-106(b) | Changes on initial application of IFRS 9 (Note 2.1 (c)(ii)) | | | | | | | |
| | Restated balance at 1 January 2018 | | | | | | | |
| IAS 1-106(d)(i) | Profit for the year | | | | | | | |
| IAS 1-106(d) | Other comprehensive income, net of tax | | | | | | | |
| IAS 1-106(a) | Total comprehensive income for the year | | | | | | | |
| | Transfers in regulatory reserve | | | | | | | |
| IAS 1-106(d)(iii) | Transactions with owners, recorded directly in equity | | | | | | | |
| | Dividends to equity holders | | | | | | | |
| | Dividends to non-controlling interests | | | | | | | |
| | Proceeds from issue of shares | | | | | | | |
| | Total transactions with owners | | | | | | | |
| | Balance at 31 December 2018 | | | | | | | |

Kenya Bank Plc
Financial statements
For the year ended 31 December 2018

Reference Bank statement of changes in equity

For the year ended 31 December 2018

In millions of Kenya Shillings

| | Share capital | Share premium | Other reserves | Regulatory reserve | Retained earnings | Total |
|------------------------|--|---------------|----------------|--------------------|-------------------|-------|
| | At 1 January 2017 | | | | | |
| | Total comprehensive income for the year | | | | | |
| IAS 1-106(d)(i) | Profit for the year | | | | | |
| IAS 1-106(d) | Other comprehensive income, net of tax | | | | | |
| IAS 1-106(a) | Total comprehensive income for the year | | | | | |
| | Transfers in regulatory reserve | | | | | |
| IAS 1-106(d)(iii) | Transactions with owners, recorded directly in equity | | | | | |
| | Dividends to equity holders | | | | | |
| | Issue of bonus shares | | | | | |
| | Total transactions with owners | | | | | |
| | At 31 December 2017 | | | | | |
| | At 1 January 2018 | | | | | |
| IAS 1-106(b) | Changes on initial application of IFRS 9 (Note 2.1 (c)(ii)) | | | | | |
| | Restated balance at 1 January 2018 | | | | | |
| IAS 1-106(d)(i) | Profit for the year | | | | | |
| IAS 1-106(d)(ii, 106A) | Other comprehensive income, net of tax | | | | | |
| IAS 1-106(a) | Total comprehensive income for the year | | | | | |
| | Transfers in regulatory reserve | | | | | |
| IAS 1-106(d)(iii) | Transactions with owners, recorded directly in equity | | | | | |
| | Dividends to equity holders | | | | | |
| | Proceeds from shares issued | | | | | |
| | Total transactions with owners | | | | | |
| | At 31 December 2018 | | | | | |

Kenya Bank Plc
Financial statements
For the year ended 31 December 2018

Reference

IAS 1-10(d),38,
113

Consolidated statement of cash flows

For the year ended 31 December

| | <i>In millions of Kenya Shillings</i> | Note | 2018 | 2017 |
|---------------------|---|-------------|-------------|-------------|
| IAS 7-18(b) | Cash flows from operating activities | | | |
| IAS 7-31,33 | Interest income | | | |
| IFRS 7-31,33 | Fee and commission income | 10 | | |
| IAS 7-31,33 | Interest paid | 9 | | |
| | Foreign exchange income | | | |
| | Recoveries on loans previously written off | | | |
| | Cash payments to employees and suppliers | | | |
| IAS 7-31,33 | Dividends received | | | |
| IAS 7-35 | Income tax paid | | | |
| | Cash flows from operating profits before changes in operating assets and liabilities. | | | |
| | Changes in operating assets and liabilities: | | | |
| | - trading assets | | | |
| | - loans and advances to banks | | | |
| | - loans and advances to customers | | | |
| | - other assets and prepayments | | | |
| o | - deposits from customers | | | |
| | - deposits from banks | | | |
| | - trading liabilities | | | |
| | - other liabilities and accrued expenses | | | |
| IAS 7-10 | Net Cash flows generated from operating activities | | | |
| IAS 7-21 | Cash flows from investing activities | | | |
| IAS 7-16(c) | Purchase of investment securities | 20 | | |
| IAS 7-16(d) | Proceeds from sale of investment securities | 20 | | |
| IAS 7-16(a) | Purchase of property and equipment | 23 | | |
| IAS 7-16 (b) | Proceeds from the sale of property and equipment | | | |
| IAS 7-16(a) | Purchase of intangible assets | 24 | | |
| | Net cash used in investing activities | | | |
| IAS 7-21 | Cash flows from financing activities | | | |
| IFRS 7-17(a) | Proceeds from issue of shares | 32 | | |
| IAS 7-17(c) | Proceeds from borrowings | | | |
| IAS 7-17(d) | Repayments of borrowings | | | |
| IAS 7-31, 34 | Dividends paid to company's shareholders | 17 | | |
| IAS 7-31, 34 | Dividends paid to non-controlling interest | | | |
| | Net cash from financing activities | | | |
| | Net increase / (decrease) in cash and cash equivalents | | | |
| | Cash and cash equivalents at start of year | 38 | | |
| IAS 7-28 | Effect of exchange rate fluctuations on cash held | | | |
| | Cash and cash equivalents at 31 December | 38 | | |

Kenya Bank Plc
Financial statements
For the year ended 31 December 2018

Reference

IAS 1-10(d),38,
113

Bank statement of cash flows

For the year ended 31 December

| | <i>In millions of Kenya Shillings</i> | Note | 2018 | 2017 |
|---------------------|---|-------------|-------------|-------------|
| IAS 7-18(b) | Cash flows from operating activities | | | |
| IAS 7-31,33 | Interest income | | | |
| IFRS 7-31,33 | Fee and commission income | 10 | | |
| IAS 7-31,33 | Interest paid | 9 | | |
| | Foreign exchange income | | | |
| | Recoveries on loans previously written off | | | |
| | Cash payments to employees and suppliers | | | |
| IAS 7-31,33 | Dividends received | | | |
| IAS 7-35 | Income tax paid | | | |
| | Cash flows from operating profits before changes in operating assets and liabilities. | | | |
| | Changes in operating assets and liabilities: | | | |
| | - trading assets | | | |
| | - loans and advances to banks | | | |
| | - loans and advances to customers | | | |
| | - other assets and prepayments | | | |
| o | - deposits from customers | | | |
| | - deposits from banks | | | |
| | - trading liabilities | | | |
| | - other liabilities and accrued expenses | | | |
| IAS 7-10 | Net Cash flows generated from operating activities | | | |
| IAS 7-21 | Cash flows from investing activities | | | |
| IAS 7-16(c) | Purchase of investment securities | 20 | | |
| IAS 7-16(d) | Proceeds from sale of investment securities | 20 | | |
| IAS 7-16(a) | Purchase of property and equipment | 23 | | |
| IAS 7-16 (b) | Proceeds from the sale of property and equipment | | | |
| IAS 7-16(a) | Purchase of intangible assets | 24 | | |
| | Net cash used in investing activities | | | |
| IAS 7-21 | Cash flows from financing activities | | | |
| IFRS 7-17(a) | Proceeds from issue of shares | 32 | | |
| IAS 7-17(c) | Proceeds from borrowings | | | |
| IAS 7-17(d) | Repayments of borrowings | | | |
| IAS 7-31, 34 | Dividends paid to company's shareholders | 17 | | |
| IAS 7-31, 34 | Dividends paid to non-controlling interest | | | |
| | Net cash from financing activities | | | |
| | Net increase / (decrease) in cash and cash equivalents | | | |
| | Cash and cash equivalents at start of year | 38 | | |
| IAS 7-28 | Effect of exchange rate fluctuations on cash held | | | |
| | Cash and cash equivalents at 31 December | 38 | | |

NOTES

1 General information

IAS 1.51 (a) (b) Kenya Bank Plc (The “Bank”) is a company domiciled in Kenya with subsidiaries operating in the East African region. The registered address of the company is [address]. The bank’s shares are listed on the Nairobi Securities Exchange. The consolidated financial statements of the Bank comprise the operations of the Bank and its subsidiaries (together the “Group”). The Group primarily is involved in corporate and retail banking.

IAS 1.138 b- (c)

2 Summary of significant accounting policies

IAS1.112(a) The principal accounting policies applied in the preparation of these consolidated financial
IAS1.117(b) statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1 Basis of preparation

IAS1.16 The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS).

(a) Basis of measurement

IAS1.117(a) The measurement basis used is the historical cost basis except where otherwise stated in the accounting policies below.

IFRS13.9 For those assets and liabilities measured at fair value, fair value is the price that would be received

IFRS13.61-67 to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. When measuring the fair value of an asset or a liability, the company uses market observable data as far as possible. If the fair value of an asset or a liability is not directly observable, it is estimated by the Bank using valuation techniques that maximise the use of relevant

IFRS13.72 observable inputs and minimise the use of unobservable inputs (e.g. by use of the market

IFRS13.76 comparable approach that reflects recent transaction prices for similar items or discounted cash flow

IFRS13.81-86 analysis). Inputs used are consistent with the characteristics of the asset / liability that market

participants would take into account.

Fair values are categorised into three levels of fair value hierarchy based on the degree to which the inputs to the measurements are observable and the significance of the inputs to the fair value measurement in its entirety:

Level 1 – fair value measurements are derived from quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2 – fair value measurements are derived from inputs other than quoted prices used in Level 1 that are observable for the assets or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

Level 3 – fair values measurements are derived from valuation techniques that include inputs for assets or liabilities that are not based on observable market data (unobservable inputs).

Transfers between levels of the fair value hierarchy are recognised by the Bank at the end of the reporting period during which the change occurred.

(b) Use of estimates

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

Kenya Bank Plc
Financial statements
For the year ended 31 December 2018

NOTES (CONTINUED)

2 Summary of significant accounting policies (continued)

(c) Changes in accounting policies and disclosures

| | |
|----------------------|---|
| <i>IAS 8.28</i> | <i>New standards, amendments and interpretations adopted by the Group</i> <i>[This section should only disclose the new standards, amendments and interpretations that have had a significant effect on the financial statements of the entity].</i> |
| <i>IFRS 9-7.2.1</i> | The Group has adopted IFRS 9 as issued by the IASB in July 2014 with a date of transition of 1 January 2018, which has resulted in changes in accounting policies and adjustments to the amounts previously recognised in the financial statements. The Group did not early adopt any part of IFRS 9 in previous periods. |
| <i>IFRS 9-7.2.15</i> | As permitted by the transitional provisions of IFRS 9, the Group elected not to restate comparative figures. Any adjustments to the carrying amounts of financial assets and liabilities at the date of transition were recognised in the opening retained earnings and other reserves of the current period. |
| | Consequently, for notes disclosures, the consequential amendments to IFRS 7 disclosures have also been applied only to the current period. The comparative period notes disclosures repeat those disclosures made in the prior year. |
| | The adoption of IFRS 9 has resulted in changes in the accounting policies for recognition, classification and measurement of financial assets and financial liabilities and impairment of financial assets. IFRS 9 also significantly amends other standards dealing with financial instruments such as IFRS 7, "Financial Instruments: Disclosures". |
| | Set out below are disclosures relating to the impact of the adoption of IFRS 9 on the Group. Further details of the specific IFRS 9 accounting policies applied in the current period (as well as the previous IAS 39 accounting policies applied in the comparative period) are described in more detail in note 2.4. |

(i) Classification and measurement of financial instruments

| | |
|--------------------------|--|
| <i>IFRS 7-421(a),(b)</i> | The measurement category and the carrying amount of financial assets and liabilities in accordance with IAS 39 and IFRS 9 at 1 January 2018 are compared as follows: |
|--------------------------|--|

| | IAS 39 Measurement category Carrying amount Shs'millions | IFRS 9 Measurement category Carrying amount Shs'millions |
|-------------------------------------|---|---|
| Financial assets | | |
| Cash and balances with Central Bank | Amortised cost | |
| Loans and advances to banks | Amortised cost | |
| Loans and advances to customers | Amortised cost | |
| Trading assets | FVPL (Held for trading) | |
| Investment securities | FVOCI | |
| | (Available for sale) | |
| | Amortised cost | |
| | (Loans and receivables) | |
| | Amortised cost | |
| | (Held to maturity) | |
| | FVPL | |
| | (Designated) | |

Kenya Bank Plc
Financial statements
For the year ended 31 December 2018

NOTES (CONTINUED)

| | |
|---|---|
| 2 | Summary of significant accounting policies (continued) |
| <i>IFRS 7-42J</i> | (ii) Reconciliation of balance sheet balances from IAS 39 to IFRS 9 |
| <i>IFRS7-42K-O</i> <i>IFRS 7-IG40E</i> | The Group performed a detailed analysis of its business models for managing financial assets and analysis of their cash flows characteristics. The following table reconciles the carrying amount of financial assets from their previous measurement category in accordance with IAS 39 to their new measurement categories upon transition to IFRS 9 on 1 January 2018. |

| | IAS 39 carrying amount Shs'millions | Reclassifications Shs'millions | Remeasurements Shs'millions | IFRS 9 carrying amount Shs'millions |
|--|--|-----------------------------------|--------------------------------|--|
| Amortised cost | | | | |
| Cash and balances with Central Bank | | | | |
| Loans and advances to banks | | | | |
| Loans and advances to customers | | | | |
| Investment securities | | | | |
| Fair value through profit or loss (FVTPL) | | | | |
| Trading assets | | | | |
| Loans and advances to customers | | | | |
| Investment securities | | | | |
| Fair value through other comprehensive income (FVOCI) | | | | |
| Available for sale financial assets | | | | |

| | |
|---------------------|---|
| | The total remeasurement loss of ShsXXX (net of deferred income tax) was recognised in opening retained earnings at 1 January 2018 and an equivalent amount was reclassified from regulatory reserves to retained earnings. |
| <i>IFRS 7-42(M)</i> | <i>Where financial assets and liabilities have been reclassified to the amortised cost category or financial assets have been reclassified out of FVTPL category to FVOCI, disclose the related fair values at 31 December 2018 and the fair value gain or loss that would have been recognised if these financial assets and liabilities had not been reclassified as part of the transition to IFRS 9.</i> |

| | |
|-------------------|---|
| <i>IFRS 7-42P</i> | (iii) Reconciliation of impairment allowance balance from IAS 39 to IFRS 9 |
| | The following table reconciles the prior year's closing impairment allowance measured in accordance with the IAS 39 incurred loss model to the new impairment allowance measured in accordance with the IFRS 9 expected loss model at 1 January 2018. |

| | Credit loss allowance under IAS 39 Shs'millions | Reclassifications Shs'millions | Remeasurements Shs'millions | Credit loss allowance under IFRS 9 Shs'millions |
|--|--|-----------------------------------|--------------------------------|--|
| Cash and balances with Central Bank | | | | |
| Loans and advances to banks | | | | |
| Loans and advances to customers | | | | |
| Investment securities | | | | |
| Loan Commitments and financial guarantee contracts | | | | |

NOTES (CONTINUED)

| | |
|-----------------|--|
| 2 | Summary of significant accounting policies (continued) |
| <i>IAS 8-30</i> | New and revised standards and interpretations that have been issued but are not yet effective |
| | The Group has not applied any new or revised standards and interpretations that have been published but are not yet effective for the year beginning 1 January 2018, and the directors do not plan to apply any of them until they become effective. Note 40 lists all such new or revised standards and interpretations with their effective dates and provides reasonably estimable information relevant to assessing the possible impact that application of them will have on the Group's financial statements in the period of initial application. |

IAS 1- 119 **2.2 Consolidation**

(a) Subsidiaries

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

IFRS 10-7
IFRS 10-20
IFRS 10-25 Subsidiaries are fully consolidated from the date on which control is transferred to the group. They are deconsolidated from the date that control ceases.

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

IFRS 3-5
IFRS 3-37
IFRS 3-39
IFRS 3-18
IFRS 3-19

Acquisition-related costs are expensed as incurred.

IFRS 3-53

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

IFRS 3-42

IFRS 3-58

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

IFRS 3-32
IFRS 3-B63(a)
IAS 36-80

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

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated. When necessary amounts reported by subsidiaries have been adjusted to conform to the group's accounting policies.

NOTES (CONTINUED)

2 Summary of significant accounting policies (continued)

(b) Changes in ownership interests

IFRS 10-23 Transactions with non-controlling interests that do not result in loss of control are accounted for as equity transactions – that is, as transactions with the owners in their capacity as owners. The difference between fair value of any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

(c) Disposal of subsidiaries

IFRS 10-25
IFRS 10-B98
IFRS 10-B99 When the group ceases to have control any retained interest in the entity is remeasured to its fair value at the date when control is lost, with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to profit or loss.

IAS 1-119 **2.3 Foreign currency translation**

(a) Functional and presentation currency

IAS 21-17
IAS 21-9, 18
IAS 1-51(d) Items included in the financial statements of each of the group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The consolidated financial statements are presented in Kenya shillings, which is the group's presentation currency.

(b) Transactions and balances

IAS 21-21
IAS 21-28
IAS 21-32 Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement, except for differences arising on translation of non-monetary financial assets carried at fair value through other comprehensive income, which are recognised in other comprehensive income.

Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented in the income statement within "finance income or costs". All other foreign exchange gains and losses are presented in the statement of profit or loss for the year within "other gains/losses-net".

IAS 21-30 Translation differences on non-monetary financial assets and liabilities such as equities held at fair value through profit or loss are recognised in profit or loss as part of the fair value gain or loss. Translation differences on non-monetary financial assets, such as equities classified as available for sale, are included in other comprehensive income

NOTES (CONTINUED)

2 Summary of significant accounting policies (continued)

(c) Group companies

IAS 21-39 The results and financial position of all the group entities (none of which has the currency of a hyper-inflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

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

IAS 21-41

IAS 21-48

IAS 21-47

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

2.4 Financial instruments

1p119

2.4.1 Financial assets and liabilities

Measurement methods

Amortised cost and effective interest rate

IFRS 9-App A

The amortised cost is the amount at which the financial asset or financial liability is measured at initial recognition minus the principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and, for financial assets, adjusted for any loss allowances.

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

When the Group revises the estimates of future cash flows, the carrying amount of the respective financial asset or financial liability is adjusted to reflect the new estimate discounted using the original effective interest rate. Any changes are recognised in the profit or loss account.

Interest income

IFRS 9-5.4.1

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

- (a) Purchased or originated credit impaired (POCI) financial assets, for which the original credit-adjusted effective interest rate is applied to the amortised cost of the financial asset; and
- (b) Financial assets that are not “POCI” but have subsequently become credit-impaired, for which interest revenue is calculated by applying the effective interest rate to their amortised cost (i.e.net of the expected credit loss provision) in subsequent reporting periods.

NOTES (CONTINUED)

2 Summary of significant accounting policies (continued)

Initial recognition and measurement

IFRS 9-3.1.1 Financial assets and financial liabilities are recognised when the entity becomes a party to the contractual provisions of the instrument. Regular way purchases and sales of financial assets are recognised on trade-date, the date which the Group commits to purchase or sell the asset.
IFRS 9-3.1.2

IFRS 9-5.1.1 At initial recognition, the Group measures a financial asset or financial liability at its fair value plus or minus, in the case of a financial asset or financial liability not at fair value through the profit or loss, transaction costs that are incremental and directly attributable to the acquisition or issue of the financial asset or financial liability, such fees and commissions. Transaction costs of financial assets and financial liabilities are carried at fair value through profit or loss are expensed in profit or loss. Immediately after the initial recognition, an expected credit loss allowance (ECL) is recognised for the financial assets measured at amortised cost and investments in debt instruments measured at FVOCI, which results in an accounting loss being recognised in profit or loss when an asset is newly originated.

IFRS 9-B5.1.2A When the fair value of financial assets and liabilities differs from the transaction price on initial recognition, the entity recognises the difference as follows:

- (a) When the fair value is evidenced by a quoted price in an active market for an identical asset or liability (i.e. Level 1 input) or based on a valuation technique that uses only data from observable markets, the difference is recognised as a gain or loss.
- (b) In all other cases, the difference is deferred and the timing of recognition of deferred day one profit or loss is determined individually. It is either amortised over the life of the instrument, deferred until the instrument's fair value can be determined using market observable inputs, or realised through settlement.

Financial assets

(i) Classification and subsequent measurement

IFRS 9-4.1.1 From January 2018, the Group has applied IFRS 9 and classifies its financial assets in the following measurement categories:

- Fair value through profit or loss (FVPL)
- Fair value through other comprehensive income (FVOCI)
- Amortised cost

Debt instruments

IFRS 9-5.1.1 Debt instruments are those instruments that meet the definition of a financial liability from the issuer's perspective, such as loans, government and corporate bonds and trade receivables purchased from clients in factoring arrangements without recourse. Classification and subsequent measurement of debt instruments depend on:

- (i) the Group's business model for managing the asset; and
- (ii) the cash flow characteristics of the asset

Based on these factors, the Group classifies its debt instruments into one of the following three measurement categories:

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

NOTES (CONTINUED)

2 Summary of significant accounting policies (continued)

IFRS 9-4.1.2A

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

IFRS 9-4.1.4

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

*IFRS 9-B4.1.2A,
B4.1.2B*

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

IFRS 9-B4.1.7A

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

IFRS 9-4.3.2,4.3.3

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

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

NOTES (CONTINUED)

2 Summary of significant accounting policies (continued)

Equity Instruments

IAS 32R-11

Equity instruments are instruments that meet the definition of equity from the issuer's perspective; that is, instruments that do not contain a contractual obligation to pay and that evidence a residual interest in the issuer's net assets. Examples of equity instruments include basic ordinary shares.

IIFRS 9-5.7.2

The Group subsequently measures all equity investments at fair value through profit or loss, except where the Group's management has elected, at initial recognition, to irrevocably designate an equity investment at fair value through other comprehensive income. The Group's policy is to designate equity investments as FVOCI when those investments are held for purposes other than to generate investment returns. When this election is used, fair value gains and losses are recognised in OCI and are subsequently reclassified to profit or loss, including on disposal. Impairment losses (and reversals of impairment losses) are not reported separately from other changes in fair values. Dividends, when representing a return on such investments, continue to be recognised in profit or loss as other income when the Group's right to receive payment is established.

Gains and losses on equity investments at FVPL are included in the "Net trading income" line in the statement of profit or loss.

(ii) Impairment

IIFRS 9-5.5.17

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

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

(iii) Modification of loans

IIFRS 9-5.4.3

The Group sometimes renegotiates or otherwise modifies the contractual cash flows of loans to customers. When this happens, the Group assesses whether or not the new terms are substantially different to the original terms. The Group does this by considering, among others, the following factors:

- If the borrower is in financial difficulty, whether the modification merely reduces the contractual cash flows to amounts the borrower is expected to be able to pay.
- Whether any substantial new terms are introduced, such as a profit share/equity based return that substantially affects the risk profile of the loan.
- Significant extension of the loan term when the borrower is not in financial difficulty.
- Significant change in interest rate
- Change in the currency of the loan
- Insertion of collateral, other security or credit enhancement that significantly affect the credit risk associated with the loan.

If the terms are substantially different, the Group derecognises the original financial asset and recognises a "new" asset at fair value and recalculates a new effective interest rate for the asset. The date of renegotiation is consequently considered to be the date of initial recognition for impairment calculation purposes, including for the purpose of determining whether a significant increase in credit risk has occurred.

NOTES (CONTINUED)

2 Summary of significant accounting policies (continued)

IFRS 9-B5.5.25,
B5.5.26

However, the Group also assesses whether the new financial asset recognised is deemed to be credit-impaired at initial recognition, especially in circumstances where the renegotiation was driven by the debtor being unable to make the originally agreed payments. Differences in the carrying amount are also recognised in profit or loss as a gain or loss on derecognition.

IFRS 9-5.4.3

If the terms are not substantially different, the renegotiation or modification does not result in derecognition, and the Group recalculates the gross carrying amount based on the revised cash flows of the financial asset and recognises a modification gain or loss in profit or loss. The new gross carrying amount is recalculated by discounting the modified cash flows at the original effective interest rate of credit-adjusted effective interest rate for POCI financial assets.

IIFRS 9-3.2.3

(iv) Derecognition other than on a modification

Financial assets, or a portion thereof, are derecognised when the contractual rights to receive the cash flows from the assets have expired, or when they have been transferred and either (i) the Group transfers substantially all the risks and rewards of ownership, or (ii) the Group neither transfers nor retains substantially all the risks and rewards of ownership and the Group has not retained control.

IFRS 9-3.2.5

The Group enters into transactions where it retains the contractual rights to receive cash flows from assets but assumes a contractual obligation to pay those cash flows to other entities and transfers substantially all of the risks and rewards. These transactions are accounted for as “pass through” transfers that result in derecognition if the Group:

- (i) Has no obligation to make payments unless it collects equivalent amounts from the assets
- (ii) Is prohibited from selling or pledging the assets; and
- (iii) Has an obligation to remit any cash it collects from assets without material delays

Collateral (shares and bonds) furnished by the Group under standard repurchase agreements and securities lending and borrowings transactions are not derecognised because the Group retains substantially all the risks and rewards on the basis of predetermined repurchase price, and the criteria for derecognition are therefore not met. This also applies to certain securitisation transactions in which the Group retains a subordinated residual interest.

Financial liabilities

(i) Classification and subsequent measurement

IFRS 9-4.2.1

In both the current period and prior period, financial liabilities are classified as subsequently measured at amortised cost, except for:

IFRS 9-B5.7.16

- Financial liabilities at fair value through profit or loss such as derivatives, financial liabilities held for trading (e.g. short positions in the trading booking) and other financial liabilities designated as such at initial recognition. Gains or losses on financial liabilities designated at fair value through profit or loss are presented partially in other comprehensive income (the amount of change in the fair values of the financial liability that is attributable to changes in the credit risk of that liability) and partially profit or loss (the remaining amount of change in the fair value of the liability);
- Financial liabilities arising from the transfer of financial assets which did not qualify for derecognition, whereby a financial liability is recognised for the consideration received for the transfer. In subsequent periods, the Group recognises any expense incurred on the financial liability; and
- Financial guarantee contracts and loan commitments

NOTES (CONTINUED)

2. Summary of significant accounting policies (continued)

(ii) Derecognition

IFRS 9-3.3.1 Financial liabilities are derecognised when they are extinguished (i.e. when the obligation specified in the contract is discharged, cancelled or expires).

IFRS 9-3.3.2, 3.3.3, B3.3.6 The exchange between the Group and its original lenders of debt instruments with substantially different terms, as well as substantial modification of the terms of the existing financial liabilities, are accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability. The terms are substantially different if the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective interest rate, is at least 10% different from the discounted present value of the remaining cash flows of the original financial liability. In addition, other qualitative factors, such as the currency that the instrument is denominated in, changes in the type of interest rate, new conversion features attached to the instrument and change in covenants are also taken into consideration. If the exchange of debt instruments or modification of terms is accounted for as an extinguishment, any costs or fees incurred are recognised as part of the gain or loss on the extinguishment. If the exchange of modification is not accounted for as an extinguishment, any costs or fees incurred adjust the carrying amount of the liability and are amortised over the remaining term of the modified liability.

Offsetting financial assets and financial liabilities

IAS 32-42 Financial assets and liabilities are offset and the net amount reported in the statement of financial position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously.

2.4.2 Financial guarantee contracts and loan commitments

IFRS 9, Appendix A Financial guarantee contracts are contracts that require the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due, in accordance with the terms of the debt instrument. Such financial guarantees are given to banks, financial institutions and others on behalf of customers to secure loans, overdrafts and other banking facilities.

IFRS 9-4.2.1 Financial guarantee contracts are initially measured at fair value and subsequently measured at the higher of:

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

IFRS 9-2.3 Loan commitments provided by the Group are measured as the amount of the loss allowance. The Group has not provided any commitment to provide loans at a below-market interest rate, or that can be settled net in cash or by delivering or issuing another financial instrument.

IFRS 7(B8E) For loan commitments and financial guarantee contracts, the loss allowance is recognised as a provision. However, for contracts that include both a loan and an undrawn commitment and the Group cannot separately identify the expected credit losses on the undrawn commitment component from those on the loan component, the expected credit losses on the undrawn commitment are recognised together with the loss allowance for the loan. To the extent that the combined expected credit losses exceed the gross carrying amount of the loan, the expected credit losses are recognised as provision.

NOTES (CONTINUED)

2. Summary of significant accounting policies (continued)

2.4.3 Derivative financial instrument

The Group enters into a variety of derivative financial instruments to manage its exposure to interest rate and foreign currency exchange rate risks, including currency forward exchange contracts, interest rate swaps and cross currency swaps.

IFRS 9-4.1.4

Derivatives are initially recognised at fair value on the date on which the derivative contract is entered into and are subsequently remeasured at fair value at the end of each reporting period. The resulting gain or loss is recognised in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of recognition of gains or losses in the profit or loss will depend on the nature of the hedge relationship.

All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative.

Derivatives embedded in the non-derivative host contracts are treated as separate derivatives when:

- their risks and economic characteristics are not closely related to those of the host contract;
- a separate instrument with the same terms would meet the definition of a derivative; and
- the hybrid contract is not measured at fair value through profit or loss

IAS 1-119

2.5 Cash and cash equivalents

*IFRS 7-45
IFRS 7-46*

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

IAS 1-119

2.6 Property and equipment

*IAS 16-15
IAS 16-30*

Land and buildings comprise mainly branches and offices. All equipment used by the Bank is stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

IAS 16-12

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

*IAS 16-73(b)
IAS 16-50
IAS 16-73(c)*

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

- | | |
|--------------------------------|---|
| – Buildings | 25-40 years |
| – Leasehold improvements | 25 years, or over the period of the lease if less than 25 years |
| – Equipment and motor vehicles | 3-8 years |

*16p51
36p59*

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

*IAS 16-71
IAS 16-68*

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

NOTES (Continued)

2. Summary of significant accounting policies (continued)

IAS 1- 119

2.7 Intangible assets

IAS 38-57

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

it is technically feasible to complete the software product so that it will be available for use;

management intends to complete the software product and use or sell it;

there is an ability to use or sell the software product;

it can be demonstrated how the software product will generate probable future economic benefits;

adequate technical, financial and other resources to complete the development and to use or sell the software product are available; and

the expenditure attributable to the software product during its development can be reliably measured.

IAS 38-66

IAS 38-68,71

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

IAS 38-97

IAS 38-118(a)(b)

Computer software development costs recognised as assets are amortised over their estimated useful lives, which does not exceed three years.

IAS 38-4

IAS 38-118(a)(b)

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised on the basis of the expected useful lives. Software has a maximum expected useful life of 5 years.

IAS 1-119

2.8 Impairment of non-financial assets

IAS 36-9

IAS 36- 10

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

IAS 1-119

2.9 Employee benefits

(a) Post-employment benefits obligation

IAS 19-27

IAS 19-25

IAS 19-7

IAS 19-120A(b)

The Bank operates various retirement benefit schemes. The schemes are generally funded through payments to insurance companies or trustee-administered funds, determined by periodic actuarial calculations. The Bank has both defined benefit and defined contribution plans.

A defined contribution plan is a retirement benefit plan under which the Bank pays fixed contributions into a separate entity. The Bank has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods.

NOTES (Continued)

2. Summary of significant accounting policies (continued)

A defined benefit plan is a retirement benefit plan that is not a defined contribution plan. Typically defined benefit plans define an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors, such as age, years of service and compensation.

IAS 19-57
IAS 19-58,
IAS 19-59,
IAS 19-60,
IAS 19-67,
IAS 19-68,
IAS 19-83

The liability recognised in the statement of the financial position in respect of defined benefit plans is the present value of the defined benefit obligation at the end of the reporting period less the fair value of plan assets. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in the Kenya shillings or the currency in which the benefits will be paid, and that have terms to maturity approximating to the terms of the related pension obligation. In the event that there is no deep market in such bonds, the market rates on government bonds are used.

IAS 19-57(d)

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to equity in other comprehensive income

IAS 19-103

Past-service costs are recognised immediately in profit or loss

IAS 19-51

For defined contribution plans, the Bank pays contributions to publicly or privately administered pension plans on a mandatory, contractual or voluntary basis. The contributions are recognised as employee benefit expense when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

(b) Other post-employment obligations

IAS 19-155

The Bank provides post-retirement healthcare benefits to their retirees. The entitlement to these benefits is usually conditional on the employee remaining in service up to retirement age and the completion of a minimum service period. The expected costs of these benefits are accrued over the period of employment using the same accounting methodology as used for defined benefit pension plans.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to other comprehensive income in the period in which they arise. These obligations are valued annually by independent qualified actuaries.

IAS 1-119

2.10 Provisions for liabilities

IAS 37-14
IAS 37-72
IAS 37-63

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

IAS 37-24

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

IAS 37-45

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

NOTES (Continued)

2. Summary of significant accounting policies (continued)

IAS 1-119

2.11 Income tax

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

(a) Current income tax

IAS 12-58

IAS 12-61A

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

IAS 12-12

IAS 12-46

(b) Deferred income tax

IAS 12-24

IAS 12-15

IAS 12-47

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

IAS 12-24

IAS 12-34

IAS 12-34

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

IAS 1-119

2.12 Dividend payable

IAS 10-12

Dividends on ordinary shares are charged to equity in the period in which they are declared.

IAS 1-119

2.13 Leases

IAS 17-8

Leases are divided into finance leases and operating leases.

(a) The Bank is the lessee

(i) Operating lease

IAS 17-4

IAS 17-33

IAS 17-15A

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

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

NOTES (Continued)

2. Summary of significant accounting policies (continued)

(ii) Finance lease
IAS 17-4
IAS 17-20
IAS 17-25
 Leases of assets where the Bank has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the lease's commencement at the lower of the fair value of the leased property and the present value of the minimum lease payments. Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. The corresponding rental obligations, net of finance charges, are included in deposits from banks or deposits from customers depending on the counter party. The interest element of the finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

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

(b) The Bank is the lessor
IAS 17-36
IAS 17-39
 When assets are held subject to a finance lease, the present value of the lease payments is recognised as a receivable. Finance income is recognised over the term of the lease using the net investment method (before tax), which reflects a constant periodic rate of return.

(c) Fees paid in connection with arranging leases
IAS 17-52
 The Bank makes payments to agents for services in connection with negotiating lease contracts with the Bank's lessees. For operating leases, the letting fees are capitalised within the carrying amount of the related asset, and depreciated over the life of the lease.

2.14 Fees and commission income

IFRS 15-3
IFRS 15-114
 Fees and commissions are generally recognised on an accrual basis when the service has been provided. Loan commitment fees for loans that are likely to be drawn down are deferred (together with related direct costs) and recognised as an adjustment to the effective interest rate on the loan. Loan syndication fees are recognised as revenue when the syndication has been completed and the Bank has retained no part of the loan package for itself or has retained a part at the same effective interest rate as the other participants. Commission and fees arising from negotiating, or participating in the negotiation of, a transaction for a third party – such as the arrangement of the acquisition of shares or other securities, or the purchase or sale of businesses – are recognised on completion of the underlying transaction. Portfolio and other management advisory and service fees are recognised based on the applicable service contracts, usually on a time-apportionate basis. Performance-linked fees or fee components are recognised when the performance criteria are fulfilled.

IAS 1-119
2.15 Acceptances and letters of credit

Acceptances and letters of credit are accounted for as off-balance sheet transactions and disclosed as contingent liabilities.

NOTES (CONTINUED)

3. Critical accounting estimates and judgements

IAS 1-122
IAS 1-125
IAS 1-129

The preparation of financial statements requires the use of accounting estimates which, by definition, will seldom equal the actual results. The directors also need to exercise judgment in applying the Group's accounting policies.

All estimates and assumptions required in conformity with IFRS are best estimates undertaken in accordance with the applicable standard. Estimates and judgements are evaluated on a continuous basis, and are based on past experience and other factors, including expectations with regard to future events.

This note provides an overview of the areas that involve a higher degree of judgment or complexity, and major sources of estimation uncertainty that have a significant risk of resulting in a material adjustment within the next financial year. Detailed information about each of these estimates and judgements is included in the related notes together with information about the basis of calculation for each affected line item in the financial statements.

(a) Measurement of the expected credit loss allowance

The measurement of the expected credit loss allowance for financial assets measured at amortised cost and FVOCI is an area that requires the use of complex models and significant assumptions about future economic conditions and credit behaviour (e.g. the likelihood of customers defaulting and the resulting losses).

A number of significant judgements are also required in applying the accounting requirement for measuring ECL, such as:

- Determining criteria for significant increase in credit risk;
- Choosing the appropriate models and assumptions for the measurement of ECL;
- Establishing the number and relative weightings of forward-looking scenarios for each type of product/market and the associated ECL;
- Establishing groups of similar financial assets for the purposes of measuring ECL;
- Determining the relevant period of exposure to credit risk when measuring ECL for credit cards and revolving credit facilities; and
- Determining the appropriate business models and assessing the "solely payments of principal and interest (SPPI)" requirements for financial assets.

[The above disclosure should be tailored as appropriate]

(b) Fair value of financial instruments

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

Changes in assumptions about these factors could affect the reported fair value of financial instruments. For example, to the extent that the directors used a tightening of 20 basis points in the credit spread, the fair values would be estimated at Shs xxxx as compared to their reported fair value of Shs xxxx at 31 December 2018.

NOTES (CONTINUED)

3. Critical accounting estimates and judgements

(c) Post-employment benefits obligation

The present value of the retirement benefit obligations depends on a number of factors that are determined on an actuarial basis using a number of assumptions. Any changes in these assumptions will impact the carrying amount of pension obligations.

The assumptions used in determining the net cost (income) for pensions include the discount rate. The Bank determines the appropriate discount rate at the end of each year. This is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the pension obligations. In determining the appropriate discount rate, the Bank considers the interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid and that have terms to maturity approximating the terms of the related pension liability.

Other key assumptions for pension obligations are based in part on current market conditions.

Were the discount rate used to differ by 10% from directors' estimates, the defined benefit obligation for pension benefits would be an estimated KShsXXX lower or KShsXXX higher.

NOTES (CONTINUED)

4. Financial risk management

[IFRS 9 introduced and modified several disclosure requirements in IFRS 7 in relation to credit risk and impairment of financial instruments. These new disclosures are not required to be provided for the comparative period if a bank chooses not to restate the prior period in accordance with the exemption provided in IFRS 9 paragraph 7.2.15. Consequently, all disclosures required by the previous version of IFRS 7 should be provided in respect of the comparative period. Such disclosures have not been illustrated in this document.

The illustrative disclosures and notes should be replicated for both Group and company, where applicable.

IFRS 7-31

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

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

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

4.1 Credit risk

IFRS7-33(a)

Credit risk is the risk of suffering financial loss, should any of the Banks' customers, clients or market counterparties fail to fulfil their contractual obligations. Credit risk arises mainly from commercial and consumer loans and advances, credit cards, and loan commitments arising from such lending activities, but can also arise from credit enhancement provided, financial guarantees, letters of credit, endorsements and acceptances.

The Bank is also exposed to other credit risks arising from investments in debt securities and other exposures arising from its trading activities ('trading exposures'), including non-equity trading portfolio assets, derivatives and settlement balances with market counterparties and reverse repurchase loans.

Credit risk is the single largest risk for the Group's business; the directors therefore carefully manage the exposure to credit risk. The credit risk management and control are centralised in a credit risk management team, which reports to the Board of Directors and head of each business unit regularly.

IFRS 7-33(b)

4.1.1 Credit risk measurement

Loans and advances (including loan commitments and guarantees)

The estimation of credit exposure is complex and requires the use of models, as the value of a product varies with changes in market variables, expected cash flows and the passage of time. The assessment of credit risk of a portfolio of assets entails further estimations as to the likelihood of defaults occurring, of the associated loss ratios and of default correlations between counterparties.

NOTES (CONTINUED)

4. Financial risk management (continued)

The Group has developed models to support the quantification of the credit risk. These rating and scoring models are in use for all key credit portfolios and form the basis for measuring default risks. In measuring credit risk of loans and advances at a counterparty level, the Bank considers three components: (i) the 'Probability of Default' (PD) by the client or counterparty on its contractual obligations; (ii) current exposures to the counterparty and its likely future development, from which the Bank derive the 'Exposure at Default' (EAD); and (iii) the likely recovery ratio on the defaulted obligations (the 'Loss Given Default') (LGD). The models are reviewed regularly to monitor their robustness relative to actual performance and amended as necessary to optimise their effectiveness.

Credit risk grading

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

The credit grades are calibrated such that the risk of default increases exponentially at each higher risk grade. For example, this means that the difference in the PD between A and A-rating grade is lower than the difference in the PD between a B and B- rating grade.

The following are additional considerations for each type of portfolio held by the Group:

Retail

After the date of initial recognition, for retail business, the payment behaviour of the borrower is monitored on a periodic basis to develop a behavioural score. Any other know information about the borrower, which impacts their creditworthiness – such as unemployment and previous delinquency history – is also incorporated into the behavioural score. This score is mapped to a PD.

Wholesale

For wholesale business, the rating is determined at the borrower level. A relationship manager will incorporate any updated or new information/credit assessments into the credit system on an ongoing basis. In addition, the relationship manager will also update information about the creditworthiness of the borrower every year from sources such as public financial statements. This will determine the updated internal credit rating and PD.

Treasury

For debt securities in the treasury portfolio, external rating agency credit grades are used. These published grades are continuously monitored and updated. The PDs associated with each grade are determined based on realised default rates over the prior 12 months, as published by the rating agency.

The Group's rating method comprises XX rating levels for instruments not in default (1 to XX) and ZZ default classes (XX to XX+ZZ). The master scale assigns each rating category a specified range of probabilities of default, which is stable over time. The rating methods are subject to an annual validation and recalibration so that they reflect the latest projections in the light of actually observed defaults.

NOTES (CONTINUED)

4. Financial risk management (continued)

[not
mandatory]

The Bank's internal ratings scale and mapping of external ratings as supplemented by the Bank's own assessment through the use of internal rating tools are as follows:

| Rating | PD range as a percentage | Description of the grade |
|--------|--------------------------|--------------------------|
| XX | | Investment grade |
| XX | | Standard monitoring |
| XX | | Special monitoring |
| XX | | Default |

4.1.2 Expected Credit loss measurement

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

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

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

IFRS 7-35F(a)

4.1.2.1 Significant increase in credit risk (SICR)

IFRS 7-35G(a)

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

Quantitative criteria

[Describe the quantitative criteria that is applied by the Group to determine whether a financial instrument has experienced a significant increase in credit risk]

Qualitative criteria

For retail portfolio, if the borrower meets one or more of the following criteria:

- In short-term forbearance
- Direct debit cancellation
- Extension to the terms granted
- Previous arrears within the last [XX] months

NOTES (CONTINUED)

4. Financial risk management (continued)

For wholesale and treasury portfolios, if the borrower is on the watch list and/or the instrument meets one or more of the following criteria:

- Significant increase in credit spread
- Significant adverse changes in business, financial and/or economic conditions in which the borrower operates
- Actual or expected forbearance or restructuring
- Actual or expected significant adverse change in operating results of the borrower
- Significant change in collateral value (secured facilities only) which is expected to increase risk of default
- Early signs of cash flows/liquidity problems such as delay in servicing of trade creditors /loans

The assessment of SICR incorporates forward-looking information and is performed on a quarterly basis at a portfolio level for all retail financial instruments held by the Group. In relation to wholesale and treasury financial instruments, where a watch list is used to monitor credit risk, this assessment is performed at the counterparty level and on a periodic basis. The criteria used to identify SICR are monitored and reviewed periodically for appropriateness by the independent credit team.

IFRS 7-35(F)

Backstop

A backstop is applied and the financial instrument is considered to have experienced a significant increase in credit risk if the borrower is more than 30 days past due on its contractual payments.

The group has not used the low credit risk exemption for any financial instruments in the year ended 31 December 2018.

IFRS 7-35F

4.1.2.2 Definition of default and credit-impaired assets

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

Qualitative criteria

The borrower meets unlikeliness to pay criteria, which indicates the borrower is in significant financial difficulty. These are instances where:

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

The above criteria have been applied to all financial instruments held by the Group and are consistent with the definition of default used for internal credit risk management purposes. The default definition has been applied consistently to model the Probability of Default (PD), Exposure at Default (EAD) and Loss Given Default (LGD) throughout the Group's expected loss calculations.

IFRS 7-B8A(b)

An instrument is considered to no longer be in default (i.e. to have cured) when it no longer meets any of the default criteria for a consecutive period of six months. This period of six months has been determined based on an analysis which considers the likelihood of a financial instrument returning to default status after cure using different possible cure definitions.

NOTES (CONTINUED)

4. Financial risk management (continued)

4.1.2.3 Measuring expected credit loss – inputs, assumptions and estimation techniques

IFRS 7-35G

The expected credit loss (ECL) is measured on either a 12-month (12M) or Lifetime basis

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

- The PD represents the likelihood of a borrower defaulting on its financial obligation, either over the next 12 months (12M PD), or over the remaining lifetime (Lifetime PD) of the obligation.
- EAD is based on the amounts the Group expects to be owed at the time of default, over the next 12 months (12M EAD) or over the remaining lifetime (Lifetime EAD).
- LGD represents the Group's expectations of the extent of loss on a defaulted exposure. LGD varies by type of counterparty, type of seniority of claim and availability of collateral or other credit support. LGD is calculated on a 12-month or lifetime basis, where 12 month LGD is the percentage of loss expected to be made if the default occurs over the next 12 months and lifetime LGD is the percentage of loss expected to be made if the default occurs over the remaining expected lifetime of the loan.

The ECL is determined by projecting the PD, LGD and EAD for each future month and for each individual exposure or collective segment. These three components are multiplied together and adjusted for the likelihood of survival (i.e. the exposure has not prepaid or defaulted in an earlier month). The discount rate used in the ECL calculation is the original effective interest rate or an approximation thereof.

The lifetime PD is developed by applying a maturity profile to the current 12M PD. The maturity profile looks at how defaults develop on a portfolio from the point of initial recognition throughout the lifetime of the loans. The maturity profile is based on historical observed data and is assumed to be the same across all assets within a portfolio and a credit grade. This is supported by a historical analysis.

The 12-month and lifetime EADs are determined based on the expected payment profile, which varies by product type:

- For amortising products or bullet repayment loans, this is based on the contractual repayments owed by the borrower over a 12-month or lifetime basis. This will also be adjusted for any expected overpayments made by the borrower. Early repayments/refinance assumptions are also incorporated.
- For revolving products, the exposure at default is predicted by taking the current drawn-down balance and adding a "credit conversion factor" which allows for the expected drawdown of the remaining limit by the time of default. These assumptions vary by product type and current limit utilisation band, based on analysis of the Group's recent default data.

The 12-month and lifetime LGDs are determined based on the factors which impact the recoverable amount post default. These vary by product type:

- For secured products, this is primarily based on collateral type and projected collateral values, historical discounts to market/book values due to forced sales, time to repossession and recovery costs observed.
- For unsecured products, LGDs are typically set at product level due to the limited differentiation in recoveries achieved across different borrowers. These LGDs are influenced by collection strategies, including contracted debt sales and prices.

NOTES (CONTINUED)

4. Financial risk management (continued)

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

The assumptions underlying the ECL calculation – such as how the maturity profile of the PDs and how collateral values change etc. – are monitored and reviewed on a quarterly basis.

4.1.2.4 Forward-looking information incorporated in the ECL models

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

Forecasts of the base economic scenario and the possible scenarios along with scenario weightings are prepared by an expert economic team. The impact of these economic variables on the PD, EAD and LGD is determined by performing statistical regression analysis to understand the impact changes in these variables have had historically on default rates and on the components of LGD and EAD.

As with any economic forecasts, the projections and likelihoods of occurrence are subject to a high degree of inherent uncertainty and therefore the actual outcomes may be significantly different to those projected. The Group considers these forecasts to represent its best estimate of the possible outcomes and has analysed the non-linearities and asymmetries within the Group's different portfolios to establish that the chosen scenarios are appropriately representative of the range of possible outcomes.

The most significant period-end assumptions used for the ECL estimate as at 31 December 2018 are as follows:

IAS 1-125

[Provide an analysis of the key economic variable assumptions used in the calculation of the ECL, together with the weightings assigned to each economic scenario, at 1 January 2018 and 31 December 2018.]

This disclosure should be adapted to take into account the entities or Group's particular circumstances, for example to cover different geographies and/or different assumptions.]

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

Sensitivity analysis

The most significant assumptions affecting the ECL allowance are as follows:

Retail portfolio

- (i) *Unemployment rate*, given its impact on secured and unsecured borrowers' ability to meet their contractual repayments; and
- (ii) *House price index*, given the significant impact it has on mortgage collateral valuations

Wholesale portfolio

- (i) *GDP*, given the significant impact on businesses' performance and collateral valuations
- (ii) *Interest rate*, given its impact on businesses' likelihood of default of default

NOTES (CONTINUED)

4. Financial risk management (continued)

Set out below are the changes to the ECL at 31 December 2018 that would result from reasonably possible changes in these parameters from actual assumptions used in the Group's economic variable assumptions:

Retail portfolio

| | | Unemployment | | |
|--------------------------|-----------|---------------------|------------------|--------------|
| | | [-X%] | No Change | [+X%] |
| | | Shs'millions | Shs'millions | Shs'millions |
| House price index | [+X%] | | | |
| | No change | | | |
| | [-X%] | | | |

Wholesale portfolio

| | | Interest rates | | |
|------------|-----------|-----------------------|------------------|--------------|
| | | [-X%] | No Change | [+X%] |
| | | Shs'millions | Shs'millions | Shs'millions |
| GDP | [+X%] | | | |
| | No change | | | |
| | [-X%] | | | |

The key drivers of sensitivity disclosed above are purely illustrative and banks will need to analyse their own portfolios to determine which parameter's sensitivities are most relevant to users of the financial statements.

4.1.2.5 Grouping of instruments for losses measured on a collective basis

IFRS 7-35F(c) For expected credit losses provisions modelled on a collective basis, a grouping of exposures is performed on the basis of shared risk characteristics, such that risk exposures within a group are homogenous. In performing this grouping, there must be sufficient information for the group to be statistically credible. Where sufficient information is not available internally, the Group has considered benchmarking internal/external supplementary data to use for modelling purposes. The characteristics and any supplementary data used to determine groupings are as follows:

Retail – grouping for collective measurement

- Loan to value ratio band
- Credit rating band
- Product type (e.g. Residential/buy to let mortgage, overdraft, credit card)
- Repayment type
- Utilisation band

Wholesale – groupings for collective measurement

- Industry – external data sourced from study
- Collateral type
- Credit rating band
- Geographical region of risk exposure

The following exposures are assessed individually:

Retail:

- Stage 3 loans with current exposure above [X]
- Properties in repossession proceedings

Wholesale:

- Stage 3 facilities
- Stage 2 facilities with exposure above [X]

The appropriateness of groupings is monitored and reviewed on a periodic basis.

NOTES (CONTINUED)

4. Financial risk management (continued)

4.1.3 Credit risk exposure

4.1.3.1 Maximum exposure to credit risk – Financial instruments subject to impairment

IFRS 7-34(a)
IFRS 7-35M
IFRS 7-35K
IFRS 7-IG20C

The following table contains an analysis of the credit risk exposure of financial instruments for which an ECL allowance is recognised. The gross carrying amount of financial assets below also represents the Group's maximum exposure to credit risk on these assets.

| | Retail loans and advances | | | | 2017 Total |
|------------------------------|----------------------------|----------------------------|----------------------------|-------------|---------------|
| | Stage 1 12-month ECL | Stage 2 Lifetime ECL | Stage 3 Lifetime ECL | Total | |
| | Shs'millions | Shs'millions | Shs'millions | Shs'million | Shs'millions |
| Investment grade | | | | | |
| Standard monitoring | | | | | |
| Special monitoring | | | | | |
| Default | | | | | |
| Gross carrying amount | | | | | |
| Loss allowance | | | | | |
| Carrying amount | | | | | |

The disclosures above should be repeated for each class of financial instruments, but are omitted for illustrative purposes.

4.1.3.2 Maximum exposures to credit risk – Financial instruments not subject to impairment

IFRS 7-34(a)
IFRS 7-36(a)

The following table contains an analysis of the maximum credit risk exposure from financial assets not subject to impairment (i.e. FVPL)

| Maximum exposure to credit risk | |
|--|--------------|
| | Shs'millions |
| Trading assets | |
| Debt Securities | |
| Financial assets designated at fair value | |
| Debt securities | |
| Loans and advances to customers | |

NOTES (CONTINUED)

4. Financial risk management (continued)

IFRS 7-36(b)

4.1.3.3 Collateral and other credit enhancements

IFRS-7B8F,G

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

- Mortgages over residential properties.
- Charges over business assets such as premises, inventory and accounts receivable.
- Charges over financial instruments such as debt securities and equities.

IFRS 7-35K(b)

Collateral held as security for financial assets other than loans and advances depends on the nature of the instrument. Longer-term finance and lending to corporate entities are generally secured; revolving individual credit facilities are generally unsecured. In addition, in order to minimise the credit loss the Bank will seek additional collateral from the counterparty as soon as impairment indicators are identified for the relevant individual loans and advances. The Group's policies regarding obtaining collateral have not significantly changed during the reporting period and there has been no significant change in the overall quality of the collateral held by the Group since the period.

IFRS 7-35k(b)

A portion of the Group's financial assets originated by the mortgage business has sufficiently low "loan to value" (LTV) ratios, which results in no loss allowance being recognised in accordance with the Group's expected credit loss model. The carrying amount of such financial assets at 31 December 2018 is Shs XX millions (2017: Shs XX).

IFRS 7-35K(c)

The Group closely monitors collateral held for financial assets considered to be credit impaired, as it becomes more likely that the Group will take possession of collateral to mitigate potential credit losses. Financial assets that are credit-impaired and related collateral held in order to mitigate potential losses are shown below:

| | Gross exposure Shs'millions | Impairment allowance Shs'millions | Carrying amount Shs'millions | Fair value of collateral held Shs'million |
|------------------------------|--------------------------------|--------------------------------------|---------------------------------|--|
| Retail loans and advances | | | | |
| Mortgages | | | | |
| Loans to corporate entities | | | | |
| Other assets | | | | |
| <hr/> | | | | |
| Total credit-impaired assets | | | | |

IFRS- 7AppxB10

4.1.3.4 Lending limits

The Bank maintains strict control limits on net open derivative positions (that is, the difference between purchase and sale contracts) by both amount and term. The amount subject to credit risk is limited to expected future net cash inflows of instruments, which in relation to derivatives are only a fraction of the contract, or notional values used to express the volume of instruments outstanding. This credit risk exposure is managed as part of the overall lending limits with customers, together with potential exposures from market movements. Collateral or other security is not always obtained for credit risk exposures on these instruments, except where the Bank requires margin deposits from counterparties.

Settlement risk arises in any situation where a payment in cash, securities or equities is made in the expectation of a corresponding receipt in cash, securities or equities. Daily settlement limits are established for each counterparty to cover the aggregate of all settlement risk arising from the Bank's market transactions on any single day.

NOTES (CONTINUED)

4. Financial risk management (continued)

IFRS 7-36(b)

4.1.3.5 Master netting arrangements

The Bank further restricts its exposure to credit losses by entering into master netting arrangements with counterparties with which it undertakes a significant volume of transactions. Master netting arrangements do not generally result in an offset of assets and liabilities of the statement of financial position, as transactions are either usually settled on a gross basis or under most netting agreements the right of set off is triggered only on default. However, the credit risk associated with favourable contracts is reduced by a master netting arrangement to the extent that if a default occurs, all amounts with the counterparty are terminated and settled on a net basis. The Bank's overall exposure to credit risk on derivative instruments subject to master netting arrangements can change substantially within a short period, as it is affected by each transaction subject to the arrangement.

*IFRS7AppxB10
(c)(d)*

4.1.3.6 Financial covenants (for credit related commitments and loan books)

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

Commitments to extend credit represent unused portions of authorisations to extend credit in the form of loans, guarantees or letters of credit. With respect to credit risk on commitments to extend credit, the Bank is potentially exposed to loss in an amount equal to the total unused commitments. However, the likely amount of loss is less than the total unused commitments, as most commitments to extend credit are contingent upon customers maintaining specific credit standards (often referred to as financial covenants).

The Bank monitors the term to maturity of credit commitments because longer-term commitments generally have a greater degree of credit risk than shorter-term commitments.

IFRS 7-35H

4.1.4 Impairment and provisioning policies

IFRS 7-IG20B

The loss allowance recognised in the period is impacted by a variety of factors as follows:

- Transfers between Stage 1 and Stage 2 or 3 due to financial instruments experiencing significant increases (or decreases) of credit risk or becoming credit impaired in the period, and the consequent “step up” or “step down” between 12-month and lifetime ECL;
- Additional allowance for new financial instruments recognised during the period, as well as releases for financial instruments de-recognised in the period;
- Impact on the measurement of ECL due to changes in PDs, EADs and LGDs in the period, arising from regular refreshing of inputs to models;
- Impacts on the measurement of ECL due to changes made to models and assumptions;
- Discount unwind within ECL due to the passage of time, as ECL is measured on a present value basis;
- Foreign exchange retranslations for assets denominated in foreign currencies and other movements; and
- Financial assets derecognised during the period and write-offs of allowances related to assets that were written off during the period.

NOTES (CONTINUED)

4. Financial risk management (continued)

The following tables explain the changes in the loss allowance in the year due to these factors:

| | Retail loans and advances | | | Total |
|---|----------------------------------|----------------|----------------|--------------|
| | Stage 1 | Stage 2 | Stage 3 | |
| | 12-month | Lifetime | Lifetime | |
| | ECL | ECL | ECL | |
| | Shs'millions | Shs'millions | Shs'millions | Shs'million |
| At start of year | | | | |
| Net staging transfers | | | | |
| Changes in PDs/LGDs/EADs | | | | |
| Changes in model assumptions | | | | |
| Modification of contractual cash flows | | | | |
| Unwind of discount | | | | |
| Net charge to profit or loss in the year | | | | |
| Other movements with no P&L impact: | | | | |
| Net staging transfers | | | | |
| Financial assets derecognised | | | | |
| Write-offs | | | | |
| At year end | | | | |

The unwind of discount on Stage 3 financial assets is reported within "interest income" so that interest income is recognised on the amortised cost, after deducting the expected credit loss.

The disclosures above should be repeated for each class of financial instruments, but are omitted for illustrative purposes.

IFRS 7-351

The following table explains changes in the gross carrying amount of the retail loans and advances to help explain the changes in the loss allowance for the same portfolio:

| | Retail loans and advances | | | Total |
|--|----------------------------------|----------------|----------------|--------------|
| | Stage 1 | Stage 2 | Stage 3 | |
| | 12-month | Lifetime | Lifetime | |
| | ECL | ECL | ECL | |
| | Shs'millions | Shs'millions | Shs'millions | Shs'million |
| At start of year | | | | |
| Net staging transfers | | | | |
| Financial assets derecognised | | | | |
| New financial assets originated | | | | |
| Modification of contractual cash flows | | | | |
| Changes in interest accrual | | | | |
| Write-offs | | | | |
| FX translation and other movements | | | | |
| At year end | | | | |

The disclosures above should be repeated for each class of financial instruments, but are omitted for illustrative purposes.

NOTES (CONTINUED)

4. Financial risk management (continued)

4.1.4 Concentration of risks of financial assets with credit exposure

IFRS 7-349(c)

| At 31 December 2018 | | | | | | | | |
|---------------------------------------|------------------------|-----------------|-------------|------------------|---------------|-------------|-------|--|
| <i>In millions of Kenya Shillings</i> | Financial institutions | Manu- facturing | Real estate | Retail and trade | Public sector | Individuals | Total | |
| Balances with the Central Bank | | | | | | | | |
| Loans and advances to Banks | | | | | | | | |
| Corporate loans and advances | | | | | | | | |
| - Term loans | | | | | | | | |
| - Overdrafts | | | | | | | | |
| Retail loans and advances | | | | | | | | |
| - Overdrafts | | | | | | | | |
| - Credit cards | | | | | | | | |
| - Term loans | | | | | | | | |
| - Mortgages | | | | | | | | |
| Trading assets | | | | | | | | |
| Investment securities | | | | | | | | |
| Other assets | | | | | | | | |
| Off-balance sheet items: | | | | | | | | |
| Financial guarantees | | | | | | | | |
| Undrawn commitments | | | | | | | | |
| Total credit exposure | | | | | | | | |

At 31 December 2017

| <i>In millions of Kenya Shillings</i> | Financial institutions | Manu- facturing | Real estate | Retail and trade | Public sector | Individuals | Total Shs |
|---------------------------------------|------------------------|-----------------|-------------|------------------|---------------|-------------|-----------|
| Balances with the Central Bank | | | | | | | |
| Loans and advances to Banks | | | | | | | |
| Corporate loans and advances | | | | | | | |
| - Term loans | | | | | | | |
| - Overdrafts | | | | | | | |
| Retail loans and advances | | | | | | | |
| - Overdrafts | | | | | | | |
| - Credit cards | | | | | | | |
| - Term loans | | | | | | | |
| - Mortgages | | | | | | | |
| Trading assets | | | | | | | |
| Investment securities | | | | | | | |
| Other assets | | | | | | | |
| Off-balance sheet items: | | | | | | | |
| Financial guarantees | | | | | | | |
| Undrawn commitments | | | | | | | |
| Total credit exposure | | | | | | | |

NOTES (CONTINUED)

4. Financial risk management (continued)

4.1.5 Write-off policy

IFRS 7-35H

The Group writes off financial assets, in whole or in part, when it has exhausted all practical recovery efforts and has concluded there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include (i) ceasing enforcement activity and (ii) where the group's recovery methods foreclosing on collateral and the value of the collateral is such that there is no reasonable expectations of recovering in full.

IFRS 7-35F
IFRS 7-35L

The Group may write-off financial assets that are still subject to enforcement activity. The outstanding contractual amounts of such assets written-off during the year was Shs XX millions (2017: Shs XX millions). The Group still seeks to recover amounts it is legally owed in full, but which have been partially written off due to no reasonable expectation of recovering in full.

4.1.6 Modifications of financial assets

The Group sometimes modifies the terms of loans provided to customers due to commercial renegotiations, or for distressed loans, with a view to maximising recovery.

Such restructuring activities include extended repayment term arrangements, payment holidays and payment forgiveness. Restructuring policies and practices are based on indicators or criteria which, in the judgement of management, indicate that payment will most likely continue. These policies are kept under continuous review. Restructuring is most commonly applied to term loans.

IFRS 7-35F
IFRS 7-35J

The risk of default of such assets after modification is assessed at the reporting date and compared with the risk under the original terms at initial recognition, when the modification is not substantial and so does not result in derecognition of the original asset. The Group monitors the subsequent performance of modified assets. The Group may determine that the credit risk has significantly improved after restructuring, so that the assets are moved from Stage 3 or Stage 2 (Lifetime ECL) to Stage 1 (12-month ECL). This is only the case for assets which have performed in accordance with the new terms for six consecutive months or more. The gross carrying amount of such assets at 31 December 2018 was Shs XX millions (2017: Shs XX millions).

The Group continues to monitor if there is a subsequent significant increase in credit risk in relation to such assets through the use of specific models for modified assets.

NOTES (CONTINUED)

4. Financial risk management (continued)

4.1.8 Debt securities

The tables below present an analysis of debt securities by rating agency designation at 31 December 2018 and at 31 December 2017, based on Standard & Poor's ratings or their equivalent: **[Present the analysis for Group and Bank]**

| | Trading assets | Investment securities | Total |
|---------------------------------------|----------------|-----------------------|-------|
| <i>In millions of Kenya Shillings</i> | | | |
| At 31 December 2018 | | | |
| AAA | | | |
| AA- to AA+ | | | |
| A- to A+ | | | |
| Lower than A- | | | |
| Total | | | |
| At 31 December 2017 | | | |
| AAA | | | |
| AA- to AA+ | | | |
| A- to A+ | | | |
| Lower than A- | | | |
| Total | | | |

4.2 Market risk

IFRS 7-31
IFRS 7-33(a)

The Bank takes on exposure to market risks, which is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risks arise from open positions in interest rate, currency and equity products, all of which are exposed to general and specific market movements and changes in the level of volatility of market rates or prices such as interest rates, foreign exchange rates and equity prices. The Bank separates exposures to market risk into either trading or non-trading portfolios.

The market risks arising from trading and non-trading activities are concentrated in Bank Treasury and monitored by two teams separately. Regular reports are submitted to the Board of Directors and heads of each business unit.

Trading portfolios include those positions arising from market-making transactions where the Bank acts as principal with clients or with the market.

Non-trading portfolios primarily arise from the interest rate management of the entity's retail and commercial banking assets and liabilities. Non-trading portfolios also consist of foreign exchange and equity risks arising from the Bank's held-to-maturity and available-for-sale financial assets.

IFRS 7-33(b)

Market risk measurement techniques

The objective of market risk measurement is to manage and control market risk exposures within acceptable limits while optimising the return on risk. The Bank Treasury is responsible for the development of detailed risk management policies and for day-to-day implementation of those policies.

NOTES (CONTINUED)

4. Financial risk management (continued)

(a) Value at risk

IFRS 7-41

The Bank applies a 'value at risk' (VAR) methodology to its trading and non-trading portfolios to estimate the market risk of positions held and the maximum losses expected, based upon a number of assumptions for various changes in market conditions. The Board sets limits on the value of risk that may be accepted for the Bank, which are monitored on a daily basis by Bank Treasury. Interest rate risk in the non-trading book is measured through the use of interest rate repricing gap analysis (Note 3.2.4).

VAR is a statistically based estimate of the potential loss on the current portfolio from adverse market movements. It expresses the 'maximum' amount the Bank might lose, but only to a certain level of confidence (98%). There is therefore a specified statistical probability (2%) that actual loss could be greater than the VAR estimate. The VAR model assumes a certain 'holding period' until positions can be closed (10 days). It also assumes that market moves occurring over this holding period will follow a similar pattern to those that have occurred over 10-day periods in the past. The Bank's assessment of past movements is based on data for the past five years. The Bank applies these historical changes in rates, prices, indices, etc. directly to its current positions – a method known as historical simulation. Actual outcomes are monitored regularly to test the validity of the assumptions and parameters/factors used in the VAR calculation. The use of this approach does not prevent losses outside of these limits in the event of more significant market movements.

As VAR constitutes an integral part of the Bank's market risk control regime, VAR limits are established by the Board annually for all trading portfolio operations and allocated to business units. Actual exposure against limits, together with a Bank-wide VAR, is reviewed daily by Bank Treasury. Average daily VAR for the Bank was KShsXXX in 2018 (2017: KShsXXX). The quality of the VAR model is continuously monitored by back-testing the VAR results for trading books. All back-testing exceptions and any exceptional revenues on the profit side of the VAR distribution are investigated, and all back-testing results are reported to the Board of Directors.

(b) Stress tests

Stress tests provide an indication of the potential size of losses that could arise in extreme conditions. The stress tests carried out by Bank Treasury include: risk factor stress testing, where stress movements are applied to each risk category; emerging market stress testing, where emerging market portfolios are subject to stress movements; and ad hoc stress testing, which includes applying possible stress events to specific positions or regions – for example, the stress outcome to a region following a currency peg break.

The results of the stress tests are reviewed by senior management in each business unit and by the Board of Directors. The stress testing is tailored to the business and typically uses scenario analysis.

NOTES (CONTINUED)

4. Financial risk management (continued)

Value at risk summary

(a) VAR by risk type

| <i>In millions of Kenya Shillings</i> | 12 months to 31 December 2018 | | | 12 months to 31 December 2017 | | |
|---------------------------------------|-------------------------------|------|-----|-------------------------------|------|-----|
| | Average | High | Low | Average | High | Low |
| Foreign exchange risk | | | | | | |
| Interest rate risk | | | | | | |
| Equity risk | | | | | | |
| Total VAR | | | | | | |

(b) Trading portfolio VAR by risk type

| <i>In Shs millions</i> | 12 months to 31 December 2018 | | | 12 months to 31 December 2017 | | |
|------------------------|-------------------------------|------|-----|-------------------------------|------|-----|
| | Average | High | Low | Average | High | Low |
| Foreign exchange risk | | | | | | |
| Interest rate risk | | | | | | |
| Equity risk | | | | | | |
| Total VAR | | | | | | |

The increase in VAR in 2018, especially the interest rate risk, relates mainly to the increased volatility of market interest rates in global principal financial markets.

4.3 Foreign exchange risk

IFRS
ApxB23

- 7- The Bank takes on exposure to the effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. The Board sets limits on the level of exposure by currency and in aggregate for both overnight and intra-day positions, which are monitored daily. The table below summarises the Bank's exposure to foreign exchange risk at 31 December 2018. Included in the table are the Bank's financial instruments at carrying amounts, categorised by currency.

NOTES (CONTINUED)

4. Financial risk management (continued)

Foreign exchange risk exposure

| At 31 December 2018 <i>In millions of Kenya Shillings</i> | Currency | USD | EUR | GBP | Other | Total |
|---|----------|-----|-----|-----|-------|-------|
| Assets | | | | | | |
| Cash and balances with the Central Bank | | | | | | |
| Loans and advances to banks | | | | | | |
| Loans and advances to customers | | | | | | |
| Financial assets held for trading | | | | | | |
| Investment securities: | | | | | | |
| – Available-for-sale | | | | | | |
| – Loans and receivables | | | | | | |
| – Held-to-maturity | | | | | | |
| Other assets | | | | | | |
| Total financial assets | | | | | | |
| Liabilities | | | | | | |
| Deposits from banks | | | | | | |
| Deposits from customers | | | | | | |
| Other liabilities | | | | | | |
| Dividend payable | | | | | | |
| Total financial liabilities | | | | | | |
| Net on-balance sheet financial position | | | | | | |
| Credit commitments | | | | | | |
| Derivative financial instruments | | | | | | |

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NOTES (CONTINUED)

4. Financial risk management (continued)

| | Currency | USD | EUR | GBP | Other | Total |
|---|----------|-----|-----|-----|-------|-------|
| At 31 December 2017 | | | | | | |
| Assets | | | | | | |
| Cash and balances with the Central Bank | | | | | | |
| Loans and advances to banks | | | | | | |
| Loans and advances to customers | | | | | | |
| Financial assets held for trading | | | | | | |
| Investment securities: | | | | | | |
| – Available-for-sale | | | | | | |
| – Loans and receivables | | | | | | |
| – Held-to-maturity | | | | | | |
| Other assets | | | | | | |
| Total financial assets | | | | | | |
| Liabilities | | | | | | |
| Deposits from banks | | | | | | |
| Deposits from customers | | | | | | |
| Other liabilities | | | | | | |
| Dividend payable | | | | | | |
| Total financial liabilities | | | | | | |
| Net on-balance sheet financial position | | | | | | |
| Credit commitments | | | | | | |

IFRS 7-40

The following table presents sensitivities of profit or loss and equity to reasonably possible changes in exchange rates applied at the end of the reporting period relative to functional currency of the Group, with all other variables held constant:

| | At 31 December 2018 | | At 31 December 2017 | |
|------------------------|--------------------------|------------------|--------------------------|------------------|
| | Impact on profit or loss | Impact on equity | Impact on profit or loss | Impact on equity |
| USD strengthens by 5% | | | | |
| USD weakens by 5% | | | | |
| GBP strengthens by 5% | | | | |
| GBP weakens by 5% | | | | |
| Euro strengthens by 5% | | | | |
| Euro weakens by 5% | | | | |

NOTES (CONTINUED)

4. Financial risk management (continued)

4.4 Interest rate risk

IFRS 7-31

IFRS 7-33

IFRS 7-

34 (a)(b)

Cash flow interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate because of changes in market interest rates. The Bank takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on both its fair value and cash flow risks. Interest margins may increase as a result of such changes but may reduce losses in the event that unexpected movements arise. The Board sets limits on the level of mismatch of interest rate repricing and value at risk that may be undertaken, which is monitored daily by Bank Treasury.

The tables below summarise the Bank's non-trading book fair value exposure to interest rate risks. It includes the Bank's financial instruments at carrying amounts (non-derivatives), categorised by the earlier of contractual repricing (for example for floating rate notes) and the maturity dates.

This table should be based on information provided internally to key management personnel. Otherwise, it is not required by IFRS 7.

| Up to 1 | month | months | 1-3 months | 3-12 1-5 years | Over 5 years | Non- interest bearing | Total |
|--|-------|--------|---------------|-------------------|-----------------|-----------------------------|-------|
| <i>In millions of Kenya Shillings</i> | | | | | | | |
| As at 31 December 2018 | | | | | | | |
| Assets | | | | | | | |
| Cash and balances with the Central Bank | | | | | | | |
| Loans and advances to banks | | | | | | | |
| Loans and advances to customers | | | | | | | |
| Financial assets held for trading | | | | | | | |
| Investment securities: | | | | | | | |
| – Available-for-sale | | | | | | | |
| – Loans and receivables | | | | | | | |
| – Held-to-maturity | | | | | | | |
| Other assets | | | | | | | |
| Total financial assets | | | | | | | |
| Liabilities | | | | | | | |
| Deposits from banks | | | | | | | |
| Deposits from customers | | | | | | | |
| Other liabilities | | | | | | | |
| Dividend payable | | | | | | | |
| Total financial liabilities | | | | | | | |
| Total interest repricing gap | | | | | | | |

NOTES (CONTINUED)

4. Financial risk management (continued)

4.4 Interest rate risk (continued)

| Up to 1 | month | months | 1-3 months | 3-12 1-5 years | Over 5 years | Non- interest bearing | Total |
|---|-------|--------|---------------|-------------------|-----------------|--------------------------|-------|
| As at 31 December 2017 | | | | | | | |
| Assets | | | | | | | |
| Cash and balances with the Central Bank | | | | | | | |
| Loans and advances to banks | | | | | | | |
| Loans and advances to customers | | | | | | | |
| Financial assets held for trading | | | | | | | |
| Investment securities: | | | | | | | |
| – Available-for-sale | | | | | | | |
| – Loans and receivables | | | | | | | |
| – Held-to-maturity | | | | | | | |
| Other assets | | | | | | | |
| Total financial assets | | | | | | | |
| Liabilities | | | | | | | |
| Deposits from banks | | | | | | | |
| Deposits from customers | | | | | | | |
| Other liabilities | | | | | | | |
| Dividend payable | | | | | | | |
| Total financial liabilities | | | | | | | |
| Total interest repricing gap | | | | | | | |

4.5 Liquidity risk

IFRS 7-31
IFRS 7-33
IFRS 7-39
(c)

Liquidity risk is the risk that the Bank is unable to meet its obligations when they fall due as a result of customer deposits being withdrawn, cash requirements from contractual commitments, or other cash outflows, such as debt maturities or margin calls for derivatives. Such outflows would deplete available cash resources for client lending, trading activities and investments. In extreme circumstances, lack of liquidity could result in reductions in the statement of financial position and sales of assets, or potentially an inability to fulfil lending commitments. The risk that the Bank will be unable to do so is inherent in all banking operations and can be affected by a range of institution-specific and market-wide events including, but not limited to, credit events, merger and acquisition activity, systemic shocks and natural disasters.

Liquidity risk management process

IFRS 7-39(c)
IFRS 7-AppxB11F

The Bank's liquidity management process, as carried out within the Bank and monitored by a separate team in Bank Treasury, includes:

- Day-to-day funding, managed by monitoring future cash flows to ensure that requirements can be met. This includes replenishment of funds as they mature or are borrowed by customers.
- The Bank maintains an active presence in global money markets to enable this to happen;
- Maintaining a portfolio of highly marketable assets that can easily be liquidated as protection against any unforeseen interruption to cash flow;
- Monitoring the liquidity ratios of the statement of financial position against internal and regulatory requirements; and
- Managing the concentration and profile of debt maturities.

NOTES (CONTINUED)

4. Financial risk management (continued)

Monitoring and reporting take the form of cash flow measurement and projections for the next day, week and month respectively, as these are key periods for liquidity management. The starting point for those projections is an analysis of the contractual maturity of the financial liabilities and the expected collection date of the financial assets (Notes 3.3.3-3.3.4).

Bank Treasury also monitors unmatched medium-term assets, the level and type of undrawn lending commitments, the usage of overdraft facilities and the impact of contingent liabilities such as standby letters of credit and guarantees.

Funding approach

IFRS 7-39(c)

Sources of liquidity are regularly reviewed by a separate team in Bank Treasury to maintain a wide diversification by currency, provider, product and term.

IFRS 7-39(a)
IFRS 7AppxB11, B14
IFRS 7Appx B10A

Non-derivative financial liabilities and assets held for managing liquidity risk

The table below presents the cash flows payable by the Bank under non-derivative financial liabilities and assets held for managing liquidity risk by remaining contractual maturities at the reporting date. The amounts disclosed in the table are the contractual undiscounted cash flow, whereas the Bank manages the liquidity risk based on a different basis, not resulting in a significantly different analysis.

[Where the liquidity gap is negative, please provide detailed narrative on plans to bridge the funding gap]

IFRS 7-39(a)

| | Up to 1 month | 1-3 months | 3-12 months | 1-5 years | Over 5 years | Total |
|---|------------------|------------|----------------|--------------|-----------------|-------|
| At 31 December 2018 | | | | | | |
| Liabilities | | | | | | |
| Deposits from banks | | | | | | |
| Deposits from customers | | | | | | |
| Other liabilities | | | | | | |
| Dividend payable | | | | | | |
| Total liabilities (contractual maturity dates) | | | | | | |
| Assets held for managing liquidity risk (contractual maturity dates) | | | | | | |
| Liquidity gap | | | | | | |
| As at 31 December 2017 | | | | | | |
| Liabilities | | | | | | |
| Deposits from banks | | | | | | |
| Deposits from customers | | | | | | |
| Other liabilities | | | | | | |
| Dividend payable | | | | | | |
| Total liabilities (contractual maturity dates) | | | | | | |
| Assets held for managing liquidity risk (contractual maturity dates) | | | | | | |
| Liquidity gap | | | | | | |

IFRS7
AppxB11E

IFRS7
AppxB11E

NOTES (CONTINUED)

4. Financial risk management (continued)

Assets held for managing liquidity risk

The Bank holds a diversified portfolio of cash and high-quality highly-liquid securities to support payment obligations and contingent funding in a stressed market environment. The Bank's assets held for managing liquidity risk comprise:

- Cash and balances with central banks;
- Certificates of deposit;
- Government bonds and other securities that are readily acceptable in repurchase agreements with central banks; and
- Secondary sources of liquidity in the form of highly liquid instruments in the Bank's trading portfolios.

4.6 Derivative liabilities

The Bank's derivatives that are settled on a gross basis include foreign exchange derivatives: currency forward and currency swaps.

The table below analyses the Bank's derivative financial instruments that are settled on a gross basis into relevant maturity groupings based on the remaining period at the reporting date to the contractual maturity date. Contractual maturities are assessed to be essential for an understanding of the timing of the cash flows on all derivatives. Some of the Bank's derivatives are subject to collateral requirements. The amounts disclosed in the table are the contractual undiscounted cash flows.

| | Up to 1 month | 1 -3 months | 3 -12 months | 1-5 years | Over 5 years | Total |
|---------------------------------------|------------------|----------------|-----------------|--------------|-----------------|-------|
| <i>In millions of Kenya Shillings</i> | | | | | | |
| At 31 December 2018 | | | | | | |
| Derivatives held for trading | | | | | | |
| Foreign exchange derivatives: | | | | | | |
| – Outflow | | | | | | |
| – Inflow | | | | | | |
| At 31 December 2017 | | | | | | |
| Derivatives held for trading | | | | | | |
| Foreign exchange derivatives: | | | | | | |
| – Outflow | | | | | | |
| – Inflow | | | | | | |

4.7 Off-balance sheet items

(a) Loan commitments

The dates of the contractual amounts of the Bank's off-balance sheet financial instruments that it commits to extend credit to customers and other facilities (Note 35) are summarised in the table below.

(b) Other financial facilities

Other financial facilities (Note 35) are also included in the table below, based on the earliest contractual maturity date.

IFRS7p39
(b), AppxB11D
(d)

NOTES (CONTINUED)

4. Financial risk management (continued)

4.7 Off-balance sheet items

(c) Operating lease commitments

Where the Bank is the lessee, the future minimum lease payments under non-cancellable operating leases, as disclosed in Note 35, are summarised in the table below.

Capital commitments for the acquisition of buildings and equipment (Note 35) are summarised in the table below

| | | No later than 1 year | 1-5 years | Over 5 years | Total |
|-------------------------------------|--|----------------------------|-----------|--------------|-------|
| | At 31 December 2018 | | | | |
| <i>IFRS 7</i> <i>AppxB11B(b)</i> | Loan commitments | | | | |
| <i>IFRS 7-39</i> | Acceptances and other financial facilities | | | | |
| <i>IAS 17-35</i> | Operating lease commitments | | | | |
| <i>IAS 16-74</i> | Capital commitments | | | | |
| | Total | | | | |
| | At 31 December 2017 | | | | |
| | Loan commitments | | | | |
| <i>IFRS 7-39</i> | Acceptances and other financial facilities | | | | |
| <i>IAS 17-35</i> | Operating lease commitments | | | | |
| <i>IAS 16-74</i> | Capital commitments | | | | |
| | Total | | | | |

5. Fair value of financial instruments

5.1 Financial instruments not measured at fair value

IFRS7-25,
AppxB2(a)

The following table summarises the carrying amounts and fair values of those financial assets and liabilities not presented on the Bank's statement of financial position at their fair value:

| | Carrying amount | | Fair value | |
|---|------------------------|-------------|-------------------|-------------|
| | 2018 | 2017 | 2018 | 2017 |
| Financial assets | | | | |
| Loans and advances to banks | | | | |
| Loans and advances to customers | | | | |
| Financial assets carried at amortised cost | | | | |
| Financial liabilities | | | | |
| Deposits from banks | | | | |
| Deposits from customers | | | | |
| Other liabilities | | | | |
| Off-balance sheet instruments | | | | |
| Loan commitments | | | | |
| Guarantees, acceptances and other liabilities | | | | |

NOTES (CONTINUED)

5. Fair value of financial instruments

IFRS 7-27

(i) Loans and advances to banks

Loans and advances to banks include inter-bank placements and items in the course of collection.

The carrying amount of floating rate placements and overnight deposits is a reasonable approximation of fair value.

The estimated fair value of fixed interest bearing deposits is based on discounted cash flows using prevailing money-market interest rates for debts with similar credit risk and remaining maturity. All loans and advances to banks are classified as level 2 under the fair value hierarchy table.

IFRS 7-27

(ii) Loans and advances to customers

Loans and advances are net of charges for impairment. The estimated fair value of loans and advances represents the discounted amount of estimated future cash flows expected to be received. Expected cash flows are discounted at current market rates to determine fair value.

IFRS 7-27

(iii) Investment securities

The fair value for loans and receivables and held-to-maturity financial assets is based on market prices or broker/dealer price quotations. Where this information is not available, fair value is estimated using quoted market prices for securities with similar credit, maturity and yield characteristics.

Investment securities (available-for-sale) disclosed in the table above comprises only those equity securities held at cost less impairment. The fair value for these assets is estimated using market prices and earnings multiples of quoted securities with similar characteristics. All other available-for-sale financial assets are already measured and carried at fair value.

IFRS 7-29(a)

(iv) Deposits from banks and customers

The estimated fair value of deposits with no stated maturity, which includes non-interest-bearing deposits, is the amount repayable on demand.

IFRS 7-27

The estimated fair value of fixed interest-bearing deposits not quoted in an active market is based on discounted cash flows using interest rates for new debts with similar remaining maturity.

IFRS 7-27

(v) Off-balance sheet financial instruments

The estimated fair values of the off-balance sheet financial instruments are based on markets prices for similar facilities. When this information is not available, fair value is estimated using discounted cash flow analysis.

NOTES (CONTINUED)

5. Fair value of financial instruments

5.2 Fair value hierarchy – assets and liabilities measured at fair value

IFRS 13 specifies a hierarchy of valuation techniques based on whether the inputs to those valuation techniques are observable or unobservable. Observable inputs reflect market data obtained from independent sources; unobservable inputs reflect the Bank's market assumptions. These two types of inputs have created the following fair value hierarchy:

IFRS 13-72

IFRS 13-76

Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities. This level includes listed equity securities and debt instruments on exchanges (for example, Nairobi Security Exchange) and exchanges traded derivatives like futures (for example, Nasdaq).

IFRS 13-81

Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices). The sources of input parameters like LIBOR yield curve or counterparty credit risk are Bloomberg and Reuters.

IFRS 13-86

Level 3 – inputs for the asset or liability that are not based on observable market data (unobservable inputs). This level includes equity investments and debt instruments with significant unobservable components.

This hierarchy requires the use of observable market data when available. The Bank considers relevant and observable market prices in its valuations where possible.

| | Level 1 | Level 2 | Level 3 Total |
|----------------------|---|---------|---------------|
| <i>IFRS 13-93(b)</i> | 31 December 2018 | | |
| | Financial assets at fair value through profit or loss | | |
| | Financial assets held for trading | | |
| | Debt securities | | |
| | Equity securities | | |
| | Derivatives | | |
| | Available-for-sale financial assets: | | |
| | Investment securities – debt | | |
| | Investment securities – equity | | |
| | Total assets | | |
| <i>IFRS 13-93(b)</i> | 31 December 2018 | | |
| | Financial assets at fair value through profit or loss | | |
| | Financial assets held for trading | | |
| | Debt securities | | |
| | Equity securities | | |
| | Derivatives | | |
| | Available-for-sale financial assets: | | |
| | Investment securities – debt | | |
| | Investment securities – equity | | |
| | Total assets | | |

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NOTES (CONTINUED)

5.2 Fair value hierarchy - assets and liabilities measured at fair value

IFRS 13-93(e)

Reconciliation of Level 3 items

| | Financial assets held for trading | |
|--|--|--------------------------|
| | Debt securities | Equity securities |
| | Shs'millions | Shs'millions |
| Year ended 31 December 2018 | | |
| At 1 January 2018 | | |
| Total losses | | |
| - Profit or loss | | |
| Purchases | | |
| Settlements | | |
| Transfers into or out of level 3 | | |
| At 31 December 2018 | | |
| Total losses for the year included in profit or loss for assets/liabilities held at 31 December 2018 | | |
| Year ended 31 December 2017 | | |
| At start of year | | |
| Total losses | | |
| - Profit or loss | | |
| Purchases | | |
| Settlements | | |
| Transfers into or out of level | | |
| 3 At end of year | | |
| Total losses for the year included in profit or loss for assets/liabilities held at 31 December 2017 | | |

6. Management of capital

IAS 1-134

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

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

IAS 1-135(a)

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

The Bank maintains a ratio of total regulatory capital to its risk-weighted assets (the 'Basel ratio') above a minimum level agreed with the Central Bank which takes into account the risk profile of the Bank.

The regulatory capital requirements are strictly observed when managing economic capital. The Bank's regulatory capital is managed by its Bank Treasury and comprises two tiers:

Tier 1 capital: share capital, general banking reserve, retained earnings and reserves created by appropriations of retained earnings; and

Tier 2 capital: qualifying subordinated loan capital, collective impairment allowances and unrealised gains arising on the fair valuation of financial instruments at fair value through other comprehensive income.

NOTES (CONTINUED)

6. Management of capital (continued)

The risk weighted assets are measured by means of a hierarchy of 4 risk weights. Risk weights are assigned to assets and off balance sheet items according to the Bank's own estimates of probabilities of default (PD), loss given default (LGD) and credit conversion factors (CCF) for retail business and claims to central governments, institutions and corporates. Own estimates of risk parameters are in accordance to the minimum requirements set out by Basel II.

IAS 1-135(b)
IAS 1-135(d)

The table below summarises the composition of regulatory capital and the ratios of the Bank for the years ended 31 December 2018 and 2017. During those two years, the Bank complied with all of the externally imposed capital requirements to which they are subject.

| | 2018 | 2017 |
|--|------|------|
| <i>In millions of Kenya Shillings</i> | | |
| Tier 1 capital | | |
| Share capital | | |
| Share premium | | |
| General banking reserve | | |
| Retained earnings | | |
| Less: Intangible assets | | |
| Total qualifying Tier 1 capital | | |
| Tier 2 capital | | |
| Revaluation reserve – available-for-sale investments | | |
| Collective impairment allowance | | |
| Total qualifying Tier 2 capital | | |
| Total regulatory capital | | |
| Risk-weighted assets: | | |
| On-balance sheet | | |
| Off-balance sheet | | |
| Total risk-weighted assets | | |
| Basel ratio | | |

IAS 1-135(c)

The increase of the Tier 1 qualifying capital in the year of 2018 is mainly due to the contribution of the current-year profit. The increase of the risk-weighted assets reflects the expansion of the business in SMEs in 2018.

IAS 1-122
IAS 1-125
IAS 1-129

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

NOTES (CONTINUED)

NOTES (CONTINUED)

7. Operating segments

[Please note that the disclosures below are illustrative only and segment reporting has to be tailored to follow internal reporting to CODM]

IFRS 8-20, 27(a)

Operating segments are components that engage in business activities that may earn revenues or incur expenses, whose operating results are regularly reviewed by the Chief Operating Decision Maker (CODM), and for which discrete financial information is available. The CODM is the person or group of persons who allocates resources and assesses the performance of the entity. The functions of the CODM are performed by the *[Board of Directors or management committee]* of the Group.

Operating 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.

Operating segments

The Group comprises the following main operating segments:

- (i) **Corporate Banking** - includes loans, deposits and other transactions and balances with corporate customers
- (ii) **Retail Banking** - includes loans, deposits and other transactions and balances with retail customers
- (iii) **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 operating segments on a reasonable basis.

The group segments are strategic business units that focus on different customers. They are managed separately because each business unit requires different marketing strategies and service levels.

The CODM evaluates performance of each segment based on profit before tax (segment results).

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Reference NOTES (CONTINUED)

7. Operating segments (continued)

| Operating segments - 2018 | | Corporate banking | Retail banking | Central treasury³ | Shared services | Unallocated | Consolidated |
|---------------------------------------|--|------------------------------|---------------------------|---|----------------------------|--------------------|---------------------|
| <i>In millions of Kenya Shillings</i> | | | | | | | |
| IFRS 8-23(a) | External revenue | | | | | | |
| IFRS 8-23(c)-(d) | Interest income | | | | | | |
| | Interest expense | | | | | | |
| IFRS 8-23(f) | Net fee and commission income | | | | | | |
| IFRS 8-23(f) | Net trading income | | | | | | |
| IFRS 8-23(f) | Net income from other financial Instruments carried at fair value | | | | | | |
| IFRS 8-23(f) | Other operating income | | | | | | |
| IFRS 8-23(b) | Inter segment revenue | | | | | | |
| IFRS 8-32 | Total segment revenue | | | | | | |
| IFRS 8-21(b) | Profit before tax | | | | | | |
| | Income tax expense | | | | | | |
| IFRS 8-21(b) | Profit for the period | | | | | | |
| IFRS 8-21(b) | Segment assets | | | | | | |
| | Unallocated assets | | | | | | |
| IFRS 8-21(b) | Total assets | | | | | | |
| IFRS 8.21(b) | Segment liabilities | | | | | | |
| | Unallocated liabilities | | | | | | |
| IFRS 8.21(b) | Total liabilities | | | | | | |
| IFRS 8.23(i) | Impairment losses on financial assets | | | | | | |
| | Depreciation and amortisation | | | | | | |
| | Restructuring costs | | | | | | |
| IFRS 8.23(i) | Capital expenditure | | | | | | |

[IFRS8p33 requires certain mandatory disclosure of geographical information in addition to the information on reportable segments]

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Reference NOTES (CONTINUED)

7. Operating segments (continued)

IFRS 8.20, 27(a) Operating segments - 2017

| <i>In millions of Kenya Shillings</i> | | Corporate banking | Retail banking | Central treasury | Shared services | Unallocated | Consolidated |
|---------------------------------------|--|----------------------|-------------------|---------------------|--------------------|-------------|--------------|
| IFRS 8-23(a) | External revenue | | | | | | |
| IFRS 8-23(c)-(d) | Net interest income | | | | | | |
| | Interest expense | | | | | | |
| IFRS 8-23(f) | Net fee and commission income | | | | | | |
| IFRS 8-23(f) | Net trading income | | | | | | |
| IFRS 8-23(f) | Net income from other financial Instruments carried at fair value | | | | | | |
| IFRS 8-23(f) | Other operating income | | | | | | |
| IFRS 8-23(b) | Intersegment revenue | | | | | | |
| IFRS 8-21(b) | Total segment revenue | | | | | | |
| IFRS 8-21(b) | Segment result | | | | | | |
| | Income tax expense | | | | | | |
| IFRS 8-21(b) | Profit for the period | | | | | | |
| IFRS 8-21(b) | Segment assets | | | | | | |
| | Unallocated assets | | | | | | |
| IFRS 8-21(b) | Total assets | | | | | | |
| IFRS 8-21(b) | Segment liabilities | | | | | | |
| | Unallocated liabilities | | | | | | |
| IFRS 8-21(b) | Total liabilities | | | | | | |
| IFRS 8-23(i) | Impairment losses on financial assets | | | | | | |
| | Depreciation and amortisation | | | | | | |
| | Restructuring costs | | | | | | |
| IFRS 8-23(i) | Capital expenditure | | | | | | |

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| <i>Reference</i> | NOTES (CONTINUED) | | |
|---------------------|--|-------------|-------------|
| 8. | Net interest income | | |
| | <i>In millions of Kenya Shillings</i> | 2018 | 2017 |
| | Interest income | | |
| | Cash and cash equivalents | | |
| | Loans and advances to customers | | |
| | Financial assets carried at amortised cost | | |
| | Financial assets carried at fair value through other comprehensive income | | |
| | Total interest income | | |
| | Interest expense | | |
| | Deposits from banks | | |
| | Deposits from customers | | |
| | Debt securities issued | | |
| | Total interest expense | | |
| | Net interest income | | |
| <i>IFRS 7-20(d)</i> | Included within various captions under interest income for the year ended 31 December 2018 is a total of KShsXXX (2017: KShsXXX) accrued on impaired financial assets. | | |
| 9. | Net fee and commission income | | |
| | <i>In millions of Kenya Shillings</i> | 2018 | 2017 |
| | Fee and commission income | | |
| | Retail banking customer fees | | |
| | Corporate banking credit related fees | | |
| | Other | | |
| | Total fee and commission income | | |
| | Fee and commission expense | | |
| | Brokerage | | |
| | Interbank transaction fees | | |
| | Other | | |
| | Total fee and commission expense | | |
| | Net fee and commission income | | |
| | Asset management fees relate to fees earned by the Group on trust and fiduciary activities where the Group holds or invests assets on behalf of its customers | | |
| 10. | Trading income | | |
| | <i>In millions of Kenya Shillings</i> | 2018 | 2017 |
| | Foreign currency trading | | |
| | Other | | |
| | Total trading income | | |

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Reference **NOTES (CONTINUED)**

11. Net income from financial instruments carried at fair value through profit or loss

In millions of Kenya Shillings

2018 2017

IFRS 7-20(a) Derivatives held for risk management purposes
Investment securities
Loans and advances

IFRS 7-10(a) At 31 December 2018, 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 KShsXXX (2017: KShsXXX).

12. Other operating income

In millions of Kenya Shillings

2018 2017

Gain on sale of financial assets carried at fair value through OCI
Government bonds
Corporate bonds
Other income

13. Personnel costs

In millions of Kenya Shillings

The following items are included within personnel costs:

2018 2017

IAS19p46 Salaries and wages
Contributions to defined contribution plans
Defined benefit retirement plans (Note 33)
Post-employment medical benefits (Note 33)

CA 649(2) The average number of employees during the year were as follows:

Corporate Banking
Retail banking
Shared services

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Reference **NOTES (CONTINUED)**

14. Other operating expenses

In millions of Kenya Shillings

2018 2017

Other operating expenses include the following:

Software licensing and other information technology costs
Branch closure cost provisions
Redundancy costs
Auditors' remuneration
Depreciation of property and equipment
Amortisation of prepaid operating lease rentals

15. Income tax expense

IAS 12-79 Recognised in the profit or loss

In millions of Kenya Shillings

2018 2017

Current tax expense

IAS 12-80(a) Current year

IAS 12-80(b) Adjustments for prior years

Deferred income tax expense (Note 28)

IAS 12-80(c) Origination and reversal of temporary differences

IAS 12-80(f) Recognition of previously unrecognised tax losses

Total income tax expense

IAS 12-81(c) Reconciliation of effective tax rate

In millions of Kenya Shillings

Profit before income tax

Income tax using the enacted tax rate

Tax effect of:

- Non-deductible expenses

- Tax exempt income

Recognition of previously unrecognised tax losses

(Over) provided in prior years

Total income tax expense in income statement

16. Earnings per share

Basic earnings per share

The calculation of basic earnings per share at 31 December 2018 is based on the profit attributable to ordinary shareholders and a weighted average number of ordinary shares outstanding, calculated as follows:

IAS 33-70(a) Profit attributable to ordinary shareholders

In millions of Kenya Shillings

2018 2017

Net profit for the period attributable to equity holders of the Bank

IAS 33-70(b) Weighted average number of ordinary shares at 31 December

Basic earnings per share (*in Kenya Shillings*)

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Reference **NOTES (CONTINUED)**

16. Earnings per share (continued)

Diluted earnings per share

The calculation of diluted earnings per share at 31 December 2018 was based on the profit attributable to ordinary shareholders and a weighted average number of ordinary shares outstanding after adjustment for the effects of all potential dilutive ordinary shares, calculated as follows:

| | | | |
|---------------------|---|-------------|-------------|
| <i>IAS 33-70(a)</i> | Profit attributable to ordinary shareholders (diluted) | | |
| | <i>In millions of Kenya Shillings</i> | 2018 | 2017 |
| | Profit for the period attributable to ordinary shareholders | | |
| <i>IAS 33-70(b)</i> | Weighted average number of ordinary shares (diluted) | | |
| | <i>In millions of shares</i> | | |
| | Weighted average number of ordinary shares (basic) | | |
| | Potential dilutive ordinary shares | | |
| | Weighted average number of ordinary shares (diluted) at 31 December | | |
| | Diluted earnings per share (<i>in Kenya Shillings</i>) | | |

17. Dividend per share

At the Annual General Meeting to be held on XXXXXX2019, a final dividend in respect of the year ended 31 December 2018 of KShsXXX (2017 – KShsXXX) will be proposed. An interim dividend of KShsXXX (2017 – KShsXXXX) was paid during the year. This will bring the total dividend for the year to KShsXXX (2017 – KShsXXX).

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

18. Cash and balances with Central Bank

| | Group | | Bank |
|----------|----------------------------|-------------|-------------|
| | 2018 | 2017 | 2018 |
| IFRS7.45 | Cash on hand | | |
| | Balances with Central Bank | | |
| | Cash reserve ratio balance | | |
| | Other current accounts | | |

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Reference **NOTES (CONTINUED)**

19 Trading assets and liabilities

| | | Group | | Bank | |
|---------------------|--|--------------|-------------|-------------|-------------|
| | | 2018 | 2017 | 2018 | 2017 |
| <i>IFRS 9-4.1.1</i> | <u>Financial assets held for trading</u> Government treasury bills and bonds Corporate bonds Derivative financial instruments | | | | |
| | <u>Financial liabilities held for trading</u> Derivative financial instruments Over the counter structured derivatives | | | | |

20 Investment securities

| | <u>Financial assets at fair value through other comprehensive income</u> | Group | | Bank | |
|---------------------|---|--------------|--|-------------|--|
| | | | | | |
| <i>IFRS 9-4.1.1</i> | Government securities – at fair value: - Maturing within 90 days of the date of acquisition - Maturing after 90 days after the date of acquisition Debt securities – at fair value | | | | |
| <i>IFRS 9-4.1.1</i> | <u>Financial assets at amortised cost</u> Government securities - at amortised cost: - Maturing within 90 days of date of acquisition - Maturing after 90 days of the date of acquisition Debt securities – at amortised cost | | | | |

| | | | | |
|-----------------|---|---------------------------|--------------------------|-------|
| <i>IAS 1-61</i> | Maturity profile of investment securities | Maturing within 12 months | Maturing after 12 months | Total |
| | Financial assets carried at fair value through other comprehensive income | | | |
| | Financial assets carried at amortised costs | | | |

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Reference

NOTES (CONTINUED)

21 Loans and advances to customers

| | | 2018 | | | 2017 | | |
|--|--------------------------------------|---------------|-----------------------|------------------|-------------|-----------------------|-----------------|
| | | Gross | Credit loss allowance | Carrying amount | Gross | Credit loss allowance | Carrying amount |
| IFRS7.8 (a) | Group | | | | | | |
| | <u>Retail portfolio</u> | | | | | | |
| | Mortgage lending | | | | | | |
| | Personal unsecured loans | | | | | | |
| | Credit cards | | | | | | |
| | <u>Corporate portfolio</u> | | | | | | |
| | Term loans | | | | | | |
| | Overdraft facilities | | | | | | |
| | Asset finance leases | | | | | | |
| | | | | | | | |
| IFRS 7-.8(f) | Bank | | | | | | |
| | <u>Retail portfolio</u> | | | | | | |
| | Mortgage lending | | | | | | |
| | Personal unsecured loans | | | | | | |
| | Credit cards | | | | | | |
| | <u>Corporate portfolio</u> | | | | | | |
| | Term loans | | | | | | |
| | Overdrafts facilities | | | | | | |
| | Asset finance leases | | | | | | |
| | | | | | | | |
| Provision for credit loss allowance | | | | | | | |
| | Group | Retail | | Corporate | | Total | |
| | | 2018 | 2017 | 2018 | 2017 | 2018 | 2017 |
| | <u>Individually assessed:</u> | | | | | | |
| | At start of year | | | | | | |
| | Credit loss allowance | | | | | | |
| | - Charge for the year | | | | | | |
| | - Recoveries in the year | | | | | | |
| | - Effects of currency translation | | | | | | |
| | Write-offs | | | | | | |
| | At end of year | | | | | | |
| | <u>Collectively assessed:</u> | | | | | | |
| | At start of year | | | | | | |
| | Charge for the year | | | | | | |
| | At end of year | | | | | | |
| | Total provision for credit loss | | | | | | |

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Reference **NOTES (CONTINUED)**

21 **Loans and advances to customers (continued)**

Provision for credit loss allowance

| Bank | Retail | | Corporate | | Total | |
|------------------------------------|---------------|-------------|------------------|-------------|--------------|-------------|
| | 2018 | 2017 | 2018 | 2017 | 2018 | 2017 |
| <u>Individually assessed:</u> | | | | | | |
| At start of year | | | | | | |
| Credit loss allowance for the year | | | | | | |
| - Charge for the year | | | | | | |
| - Recoveries in the year | | | | | | |
| - Effects of currency translation | | | | | | |
| Write-offs | | | | | | |
| At end of year | | | | | | |
| <u>Collectively assessed:</u> | | | | | | |
| At start of year | | | | | | |
| Charge for the year | | | | | | |
| At end of year | | | | | | |
| Total provision for credit loss | | | | | | |

Additional disclosures on impairments and provisions for credit losses are set out under note 4.1.4

22. Other assets and prepayments

| | | Group | | Bank | |
|------------|-----------------------------------|--------------|-------------|-------------|-------------|
| | | 2018 | 2017 | 2018 | 2017 |
| IAS1.77 | Other receivables and prepayments | | | | |
| IAS1.54(h) | Accrued income | | | | |
| | Derivative financial instruments | | | | |
| | Items in course of collection | | | | |

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Reference NOTES (CONTINUED)

23. Property and equipment

| <i>IAS 16-73(d), (e)</i> | <i>In millions of Kenya Shillings</i> | Land and buildings | IT equipment | Fixtures and fittings | Total |
|------------------------------|---|-----------------------|-----------------|--------------------------|-------|
| | Cost | | | | |
| | At 1 January 2017 | | | | |
| | Additions | | | | |
| | Disposals | | | | |
| | At 31 December 2017 | | | | |
| | Balance at 1 January 2018 | | | | |
| | Additions | | | | |
| | Disposals | | | | |
| | At 31 December 2018 | | | | |
| | Depreciation and impairment losses | | | | |
| | At 1 January 2017 | | | | |
| | Depreciation charge | | | | |
| <i>IAS 16-73(e)(vii)</i> | Impairment loss | | | | |
| | At 31 December 2017 | | | | |
| | At 1 January 2018 | | | | |
| | Depreciation charge | | | | |
| <i>IAS 16-73(e)(vii)</i> | Impairment loss | | | | |
| | At 31 December 2018 | | | | |
| <i>IAS 1-78(a), 16-73(e)</i> | Net book amounts | | | | |
| | At 1 January 2017 | | | | |
| | At 31 December 2017 | | | | |
| | At 31 December 2018 | | | | |

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Reference NOTES (CONTINUED)

24. Intangible assets

| | | Purchased software | Developed software | Total |
|---------------------------|---------------------------------------|-----------------------|-----------------------|-------|
| <i>IAS 38-118(c), (e)</i> | <i>In millions of Kenya Shillings</i> | | | |
| | Cost | | | |
| | At 1 January 2017 | | | |
| | Additions | | | |
| | Internal development | | | |
| | At 31 December 2017 | | | |
| | At 1 January 2018 | | | |
| | Additions | | | |
| | Internal development | | | |
| | At 31 December 2018 | | | |
| | Amortisation and impairment | | | |
| | At 1 January 2017 | | | |
| | Amortisation charge | | | |
| <i>IAS 36-126(a)</i> | Impairment loss | | | |
| | Balance at 31 December 2017 | | | |
| | At 1 January 2018 | | | |
| | Amortisation charge | | | |
| <i>IAS 36-126(a)</i> | Impairment loss | | | |
| | At 31 December 2018 | | | |
| <i>IAS 38-118(c)</i> | Carrying amounts | | | |
| | At 1 January 2017 | | | |
| | At 31 December 2017 | | | |
| | At 31 December 2018 | | | |

IAS 36-129(a), 131 During 2017 and 2018, 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 | | |
| <i>IAS 12-81(g)(i)</i> | Deferred tax assets and liabilities are attributable to the following: | | |
| | <i>In millions of Kenya Shillings</i> | Assets/(liabilities) 2018 | Assets/(Liabilities) 2017 |
| | Property and equipment | | |
| | Intangible assets | | |
| | Financial assets carried at FVOCI | | |
| | Credit loss allowances | | |
| | Tax losses carry-forward | | |
| | Other temporary differences | | |
| | Net tax assets/(liabilities) | | |

The deferred tax asset has been recognised based on the projected future taxable profits that will be available against which the deductible temporary differences and tax losses carried forward can be utilised. All the recognised tax losses relate to subsidiaries and are not subject to expiry before utilisation.

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Reference NOTES (CONTINUED)

25. Deferred income tax (continued)

| Movements in temporary differences during the year | | | | |
|---|---------------------------------------|--|---|---|
| | <i>In millions of Kenya Shillings</i> | At start of year (restated) | Recognised in profit or loss | Other comprehensive income |
| IAS 12-74 | | | | At end of year |
| | 2018 | | | |
| | Property and equipment | | | |
| | Intangible assets | | | |
| | Financial assets carried at FVOCI | | | |
| | Credit loss allowances | | | |
| | Tax losses carry-forwards | | | |
| | Other temporary differences | | | |

| | |
|--|-----------------------------------|
| | 2017 |
| | Property and equipment, |
| | Intangible assets |
| | Financial assets carried at FVOCI |
| | Credit loss allowances |
| | Tax loss carry-forwards |
| | Other temporary differences |

| | | | |
|--------------------|---|-------------|-------------|
| IAS 12-81a) | <i>In millions of Kenya Shillings</i> | 2018 | 2017 |
| | The (credit)/charge to other comprehensive income relates to: | | |
| | <i>Items that will not be reclassified subsequently to profit or loss:</i> | | |
| | Remeasurement of net defined benefit asset/liability | | |
| | <i>Items that will be reclassified subsequently to profit or loss when specific conditions are met:</i> | | |
| | Changes in fair value of available for sale financial assets | | |

| | |
|-------------------|--|
| | The opening balance of deferred income tax liability has been adjusted by a debit of ShsXXX relating to changes in credit loss allowances on initial application of IFRS 9 |
| IAS 12-82A | If all the retained earnings of the group at 31 December 2018 were to be distributed, an additional income (compensating) tax of KShsXXX (2017: KShsXXX) would be payable. This liability has not been recognised. |

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Reference **NOTES (CONTINUED)**

26 Deposits from banks

| | Group | | Bank | |
|--|--------------|-------------|-------------|-------------|
| | 2018 | 2017 | 2018 | 2017 |

| | | | | |
|-----------------------------------|--|--|--|--|
| Money market deposits | | | | |
| Other deposits from banks | | | | |
| Items in the course of collection | | | | |

27 Deposits from customers

Retail customers:
 Term deposits
 Savings and Current accounts
 Corporate customers:
 Term deposits
 Savings and current accounts
 Others

28 Other liabilities and accrued expenses

Other payables and accrued expenses
 Derivative financial instruments
 Deferred income
 Items in course of collection

29. Borrowings

Subordinated debt

The long-term subordinated debt (10 years) was raised from XXX to increase the Bank's supplementary capital, amounted to KShs XXX million (2017: KShsXXX million).

Senior loan

The Group has two long-term senior loans (ten years and five years respectively) raised from XXXXXXXXXXXX, in 2010 amounting KShs XXX million .

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Reference NOTES (CONTINUED)

29. Borrowings (continued)

| <i>In millions of Kenya Shillings</i> | 2018 | 2017 |
|---------------------------------------|-------------|-------------|
| <u>Subordinated debt</u> | | |
| At start of year | | |
| Accrued interest | | |
| Repaid during the year | | |
| Currency translation difference | | |
| <u>Senior loan</u> | | |
| At start of year | | |
| Additions during the year | | |
| Accrued interest | | |
| Repaid during the year | | |
| Currency translation difference | | |

30. Provisions for liabilities

| <i>In millions of Kenya Shillings</i> | Redund- ancy | Branch closures | Onerous contracts | Total |
|---|-------------------------|----------------------------|------------------------------|--------------|
| <i>IAS 37-84(a)</i> At 1 January 2017 | | | | |
| <i>IAS 37-84(b)</i> Provisions made during the year | | | | |
| <i>IAS 37-84(d)</i> Provisions reversed during the year | | | | |
| Utilised during the year | | | | |
| <i>IAS 37-84(a)</i> Balance at 31 December 20XX | | | | |
| <i>IAS 37-84(a)</i> At 1 January 2018 | | | | |
| <i>IAS 37-84(b)</i> Provisions made during the year | | | | |
| <i>IAS 37-84(d)</i> Provisions reversed during the year | | | | |
| Utilised during the year | | | | |
| <i>IAS 37-84(a)</i> At 31 December 2018 | | | | |

IAS 37-85(a), (b), **Redundancy and branch closures**

In accordance with the *Delivery Channel Optimisation* plans announced by the Group in November 2018, the Group is in the process of rationalising its retail branch network and related processing functions. The provision for redundancies and branch closures relates to estimated costs for staff for staff retrenchments and branch closures to be completed in 2019.

IAS 37-85(a), (b) **Onerous contracts**

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. A provision has been made for the present value of the future lease payments less the lease receivables for those properties.

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Reference NOTES (CONTINUED)

31. Retirement benefits obligation

IAS 19-120A(b) The Group makes contributions to a non-contributory defined benefit plan that provides pension and medical benefits for employees upon retirement. The plan entitles a retired employee to receive an annual payment equal to 1/60 of final salary for each year of service, and to the reimbursement of certain medical costs.

The table below outlines where the group's post-employment amounts and activity are included in the financial statements

The amounts recognised in the statement of financial position are as follows:

| <i>In millions of Kenya Shillings</i> | 2018 | 2017 |
|--|-------------|-------------|
| <i>IAS 19-120A(d), (f)</i> Defined pension benefits | | |
| <i>IAS 19-120A(d), (f)</i> Post employment medical benefits | | |
| <i>IAS 19-120A(f)</i> Recognised liability for defined benefit obligations | | |

Income statement charge included in profit or loss:

| | |
|---|--|
| <i>IAS 19-120A(d), (f)</i> Defined pension benefits | |
| <i>IAS 19-120A(d), (f)</i> Post employment medical benefits | |

Remeasurements for:

| | |
|---|--|
| <i>IAS 19-120A(d), (f)</i> Defined pension benefits | |
| <i>IAS 19-120A(d), (f)</i> Post employment medical benefits | |

The following table analyses the components of defined benefit costs recognized in *IAS 19-135b* comprehensive income

| <i>In millions of Kenya Shillings</i> | 2018 | 2017 |
|--|-------------|-------------|
| Current service cost | | |
| Past service cost and loss arising from settlements | | |
| Net interest expense | | |
| Components of defined benefit costs recognised in profit or loss | | |
| Return on plan assets (excluding amounts included in net interest expense) | | |
| Actuarial losses arising from changes in demographic assumptions | | |
| Actuarial gains arising from changes in financial assumptions | | |
| Actuarial losses arising from experience adjustments | | |
| Components of defined benefit costs recognised in other comprehensive income | | |

The net defined benefit liability [/asset] in the balance sheet comprises:

| | |
|---|--|
| Present value of the defined benefit obligation | |
| Less: Fair value of plan assets | |

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Reference NOTES (CONTINUED)

31. Retirement benefits obligation (continued)

In millions of Kenya Shillings

2018 **2017**

IAS 19-140, 141 The movement in the defined benefit obligation over the year

| |
|--|
| At start of year |
| Current service cost |
| Net interest expense |
| Past service cost and loss arising from settlements |
| Actuarial losses arising from changes in demographic assumptions |
| Actuarial gains arising from changes in financial assumptions |
| Actuarial losses arising from experience adjustments |
| Benefits paid |
| At end of year |

IAS 19-120A e) The movement in the fair value of plan assets is as follows:

| |
|--|
| At start of year |
| Return on plan assets (excluding amounts included in net interest expense) |
| Employer contributions |
| Employee contributions |
| Benefits paid |
| At end of year |

IAS 19-142 The fair value of plan assets comprises:

| |
|------------------------------|
| Equity investments: |
| Manufacturing |
| Financial institutions |
| Agriculture |
| Debt securities: |
| Treasury bonds |
| High quality corporate bonds |
| Investment property |
| Other |
| Total |

IAS 19-142 Only the equity investments and debt securities are quoted in an active market (Level 1)
IAS 19-143 Pension plan assets include a building occupied by the Bank with a fair value of KShsXXX million (2017: KShsXXX)

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Reference NOTES (CONTINUED)

31. Retirement benefits obligation (continued)

| | | 2018 | 2017 |
|---------------|--|------|------|
| IAS 19-144 | The significant actuarial assumptions used were as follows: | | |
| IAS 19-83 | Discount rate (%) | | |
| IAS 19-87 | Future salary increases (%) | | |
| IAS 19-82 | Life expectancy after retirement age | | |
| | For each of the above significant actuarial assumptions, a sensitivity analysis has been determined based on reasonably possible changes of the assumption occurring at the end of the reporting period, while holding all other assumptions constant: | | |
| | If the discount rate is 1% higher (lower), the defined benefit obligation would decrease by Shs million (increase by Shs XXX million) | | |
| | If the expected rate of salary growth increases (decreases) by 1%, the defined benefit obligation would increase by KShsXXX (decrease by KShs XXX) | | |
| | If the average life expectancy increases (decreases) by one year, the defined benefit obligation would increase by KShsXXX (decrease by KShs XXX) | | |
| IAS 19-145 a) | For the above sensitivity analysis, the present value of the defined benefit obligation has been determined using the Projected Unit Credit Method at the end of the reporting period, which is the same as that applied in the statement of financial position. | | |
| IAS 19-145b) | Such sensitivity analysis might not be representative of the actual change in the defined benefit obligation as it is unlikely that the change in assumptions would occur in isolation of one another. | | |
| IAS 19-147b) | The expected contributions to the plan during 2018 are KShsXXX. | | |

IAS 1-79 **32. Share capital and premium**

| | | Number of shares (thousands) | Ordinary shares | Share premium | Total |
|--------------|--|------------------------------------|--------------------|------------------|-------|
| IAS1.106(d) | At January 2017 | | | | |
| IAS1.54(h) | Bonus issue | | | | |
| | At 31 December 2017 | | | | |
| | Issue for cash | | | | |
| | At 31 December 2018 | | | | |
| IAS 1-76(a) | At 31 December 2018 the authorised share capital comprised XX billion ordinary shares (2017: XX billion of KShsXXX each. All issued shares are fully paid. | | | | |
| IAS -1.76(a) | On XXX2017, the company issued bonus shares of one ordinary share for every 10 shares held by capitalising KShsXXX from retained earnings. | | | | |
| | On XXX2018 the company issued XXX shares for cash at a price of KShsXXX per share. | | | | |

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Reference NOTES (CONTINUED)

33. Regulatory reserve

IAS 1-76(b) The regulatory reserve represents an appropriation from retained earnings to comply with the Prudential guidelines of the Central Bank of Kenya on loan loss provisions. The balance represents the excess of impairment provisions determined in accordance with the Prudential guidelines over the impairment provisions recognised in accordance with the International Financial Reporting Standards. The reserve is non-distributable.

The opening balance of regulatory reserve has been adjusted by a debit of ShsXXX relating to the increase in credit loss allowance on initial application of IFRS 9.

IAS 1-79 **34. Other reserves**

| | | Fair value reserves | Currency translation reserve | Total |
|----------|--|--------------------------------|---|--------------|
| IAS 1-76 | At January 2017 | | | |
| | Fair value gain/(loss) on financial assets carried at FVOCI | | | |
| | Deferred income tax | | | |
| | Currency translation differences | | | |
| | At 31 December 2017 | | | |
| | Fair value gain/(loss) on financial assets carried at FVOCI | | | |
| | Deferred income tax | | | |
| | Currency translation differences | | | |
| | At 31 December 2018 | | | |

IAS 1-76(b) The fair value reserve comprises the cumulative net change in the fair value of financial assets carried at fair value through other comprehensive income, until the investment is derecognised or impaired.

Currency translation reserve comprises all the 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.

35. Off balance sheet financial instruments, contingent liabilities and commitments

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. In addition, there are other off-balance sheet financial instruments including forward contracts for the purchase and sale of foreign currencies, whose nominal amounts are not reflected in the balance sheet. At the year end, the contingent items were as follows:

| | 2018 | 2017 |
|--|-------------|-------------|
| Guarantees and standby letters of credit | | |
| Letters of credit, acceptances and other documentary credits | | |
| Performance bonds and warranties | | |
| Derivatives commitments: | | |
| Forward foreign exchange contract amounts | | |

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Reference **NOTES (CONTINUED)**

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

2018 2017

Less than one year

Between one and five years

More than five years

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.

37. Investment in subsidiaries

**IFRS 12-10(a),
12(a-c)**

Ownership interest
2018 2017

XYX Limited

PQ Limited

All subsidiaries undertakings are included in the consolidation. The proportion of the voting rights in the subsidiary undertakings held directly by the parent company do not differ from the proportion of ordinary shares held.

IFRS 12-12 The total non-controlling interest at 31 December 2018 is KShsXXX (2017: KShsXXX), of which KShsXXX is for XYX Limited and KShsXXX is attributable to PQ Limited..

IFRS 12-18 There were no transactions with non-controlling interests during the year, other than payment of dividends by the subsidiaries.

Significant restrictions

IFRS 12-10(b)(i) There are restrictions on exporting capital in the country where XYX is incorporated, other than through normal dividends.

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Reference NOTES (CONTINUED)

IFRS 12-12(g) **Summarised financial information on subsidiaries with material non-controlling interests**

B10(10)

Set out below are the summarised financial information for each subsidiary that has non-controlling interest that are material to the group.

Summarised balance sheet

| | XYX Limited At 31 December | | PQ Limited At 31 December | |
|------------------------------|-------------------------------|------|---------------------------------|------|
| | 2018 | 2017 | 2018 | 2018 |
| Current | | | | |
| Assets | | | | |
| Liabilities | | | | |
| Total current net assets | | | | |
| Non-current | | | | |
| Assets | | | | |
| Liabilities | | | | |
| Total non-current net assets | | | | |
| Net asset | | | | |

Summarised income statement

| | XYX Limited For the year ended 31 December | | PQ Limited For the year ended 31 December | |
|---|---|------|--|------|
| | 2018 | 2017 | 2018 | 2018 |
| Revenue | | | | |
| Profit before income tax | | | | |
| Income tax expense | | | | |
| Profit for the year | | | | |
| Other comprehensive income | | | | |
| Total comprehensive income | | | | |
| Total comprehensive income allocated to non-controlling interests | | | | |
| Dividends paid to non-controlling interests | | | | |

Summarised cash flows

Cash flows from operating activities

| | | | | |
|---|--|--|--|--|
| Cash generated from operations | | | | |
| Interest paid | | | | |
| Income tax paid | | | | |
| Net cash generated from operating activities | | | | |
| Net cash used in investing activities | | | | |
| Net cash from financing activities | | | | |
| Net (decrease)/increase in cash and cash equivalents | | | | |
| Cash and cash equivalents at start of year | | | | |
| Exchange differences in cash and cash equivalents | | | | |
| Cash and cash equivalents at end of year | | | | |

IFRS 12-B11 The information above are the amounts before inter-company eliminations.

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Reference NOTES (CONTINUED)

38

Analysis of
cash and cash equivalents as shown in the statement of cash flows

In millions of Kenya Shillings

2018

2017

Cash and balances with the central banks

Less: cash reserve ratio requirement

Government securities maturing within 91 days at the point of acquisition

Deposits and balances due from banking institutions

Deposits and balances due to banking institutions

For purposes of the cash flow statement, cash and cash equivalents comprise balances with less than 91 days maturity from the date of acquisition, including: cash and balances with Central Banks, treasury bills and bonds and amounts due from other banks. Cash and cash equivalents exclude the cash reserve ratio requirement held with the Central Banks.

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

39. Related party transactions

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:

| | 2018 Maximum balance | 2018 Closing balance | 2017 Maximum balance | 2017 Closing balance |
|---|-------------------------------------|-------------------------------------|-------------------------------------|-------------------------------------|
| <i>IAS 124-17(a), (b)</i> <i>In millions of Kenya Shillings</i> | | | | |
| Mortgage lending and other secured loans | | | | |
| Credit card | | | | |
| Other loans | | | | |

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

In millions of Kenya Shillings

2018

2017

Short-term employee benefits

Long-service leave

Post-employment benefits

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Reference

NOTES (CONTINUED)

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.

(a) Loans and advances to key management **2018** **2017**

At start of year

Loans advanced during the year

Loans repayments received

At end of year

Interest earned on staff loans during the year amounted to KShsXXX (2017:KShsXXX).

Loan and advances to directors and their associates

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

In millions of Kenya Shillings

2018 **2017**

At start of year

Interest charged

Loans disbursed

Repayments of loans and advances

Net movement in overdraft balances

At end of year

Included in loans and advances is KShsXXX (2017 – KShsXXX) advanced to companies where relationship exists by virtue of shareholding and/or representation in the respective companies' board of directors. Loans and advances are at commercial terms in the ordinary course of business and are adequately secured.

The related interest income in 2018 was KShsXXX (2017 – KShsXXX).

Included in deposits is KShsXXX (2017 – KShsXXX) due to a subsidiary company. Interest paid on these deposits during the year amounted to KShsXXXXX (2017 – KShsXXX).

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

Directors' remuneration

In millions of Kenya Shillings

2018

2017

As executive directors

Fees

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Reference **NOTES (CONTINUED)**

40. New and revised financial reporting standards

IAS 8-30 The Group has not applied the following new and revised standards and interpretations that have been published but are not yet effective for the year beginning 1st January 2018.

[Tailor as appropriate: IAS 8- 30(b) requires that the entity discloses known or reasonably estimable information relevant to assessing the possible impact that the application will have on the financial statements in the period of initial application.]

Amendments to IFRS 10 and IAS 28 titled *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture* (issued in September 2014)

The amendments, applicable from a date yet to be determined, address a current conflict between the two standards and clarify that a gain or loss should be recognised fully when the transaction involves a business, and partially if it involves assets that do not constitute a business.

IFRS 16 Leases (issued in January 2016)

The new standard, effective for annual periods beginning on or after 1st January 2019, introduces a new lessee accounting model, and will require a lessee to recognise assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. A lessee will be required to recognise a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments.

Application of IFRS 16 in 2019 will require right-of-use assets and lease liabilities to be recognised in respect of most operating leases where the Company is the lessee. Based on the Directors' preliminary assessment, right of use assets of KShs xxx, lease liabilities of KShs xxx and a deferred tax asset of KShs ... will have to be recognised at 1st January 2019 with a corresponding decrease of the net amount in retained earnings at that date.

IFRS 17 Insurance Contracts (issued in May 2017)

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

IFRIC 23 Uncertainty over Income Tax Treatments (issued in June 2017)

The Interpretation, applicable to annual periods beginning on or after 1st January 2019, clarifies how to apply the recognition and measurement requirements of IAS 12 when there is uncertainty over income tax treatments.

Amendments to IFRS 9 titled *Prepayment Features with Negative Compensation* (issued in October 2017)

The amendments, applicable to annual periods beginning on or after 1 January 2019, allow entities to measure prepayable financial assets with negative compensation at amortised cost or fair value through other comprehensive income if a specified condition is met.

Amendments to IAS 28 titled *Long-term Interests in Associates and Joint Ventures* (issued in October 2017)

The amendments, applicable to annual periods beginning on or after 1st January 2019, clarify that an entity applies IFRS 9, rather than IAS 28, in accounting for long-term interests in associates and joint ventures.

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Reference

NOTES (CONTINUED)

Amendments to IFRS 3 - *Annual Improvements to IFRSs 2015–2017 Cycle*, issued in December 2017

The amendments, applicable to annual periods beginning on or after 1st January 2019, provide additional guidance on applying the acquisition method to particular types of business combination.

Amendments to IFRS 11 - *Annual Improvements to IFRSs 2015–2017 Cycle*, issued in December 2017

The amendments, applicable to annual periods beginning on or after 1st January 2019, clarify that when an entity obtains joint control of a business that is a joint operation, it does not remeasure its previously held interests.

Amendments to IAS 12 - *Annual Improvements to IFRSs 2015–2017 Cycle*, issued in December 2017

The amendments, applicable to annual periods beginning on or after 1st January 2019, clarify that all income tax consequences of dividends should be recognised when a liability to pay a dividend is recognised, and that these income tax consequences should be recognised in profit or loss, other comprehensive income or equity according to where the entity originally recognised the transactions to which they are linked.

Amendments to IAS 23 - *Annual Improvements to IFRSs 2015–2017 Cycle*, issued in December 2017

The amendments, applicable to annual periods beginning on or after 1st January 2019, clarify that the costs of borrowings made specifically for the purpose of obtaining a qualifying asset that is substantially completed can be included in the determination of the weighted average of borrowing costs for other qualifying assets.

Amendments to IAS 19 titled *Plan Amendment, Curtailment or Settlement* (issued in February 2018)

The amendments, applicable to plan amendments, curtailments or settlements occurring on or after the beginning of the first annual reporting period that begins on or after 1st January 2019, requires an entity to use updated actuarial assumptions to determine current service cost and net interest for the remainder of the annual reporting period after the plan amendment, curtailment or settlement when the entity remeasures its net defined benefit liability (asset) in the manner specified in the amended standard.

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

The amendments clarify the definition of a business, with the objective of assisting entities to determine whether a transaction should be accounted for as a business combination or as an asset acquisition.

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

The amendments clarify the definition of material and how it should be applied by including in the definition guidance that until now has featured elsewhere in IFRS.

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