CO-OPHOLDINGS CO-OPERATIVE SOCIETY LIMITED AND SUBSIDIARIES

ANNUAL REPORT

AND

FINANCIAL STATEMENTS

31 DECEMBER 2019

CONTENTS | **PAGE**

CO-OPHOLDINGS CO-OPERATIVE SOCIETY LIMITED AND SUBSIDIARIES
GROUP INFORMATION
FOR THE YEAR ENDED 31 DECEMBER 2019

REGISTERED OFFICE AND HEAD OFFICE

Co-operative Bank House,
L.R. No. 209/4290 (IR No. 27596)
Haile Selassie Avenue
P O Box 48231 - 00100
Tel: 020- 3276000
NAIROBI

SUBSIDIARIES

The Co-operative Bank of Kenya Limited
P.O. Box 48231-00100
Tel: 020 3276000
NAIROBI

Kenya Co-operative Coffee Exporters Limited
P.O. Box 48231-00100
Tel: 020 3276000
NAIROBI

SOCIETY SECRETARY

Frederick Ndegwa
Co-operative Bank House, Haile Selassie Avenue,
P.O. Box 48231-00100
NAIROBI

SHARES REGISTRAR

The Co-operative Bank of Kenya Limited
Shares Registry Services,
Co-operative Bank House, Haile Selassie Avenue,
P.O. Box 48231 - 00100,
NAIROBI

BANKER
The Co-operative Bank of Kenya Limited,
Co-operative Bank House, Haile Selassie Avenue,
P.O. Box 48231 - 00100
NAIROBI

LAWYERS

Various
A list is available at the Bank

AUDITORS

Ernst & Young LLP
Kenya-Re Towers, Upper-hill
Off Ragati Road
P.O. Box 44286 - 00100,
NAIROBI

The directors submit their report together with the audited financial statements for the year ended 31 December 2019 which show the state of the Group's and the Society's affairs.

1. **PRINCIPAL ACTIVITIES**

The Society is a strategic investor of Co-operative Bank of Kenya Limited on behalf of Co-operative Societies.

2. **GROUP OPERATIONS**

The Society is the majority shareholder in The Co-operative Bank of Kenya Limited (licensed under the Banking Act) which offers banking and related services. The operating results of the Society's subsidiaries: The Co-operative Bank of Kenya Limited, Co-operative Bank of South Sudan Limited, Co-optrust Investment Services Limited, Co-op Consultancy & Insurance Agency Limited, Kingdom Securities Limited, Kenya Co-operative Coffee Exporters Limited, Kenya Co-operative Coffee Millers Limited and Kenya Co-operative Coffee Dealers Limited have been included in the Group financial statements. The Co-operative Bank of Kenya Limited and Co-operative Bank of South Sudan offer a full range of banking services. Co-op Consultancy & Insurance Agency Limited offers financial advisory and insurance agency services. Co-optrust Investment Services Limited is involved in the business of fund management. Kingdom Securities Limited provides stock broking and investment advisory services. Kenya Co-operative Coffee Exporters Limited markets coffee from both co-operatives and plantations. Kenya Co-operative Coffee Millers Limited mills coffee supplied by co-operatives farmers for export. Kenya Co-operative Coffee Dealers Limited value adds and sells coffee locally and internationally. Co-operative Merchant Limited is dormant.

3. **RESULTS**

The results of the Group for the year are set out from page 9.

4. **RECOMMENDED DIVIDEND**

The directors recommend payment of a dividend of 97.54 cents (2018 - 97.54 cents) for every ordinary share of KShs 1. The dividends will be paid on or about 7 June 2020 to the shareholders registered on the Society's Register at the close of business on 29 April 2020. The register will remain closed for one day on 30 April 2020 for the preparation of dividend warrants.

5. **RESERVES**

The movement in the Group's reserves is shown on page 13 of these financial statements.

6. **GROUP DIRECTORS**

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

M. Malonza, HSC	-Chairman
P. K. Githendu	-Vice Chairman
J. Sitienei	
R. L. Kimanthi	
S. Odhiambo (Mrs)	
G. K. Mburia	
W. Ongoro, HSC	
B. W. Simiyu	
J. N. Njiru	
D. M. Muthigani	
M. N. Mungai (Mrs), OGW	-Commissioner of Co-operatives, Retired on 28th March 2019
D. O. Ityeng'	-Ag Commissioner of Co-operatives, Appointed on 28th March 2019, Retired on 2nd August 2019
G. N. Njang'ombe	-Commissioner of Co-operatives, Appointed on 2nd August 2019
F. Ngone	
G. M'Nairobi	
M. M. Muthigani	-Appointed on 20th May 2019

7. STATEMENT AS TO DISCLOSURE TO THE SOCIETY'S AUDITOR

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

a) there is, so far as the person is aware, no relevant audit information of which the Society's auditor is unaware; and
b) the person has taken all the steps that the person ought to have taken as a director so as to be aware of any relevant audit information and to establish that the Society's auditor is aware of that information.

8. TERMS OF APPOINTMENT OF THE AUDITORS

Ernst & Young LLP continues in office in accordance with section 25(4) of the Kenyan Co-operative Societies Act (Amended), 2004. 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.

9. APPROVAL OF FINANCIAL STATEMENTS

The Board of Directors approved the financial statements on 25th March 2020.

By order of the Board of Directors

....
MANAGER

The Kenyan Co-operative Societies Act (Amended), 2004 requires the directors to prepare financial statements for each year, which give a true and fair view of the financial position of the Society as at the end of the financial year and of its profit or loss for that year. It also requires the directors to ensure that the Society maintains proper accounting records that are sufficient to show and explain the transactions of the society and disclose, with reasonable accuracy, the financial position of the society. The directors are also responsible for safeguarding the assets of the Society and ensuring that the business of the Society has been conducted in accordance with its objectives, by-laws and any other resolutions made at the Society's general meetings.

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 Kenya Co-operative Societies Act, (Amended), 2004. 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 Society'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 Society'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 25/03/ 2020 and signed on its behalf by:

....
CHAIRMAN

....
VICE CHAIRMAN

....
MANAGER

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Ernst & Young LLP
Certified Public Accountants
Kenya Re Towers
Upper Hill
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LLP/2015/52

INDEPENDENT AUDITORS' REPORT
TO THE SHAREHOLDERS OF
CO-OPHOLDINGS CO-OPERATIVE SOCIETY LIMITED AND SUBSIDIARIES

REPORT ON THE AUDIT OF THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

Opinion

We have audited the accompanying consolidated and separate financial statements of Co-opholdings Co-operative Society Limited (the Society) and its subsidiaries (together, the Group) set out on pages 8 to 101, which comprise the consolidated and separate statements of financial position as at 31 December 2019, and the consolidated and separate statements of profit or loss and other comprehensive income, consolidated and separate statements of changes in equity and consolidated and separate statements of cash flows for the year then ended, and notes to the consolidated and separate financial statements, including a summary of significant accounting policies.

In our opinion, the financial statements present fairly, in all material respects, the financial position of Co-opholdings Co-operative Society Limited and its subsidiaries as at 31 December 2019, and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Kenyan Co-operative Societies Act, (Amended), 2004.

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 Consolidated and separate Financial Statements section of our report. We are independent of the group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code). We have fulfilled our other ethical responsibilities in accordance with the IESBA Code, and in accordance with other ethical requirements applicable to performing audits of financial statements in Kenya. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other Information

The directors are responsible for the other information. The other information comprises the Report of the Directors as required by the Kenyan Co-operative Societies Act (Amended), 2004. Other information does not include the consolidated and separate financial statements and our auditor's report thereon.

Our opinion on the consolidated and separate financial statements does not cover the other information and we do not express any form of assurance conclusion thereon, other than that prescribed by the Kenya Co-operative Societies Act (Amended), 2004, as set out below.

In connection with our audit of the consolidated and separate financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated and separate 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 obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

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Responsibilities of the directors for the consolidated and separate financial statements

The directors are responsible for the preparation and fair presentation of the consolidated and separate annual financial statements in accordance with International Financial Reporting Standards and the requirements of the Kenyan Co-operative Societies Act, (Amended), 2004, and for such internal control as directors determine is necessary to enable the preparation of consolidated and separate financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated and separate financial statements, directors are responsible for assessing the Society'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 has no realistic alternative but to do so.

The directors are responsible for overseeing the Society's financial reporting processes

Auditor's Responsibilities for the Audit of the Consolidated and Separate Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated and separate annual 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 consolidated financial statements.

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

- Identify and assess the risks of material misstatement of the consolidated and separate annual 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 Society's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's 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 consolidated and separate annual 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 Society to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated and separate annual financial statements, including the disclosures, and whether the consolidated annual 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 Society to express an opinion on the consolidated and separate annual financial statements. We are responsible for the direction, supervision and performance of the society audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance 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.

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Auditor's Responsibilities for the Audit of the Consolidated and Separate Financial Statements (continued)

We also provide those charged with governance 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 those charged with governance, we determine those matters that were of most significance in the audit of the consolidated and separate annual 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 LEGAL REQUIREMENTS

As required by the Kenyan Co-operative Societies Act (Amended), 2004, we report to you, based on our audit, that:

(i) We have obtained all the information and explanations which, to the best of our knowledge and belief, were necessary for the purposes of our audit;

(ii) In our opinion proper books of account have been kept by the group and the society, so far as appears from our examination of those books;

(iii) Based on our audit, nothing has come to our attention that causes us to believe that the society's business has not been conducted:

   (a) in accordance with the provisions of the Kenyan Co-operative Societies Act (Amended), 2004.

   (b) in accordance with the Co-operative Society's objectives, by-laws and any other resolutions made by the Society at general meetings.

The engagement partner responsible for the audit resulting in this independent auditor's report was CPA *Michael Kimoni*, Practising Certificate No. 1586.

Ernst & Young

Nairobi, Kenya

23 April 2020

CO-OPHOLDINGS CO-OPERATIVE SOCIETY LIMITED AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2019

ASSETS	Notes	2019 KShs'000	2018 KShs'000
Cash and balances with Central Bank of Kenya	6	29,028,674	32,478,601
Deposits and balances due from banks	7	9,556,448	18,081,648
Debt instruments at fair value through other comprehensive income	8	40,931,155	30,572,358
Equity instruments at fair value through other comprehensive income	8	411,314	164,081
Derivative financial instruments	9	379,745	664,514
Other assets	10	12,734,055	20,081,707
Loans and advances to customers	11(a)	265,964,509	244,703,012
Inventory	12	91,934	89,752
Debt instruments at amortized cost	13	77,845,496	52,092,150
Investment in associates	15	2,098,354	2,161,475
Intangible assets	16	2,708,018	2,497,243
Prepaid lease rentals	17	34,522	58,896
Property and equipment	18	6,545,457	6,644,910
Right of use assets	19	4,943,098	-
Deferred tax asset	20	3,214,888	2,944,937
TOTAL ASSETS		456,487,667	413,235,284
LIABILITIES			
Deposits and balances due to banks	21	176,975	443,260
Customer deposits	22	332,529,490	305,954,002
Loans and borrowings	23	26,424,266	23,949,611
Tax payable	24(b)	24,353	303,280
Provisions	25	151,426	151,147
Other liabilities	26	16,959,782	11,719,736
Government grant	27	443,417	461,893
TOTAL LIABILITIES		376,709,709	342,982,929
EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF PARENT			
Share capital	28	3,787,715	3,787,715
Share premium	29	1,234,295	1,234,295
Reserves	30	42,017,652	36,087,811
Proposed dividends	31	3,694,538	3,694,538
		50,734,200	44,804,359
Non-controlling interest		29,043,758	25,447,996
TOTAL EQUITY		79,777,958	70,252,355
TOTAL LIABILITIES & EQUITY		456,487,667	413,235,284

The financial statements were approved by the Board of Directors on 25/3/2020 and signed on its behalf by: -

M. Malonza, HSC - Chairman ....

P. K. Githendu - Vice Chairman ....

F. Ndegwa - Manager ....

CO-OPHOLDINGS CO-OPERATIVE SOCIETY LIMITED AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF PROFIT OR LOSS
FOR THE YEAR ENDED 31 DECEMBER 2019

	Notes	2019 KShs'000	2018 KShs'000
Interest income	32	44,578,059	43,678,946
Interest expense	33	(12,336,147)	(12,240,115)
NET INTEREST INCOME		**32,241,912**	**31,438,831**
Fees and Commission income	34	12,847,131	8,957,064
Foreign exchange gain		2,148,844	2,284,887
Amortisation of government grants	27	18,475	18,475
Other income	35	1,341,365	1,097,797
OPERATING INCOME		**48,597,727**	**43,797,054**
Operating expenses: -			
Credit loss expense on loans and advances	11(c)	(2,539,071)	(1,840,728)
Other operating expenses	36	(25,890,080)	(24,159,639)
OPERATING EXPENSES		**(28,429,151)**	**(26,000,367)**
OPERATING PROFIT		**20,168,576**	**17,796,687**
Share of profit of an associate	15	40,035	171,416
PROFIT BEFORE TAX		**20,208,611**	**17,968,103**
Income tax expense	24(a)	(6,394,506)	(5,424,645)
PROFIT FOR THE YEAR		**13,814,105**	**12,543,458**
Attributable to:			
Equity holders of the parent entity		8,916,020	8,080,721
Non-controlling interest		4,898,085	4,462,737
		13,814,104	**12,543,458**
Basic earnings per share (KShs)	38	2.35	2.13
Diluted earnings per share (KShs)	38	2.35	2.13

CO-OPHOLDINGS CO-OPERATIVE SOCIETY LIMITED AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2019

	Notes	2019 KShs'000	2018 KShs'000
PROFIT FOR THE YEAR		**13,814,105**	**12,543,458**
Other comprehensive income to be reclassified to profit or loss in subsequent periods:			
Net movement on available-for-sale investments		225,020	253,869
Share of other comprehensive income of associates			
-Fair value gain/(loss) on available for sale investments		22,941	25,020
Exchange differences on translation of a foreign operation		2,767	(78,094)
Other comprehensive income not to be reclassified to profit or loss in subsequent periods:			
- Revaluation of building	18	153,536	-
Share of other comprehensive income of associates			
- Revaluation of building		14,179	13,466
OTHER COMPREHENSIVE INCOME, NET OF TAX		**418,443**	**214,261**
TOTAL COMPREHENSIVE INCOME FOR THE YEAR, NET OF INCOME TAX		**14,232,548**	**12,757,719**
Attributed to:-			
Equity holders of the parent entity		9,163,308	8,220,770
Non-controlling interest		5,069,240	4,536,949
		14,232,548	**12,757,719**

CO-OPHOLDINGS CO-OPERATIVE SOCIETY LIMITED AND SUBSIDIARIES
SOCIETY STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2019

	Notes	2019 KShs'000	2018 KShs'000
ASSETS			
Bank balance	6	132,307	162,311
Investment in subsidiaries	14	3,787,715	4,067,715
Dividend receivable	31(d)	3,787,715	3,787,715
Prepayments		4,893	10,386
Amount due from related parties		36,295	28,819
Other assets		102,342	192,167
TOTAL ASSETS		7,851,267	8,249,113
LIABILITIES			
Other liabilities	26	64,931	63,873
Dividend payable		102,342	192,167
Amount due to related parties	40(c)	1,370	33,410
TOTAL LIABILITIES		168,643	289,450
EQUITY			
Share capital	28	3,787,715	3,787,715
Retained earnings	30	200,371	477,410
Proposed dividend	31	3,694,538	3,694,538
TOTAL EQUITY		7,682,624	7,959,663
TOTAL LIABILITIES & EQUITY		7,851,267	8,249,113

The financial statements were approved by the Board of Directors on 25/03/ 2020 and signed on its behalf by:-

M. Malonza, HSC - Chairman ....

P. K. Githendu - Vice Chairman ....

F. Ndegwa - Manager ....

CO-OPHOLDINGS CO-OPERATIVE SOCIETY LIMITED AND SUBSIDIARIES
SOCIETY STATEMENT OF PROFIT OR LOSS
FOR THE YEAR ENDED 31 DECEMBER 2019

	Notes	2019 KShs'000	2018 KShs'000
INCOME			
Dividend income	35	3,787,715	3,787,715
Interest income		6,160	921
Other income		11,112	57,220
TOTAL INCOME		3,804,987	3,845,856
OPERATING EXPENSES: -			
Delegates expenses		95,930	89,104
Directors' emoluments		8,753	8,102
Bank charges		8	7
Professional fees		2,113	1,920
Auditor's remuneration		679	617
Impairment loss on investment in a subsidiary		280,000	-
TOTAL OPERATING EXPENSES	36	387,483	99,750
PROFIT BEFORE TAX		3,417,504	3,746,106
Income tax expense		-	-
PROFIT FOR THE YEAR		3,417,504	3,746,106
Other comprehensive income		-	-
TOTAL COMPREHENSIVE INCOME		3,417,504	3,746,106
Basic earnings per share (KShs)	38	0.90	0.98
Diluted earnings per share (KShs)	38	0.90	0.98

CO-OPHOLDINGS CO-OPERATIVE SOCIETY LIMITED AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2019

	Share Capital	Share Premium	Revaluation Reserve	Statutory Reserve	Fair value Reserve	Foreign currency translation reserve	Proposed Dividends	Retained earnings	Attributable to equity holder of the Society	Non-controlling interest	Total equity
	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000
As at 1 January 2018	3,787,715	1,234,295	853,094	464,055	(539,237)	-	2,937,032	35,976,434	44,713,388	24,797,373	69,510,761
Impact of adopting IFRS 9 (Note 2(bb))	-	-	-	-	-	-	-	(6,325,533)	(6,325,533)	(3,575,348)	(9,900,881)
Tax impact	-	-	-	-	-	-	-	1,035,384	1,035,384	608,756	1,644,140
Restated opening balance under IFRS 9	3,787,715	1,234,295	853,094	464,055	(539,237)	-	2,937,032	30,686,285	39,423,239	21,830,781	61,254,020
Issue of additional shares	-	-	-	-	-	-	-	-	-	672,927	672,927
Profit for the year	-	-	-	-	-	-	-	8,080,721	8,080,721	4,462,737	12,543,458
Other comprehensive income	-	-	6,811	-	190,444	(57,206)	-	-	140,049	74,212	214,261
Transfer of excess depreciation	-	-	(26,884)	-	-	-	-	26,884	-	-	-
Deferred tax on excess depreciation	-	-	8,065	-	-	-	-	-	8,065	-	8,065
Transfer to statutory reserve	-	-	-	177,576	-	-	-	(177,576)	-	-	-
Exchange difference on hyperinflationary economy	-	-	(23,041)	12,718	-	-	-	99,640	89,317	70,912	160,229
2017- Dividends paid	-	-	-	-	-	-	(2,937,032)	-	(2,937,032)	(1,663,573)	(4,600,605)
Proposed dividends	-	-	-	-	-	-	3,694,538	(3,694,538)	-	-	-
As at 31 December 2018	3,787,715	1,234,295	818,045	654,349	(348,793)	(57,206)	3,694,538	35,021,416	44,804,359	25,447,996	70,252,355
As at 1 January 2019	3,787,715	1,234,295	818,045	654,349	(348,793)	(57,206)	3,694,538	35,021,416	44,804,359	25,447,996	70,252,355
Profit for the year	-	-	-	-	-	-	-	8,916,019	8,916,019	4,898,085	13,814,104
Other comprehensive income	-	-	148,326	-	162,976	1,787	-	-	313,088	171,155	484,243
Deferred tax on Revaluation surplus	-	-	(42,481)	-	-	-	-	-	(42,481)	(23,320)	(65,801)
Transfer to statutory reserve	-	-	-	414,616	-	-	-	(414,616)	-	-	-
Exchange difference on hyperinflationary economy	-	-	15,629	(10,290)	-	-	-	432,415	437,754	629,305	1,067,059
2018- Dividends paid	-	-	-	-	-	-	(3,694,538)	-	(3,694,538)	(2,079,465)	(5,774,003)
Proposed dividends	-	-	-	-	-	-	3,694,538	(3,694,538)	-	-	-
As at 31 December 2019	3,787,715	1,234,295	939,523	1,058,677	(185,819)	(55,420)	3,694,538	40,260,691	50,734,200	29,043,758	79,777,958

SOCIETY STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2019

	Share capital KShs 000	Retained earnings KShs 000	Proposed dividend KShs 000	Total KShs 000
As at 1 January 2018	3,787,715	425,808	2,937,032	7,150,555
Profit for the year	-	3,746,106	-	3,746,106
2017- Dividends paid	-	-	(2,936,998)	(2,936,998)
Transfer to retained earnings	-	34	(34)	-
Proposed dividends	-	(3,694,538)	3,694,538	-
As at 31 December 2018	3,787,715	477,410	3,694,538	7,959,663
As at 1 January 2019	3,787,715	477,410	3,694,538	7,959,663
Profit for the year	-	3,417,504	-	3,417,504
2018- Dividends paid	-	-	(3,694,543)	(3,694,543)
Transfer to retained earnings	-	(5)	5	-
Proposed dividends	-	(3,694,538)	3,694,538	-
As at 31 December 2019	3,787,715	200,371	3,694,538	7,682,624

CO-OPHOLDINGS CO-OPERATIVE SOCIETY LIMITED AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2019

	Notes	2019 KShs'000	2018 KShs'000
CASH FLOWS FROM OPERATING ACTIVITIES: -			
Profit before tax		20,208,612	17,968,102
Adjustments for:-			
Depreciation of property and equipment	18	1,530,314	1,822,311
Depreciation of right-of-use asset	19	1,232,746	-
Impairment on property and equipment	18	33,488	-
Amortization of prepaid lease rentals and write offs	17	24,374	11,256
Gain on disposal of associate shares		(57,274)	-
Write-off on intangible assets	16	2,085	
Movement in provisions		2,380,829	(1,597,767)
Allowance for credit losses		(40,768)	149,396
Unrealised exchange difference		845,098	(784,617)
Amortization of intangible assets	16	594,474	562,328
Amortization of capital grants	27	(18,476)	(18,477)
Gain on disposal of property and equipment		(1,573)	(4,355)
Changes in fair value of held-for-trading investment		-	2
Share of profit in associates	15	(40,035)	(171,416)
Interest on lease liability		(304,231)	-
Exchange difference on borrowings	23	(148,500)	(320,291)
Accrued interest on borrowings	23	89,092	38,247
Loss on net monetary position		409,716	361,113
Cash flows from operating activities before working capital changes		26,739,971	18,015,832
Advances to customers		(23,642,326)	2,678,630
Inventories		(2,182)	(5,296)
Other assets		7,247,443	(5,500,172)
Deposits from customers		26,575,488	18,601,240
Deposits from banks		(266,285)	69,796
Other liabilities		1,143,854	6,852,268
Central Bank of Kenya cash reserve ratio		(658,938)	(537,004)
Held-for-trading investments		-	639,950
Debt and Equity instruments at fair value through OCI		(10,747,229)	(2,437,977)
Derivative financial instruments		284,769	99,026
Cash generated from / (used in) operating activities		26,674,564	38,476,293
Tax paid	24(b)	(6,826,421)	(5,483,342)
Net cash generated from operating activities		19,848,143	32,992,951
CASH FLOWS FROM INVESTING ACTIVITIES: -			
Purchase of property and equipment	18	(1,065,421)	(795,349)
Purchase of intangible assets	16	(725,645)	(977,506)
Proceeds from disposal of property and equipment		2,243	7,297
Investment in a joint venture		(25)	-
Proceeds from disposal of associate shares		106,611	-
Purchase of debt instruments at amortised cost	13	(59,210,392)	(10,868,530)
Maturity of debt instruments at amortised cost	13	33,205,943	2,039,900
Dividend from an associate	15	86,755	83,287
Net cash used in investing activities: -		(27,599,931)	(10,510,901)
CASH FLOWS FROM FINANCING ACTIVITIES: -			
Proceeds from borrowings	23	7,600,238	7,638,458
Repayment of borrowings	23	(5,066,175)	(8,562,857)
Dividends paid to equity holders of the parent		(3,694,538)	(2,937,032)
Dividends paid to non-controlling interest		(2,079,465)	(1,663,572)
Additional capital by non-controlling interest		-	672,927
Repayment of principal portion of lease liabilities		(1,364,215)	-
Net cash used in financing activities		(4,604,155)	(4,852,076)
Net movement in cash and cash equivalents		(12,355,942)	17,629,974
Cash and cash equivalents at the beginning of the year		35,465,133	17,674,005
Effect of foreign exchange difference		(184,871)	161,154
Cash and cash equivalents at 31 December	39	22,924,320	35,465,133

	Notes	2019 KShs'000	2018 KShs'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		3,417,505	3,746,106
Adjustments for:-			
Impairment of investment in subsidiary		280,000	-
		3,697,505	
Changes in working capital: -			
Increase/(decrease) in trade and other receivables		5,493	(767,929)
Decrease in amount due from related parties		(7,476)	(18,315)
Increase/(decrease) in trade and other payables		1,058	(27,106)
Decrease in amount due to related parties		(32,041)	(237)
Cash generated from operating activities		3,664,539	2,932,519
Tax paid		-	-
Net cash generated from operating activities		3,664,539	2,932,519
CASH FLOWS FROM FINANCING ACTIVITIES			
Dividends paid		(3,694,543)	(2,936,998)
Net cash flows used in financing activities		(3,694,543)	(2,936,998)
Net movement in cash and cash equivalents		(30,004)	(4,479)
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR		162,311	166,790
CASH AND CASH EQUIVALENTS AT 31 DECEMBER 2019	39	132,307	162,311

1. GENERAL INFORMATION

The Society is incorporated in Kenya under the Co-operative Societies Act (Amended) 2004, No.12 of 1997 and is domiciled in Kenya. The Society's registration Number is CS/1530. The Society is the majority investor in The Co-operative Bank of Kenya Limited (licensed under the Banking Act) which offers banking and related services. The consolidated and separate financial statements comprise the Society and its subsidiaries together referred to as "the Group". The Group is primarily involved in corporate and retail banking, investment and asset management services in various parts of Kenya. The Group information is included on page 1 of these financial statements.

2. ACCOUNTING POLICIES

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

(a) Basis of preparation

The consolidated and separate financial statements are prepared on the historical cost basis, except for derivative financial instruments, other financial assets and liabilities held for trading and financial assets and liabilities designated at fair value through profit or loss (FVPL) and debt and equity instruments at fair value through other comprehensive income (FVOCI) all of which have been measured at fair value.

The consolidated and separate financial statements of the Group have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB) and the Kenya Co-operative Societies Act (Amended), 2004.

For the Kenya Co-operative Societies Act (Amended), 2004 reporting purposes, in these financial statements the balance sheet is represented by/is equivalent to the statement of financial position and the profit and loss account is presented in the Statement of profit or loss and statement of other comprehensive income.

(b) Basis of consolidation

The consolidated financial statements of the Group comprise the financial statements of the Society and its subsidiaries as at 31 December each year. The subsidiaries include The Co-operative Bank of Kenya Limited and its subsidiaries and Kenya Co-operative Coffee Exporters Limited and its subsidiaries. Control is achieved by the Group over an investee if and only if the Group has: -

- Power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee), and
- Exposure, or rights, to variable returns from its involvement with the investee, and
- The ability to use its power over the investee to affect its returns

When the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- The contractual arrangement with the other vote holders of the investee
- Rights arising from other contractual arrangements
- The Group's voting rights and potential voting rights

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the Statement of profit or loss and statement of other comprehensive income from the date the Group gains control until the date the Group ceases to control the subsidiary.

2. ACCOUNTING POLICIES (continued)

(b) Basis of consolidation (continued)

Profit or loss and each component of other comprehensive income (OCI) are attributed to the equity holders of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. If the Group loses control over a subsidiary, it:

- Derecognises the assets (including goodwill) and liabilities of the subsidiary
- Derecognises the carrying amount of any non-controlling interests
- Derecognises the cumulative translation differences recorded in equity
- Recognises the fair value of the consideration received
- Recognises the fair value of any investment retained
- Recognises any surplus or deficit in profit or loss
- Reclassifies the parent's share of components previously recognised in OCI to profit or loss or retained earnings, as appropriate, as would be required if the Group had directly disposed of the related assets or liabilities

(c) Changes in accounting policies and disclosures

<u>New and amended standards and interpretations</u>
The Group applied IFRS 16 for the first time. The nature and effect of the changes as a result of adoption of these new accounting standards are described below.

Several other amendments and interpretations apply for the first time in 2019, but do not have an impact on the consolidated and separate financial statements of the Group. The Group has not early adopted any standards, interpretations or amendments that have been issued but are not yet effective.

IFRS 16-Leases
IFRS 16 supersedes IAS 17 Leases, IFRIC 4 Determining whether an arrangement contains a Lease, SIC-15 Operating Leases-Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to recognise most leases on the Statement of financial position.
Lessor accounting under IFRS 16 is substantially unchanged from IAS 17. Lessors will continue to classify leases as either operating or finance leases using similar principles as in IAS 17. Therefore, IFRS 16 did not have an impact for leases where the Group is the lessor.
The Group adopted IFRS 16 using the modified retrospective method of adoption with the date of initial application of 1 January 2019. Under this method, the standard is applied retrospectively with the cumulative effect of initially applying the standard recognised at the date of initial application. The Group elected to use the transition practical expedient to not reassess whether a contract is or contains a lease at 1 January 2019.
Instead, the Group applied the standard only to contracts that were previously identified as leases applying IAS 17 and IFRIC 4 at the date of initial application.

2. ACCOUNTING POLICIES (continued)

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

New and amended standards and interpretations (continued)

IFRS 16-Leases (continued)

(i) Leases previously accounted for as operating leases

The Group recognised right-of-use assets and lease liabilities for those leases previously classified as operating leases, except for short-term leases and leases of low-value assets. The right-of-use assets for most leases were recognised based on the carrying amount as if the standard had always been applied, apart from the use of incremental borrowing rate at the date of initial application. In some leases, the right-of-use assets were recognised based on the amount equal to the lease liabilities, adjusted for any related prepaid and accrued lease payments previously recognised. Lease liabilities were recognised based on the present value of the remaining lease payments, discounted using the incremental borrowing rate at the date of initial application.

The Group also applied the available practical expedients wherein it:

- Used a single discount rate to a portfolio of leases with reasonably similar characteristics
- Relied on its assessment of whether leases are onerous immediately before the date of initial application
- Applied the short-term leases exemptions to leases with lease term that ends within 12 months of the date of initial application
- Excluded the initial direct costs from the measurement of the right-of-use asset at the date of initial application
- Used hindsight in determining the lease term where the contract contained options to extend or terminate the lease

Based on the above, as at 1 January 2019, the Group had:

- Right-of-use assets of Kshs 6,175 million which were recognised and presented in the statement of financial position under right-of-use assets.
- Additional lease liabilities of Kshs 6,095 million (included in “Other liabilities”) which were recognised.
- The difference between the ROU asset and lease liability on 1st January 2019 arises because of restatement of the right of use asset for Co-op Bank South Sudan, being in a hyperinflationary economy.
- The adoption of IFRS 16 had no impact on the Bank’s retained earnings.

The lease liabilities for the group as at 1 January 2019 can be reconciled to the operating lease commitments as of 31 December 2018, as follows:

Assets	Kshs “000”
Operating lease commitments as at 31 December 2018	4,732,540
Weighted average incremental borrowing rate as at 1 January 2019	6.38%
Discounted operating lease commitments as at 1 January 2019	3,429,736
Less:	
Commitments relating to short-term leases	(233,979)
Commitments relating to leases of low-value assets	-
Add:	
Lease payments relating to renewal periods not included in operating lease commitments as at 31 December 2018	2,899,648
Lease liabilities as at 1 January 2019	6,095,405

2. ACCOUNTING POLICIES (continued)

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

New and amended standards and interpretations (continued)

IFRIC Interpretation 23 Uncertainty over Income Tax Treatment

In June 2017 the IASB issued IFRIC Interpretation 23 Uncertainty over Income Tax Treatments which clarified application of the recognition and measurement requirements in IAS 12 Income Taxes when there is uncertainty over income tax treatments. The interpretation became effective for annual reporting periods beginning on or after 1 January 2019.

The interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of IAS 12. The interpretation does not apply to taxes or levies outside the scope of IAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments.

The interpretation specifically addresses the following:

- Whether an entity considers uncertain tax treatments separately
- The assumptions an entity makes about the examination of tax treatments by taxation authorities
- How an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates
- How an entity considers changes in facts and circumstances.

The Group determines whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments and uses the approach that better predicts the resolution of the uncertainty.

The Group applies significant judgement in identifying uncertainties over income tax treatments.

Since the Group operates in a complex multinational environment, it assessed whether the Interpretation had an impact on its consolidated and separate financial statements. Upon adoption of the Interpretation, the Bank considered whether it has any uncertain tax positions, particularly those relating to transfer pricing. The tax filings of the Group and the subsidiaries in different jurisdictions include deductions related to transfer pricing and the taxation authorities may challenge those tax treatments. The Group determined, based on its tax compliance and transfer pricing study, that it is probable that its tax treatments (including those for the subsidiaries) will be accepted by the taxation authorities. The Interpretation did not have an impact on the consolidated and separate financial statements of the Group.

Amendments to IFRS 9: Prepayment Features with Negative Compensation

Under IFRS 9, a debt instrument can be measured at amortised cost or at fair value through other comprehensive income, provided that the contractual cash flows are ‘solely payments of principal and interest on the principal amount outstanding’ (the SPPI criterion) and the instrument is held within the appropriate business model for that classification. The amendments to IFRS 9 clarify that a financial asset passes the SPPI criterion regardless of the event or circumstance that causes the early termination of the contract and irrespective of which party pays or receives reasonable compensation for the early termination of the contract.

The amendments should be applied retrospectively and became effective from 1 January 2019. These amendments have no impact on the consolidated and separate financial statements of the Group.

2. ACCOUNTING POLICIES (continued)

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

New and amended standards and interpretations (continued)

IFRIC Interpretation 23 Uncertainty over Income Tax Treatment (continued)

Amendments to IAS 28: Long-term interests in associates and joint ventures

The amendments clarify that an entity applies IFRS 9 to long-term interests in an associate or joint venture to which the equity method is not applied but that, in substance, form part of the net investment in the associate or joint venture (long-term interests). This clarification is relevant because it implies that the expected credit loss model in IFRS 9 applies to such long-term interests. The amendments also clarified that, in applying IFRS 9, an entity does not take account of any losses of the associate or joint venture, or any impairment losses on the net investment, recognised as adjustments to the net investment in the associate or joint venture that arise from applying IAS 28 Investments in Associates and Joint Ventures.

The amendments should be applied retrospectively and became effective from 1 January 2019, with early application permitted. Since the Group does not have such long-term interests in its associate and joint venture, the amendments did not have an impact on its consolidated financial statements.

Amendments to IAS 19: Plan Amendment, Curtailment or Settlement

The amendments to IAS 19 address the accounting when a plan amendment, curtailment or settlement occurs during a reporting period. The amendments specify that when a plan amendment, curtailment or settlement occurs during the annual reporting period, an entity is required to:

- Determine current service cost for the remainder of the period after the plan amendment, curtailment or settlement, using the actuarial assumptions used to remeasure the net defined benefit liability (asset) reflecting the benefits offered under the plan and the plan assets after that event
- Determine net interest for the remainder of the period after the plan amendment, curtailment or settlement using: the net defined benefit liability (asset) reflecting the benefits offered under the plan and the plan assets after that event; and the discount rate used to remeasure that net defined benefit liability (asset).

The amendments also clarify that an entity first determines any past service cost, or a gain or loss on settlement, without considering the effect of the asset ceiling. This amount is recognised in profit or loss.

An entity then determines the effect of the asset ceiling after the plan amendment, curtailment or settlement. Any change in that effect, excluding amounts included in the net interest, is recognised in other comprehensive income.

The amendments apply to plan amendments, curtailments, or settlements occurring on or after the beginning of the first annual reporting period that begins on or after 1 January 2019, with early application permitted. The Group does not operate a defined benefit plan and the standard did not have impact on the Group’s Consolidated and separate financial statements.

2. ACCOUNTING POLICIES (continued)

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

New and amended standards and interpretations (continued)

Amendments to IAS 19: Plan Amendment, Curtailment or Settlement (continued)

Annual Improvements 2015-2017 Cycle

IFRS 3 Business Combinations	Previously held Interests in a joint operation • The amendments clarify that, when an entity obtains control of a business that is a joint operation, it applies the requirements for a business combination achieved in stages, including re-measuring previously held interests in the assets and liabilities of the joint operation at fair value. • In doing so, the acquirer re-measures its entire previously held interest in the joint operation. • An entity applies those amendments to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 January 2019. Earlier application is permitted. • These amendments had no impact on the consolidated financial statements of the group as there is no transaction where joint control is obtained.
IFRS 11 Joint Arrangements	Previously held Interests in a joint operation • A party that participates in, but does not have joint control of, a joint operation might obtain joint control of the joint operation in which the activity of the joint operation constitutes a business as defined in IFRS 3. The amendments clarify that the previously held interests in that joint operation are not re-measured. • An entity applies those amendments to transactions in which it obtains joint control on or after the beginning of the first annual reporting period beginning on or after 1 January 2019. Earlier application is permitted. • These amendments had no impact on the consolidated financial statements of the group as there is no transaction where joint control is obtained.
IAS 12 Income Taxes	Income tax consequences of payments on financial instruments classified as equity • The amendments clarify that the income tax consequences of dividends are linked more directly to past transactions or events that generated distributable profits than to distributions to owners. Therefore, an entity recognises the income tax consequences of dividends in profit or loss, other comprehensive income or equity according to where the entity originally recognised those past transactions or events. • An entity applies those amendments for annual reporting periods beginning on or after 1 January 2019. Earlier application is permitted. When an entity first applies those amendments, it applies them to the income tax consequences of dividends recognised on or after the beginning of the earliest comparative period. • Since the Group's current practice is in line with these amendments, they had no impact on the consolidated and separate financial statements of the Group.
IAS 23 Borrowing Costs	Borrowing costs eligible for capitalization • The amendments clarify that an entity treats as part of general borrowings any borrowing originally made to develop a qualifying asset when substantially all of the activities necessary to prepare that asset for intended use or sale are complete. • An entity applies the amendments to borrowing costs incurred on or after the beginning of the annual reporting period in which the entity first applies those amendments. An entity applies those amendments for annual reporting periods beginning on or after 1 January 2019. Earlier application is permitted. • Since the Group's current practice is in line with these amendments, they had no impact on the consolidated and separate financial statements of the Group.

2. ACCOUNTING POLICIES (continued)

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

New and amended standards and interpretations (continued)

Standards issued but not yet effective

The new and amended standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Group's financial statements are disclosed below. The Group intends to adopt these new and amended standards and interpretations, if applicable, when they become effective.

Effective for annual periods beginning on or after 1 January 2020

- Definition of a Business – Amendments to IFRS 3
- Interest Rate Benchmark Reform – Amendments to IFRS 9, IAS 39 and IFRS 7
- Definition of Material – Amendments to IAS 1 and IAS 8
- The Conceptual Framework for Financial Reporting

Effective for annual periods beginning on or after 1 January 2022

- IFRS 17 Insurance Contracts

Effective date postponed indefinitely

- Amendments to IFRS 10 and IAS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture

The nature and the effect of the standards issued but not yet effective, which the Bank reasonably expects to be applicable at a future date, are described below.

IFRS 17 Insurance Contracts
In May 2017 the IASB issued IFRS 17 Insurance Contracts (IFRS 17), a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure. Once effective, IFRS 17 will replace IFRS 4 Insurance Contracts (IFRS 4) that was issued in 2005. IFRS 17 applies to all types of insurance contracts (i.e., life, non-life, direct insurance and re-insurance), regardless of the type of entities that issue them, as well as to certain guarantees and financial instruments with discretionary participation features. A few scope exceptions will apply. The overall objective of IFRS 17 is to provide an accounting model for insurance contracts that is more useful and consistent for insurers. In contrast to the requirements in IFRS 4, which are largely based on grandfathering previous local accounting policies, IFRS 17 provides a comprehensive model for insurance contracts, covering all relevant accounting aspects. The core of IFRS 17 is the general model, supplemented by:

• A specific adaptation for contracts with direct participation features (the variable fee approach)
• A simplified approach (the premium allocation approach) mainly for short-duration contracts.

IFRS 17 is effective for reporting periods beginning on or after 1 January 2021, with comparative figures required. Early application is permitted, provided the entity also applies IFRS 9 and IFRS 15 on or before the date it first applies IFRS 17. This standard will not be applicable to the Group.

Interest Rate Benchmark Reform: Amendments to IFRS 9, IAS 39 and IFRS 7

Interest Rate Benchmark Reform Amendments to IFRS 9, IAS 39 and IFRS 7 includes a number of reliefs, which apply to all hedging relationships that are directly affected by interest rate benchmark reform. A hedging relationship is affected if the reform gives rise to uncertainties about the timing and or amount of benchmark-based cash flows of the hedged item or the hedging instrument.

As indicated in the accounting policies, the Group elected, as a policy choice permitted under IFRS 9, to continue to apply hedge accounting in accordance with IAS 39. IAS 39 requires that for cash flow hedges, a forecast transaction must be highly probable. IAS 39 also requires that a hedging relationship only qualifies for hedge accounting if the hedging relationship is highly effective in achieving offsetting changes in fair value or cash flows attributable to the hedged risk. The assessment of hedge effectiveness is made prospectively and retrospectively.

2. ACCOUNTING POLICIES (Continued)

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

Standards issued but not yet effective (Continued)

Interest Rate Benchmark Reform: Amendments to IFRS 9, IAS 39 and IFRS 7 (continued)

As a result of interest rate benchmark reform, there may be uncertainties about the timing and or amount of benchmark-based cash flows of the hedged item or the hedging instrument during the period before the replacement of an existing interest rate benchmark with an alternative nearly risk-free interest rate (an RFR). This may lead to uncertainty whether a forecast transaction is highly probable and whether prospectively the hedging relationship is expected to be highly effective.

The amendments will be effective from 1 January 2020, with earlier application permitted. These amendments are not expected to have an impact on the consolidated and separate financial statements of the Group.

Amendments to IFRS 3: Definition of a Business

In October 2018, the IASB issued amendments to the definition of a business in IFRS 3 Business Combinations to help entities determine whether an acquired set of activities and assets is a business or not. They clarify the minimum requirements for a business, remove the assessment of whether market participants can replace any missing elements, add guidance to help entities assess whether an acquired process is substantive, narrow the definitions of a business and of outputs, and introduce an optional fair value concentration test. New illustrative examples were provided along with the amendments.

Since the amendments apply prospectively to transactions or other events that occur on or after the date of first application, the Group will not be affected by these amendments on the date of transition.

Amendments to IAS 1 and IAS 8: Definition of Material

In October 2018, the IASB issued amendments to IAS 1 Presentation of Financial Statements and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors to align the definition of ‘material’ across the standards and to clarify certain aspects of the definition. The new definition states that, ’Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general-purpose financial statements make based on those financial statements, which provide financial information about a specific reporting entity.

The amendments to the definition of material is not expected to have a significant impact on the Group’s consolidated and separate financial statements.

(d) Significant accounting estimates and assumptions

The preparation of the Group’s consolidated and separate financial statements requires management to make judgements, estimates and assumptions that affect the reported amount of revenues, expenses, assets and liabilities, and the accompanying disclosures, as well as the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets or liabilities affected in future periods.

Estimates and assumptions
The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below. The Group based its assumptions and estimates on parameters available when the consolidated and separate financial statements were prepared. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances beyond the control of the Group. Such changes are reflected in the assumptions when they occur.

2. ACCOUNTING POLICIES (Continued)

(d) Significant accounting estimates and assumptions (continued)

Going concern
The Group's management has made an assessment of the ability of individual entities within the group to continue as a going concern and is satisfied that it has the resources to continue in business for the foreseeable future. Furthermore, management is not aware of any material uncertainties that may cast significant doubt upon the Group entities 's ability to continue as a going concern. Therefore, the financial statements continue to be prepared on the going concern basis.

Fair value of financial instruments
Where the fair values of financial assets and financial liabilities recorded on the statement of financial position cannot be measured based on quoted prices in active markets, their fair value is determined using a variety of valuation techniques that include the use of mathematical models. The inputs to these models are derived from observable market data where possible, but if this is not available, judgement is required to establish fair values. The judgements include considerations of liquidity and model inputs such as volatility for longer–dated derivatives and discount rates, prepayment rates and default rate assumptions for asset-backed securities. The valuation of financial instruments is described in more detail in Note 6.

Effective Interest Rate (EIR) method
The Group's EIR method, as explained in Note 2 (e), recognises interest income using a rate of return that represents the best estimate of a constant rate of return over the expected behavioural life of loans and deposits and recognises the effect of potentially different interest rates charged at various stages and other characteristics of the product life cycle (including prepayments and penalty interest and charges). This estimation, by nature, requires an element of judgement regarding the expected behaviour and life-cycle of the instruments, as well expected changes to Central Bank's base rate and other fee income/expense that are integral parts of the instrument.

Determination of the lease term for lease contracts with renewal and termination options (Group as a lessee)
The Group determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised. The Group has several lease contracts that include extension and termination options. The Group applies judgement in evaluating whether it is reasonably certain whether or not to exercise the option to renew or terminate the lease. That is, it considers all relevant factors that create an economic incentive for it to exercise either the renewal or termination. After the commencement date, the Group reassesses the lease term if there is a significant event or change in circumstances that is within its control that affects its ability to exercise or not to exercise the option to renew or to terminate (e.g., construction of significant leasehold improvements or significant customisation of the leased asset).

Estimating the incremental borrowing rate
The Group cannot readily determine the interest rate implicit in the lease, therefore, it uses its incremental borrowing rate ('IBR') to measure lease liabilities. The IBR is the rate of interest that the Group would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. The IBR therefore reflects what the Group 'would have to pay', which requires estimation when no observable rates are available (such as for subsidiaries that do not enter into financing transactions) or when they need to be adjusted to reflect the terms and conditions of the lease (for example, when leases are not in the subsidiary's functional currency). The estimates the IBR using observable inputs (such as market interest rates) when available and is required to make certain entity-specific adjustments (such as the subsidiary's stand-alone credit rating, or to reflect the terms and conditions of the lease).

2. ACCOUNTING POLICIES (continued)

(d) Significant accounting estimates and assumptions (continued)

Impairment losses on Financial assets
The measurement of impairment losses under IFRS 9 across all categories of financial assets requires judgement, in particular, the estimation of the amount and timing of future cash flows and collateral values when determining impairment losses and the assessment of a significant increase in credit risk. These estimates are driven by a number of factors, changes in which can result in different levels of allowances.
The Group's and the Bank's ECL calculations are outputs of complex models with a number of underlying assumptions regarding the choice of variable inputs and their interdependencies. Elements of the ECL models that are considered accounting judgements and estimates include:

- The Group's and the Bank's internal credit grading model, which assigns PDs to the individual grades
- The Group's and the Bank's criteria for assessing if there has been a significant increase in credit risk and therefore allowances for financial assets should be measured on a LTECL basis and the qualitative assessment
- The segmentation of financial assets when their ECL is assessed on a collective basis
- Development of ECL models, including the various formulas and the choice of inputs
- Determination of associations between macroeconomic scenarios and, economic inputs, such as unemployment levels and collateral values, and the effect on PDs, EADs and LGDs
- Selection of forward-looking macroeconomic scenarios and their probability weightings, to derive the economic inputs into the ECL models

Impairment of non-financial assets

Impairment exists when the carrying value of an asset or cash generating unit exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use. The fair value less costs of disposal calculation is based on available data from binding sales transactions, conducted at arm's length, for similar assets or observable market prices less incremental costs of disposing of the asset. The value in use calculation is based on a DCF model. The cash flows are derived from the budget for the next five years and do not include restructuring activities that the Group is not yet committed to or significant future investments that will enhance the performance of the assets of the CGU being tested. The recoverable amount is sensitive to the discount rate used for the DCF model as well as the expected future cash-inflows and the growth rate used for extrapolation purposes. These estimates are most relevant other intangibles with indefinite useful lives recognised by the Group.

Deferred tax assets
Deferred tax assets are recognised in respect of tax losses to the extent that it is probable that future taxable profit will be available against which the losses can be utilised. Judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits, together with future tax-planning strategies.

(e) Recognition of interest income

i) The effective interest rate method

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

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

If expectations regarding the cash flows on the financial asset are revised for reasons other than credit risk, the adjustment is booked as a positive or negative adjustment to the carrying amount of the asset in the balance sheet with an increase or reduction in interest income.

2. ACCOUNTING POLICIES (continued)

(e) Recognition of interest income

ii) Interest and similar income/expense
Net interest income comprises interest income and interest expense calculated using both the effective interest method and other methods. These are disclosed separately on the face of the income statement for both interest income and interest expense to provide symmetrical and comparable information.
In its Interest income/expense calculated using the effective interest method, the Group only includes interest on those financial instruments that are set out in Note (e)(i) above.
Interest income/expense on all trading financial assets/liabilities is recognised as a part of the fair value change in Net trading income.

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

iii) Presentation of interest income

Interest revenue calculated using the effective interest rate (EIR) method is presented separately on the face of the Statement of profit or loss t, where it is differentiated and presented separately from interest revenue calculated using other methods.

The Group has also elected to present its interest expense in a manner consistent and symmetrical with interest income. Therefore, it separates interest expense on liabilities measured at amortised cost from other interest expense. The Group's accounting policies in respect of interest income/expense and the effective interest method are set out in note 2(e) (i) and (ii) above.

(f) Fee and commission income

The Group earns fee and commission income from a diverse range of financial services it provides to its customers. Fee and commission income are recognised at an amount that reflects the consideration to which the Group expects to be entitled in exchange for providing the services.
The performance obligations, as well as the timing of their satisfaction, are identified, and determined, at the inception of the contract. The Group's revenue contracts do not typically include multiple performance obligations.

When the Group provides a service to its customers, consideration is invoiced and generally due immediately upon satisfaction of a service provided at a point in time or at the end of the contract period for a service provided over time.

The Group has generally concluded that it is the principal in its revenue arrangements because it typically controls the services before transferring them to the customer.

Fee and commission income from services where performance obligations are satisfied over time

Performance obligations satisfied over time include fund management, custody and share registration fees, where the customer simultaneously receives and consumes the benefits provided by the Group's performance as the Group performs.
The Group's fee and commission income from services where performance obligations are satisfied over time include the following:

Fund management fees: These fees are earned for the provision of fund management services, which include portfolio diversification and rebalancing. These services represent a single performance obligation comprised of a series of distinct services which are substantially the same, being provided continuously over the contract period. Management fees are invoiced monthly and determined based on a fixed percentage of the net asset value of the funds under management at the end of the month. Revenue from management fees is therefore generally recognised at the end of each month.

2. ACCOUNTING POLICIES (continued)

(f) Fee and commission income (continued)

Fee and commission income from services where performance obligations are satisfied over time (continued)

Custody fees: The Group earns a fee for providing its customers with custody services, which include the safekeeping of purchased securities and processing of any dividend income and interest payments. Custody fees are invoiced monthly based on a fixed percentage of the value of the funds under custody at the end of the month. These services represent a single performance obligation comprised of a series of distinct daily services that are substantially the same and have the same pattern of transfer over the contract period. Revenue from custody services is therefore generally recognised at the end of each month.

Share registration fees: The Group earns fees from maintenance of clients' share registers and processing of dividend pay-outs. Share registration fees are invoiced quarterly based on a fixed amount. These services represent a single performance obligation comprised of a series of distinct daily services that are substantially the same and have the same pattern of transfer over the contract period. Revenue from share registration services is therefore generally recognised at the end of each quarter.

Interchange fees: The Group provides its customers with credit card processing services (i.e., authorisation and settlement of transactions executed with the Bank's credit cards) where it is entitled to an interchange fee for each transaction (i.e., when a credit cardholder purchases goods and services from merchants using the Bank's credit card). These services represent a single performance obligation comprised of a series of distinct daily services that are substantially the same and have the same pattern of transfer over the contract period. The fees vary based on the number of transactions processed and are structured as either a fixed rate per transaction processed or at a fixed percentage of the underlying cardholder transaction. The variable interchange fees are allocated to each distinct day, based on the number and value of transactions processed that day, and the allocated revenue is recognised as the entity performs.

Fee and commission income from services where performance obligations are satisfied at a point in time

Services provided where the Group's performance obligations are satisfied at a point in time are recognised once control of the services is transferred to the customer. This is typically on completion of the underlying transaction or service or, for fees or components of fees that are linked to a certain performance, after fulfilling the corresponding performance criteria. These include fees and commissions arising from brokerage, banc assurance, consultancy and training services.

The Group typically has a single performance obligation with respect to these services, which is to successfully complete the transaction specified in the contract.

Brokerage fees: The Group buys and sells securities on behalf of its customers and receives a fixed commission for each transaction. The Group's performance obligation is to execute the trade on behalf of the customer and revenue is recognised once each trade has been executed (i.e., on the trade date). Payment of the commission is typically due on the trade date.

Bancassurance fees: These fees are received for issuance of insurance covers on behalf of the appointed insurance Society. The Group's performance obligation is to issue insurance cover notes and remit the premiums collected every month. The Group recognises revenue as per the fixed rates of commission per premium per insurance class.

Consultancy fees: These fees arise from provision of advisory services and Front Office Services Activities (FOSA). The Group's performance obligation is to conduct the assignment and issue a report. The Group recognises revenue after the report has been issued as per the fees agreed in the consultancy agreements.

Training fees: These fees arise from training services rendered to Savings and Credit Co-operative Societies. The Group's performance obligation is to complete the training of the courses specified in the training invites in the period specified. Payment for the training is typically due at the end of the training. The Group recognises revenue after the training has been attended as per the fees indicated in the training invites.

2. ACCOUNTING POLICIES (continued)

(g) Net trading income

Net trading income includes all gains and losses from changes in fair value and the related interest income or expense and dividends, for financial assets and financial liabilities held for trading.

(h) Property, equipment and right of use assets

Recognition and measurement
Land and buildings are measured at fair value less accumulated depreciation on buildings and impairment losses recognised after the date of the revaluation. Any revaluation surplus is recognised as other comprehensive income in the revaluation reserve (a separate component of equity), except to the extent that it reverses a revaluation decrease of the same asset previously recognised in profit or loss, in which case the increase is recognised in profit or loss. A revaluation deficit is recognised in profit or loss, except to the extent that it offsets an existing surplus on the same asset recognised in the revaluation reserve. Revaluation surpluses are not distributable. Land and buildings are revalued after every 3 years by approved external valuers.

An annual transfer from the asset revaluation surplus to retained earnings is made for the difference between depreciation based on the revalued carrying amount of the asset and depreciation based on the asset's original cost. Additionally, accumulated depreciation as at the revaluation date is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset. Upon disposal, any revaluation surplus relating to the particular asset being disposed is transferred to retained earnings.

Other categories of property and equipment are stated at historical cost less accumulated depreciation and accumulated impairment losses. Cost includes costs incurred to acquire the asset, costs incurred to bring the asset to working condition for its intended use and the cost of replacing part of an item of property and equipment when that cost is incurred, if the recognition criteria are met. Additions and improvements that result in future benefits are capitalised. Likewise, when a major inspection is performed, its cost is recognised in the carrying amount of the property and equipment as a replacement if the recognition criteria are satisfied. All other repair and maintenance costs incurred to keep assets in normal operating condition are recognised in profit or loss as incurred. Purchased software that is integral to the functionality of the related equipment is capitalised as part of the equipment.

An item of property and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognising of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the year the asset is derecognised.

Depreciation
Depreciation is calculated on a straight- line basis over the useful life of the asset as follows:

Buildings	40 years	2.5%
Fixtures	8 years	2.5%
Furniture and equipment	5 years	20.0%
Motor vehicles	5 years	20.0%
Office machinery	5 years	20.0%
Computers	5 years	20.0%

Right-of-use assets are depreciated on a straight-line basis over the lease term.

Leasehold land is depreciated over the remaining period of the lease. Buildings on leasehold land are depreciated over the remaining period of the lease subject to a maximum of forty years. Buildings on freehold land are depreciated over forty years. Freehold land is not depreciated.

The asset's residual values, useful lives and methods of depreciation are reviewed, at each financial year end and prospectively adjusted as a change in estimate, if appropriate.

2. ACCOUNTING POLICIES (continued)

(i) Business combinations and goodwill

Business combinations are accounted for using the acquisition method of accounting. This involves recognising identifiable assets (including previously unrecognised intangible assets) and liabilities (including contingent liabilities but excluding future restructuring) of the acquired business at fair value. Any excess of the cost of acquisition over the fair values of the identifiable net assets acquired is recognised as goodwill. If the cost of acquisition is less than the fair values of the identifiable net assets acquired, the Group re-assesses whether it has correctly identified all of the assets acquired and all of the liabilities assumed and reviews the procedures used to measure the amounts to be recognised at the acquisition date.

If the reassessment still results in an excess of the fair value of net assets acquired over the aggregate consideration transferred, the discount on acquisition is recognised directly in profit and loss in the year of acquisition.
Goodwill acquired in a business combination is initially measured at cost, being the excess of the cost of the business combination over the Bank's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities acquired.

Following initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is reviewed for impairment annually, or more frequently, if events or changes in circumstances indicate that the carrying value may be impaired. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash–generating units (CGUs), which are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units. Each unit to which the goodwill is allocated represents the lowest level within the Bank at which the goodwill is monitored for internal management purposes and is not larger than an operating segment in accordance with IFRS 8 Operating Segments.
Where goodwill has been allocated to a CGU (or group of CGUs) and part of the operation within that unit is disposed of, the goodwill associated with the disposed operation is included in the carrying amount of the operation when determining the gain or loss on disposal.

Goodwill disposed of in these circumstances are measured based on the relative values of the disposed operation and the portion of the CGU retained. When subsidiaries are sold, the difference between the selling price and the net assets plus cumulative translation differences and goodwill is recognised in profit or loss.

(j) Intangible assets

The Group's other intangible assets comprise the value of computer software licenses and separately identifiable intangible items acquired in business combinations.

An intangible asset is recognised only when its cost can be measured reliably, and it is probable that the expected future economic benefits that are attributable to it will flow to the Group.
Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is their fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses.

The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortised over the useful economic life. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year–end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortisation period or method, as appropriate, and treated as changes in accounting estimates. The amortisation expense on intangible assets with finite lives is recognised in profit or loss in the expense category consistent with the function of the intangible asset.

(1) Computer software licences
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.

2. ACCOUNTING POLICIES (continued)

(j) Intangible assets (continued)

(2) Other intangible assets

Other intangible assets are initially recognised when they are separable or arise from contractual or other legal rights, the cost can be measured reliably and, in the case of intangible assets not acquired in a business combination, where it is probable that future economic benefits attributable to the assets will flow from their use. Other intangible assets consist of the NSE trading right and Business rights. The Business rights relate to the costs incurred in negotiating of the business arrangement with the Government of South Sudan. Under the agreement, the Group acquired certain rights that are identifiable e.g., business relationships with the government and co-operative movement.

NSE trading right, which gave participants the right to trade at Nairobi Securities Exchange (NSE) was initially measured at cost and classified as an intangible asset with an indefinite useful life. After initial recognition, the seat was carried at a revalued amount, being its fair value at the date of the revaluation less any subsequent accumulated impairment losses. The revaluation was non-recurring due to non-volatility of the fair values of the NSE seat.

Effective September 2014 and upon demutualization of Nairobi Securities Exchange (NSE), the NSE Seat was replaced with a trading right which gives participants a right to trade at NSE. The trading right serves the same function as the Seat. The trading right was attached a value of KShs 25 million by NSE Board, which has been taken as its fair value. After the demutualisation the shares were replaced by a right to trade and the shares which is currently held at FVOCI under IFRS 9.

The trading right is carried as an intangible asset with an indefinite useful life at the value of KShs 25 million, less any subsequent accumulated impairment losses. The right is not subject to annual renewal and can be transferred to another party. Management tests the trading right for impairment by comparing its recoverable amount with its carrying amount annually and whenever there is an indication that the right may be impaired. The Group bases its impairment calculation on market information and the value of the right when a transaction between two parties takes place.

The value is based on available data from binding sales transactions, conducted at arm's length. In determining the fair value, recent market transactions are taken into account. Any impairment losses are accounted for through profit or loss. Refer to note 2(t) on impairment of non-financial assets.

Other intangible assets are stated at cost less amortisation and provisions for impairment, if any, plus reversals of impairment, if any. They are amortised over their useful lives in a manner that reflects the pattern to which they contribute to future cash flows.
Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the income statement when the asset is derecognised.

(k) Investments in associates

An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

The Group's investments in its associates are accounted for using the equity method and at cost in the separate financial statements.

Under the equity method, the investment in the associate is carried in the statement of financial position at cost plus post acquisition changes in the Group's share of net assets of the associate. Goodwill relating to the associate is included in the carrying amount of the investment and is neither amortised nor individually tested for impairment.

The consolidated income statement reflects the share of the results of operations of the associate. Where there has been a change recognised directly in the equity of the associate, the Group recognises its share of any changes and discloses this, when applicable, in the statement of changes in equity. Unrealised gains and losses resulting from transactions between the Group and the associate are eliminated to the extent of the interest in the associate.

The share of profit of an associate is shown on the face of the consolidated Statement of profit or loss. This is the profit attributable to equity holders of the associate and therefore is the entity's proportionate share of the associate's profit after tax.

2. ACCOUNTING POLICIES (continued)

(k) Investments in associates (continued)

The financial statements of the associate are prepared for the same reporting period as the Group. Where necessary, adjustments are made to bring the accounting policies in line with those of the Group.

After application of the equity method, the Group determines whether it is necessary to recognise an additional impairment loss on the Group's investment in its associate. The Group determines at each reporting date whether there is any objective evidence that the investment in the associate is impaired. If this is the case the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognises the amount in the 'share of profit of an associate' in the consolidated Statement of profit or loss.

Upon loss of significant influence over the associate, the Group measures and recognises any retaining investment at its fair value. Any difference between the carrying amount of the associate upon loss of significant influence and the fair value of the retaining investment and proceeds from disposal is recognised in profit or loss.

(l) Leases (Policy applicable before 1 January 2019)

The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement at inception date: whether fulfilment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset.

Group is the lessee
Leases that do not transfer to the Group substantially all of the risks and benefits incidental to ownership of the leased items are operating leases. Operating lease payments are recognised as an expense in the income statement on a straight-line basis over the lease term. Contingent rental payable is recognised as an expense in the period in which they it is incurred.

Group is the lessor
Leases where the Group does not transfer substantially all of the risk and benefits of ownership of the asset are classified as operating leases. Rental income is recorded as earned based on the contractual terms of the lease in Other operating income. Initial direct costs incurred in negotiating operating leases are added to the carrying amount of the leased asset and recognised over the lease term on the same basis as rental income. Contingent rents are recognised as revenue in the period in which they are earned.

The Group assesses at contract inception whether a contract is, or contains, a lease. That is, if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

Group as lessee
The Group applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Group recognises lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

Right-of-use assets
The Group recognises right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Right-of-use assets are depreciated on a straight-line basis over the lease term.

The right-of-use assets are presented within Note 19 and are subject to impairment in line with the Group's policy as described in Note 2 (t) Impairment of non-financial assets.

2. ACCOUNTING POLICIES (continued)

(l) Leases (Policy applicable as of 1 January 2019) (continued)

Lease Liabilities
At the commencement date of the lease, the Group recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (less any lease incentives receivable), variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for terminating the lease, if the lease term reflects exercising the option to terminate. Variable lease payments that do not depend on an index or a rate are recognised as expenses in the period in which the event or condition that triggers the payment occurs.

Group as Lessor
Leases in which the Group does not transfer substantially all the risks and rewards incidental to ownership of an asset are classified as operating leases. Rental income arising is accounted for on a straight-line basis over the lease terms and is included in revenue in the statement of profit or loss due to its operating nature. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same basis as rental income. Contingent rents are recognised as revenue in the period in which they are earned.

(m) Financial assets

Initial recognition and measurement

Financial assets are classified, at initial recognition, as subsequently measured at amortised cost, fair value through other comprehensive income (OCI), and fair value through profit or loss.

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Group's business model for managing them. With the exception of trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient, the Group initially measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs. Trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient are measured at the transaction price determined under IFRS 15.

In order for a financial asset to be classified and measured at amortised cost or fair value through OCI, it needs to give rise to cash flows that are 'solely payments of principal and interest (SPPI)' on the principal amount outstanding. This assessment is referred to as the SPPI test and is performed at an instrument level.

The Group's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both.

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the market place (regular way trades) are recognised on the trade date, i.e., the date that the Group commits to purchase or sell the asset.

When the transaction price of the instrument differs from the fair value at origination and the fair value is based on a valuation technique using only inputs observable in market transactions, the Group recognises the difference between the transaction price and fair value in net trading income. In those cases where fair value is based on models for which some of the inputs are not observable, the difference between the transaction price and the fair value is deferred and is only recognised in profit or loss when the inputs become observable, or when the instrument is derecognised.

Subsequent measurement
For purposes of subsequent measurement, financial assets are classified in categories:

- Debt Instruments at amortised cost
- Debt Instruments at Fair Value through OCI
- Derivatives at fair value through profit or loss
- Equity Instruments at Fair Value through OCI

2. ACCOUNTING POLICIES (continued)

(m) Financial assets (continued)

Financial assets at amortised cost (debt instruments)
This category is the most relevant to the Group. The Group measures financial assets at amortised cost if both of the following conditions are met:

- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows

And

- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets at amortised cost are subsequently measured using the effective interest (EIR) method and are subject to impairment. Gains and losses are recognised in profit or loss when the asset is derecognised, modified or impaired.

The Group’s financial assets at amortised cost includes loans and advances to customers, due from banks financial investments at amortised cost and trade receivables.

The details of these conditions are outlined below.

Business model assessment
The Group determines its business model at the level that best reflects how it manages groups of financial assets to achieve its business objective.
The Group's business model is not assessed on an instrument-by-instrument basis, but at a higher level of aggregated portfolios and is based on observable factors such as:

- How the performance of the business model and the financial assets held within that business model are evaluated and reported to the entity's key management personnel
- The risks that affect the performance of the business model (and the financial assets held within that business model) and, in particular, the way those risks are managed
- How managers of the business are compensated (for example, whether the compensation is based on the fair value of the assets managed or on the contractual cash flows collected)
- The expected frequency, value and timing of sales are also important aspects of the Group’s assessment

The business model assessment is based on reasonably expected scenarios without taking 'worst case' or 'stress case’ scenarios into account. If cash flows after initial recognition are realised in a way that is different from the Group's original expectations, the Group does not change the classification of the remaining financial assets held in that business model but incorporates such information when assessing newly originated or newly purchased financial assets going forward.

The SPPI test
As a second step of its classification process the Group assesses the contractual terms of financial to identify whether they meet the SPPI test.
‘Principal’ for the purpose of this test is defined as the fair value of the financial asset at initial recognition and may change over the life of the financial asset (for example, if there are repayments of principal or amortisation of the premium/discount).
The most significant elements of interest within a lending arrangement are typically the consideration for the time value of money and credit risk. To make the SPPI assessment, the Group applies judgement and considers relevant factors such as the currency in which the financial asset is denominated, and the period for which the interest rate is set.

In contrast, contractual terms that introduce a more than de minimis exposure to risks or volatility in the contractual cash flows that are unrelated to a basic lending arrangement do not give rise to contractual cash flows that are solely payments of principal and interest on the amount outstanding. In such cases, the financial asset is required to be measured at FVPL.

2. ACCOUNTING POLICIES (continued)

(m) Financial assets (continued)

Financial assets at fair value through OCI (debt instruments)
The Group measures debt instruments at fair value through OCI if both of the following conditions are met:

- The financial asset is held within a business model with the objective of both holding to collect contractual cash flows and selling

And

- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding

For debt instruments at fair value through OCI, interest income, foreign exchange revaluation and impairment losses or reversals are recognised in the statement of profit or loss and computed in the same manner as for financial assets measured at amortised cost. The remaining fair value changes are recognised in OCI. Upon derecognition, the cumulative fair value change recognised in OCI is recycled to profit or loss. The ECL calculation for Debt instruments at FVOCI is explained in Note 9.

The Group's debt instruments at fair value through OCI includes investments in treasury bonds and corporate bonds included under other non-current financial assets.

Financial assets designated at fair value through OCI (equity instruments)
Upon initial recognition, the Group can elect to classify irrevocably its equity investments as equity instruments designated at fair value through OCI when they meet the definition of equity under IAS 32 Financial Instruments: Presentation and are not held for trading. The classification is determined on an instrument-by-instrument basis.

Gains and losses on these financial assets are never recycled to profit or loss. Dividends are recognised as other income in the statement of profit or loss when the right of payment has been established, except when the Group benefits from such proceeds as a recovery of part of the cost of the financial asset, in which case, such gains are recorded in OCI. Equity instruments designated at fair value through OCI are not subject to impairment assessment.

The Group elected to classify irrevocably its listed equity investments under this category.

Derivative financial instruments
At their inception, derivatives often involve only a mutual exchange of promises with little or no transfer of consideration. However, these instruments frequently involve a high degree of leverage and are very volatile. A relatively small movement in the value of the asset, rate or index underlying a derivative contract may have a significant impact on the profit or loss of the Group. Over–the–counter derivatives may expose the Group to the risks associated with the absence of an exchange market on which to close out an open position. The Group's exposure under derivative contracts is closely monitored as part of the overall management of its market risk.

Changes in fair value of any derivative instruments are recognised immediately in the profit or loss. Derivative financial instruments are initially recognised at fair value. Subsequent to initial recognition, derivative financial instruments are measured at fair value. Fair values are obtained from quoted market prices in active markets, including recent market transactions. The gain or loss on re-measurement to fair value is recognised immediately in profit or loss.

The notional amounts of certain types of financial instruments provide a basis for comparison with instruments recognised on the statement of financial position but do not necessarily indicate the amounts of future cash flows involved or the current fair value of the instruments and, therefore, do not indicate the Group's exposure to credit or price risks. The derivative instruments become assets or liabilities as a result of fluctuations in foreign exchange rates relative to their terms.

The Group uses the following derivative instruments:

Currency Forwards
Forward contracts are contractual agreements to buy or sell a specified financial instrument at a specific price and date in the future. Forwards are customised contracts transacted in the over–the–counter market. The Group has credit exposure to the counterparties of forward contracts. Forward contracts are settled gross and result in market risk exposure.

2. ACCOUNTING POLICIES (continued)

(m) Financial assets (continued)

Derivative financial instruments (continued)

Swaps
Swaps are contractual agreements between two parties to exchange streams of payments over time based on specified notional amounts, in relation to movements in a specified underlying index such as a foreign currency rate. In a currency swap, the Group pays a specified amount in one currency and receives a specified amount in another currency.

Financial guarantee, letter of credit and undrawn loan commitment
In the ordinary course of business, the Group gives financial guarantees, consisting of letters of credit, guarantees and acceptances. These are written by the Group to support performance by a customer to third parties. The Group will only be required to meet these obligations in the event the customer defaults. Financial guarantee contracts are initially recognised at their fair value, and the initial fair value is amortised over the life of the financial guarantee. Subsequent to initial recognition, the Group's liability under each guarantee is measured at the higher of the amount initially recognised less cumulative amortisation recognised in the income statement, and an ECL allowance.

(i) Overview of the Expected Credit Loss (ECL) principles
The Group records the allowance for expected credit losses for all loans and other debt financial assets not held at FVPL, together with loan commitments and financial guarantee contracts, in this section all referred to as "financial instruments". Equity instruments and other financial assets held at FVPL are not subject to impairment under IFRS 9.

The ECL allowance is based on the credit losses expected to arise over the life of the asset (the lifetime expected credit loss or LTECL), unless there has been no significant increase in credit risk since origination, in which case, the allowance is based on the 12 months' expected credit loss (12mECL) as outlined in Note n (ii). The Group's policies for determining if there has been a significant increase in credit risk are set out in Note 3(a).

The 12mECL is the portion of LTECLs that represent the ECLs that result from default events on a financial instrument that are possible within the 12 months after the reporting date.

Both LTECLs and 12mECLs are calculated on either an individual basis or a collective basis, depending on the nature of the underlying portfolio of financial instruments.

The Group established a policy to perform an assessment, at the end of each reporting period, of whether a financial instrument's credit risk has increased significantly since initial recognition, by considering the change in the risk of default occurring over the remaining life of the financial instrument. This is further explained in Note 3(a).
Based on the above process, the Group categorises its loans into Stage 1, Stage 2 and Stage 3, as described below:

- Stage 1: When loans are first recognized, the Group recognizes an allowance based on 12mECLs. Stage 1 loans also include facilities where the credit risk has improved, and the loan has been reclassified from Stage 2.
- Stage 2: When a loan has shown a significant increase in credit risk since origination, the Group records an allowance for the LTECLs. Stage 2 loans also include facilities, where the credit risk has improved, and the loan has been reclassified from Stage 3.
- Stage 3: Loans considered credit-impaired (as outlined in Note 3(a). The Group records an allowance for the LTECLs.

For financial assets for which the Group has no reasonable expectations of recovering either the entire outstanding amount, or a proportion thereof, the gross carrying amount of the financial asset is reduced. This is considered a (partial) derecognition of the financial asset.

2. ACCOUNTING POLICIES (continued)

(m) Financial assets (continued)

(ii) The calculation of ECLs

The Group calculates ECLs based on four probability-weighted scenarios to measure the expected cash shortfalls, discounted at an approximation to the EIR. A cash shortfall is the difference between the cash flows that are due to an entity in accordance with the contract and the cash flows that the entity expects to receive. The mechanics of the ECL calculations are outlined below and the key elements are, as follows:

- Probability of Default (PD): The Probability of Default is an estimate of the likelihood of default over a given time horizon. A default may only happen at a certain time over the assessed period, if the facility has not been previously derecognized and is still in the portfolio. The concept of PDs is further explained in Note 3(a)
- Exposure at Default (EAD): The Exposure at Default is an estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date, including repayments of principal and interest, whether scheduled by contract or otherwise, expected drawdowns on committed facilities, and accrued interest from missed payments. The EAD is further explained in in Note 3(a).
- Loss Given Default (LGD): The Loss Given Default is an estimate of the loss arising in the case where a default occurs at a given time. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, including from the realization of any collateral. It is usually expressed as a percentage of the EAD. The LGD is further explained in Note 3(a).

When estimating the ECLs, the Group considers four scenarios (a base case, an upside, a mild downside (‘downside 1’) and a more extreme downside (‘downside 2’)). Each of these is associated with different PDs, EADs and LGDs. When relevant, the assessment of multiple scenarios also incorporates how defaulted loans are expected to be recovered, including the probability that the loans will cure and the value of collateral or the amount that might be received for selling the asset. With the exception of credit cards and other revolving facilities, for which the treatment is separately set out below, the maximum period for which the credit losses are determined is the contractual life of a financial instrument unless the Bank has the legal right to call it earlier.
Impairment losses and releases are accounted for and disclosed separately from modification losses or gains that are accounted for as an adjustment of the financial asset’s gross carrying value.
Provisions for ECLs for undrawn loan commitments are assessed as set out below. The calculation of ECLs (including the ECLs related to the undrawn element) of revolving facilities such as credit cards is explained below.

The mechanics of the ECL method are summarised below:

Stage 1:
The 12mECL is calculated as the portion of LTECLs that represent the ECLs that result from default events on a financial instrument that are possible within the 12 months after the reporting date. The Group calculates the 12mECL allowance based on the expectation of a default occurring in the 12 months following the reporting date. These expected 12-month default probabilities are applied to a forecast EAD and multiplied by the expected LGD and discounted by an approximation to the original EIR. This calculation is made for each of the four scenarios, as explained above.

Stage 2:
When a loan has shown a significant increase in credit risk since origination, the Group records an allowance for the LTECLs. The mechanics are similar to those explained above, including the use of multiple scenarios, but PDs and LGDs are estimated over the lifetime of the instrument. The expected cash shortfalls are discounted by an approximation to the original EIR.

Stage 3:
For loans considered credit-impaired (as defined in Note 3(a)), the Group recognises the lifetime expected credit losses for these loans, with the PD set at 100%.

2. ACCOUNTING POLICIES (continued)

(m) Financial assets (continued)

(ii) The calculation of ECLs (continued)

Loan commitments and letters of credit
When estimating LTECLs for undrawn loan commitments, the Group estimates the expected portion of the loan commitment that will be drawn down over its expected life. The ECL is then based on the present value of the expected shortfalls in cash flows if the loan is drawn down, based on a probability-weighting of the four scenarios. The expected cash shortfalls are discounted at an approximation to the expected EIR on the loan. For credit cards and revolving facilities that include both a loan and an undrawn commitment, ECLs are calculated and presented together with the loan. For loan commitments and letters of credit, the ECL is recognised in other liabilities.

Financial guarantee contracts
The Group's liability under each guarantee is measured at the higher of the amount initially recognised less cumulative amortisation recognised in the Statement of Profit and loss , and the ECL provision. For this purpose, the Group estimates ECLs based on the present value of the expected payments to reimburse the holder for a credit loss that it incurs. The shortfalls are discounted by the risk-adjusted interest rate relevant to the exposure. The calculation is made using a probability-weighting of the four scenarios. The ECLs related to financial guarantee contracts are recognised within Provisions.

(iii) Debt instruments measured at fair value through OCI
The ECLs for debt instruments measured at FVOCI do not reduce the carrying amount of these financial assets in the statement of financial position, which remains at fair value. Instead, an amount equal to the allowance that would arise if the assets were measured at amortised cost is recognised in OCI as an accumulated impairment amount, with a corresponding charge to profit or loss. The accumulated loss recognised in OCI is recycled to the profit and loss upon derecognition of the assets.

(iv) Credit cards and other revolving facilities (Overdraft)
The Group's product offering includes a variety of corporate and retail overdraft and credit cards facilities, in which the Group has the right to cancel and/or reduce the facilities with one day's notice. The Group does not limit its exposure to credit losses to the contractual notice period, but, instead calculates ECL over a period that reflects the Group's expectations of the customer behaviour, its likelihood of default and the Group's future risk mitigation procedures, which could include reducing or cancelling the facilities. Based on past experience and the Group's expectations, the period over which the Group calculates ECLs for these products, is five years for corporate and seven years for retail products.

The ongoing assessment of whether a significant increase in credit risk has occurred for revolving facilities is similar to other lending products. This is based on shifts in the customer's internal credit grade, but greater emphasis is also given to qualitative factors such as changes in usage.
The interest rate used to discount the ECLs for credit cards is based on the average effective interest rate that is expected to be charged over the expected period of exposure to the facilities. This estimation takes into account that many facilities are repaid in full each month and are consequently charged no interest.

The calculation of ECLs, including the estimation of the expected period of exposure and discount rate is made, as explained in Note 3(a) on a collective basis. The collective assessments are made separately for portfolios of facilities with similar credit risk characteristics.

(v) Forward looking information
In its ECL models, the Group relies on a broad range of forward-looking information as economic inputs, such as:

- Inflation Rate "Inflation"
- Brent Crude Oil in USD/Barrel "Oil"
- Lending Rate "Lending''

The inputs and models used for calculating ECLs may not always capture all characteristics of the market at the date of the financial statements. To reflect this, qualitative adjustments or overlays are occasionally made as temporary adjustments when such differences are significantly material. Detailed information about these inputs and sensitivity analysis are provided in Note 3(a).

2. ACCOUNTING POLICIES (continued)

(m) Financial assets (continued)

(vi) Forborne and modified loans

The Group sometimes makes concessions or modifications to the original terms of loans as a response to the borrower's financial difficulties, rather than taking possession or to otherwise enforce collection of collateral. The Group considers a loan forborne when such concessions or modifications are provided as a result of the borrower's present or expected financial difficulties and the Group would not have agreed to them if the borrower had been financially healthy. Indicators of financial difficulties include defaults on covenants, or significant concerns raised by the Credit Risk Department. Forbearance may involve extending the payment arrangements and the agreement of new loan conditions. Once the terms have been renegotiated, any impairment is measured using the original EIR as calculated before the modification of terms. It is the Group's policy to monitor forborne loans to help ensure that future payments continue to be likely to occur. Derecognition decisions and classification between Stage 2 and Stage 3 are determined on a case-by-case basis. If these procedures identify a loss in relation to a loan, it is disclosed and managed as an impaired Stage 3 forborne asset until it is collected or written off.

When the loan has been renegotiated or modified but not derecognised, the Group also reassesses whether there has been a significant increase in credit risk, as set out in Note 3 (i). The Group also considers whether the assets should be classified as Stage 3. Once an asset has been classified as forborne, it will remain forborne for a minimum 6-month probation period. In order for the loan to be reclassified out of the forborne category, the customer has to meet all of the following criteria:

- All of its facilities have to be considered performing
- The probation period of 6 months has passed from the date the forborne contract was considered performing
- Regular payments of more than an insignificant amount of principal or interest have been made during at least half of the probation period
- The customer does not have any contracts that are more than 30 days past due

If modifications are substantial, the loan is derecognised as disclosed in note 2 (o) below.

(n) Derecognition of financial assets

Derecognition due to substantial modification of terms and conditions

The Group derecognises a financial asset, such as a loan to a customer, when the terms and conditions have been renegotiated to the extent that, substantially, it becomes a new loan, with the difference recognised as a derecognition gain or loss, to the extent that an impairment loss has not already been recorded. The newly recognised loans are classified as Stage 1 for ECL measurement purposes, unless the new loan is deemed to be POCI. When assessing whether or not to derecognise a loan to a customer, amongst others, the Group considers the following factors:

- Change in currency of the loan
- Introduction of an equity feature
- Change in counterparty
- If the modification is such that the instrument would no longer meet the SPPI criterion

If the modification does not result in cash flows that are substantially different, as set out below, the modification does not result in derecognition. Based on the change in cash flows discounted at the original EIR, the Group records a modification gain or loss, to the extent that an impairment loss has not already been recorded. For financial liabilities, the Group considers a modification substantial based on qualitative factors and if it results in a difference between the adjusted discounted present value and the original carrying amount of the financial liability of, or greater than, ten percent. For financial assets, this assessment is based on qualitative factors.

2. ACCOUNTING POLICIES (continued)

(n) Derecognition of financial assets (continued)

Derecognition other than for substantial modification

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised when the rights to receive cash flows from the financial asset have expired. The Group also derecognises the financial asset if it has both transferred the financial asset and the transfer qualifies for derecognition.

The Group has transferred the financial asset if, and only if, either:

- The Group has transferred its contractual rights to receive cash flows from the financial asset or
- It retains the rights to the cash flows, but has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass–through' arrangement

Pass-through arrangements are transactions whereby the Group retains the contractual rights to receive the cash flows of a financial asset (the 'original asset'), but assumes a contractual obligation to pay those cash flows to one or more entities (the 'eventual recipients'), when all of the following three conditions are met:

- The Group has no obligation to pay amounts to the eventual recipients unless it has collected equivalent amounts from the original asset, excluding short-term advances with the right to full recovery of the amount lent plus accrued interest at market rates
- The Group cannot sell or pledge the original asset other than as security to the eventual recipients
- The Group has to remit any cash flows it collects on behalf of the eventual recipients without material delay. In addition, the Group is not entitled to reinvest such cash flows, except for investments in cash or cash equivalents including interest earned, during the period between the collection date and the date of required remittance to the eventual recipient.

A transfer only qualifies for derecognition if either:

- The Group has transferred substantially all the risks and rewards of the asset
  Or
- The Group has neither transferred nor retained substantially all the risks and rewards of the asset but has transferred control of the asset.

Derecognition other than for substantial modification

The Group considers control to be transferred if and only if, the transferee has the practical ability to sell the asset in its entirety to an unrelated third party and is able to exercise that ability unilaterally and without imposing additional restrictions on the transfer.

When the Group has neither transferred nor retained substantially all the risks and rewards and has retained control of the asset, the asset continues to be recognised only to the extent of the Group's continuing involvement, in which case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration the Group could be required to pay.

If continuing involvement takes the form of a written or purchased option (or both) on the transferred asset, the continuing involvement is measured at the value the Group would be required to pay upon repurchase. In the case of a written put option on an asset that is measured at fair value, the extent of the entity's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

(o) Repossessed property

In certain circumstances, property is repossessed following the foreclosure on loans that are in default. Repossessed properties are measured at the lower of carrying amount of the secured asset and fair value less costs to sell and reported within 'Non-current assets held for sale'. The bank did not have repossessed assets in the current year (2018: nil).

In its normal course of business, the Group engages external agents to recover funds from the repossessed assets, generally at auction, to settle outstanding debt. Any surplus funds are returned to the customers/obligors. As a result of this practice, the residential properties under legal repossession processes are not recorded on the balance sheet.

2. ACCOUNTING POLICIES (continued)

(p) Repossessed property

In certain circumstances, property is repossessed following the foreclosure on loans that are in default. Repossessed properties are measured at the lower of carrying amount of the secured asset and fair value less costs to sell and reported within 'Non-current assets held for sale'. The bank did not have repossessed assets in the current year (2018: nil).

In its normal course of business, the Group engages external agents to recover funds from the repossessed assets, generally at auction, to settle outstanding debt. Any surplus funds are returned to the customers/obligors. As a result of this practice, the residential properties under legal repossession processes are not recorded on the balance sheet.

(p) Financial liabilities

Initial recognition and measurement
The Group determines the classification of its financial liabilities at initial recognition. Financial liabilities are classified as financial liabilities at fair value through profit or loss, loans and borrowings or payables as appropriate. All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs.

Subsequent measurement

The measurement of financial liabilities depends on their classification, as described below:

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.

Financial liabilities are classified as held for trading if they are incurred for the purpose of repurchasing in the near term. This category also includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships as defined by IFRS 9. Separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on liabilities held for trading are recognised in the statement of profit or loss. Financial liabilities designated upon initial recognition at fair value through profit or loss are designated at the initial date of recognition, and only if the criteria in IFRS 9 are satisfied.

The Group has not designated any financial liability as at fair value through profit or loss.

Financial liabilities at amortised cost

i) Customer deposits
Customer deposits include call, fixed, current account and savings deposits. The fair value of savings, deposits and current accounts with no specific maturity is assumed to be the amount payable on demand at end of the reporting period, i.e. their carrying amounts at this date. The fair values of term deposits are estimated using discounted cash flow calculations based upon interest rates currently being offered for similar contracts with maturities consistent with those being valued. The carrying amounts of variable-rate deposits approximate their fair values at the reporting date.

ii) Deposits from/ to other banks
Deposits from other banks include inter-bank placements, items in the course of collection and deposits. The fair value of floating rate placements and overnight deposits is their carrying amount. 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.

iii) Other borrowed funds
Borrowings are financial liabilities and measured initially at fair value and subsequently at amortised cost using the effective interest rate method.

Derecognition

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in profit or loss.

2. ACCOUNTING POLICIES (continued)

(q) Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. The expense relating to any provision is presented in the Statement of profit or loss net of any reimbursement in other operating expenses.

(r) Offsetting

Financial assets and liabilities are offset, and the net amount reported in the consolidated and separate statement of financial position if the amount is not material, there is a currently enforceable legal right to set off the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously. The Group has no set off arrangements.

(s) Impairment of non-financial assets

The carrying amounts of the group's non-financial assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows (cash-generating units).
An asset's recoverable amount is the higher of an asset's or cash-generating unit's (CGU) fair value less costs of disposal and its value in use. Where the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs of disposal, an appropriate valuation model is used.

Impairment losses are recognised in profit or loss in those expense categories consistent with the function of the impaired asset, except for a property previously re-valued where the valuation was taken to other comprehensive income. In this case, the impairment loss is also recognised in other comprehensive income up to the amount of any previous revaluation.

For the assets, an assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased.
If such indication exists, the group estimates the asset's or CGU's recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount or exceed the carrying amount that would have been determined, net of depreciation or amortisation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in profit or loss. Such reversal is recognised in the statement of profit or loss unless the asset is carried at a revalued amount, in which case, the reversal is treated as a revaluation increase. Assets with an indefinite useful life are also tested for impairment annually.

(t) Foreign currency

i) Transactions

Transactions in foreign currencies are translated at the rates ruling on the transaction dates. Monetary balances in foreign currencies are translated at the Central Bank of Kenya rates ruling at the reporting date. Any resulting gains or losses on exchange are dealt with in profit or loss in the period in which they arise. Non-monetary items carried at cost are translated using the exchange rate at the date of the initial transactions, whilst assets carried at fair value are translated at the exchange rate when the fair value was determined.

The gain or loss arising on translation of non-monetary items measured at fair value is treated in line with the recognition of the gain or loss on the change in fair value of the item (i.e., translation differences on items whose fair value gain or loss is recognised in OCI or profit or loss are also recognised in OCI or profit or loss, respectively).

2. ACCOUNTING POLICIES (continued)

(t) Foreign currency (continued)

ii) Group companies
With effect from 2016, the South Sudanese economy is considered to be hyperinflationary in accordance with criteria in International Accounting Standards (IAS) 29-Financial Reporting in Hyperinflationary Economies.

On consolidation, the statements of profit or loss and financial position of foreign operations whose functional currency is the currency of a hyperinflationary economy are translated into the group's functional currency at the closing rate at the reporting date. The exchange differences arising on translation for consolidation are recognised directly through equity.

Where the functional currency is changed to a currency that is not under hyperinflationary economy, the exchange difference arising on translation is recognised through translation reserve.

(v) Employee benefits

The Group operates a defined contribution retirement scheme for its employees. The assets of the scheme are held in a separate trustee administered fund which is funded by contributions from both the Group and employees. The Group's contributions to the scheme are charged to profit or loss in the year to which they relate. The Group also contributes to a statutory defined contribution pension scheme, the National Social Security Fund (NSSF). Contributions are determined by local statute and are currently limited to KShs 200 per employee per month.

Short-term benefits consist of salaries, bonuses and any non-monetary benefits such as medical aid contributions and free services (i.e. free medical check-ups, counselling and medical complementary follow-ups)

Employee entitlements to annual leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave accrued at the reporting date.

(w) Taxes

Current tax
Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the end of reporting period. Current tax relating to items recognised outside profit or loss is recognised outside profit or loss. Current tax items are recognised in correlation to the underlying transaction either in profit or loss, other comprehensive income or directly in equity.
Deferred income tax
Deferred income tax is provided using the liability method on temporary differences at the end of the reporting period between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred tax liabilities are recognised for all taxable temporary differences, except:

(i) where the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
(ii) in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred income tax assets are recognised for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilised except:

(i) where the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset
(ii) or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
(iii) in respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are recognised only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at each end of the reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at each end of the reporting period and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

2. ACCOUNTING POLICIES (continued)

(w) Taxes (continued)

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realized, or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the end of reporting period. Deferred income tax relating to items recognised outside profit or loss is recognised outside profit or loss. Deferred tax items are recognised in correlation to the underlying transaction either in profit or loss, other comprehensive income or directly in equity.

Value Added Tax
Revenues, expenses and assets are recognised net of the amount of value added tax except where the value added tax incurred on a purchase of assets or services is not recoverable from the Kenya Revenue Authority (KRA), in which case the value added tax is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable; and receivables and payables that are stated with the amount of value added tax included.

The net amount of value added tax recoverable from, or payable to tax authorities is included as part of accounts receivables or payables in the Statement of financial position.

(x) Grants

Grants are recognised where there is reasonable assurance that the grant will be received, and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognised as other income over the period necessary to match the grant on a systematic basis to the costs that it is intended to compensate. Where the grant relates to an asset, it is recognised as deferred income and released to other income in equal annual amounts over the expected useful life of the related asset.

A government grant that becomes receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the entity with no future related costs is recognised as other income in the period in which it becomes receivable.

(y) Cash and cash equivalents

Cash and cash equivalents comprise balances with maturities of less than 91 days from the date of acquisition and include cash and balances with Central Bank of Kenya (excluding restricted balances - cash reserve ratio), items in the course of collection and deposits and balances due from banking institutions. For the purpose of the consolidated and separate statement of cash flows, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts. Cash and cash equivalents are measured at amortised cost.

(z) Dividends

Dividends on ordinary shares are charged to equity in the year in which they are declared. Proposed dividends are shown as a separate component of equity until they have been ratified at the Annual General Meeting and are subsequently recognised as a liability.

(aa) Fiduciary assets

Assets and income arising thereon with related undertakings to return such assets to customers are excluded from these financial statements when the Group acts in a fiduciary capacity such as nominee or agents.

2. ACCOUNTING POLICIES (continued)

(bb) Fair value

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.
The Group's fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability, or
- In the absence of a principal market, in the most advantageous market for the asset or liability

The principal or the most advantageous market must be accessible by the Group.
The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.
A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 – Quoted (unadjusted) market prices in active markets for identical assets or liabilities
- Level 2 – Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
- Level 3 – Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period. External valuers are involved for valuation of significant assets, such as land and buildings. The bank's panel of Valuers is selected through a competitive bidding process. Selection criteria include market knowledge, reputation, independence and whether professional standards are maintained. Valuation is carried out every three years after which the valuation reports are evaluated for reasonability by the bank's internal valuers before adoption.

3. FINANCIAL RISK MANAGEMENT

Risk management framework

The Board of Directors has overall responsibility for the establishment and oversight of the Group's risk management framework. The Board has established the Risk & Finance Committee, which is responsible for developing and monitoring Group risk management policies in their specified areas. All Board committees, with exception of Board Audit Committee, have both executive and non-executive members and report regularly to the Board of Directors on their activities.

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

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

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

(a) Credit risk
(b) Liquidity risk
(c) Market risks
(d) Operational risks

Below is the information about the Group's exposure to each of the above risks, the Group's objectives, policies and processes for measuring and managing risk, and the Group's management of capital. There is no significant difference between the Group and Bank balances in assessment of the various risks facing the Group.

(a) Credit risk

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

Management of credit risk

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

(1) Formulating credit policies in consultation with business units, covering collateral requirements, credit assessment, risk grading and reporting, documentary and legal procedures, and compliance with regulatory and statutory requirements.

(2) Establishing the authorisation structure for the approval and renewal of credit facilities.

(3) Reviewing and assessing credit risk.

(4) Developing and maintaining the Group's risk grading in order to categorise exposures according to the degree of risk of financial loss faced and to focus management on the attendant risks.

3. FINANCIAL RISK MANAGEMENT (continued)

(a) Credit risk (continued)

Management of credit risk (continued)

(5) Reviewing compliance of business units with agreed exposure limits, including those for selected industries, country risk and product types.
(6) Providing advice, guidance and specialist skills to business units to promote best practice throughout the Group in the management of credit risk.

Each business unit is required to implement Group credit policies and procedures, with credit approval authorities delegated from the Board's Risk and Finance Committee. Each business unit is responsible for the quality and performance of its credit portfolio and for monitoring and controlling all credit risks in its portfolios, including those subjects to central approval.

The table below summarizes the maximum exposure to credit risk and indicates the worst-case scenario, without taking into consideration collateral, other credit enhancements or provisions of impairment.

	Group	
	2019	2018
	KShs'000	KShs'000
Items recognised in the statement of financial position:		
Balances with central bank	20,069,039	22,669,211
Items in the course of collection	1,344,671	722,345
Deposits and balances due from banking institutions	9,709,748	18,081,648
Derivatives	379,745	664,514
Debt instruments at amortised cost	77,845,496	52,092,150
Debt & equity instruments at fair value through other comprehensive income	40,931,155	30,572,358
Interest receivable	3,592,981	2,847,811
Other assets	346,285	555,784
Loans and advances to customers	266,712,696	245,410,302
	420,931,816	373,616,123
Items not recognised in the statement of financial position (note 48)	24,627,930	19,633,909
	445,559,746	393,250,032

While collateral is an important means to mitigate against credit risk, the Group's primary policy is to issue loans after establishing capacity of the customer to repay. Unsecured facilities amount to KShs 107 billion (2018- KShs 80.1 billion). All other facilities are secured by collateral in the form of charges over cash, land and buildings, marketable securities, plant and machinery among others.

3. FINANCIAL RISK MANAGEMENT (continued)

(a) Credit risk (continued)

(i) Impairment assessment

The references below show where the Group's impairment assessment and measurement approach is set out in this report. It should be read in conjunction with the accounting policies on note 2(l).

Definition of default and cure
The Group considers a financial instrument defaulted and therefore Stage 3 (credit-impaired) for ECL calculations in all cases when the borrower becomes 90 days past due on its contractual payments. The Group considers treasury and interbank balances defaulted and takes immediate action when the required intraday payments are not settled by the close of business as outlined in the individual agreements.

As a part of a qualitative assessment of whether a customer is in default, the Group also has an early warning system, (EWS), which considers a variety of parameters that may indicate unlikeliness of the customer to pay. EWS accounts are carefully reviewed and decisions made that result in treating customer as either stage 2 or stage 3 for ECL calculations such parameters include:

- Changes in account turnovers
- Adverse industry information
- Missed covenants and conditions especially of financial information or ratios
- Missed monthly payments
- Reduced monthly payments
- The borrower requesting emergency funding from the Group
- Bouncing cheques
- A material decrease in the borrower's turnover or the loss of a major customer
- Suspension of the debtor at the primary exchange because of rumours or facts about financial difficulties
- The borrower having past due liabilities to public creditors or employees.
- Increase of frequency of overdraft.
- Several requests on restructure.
- A material decrease in the underlying collateral value where the recovery of the loan is expected from the sale of the collateral
- A material decrease in the borrower's turnover or the loss of a major customer
- The debtor filing for bankruptcy application/protection
- Employee retrenchment
- Diversion of funds

It is the Group's policy to consider a financial instrument as 'cured' and therefore re-classified out of Stage 3 when none of the default criteria have been present for six to twelve consecutive months. The decision whether to classify an asset as Stage 2 or Stage 1 once cured depends on the stage sub segment and the updated credit grade, at the time of the cure, and whether this indicates there has been a significant improvement in credit risk compared to the stage 3 recognition.

The Group's internal rating and PD estimation process
The Group's Credit risk division operates its internal rating models. The Group runs separate models for its key portfolios in which its customers are rated from AAA to F using internal grades. The models incorporate both qualitative and quantitative information and, in addition to information specific to the borrower, utilize supplemental external information that could affect the borrower's behaviour. Where practical, we also build on information from credit reference bureaus. The internal credit grades are assigned based on these Basel III based grades. PDs are then adjusted for IFRS 9 ECL calculations to incorporate historically collected loss behaviour data and forward-looking information and the IFRS 9 Stage classification of the exposure.

3. FINANCIAL RISK MANAGEMENT (continued)

(a) Credit risk (continued)

Impairment assessment (continued)

The Group's internal rating and PD estimation process

(i) Treasury, trading and interbank relationships
The Group's treasury, trading and interbank relationships and counterparties comprise financial services institutions, banks, investment banks and stock brokers. For these relationships, the Group's credit department analyses available information such as financial information and other external data, e.g., the rating of credit reference bureaus, ratings by moody or other credible agencies and assigns the internal rating, as shown in the table below.

(ii) Corporate and Co-operatives, small and medium business lending
For above segments of customers, the borrowers are assessed by specialised credit risk analysis employees of the Group. The credit risk assessment is based on a mix of expert assessment and credit scoring model that takes into account various historical, current and forward-looking information such as:

- Historical financial information together with forecasts and budgets prepared by the client. This financial information includes realised and expected results, solvency ratios, liquidity ratios and any other relevant ratios to measure the client's financial performance. Some of these indicators are captured in covenants with the clients and are, therefore, measured with greater attention.
- Any publicly available information on the clients from external parties. This includes external rating grades issued by rating agencies, independent analyst reports or press releases and articles.
- Any macro-economic or geopolitical information, e.g., GDP growth relevant for the specific industry and geographical segments where the client operates.
- Any other objectively supportable information on the quality and abilities of the client's management relevant for the Society's performance.

The complexity and granularity of the rating techniques varies based on the exposure of the Group and the Bank and the complexity and size of the customer. Some of the less complex small business loans are rated on basis of behaviours opposed to using an application score and are being migrated to digital channels for more efficient management.

(iii) Consumer lending and other retail advances
Consumer lending comprises unsecured personal loans, credit cards, salary advances, asset finance and mortgages. These products are assessed on basis of product probability of default history and are driven for ECL by an automated tool primarily driven by days past due. Other key inputs into the models are:

- Consumer lending products: use of limits and volatility thereof, GDP growth, unemployment rates, changes in personal income/salary levels based on records of current accounts, personal indebtedness and expected interest repricing
- Retail mortgages: GDP growth, unemployment rates, changes in personal income/salary levels based on records of current accounts, personal indebtedness and expected interest repricing.

(iv) The Group's and the Bank's internal credit rating grades

Grade	Classification
1	Normal
2	Watch
3	Substandard
4	Doubtful
5	Loss

3. FINANCIAL RISK MANAGEMENT (continued)

(a) Credit risk (continued)

Impairment assessment (continued)

(iv) The Group's and the Bank's internal credit rating grades (continued)

Exposure at default
The exposure at default (EAD) represents the gross carrying amount of the financial instruments subject to the impairment calculation, addressing both the client's ability to increase its exposure while approaching default and potential early repayments.

To calculate the EAD for a Stage 1 loan, the Group and the Bank assesses the possible default events within 12 months for the calculation of the 12mECL. However, if a Stage 1 loan that is expected to default in the 12 months from the balance sheet date and is also expected to cure and subsequently default again, then all linked default events are taken into account. For Stage 2 and Stage 3, the exposure at default is considered for events over the lifetime of the instruments.

The Group and the Bank determines EADs by modelling the range of possible exposure outcomes at various points in time, corresponding the multiple scenarios. The IFRS 9 PDs are then assigned to each economic scenario based on the outcome of Group's and the Bank's models.

Loss given default
For corporate financial instruments, LGD values are assessed at the end of every month, reviewed and approved by the Bank's specialized risk department. The risk assessment is based on a standardized LGD assessment framework that results in a certain LGD rate. These LGD rates take into account the expected EAD in comparison to the amount expected to be recovered or realized from any collateral held.

For Corporate, Co-operatives, Small and Medium lending as well as Asset finance and mortgages, the value of securities and expected future cash flows as well as recovery histories are taken into consideration in arriving as specific loss given default to apply to the ECL calculations.

The Group and the Bank segments its retail lending products like unsecured loans, credit cards, mobile loans into smaller homogeneous portfolios, based on key characteristics that are relevant to the estimation of future cash flows. The applied data is based on historically collected loss data.
Under IFRS 9, LGD rates are estimated for the stage 1, stage 2 and stage 3 IFRS 9 segment of each asset class. The inputs for these LGD rates are estimated and where possible, calibrated through back testing against recent recoveries.

The Group and the Bank estimates regulatory and IFRS 9 LGDs on a different basis. Under IFRS 9, LGD rates are estimated for the Stage 1, Stage 2 and Stage 3 IFRS 9 segment of each asset class. The inputs for these LGD rates are estimated and, where possible, calibrated through back testing against recent recoveries. These are repeated for each economic scenario as appropriate.

Significant increase in credit risk
The Group and the Bank continuously monitors all assets subject to ECLs. In order to determine whether an instrument or a portfolio of instruments is subject to 12mECL or LTECL, the Group and the Bank assesses whether there has been a significant increase in credit risk since initial recognition. The Group and the Bank considers an exposure to have significantly increased in credit risk when the IFRS 9 lifetime PD has doubled since initial recognition and has increased by more than 20 bps a year.

When estimating ECLs on a collective basis for a group of similar assets, the Group and the Bank applies the same principles for assessing whether there has been a significant increase in credit risk since initial recognition.

3. FINANCIAL RISK MANAGEMENT (continued)

(a) Credit risk (continued)

Impairment assessment (continued)

Grouping financial assets measured on a collective basis
The Group and the Bank calculates ECLs either on a collective or an individual basis. Asset classes where the Group and the Bank calculates ECL on an individual basis include:

- Top 50 Corporate
- Composite (SME, MCU, Asset Finance, Mortgage Finance, Corporate Loans)
- Overdraft
- Mobi-Loans
- Credit Card
- Guarantee
- Letters of Credit
- SACCO & Agri Business

Asset classes where the Group and the Bank calculates ECL on a collective basis include:

- Retail unsecured

The Group and the Bank consolidates these exposures into smaller homogeneous portfolios, based on a combination of internal and external characteristics of the loans, as described below:

- Repayment Type
- Repayment Frequency
- Contract Start Date
- Date of First Repayment
- Expiry date
- Product Type
- Effective Interest Rate
- Days Past Due Band

Analysis of inputs to the ECL model under multiple economic scenarios
The macroeconomic factor forecasts - for the three scenarios, best estimate, optimistic and downturn - are used to create forecasted values for each of the principal components. These factors are first differenced and lagged, where applicable, and then standardised. Thereafter, the principal components are derived through vector multiplication of the principal components, using the weights for each factor. Lastly, for each scenario, the forecasted index is constructed using the weights.

Data on inflation interest rates etc is obtained from Central Bank of Kenya website and Kenya Bureau of Statistics to come up with the various scenarios that is used to overlay the ECLs.

3. FINANCIAL RISK MANAGEMENT (continued)

(a) Credit risk (continued)

Impairment assessment (continued)

The tables show the values of the key forward looking economic variables/assumptions used in each of the economic scenarios for the ECL calculations. The figures for "Subsequent years" represent a long-term average and so are the same for each scenario

Macroeconomic Overlays

Date	Base scenario	Growth Scenario	Down side scenario	Probability Weighted
31-12-18	1.057860015	0.996938929	1.228233812	1.068185813
31-01-19	1.058507409	0.997904669	1.22857557	1.068866948
28-02-19	1.059155122	0.995779614	1.233879562	1.069519911
31-03-19	1.059803153	0.995371305	1.224905369	1.068460524
30-04-19	1.060451503	0.99564679	1.219898556	1.068167383
31-05-19	1.061100171	0.997551945	1.21705165	1.068605836
30-06-19	1.061606681	0.998716291	1.215215663	1.068925431
31-07-19	1.062255916	0.930962164	1.249733425	1.057554104
31-08-19	1.06290547	0.926575812	1.236687275	1.054890326
30-09-19	1.063555343	0.931042253	1.248684599	1.058196459
31-10-19	1.064205535	0.934138018	1.253708833	1.06011415
30-11-19	1.057860015	0.996938929	1.228233812	1.068185813
31-12-19	1.065506876	0.939318982	1.258750313	1.062946418
31-01-20	1.066158025	0.943632756	1.255890258	1.063986543
29-02-20	1.066809494	0.945047625	1.252578373	1.064234358
31-03-20	1.067461282	0.944366523	1.253947479	1.064660522
30-04-20	1.068113389	0.941906072	1.251666986	1.0640946
31-05-20	1.068765817	0.942176046	1.249902599	1.064288891
30-06-20	1.069418564	0.940719167	1.247593005	1.063969881
31-07-20	1.070071631	0.938309049	1.24534209	1.063421554
31-08-20	1.070725018	0.936977502	1.245923767	1.063567951
30-09-20	1.071378725	0.94053107	1.255184461	1.066237671
31-10-20	1.072032752	0.942445997	1.253609724	1.066872609
30-11-20	1.072687099	0.943223483	1.249842089	1.066894443
31-12-20	1.073341767	0.945959578	1.24929704	1.067889511

Collateral and other credit enhancements
The amount and type of collateral required depends on an assessment of the credit risk of the counterparty. Guidelines are in place covering the acceptability and valuation of each type of collateral. The main types of collateral obtained are, as follows:

- For securities lending and reverse repurchase transactions, cash or securities
- For corporate and small business lending, charges over real estate properties, inventory and trade receivables and, in special circumstances, government guarantees
- For retail lending, mortgages over residential properties
- For asset finance, charge over the asset
- For MCU charge over chattels

The Group also obtains guarantees from parent companies for loans to their subsidiaries.

Management monitors the market value of collateral and will request additional collateral in accordance with the underlying agreement.

3. FINANCIAL RISK MANAGEMENT (continued)

(a) Credit risk (continued)

Impairment assessment (continued)

Collateral and other credit enhancements

In the normal course of business, the Group does not physically repossess properties or other assets in its retail portfolio, but engages external agents to recover funds, generally at auction, to settle outstanding debt. Any surplus funds are returned to the customers/ obligors.
An estimate of the fair value of collateral and other security enhancements held against financial assets is shown below:

		Group	
		2019	2018
		KShs'000	KShs'000
(i)	Categorised by loans & advances:		
	Stage 3/Doubtful & loss categories	14,822,048	9,540,072
	Stage 3/ Sub-standard category	19,303,426	4,257,666
	Stage 1&2 / Normal & watch categories	413,819,785	597,813,204
		447,945,254	611,610,942
(ii)	Categorised by nature of collateral:		
	Land & buildings	232,282,747	254,070,236
	Cash & other pledges	794,481	5,553,679
	Motor vehicles	38,657,642	190,094,656
	Hypothecation of stock	1,422,676	1,174,254
	Debentures & guarantees	162,916,753	151,224,456
	Equities & Shares	519,049	-
	Other chattels	11,351,906	9,493,661
		447,945,254	611,610,942

Loans with renegotiated terms
Loans with renegotiated terms are loans that have been restructured due to deterioration in the borrower's financial position and where the Group has made concessions that it would not otherwise consider. Once the loan is restructured it may remain in this category or may be re-graded depending on performance after restructuring. Note 13 (d) shows the movement of loan between stage 1,2 and 3. The carrying amount of renegotiated financial assets that would otherwise be past due or impaired is as KShs 6,4343,522 (2018: KShs 28,708,447).

Concentration of Risk
Concentration indicates the relative sensitivity of the Group's performance to developments affecting a particular industry or geographical location. Excessive concentration arises when a number of counterparties are engaged in similar business activities or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions.

3. FINANCIAL RISK MANAGEMENT (continued)

(a) Credit risk (continued)

Concentration of Risk (continued)
To avoid excessive concentration of risk, the Group's policies and procedures include specific guidelines that ensure maintenance of a diversified portfolio across bank products, industry sectors, geographic spread, credit ratings, customer segments and exposure to single or related counterparties. Concentrations of credit risk which have been identified are controlled and managed accordingly.

Loans and advances: -	Group	
	2019	2018
	KShs'000	KShs'000
(i) Concentration by sector:		
Agriculture	5,031,369	4,705,704
Manufacturing, energy & water	127,274,887	25,317,764
Financial services	31,313,659	26,403,526
Tourism & hospitality	20,325,022	2,089,786
Wholesale and retail trade	37,186,315	41,222,894
Transport and communication	2,074,308	23,224,620
Real Estate, building & construction	25,686,894	38,122,756
Consumer & household	40,897,180	104,464,345
	289,789,634	265,551,395
Less: staff loans amortisation	(4,599,768)	(4,044,752)
	285,189,866	261,506,643
(ii) Concentration by business:		
Corporate	90,626,620	104,630,901
Mortgage & Asset Finance	61,528,570	61,109,209
Small, Medium and Microenterprises	19,587,549	17,974,196
Retail	114,512,656	79,300,864
Agribusiness	3,534,239	2,536,225
	289,789,634	265,551,395
Less: staff loans amortisation	(4,599,768)	(4,044,752)
	285,189,866	261,506,643

Write-off policy
As disclosed in note 12, The Group and the Bank writes off a loan balance as and when Board of directors determines that the loans are uncollectible. This determination is reached after considering information such as the occurrence of significant changes in the borrower's financial position such that the borrower can no longer pay the obligation or that proceeds from collateral will not be sufficient to pay back the entire exposure. For smaller balance standardised loans, charge off decisions generally are based on a product specific past due status.

Settlement Risk
The Group's and the Bank's activities may give rise to risk at the time of settlement of transactions and trades. Settlement risk is the risk of loss due to the failure of a Society to honour its obligations to deliver cash or other assets as contractually agreed. For some transactions, settlement risk is mitigated by conducting settlements through a settlement/clearing agent to ensure that a transaction is settled only when both parties have fulfilled their contractual obligations. Where this arrangement is not available, this risk is controlled through settlement limits which form part of the credit approval and limit monitoring process under the Group's and Bank's risk management mechanisms. This requires transaction-specific or counterparty-specific assessment to ensure the Group and the Bank deals with highly rated counterparties and implements other measures such as holding collateral.

3. FINANCIAL RISK MANAGEMENT (continued)

(b) Liquidity risk

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

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

Treasury receives information from other business units regarding the liquidity profile of their financial assets and liabilities and details of other projected cash flows arising from projected future business. Treasury then maintains a portfolio of short-term liquid assets, largely made up of short-term liquid investment securities, loans and advances to banks and other inter-bank facilities, to ensure that sufficient liquidity is maintained within the Group as a whole.

The daily liquidity position is monitored, and regular liquidity stress testing is conducted under a variety of scenarios covering both normal and more severe market conditions. In addition to internally set liquidity buffers and trigger ratios, compliance with the regulatory framework is also monitored consistently. Liquidity management is regularly reviewed in order to ensure appropriate reactions to shifts in general conditions, and special importance is attached to diversification of liquidity resources. All liquidity policies and procedures are subject to review and approval by Board Risk & Finance Committee which also receives regular risk reports.

3. FINANCIAL RISK MANAGEMENT (continued)

(b) Liquidity risk (continued)

Exposure to liquidity risk
The table below analyses the Group's and Banks assets and liabilities into relevant groupings based on the remaining period at 31 December to the un-discounted contractual cash flows:

GROUP 31 December 2019 FINANCIAL ASSETS	Available immediately and up to 1 month KShs'000	1-3 months KShs'000	3-12 months KShs'000	1-5 years KShs'000	Over 5 years KShs'000	Total KShs'000
Cash and balances with Central Bank of Kenya	11,970,785	-	-	-	-	11,970,785
Deposits and balances due from banks	8,791,431	918,317	-	-	-	9,709,748
Investment in financial instruments	4,545,000	35,664,660	35,577,424	55,251,419	63,766,162	194,804,665
Loans and advances to customers	39,586,638	6,194,569	27,170,826	166,108,038	159,776,458	398,836,529
Total undiscounted financial assets	64,893,854	42,777,546	62,748,250	221,359,457	223,542,620	615,321,727
FINANCIAL LIABILITIES						
Deposits and balances due to banks	176,675	-	-	-	-	176,675
Customers' deposits	276,090,117	42,387,483	16,031,942	933,381	-	335,442,923
Loans and borrowings	-	-	1,145,894	12,672,732	21,554,273	35,372,899
Lease liability	120,502	241,004	1,084,518	3,391,624	490,969	5,328,617
Other liabilities	1,423,807	-	-	-	-	1,423,807
Total undiscounted financial liabilities	277,811,101	42,628,487	18,262,354	16,997,737	22,045,242	377,744,921
Net liquidity gap at 31 December 2019	(212,917,247)	149,059	44,485,896	204,361,720	201,497,378	237,576,806
Liabilities not recognised in statement of financial position (note 48)	507,287	2,231,148	21,286,427	1,236,040	16,040	25,276,942

3. FINANCIAL RISK MANAGEMENT (continued)

(b) Liquidity risk (continued)

Exposure to liquidity risk (continued)

GROUP 31 December 2018 FINANCIAL ASSETS	Available immediately and up to 1 month KShs'000	1-3 months KShs'000	3-12 months KShs'000	1-5 years KShs'000	Over 5 years KShs'000	Total KShs'000
Cash and balances with Central Bank of Kenya	16,079,650	-	-	-	-	16,079,650
Deposits and balances due from banks	10,129,462	5,856,151	-	2,096,035	-	18,081,648
Investment in financial instruments	-	1,444,996	28,352,710	47,640,877	43,199,562	120,638,145
Loans and advances to customers	31,567,578	3,425,160	24,817,014	162,101,132	149,586,732	371,497,616
Total undiscounted financial assets	57,776,690	10,726,307	53,169,724	211,838,044	192,786,294	526,297,059
FINANCIAL LIABILITIES						
Deposits and balances due to banks	393,260	-	50,000	-	-	443,260
Customers' deposits	252,988,892	36,606,221	18,888,032	43,758	-	308,526,903
Other Liabilities	469,866	-	-	-	-	469,866
Loans and borrowings	-	-	-	26,603,662	5,728,313	32,331,975
Total undiscounted financial liabilities	253,852,018	36,606,221	18,938,032	26,647,420	5,728,313	341,772,004
Net liquidity gap at 31 December 2018	(196,075,329)	(25,879,914)	34,231,692	185,190,624	187,057,981	184,525,055
Liabilities not recognised in statement of financial position (note 48)	2,353,062	1,588,442	11,442,610	4,249,796	-	19,633,910

3. FINANCIAL RISK MANAGEMENT (continued)

(b) Market risk

Market risk is the risk that changes in market prices, such as interest rates, equity prices, and foreign exchange rates will affect the Group's income or value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return on risk.

Management of market risk
The Group separates its exposure to market risk between trading and non-trading portfolios. Trading portfolios are managed on a mark to market basis. Overall authority for market risk is vested in Asset and Liability Committee (ALCO). Risk Management Department is responsible for the development of detailed risk management policies and for the day to day review of their implementation.

Exposure to market risk – trading portfolios
The Group measures its market risk exposure for the trading portfolio through marking to market on a monthly basis.

Exposure to interest rate risk – non- trading portfolios
The principal risk to which held to maturity portfolios are exposed is the risk of loss from fluctuations in the future cash flows or fair values of financial instruments because of a change in market interest rates. Interest rate risk is managed principally through monitoring interest rate gaps and by having pre-approved limits for re-pricing bands to minimise the impact of movements in market interest rates on its net interest margin. Maturity gap analysis of assets and liabilities, whereby interest rate re-pricing based on time (periodic) buckets is used to measure potential income effects arising from interest rate changes. The Group critically evaluates overall risk and return profiles and objectives, including monitoring compliance through ALCO in conjunction with Risk Management Department for day-to-day activities.

The table below summarises the exposure to interest rate risks. Included in the table are the group's assets and liabilities at carrying amounts, categorised by the earlier of contractual re-pricing or maturity dates. The sensitivity computations assume that financial assets maintain a constant rate of return from one year to the next. The Group bases its sensitivity analysis on the interest sensitivity gap.

3. FINANCIAL RISK MANAGEMENT (continued)

(c) Market risk (continued)

(i) Exposure to interest rate risk (Continued)

GROUP

31 December 2019	Available immediately and up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Non- interest bearing	Total
ASSETS	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000
Cash and balances with Central Bank of Kenya			-	-	-	29,028,674	29,028,674
Deposits and balances due from banks	8,791,431	918,317	-	-	-	-	9,709,748
Investment in financial instruments	4,500,000	8,504,851	31,765,557	34,532,137	39,853,851	-	119,156,396
Loans and advances to customers	39,162,379	5,999,583	24,044,979	100,671,538	96,834,217	-	266,712,696
	-	-	-	-	-	-	-
Total assets	52,453,810	15,422,751	55,810,536	135,203,675	136,688,068	29,028,674	424,607,514
LIABILITIES							
Deposits and balances due to banks	176,975	-	-	-	-	-	176,975
Customers' deposits	78,190,312	41,864,181	15,268,516	746,705	-	196,754,203	332,823,917
Loans and borrowings	-	-	1,070,929	9,387,209	15,966,128	-	26,424,266
Lease liabilities	113,275	226,550	1,019,476	3,188,216	461,523	-	5,009,040
Total liabilities	78,480,562	42,090,731	17,358,921	13,322,130	16,427,651	196,754,203	364,434,198
Interest sensitivity gap	(26,026,752)	(26,667,980)	38,451,615	121,881,545	120,260,417	-	60,173,316

3. FINANCIAL RISK MANAGEMENT (continued)
(c) Market risk (continued)

(i) Exposure to interest rate risk (Continued)

GROUP

31 December 2018	Available immediately and up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Non- interest bearing	Total
ASSETS	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000
Cash and balances with Central Bank of Kenya	-	-	-	-	-	32,478,601	32,478,601
Deposits and balances due from banks	10,129,462	5,856,151	-	2096035	-		18,081,648
Investment in financial instruments	-	1,402,909	24,830,754	30,095,632	26,499,294	-	82,828,589
Loans and advances to customers	34,009,043	3,317,346	17,318,258	100,107,029	90,658,626	-	245,410,302
Total assets	44,138,505	10,576,406	42,149,012	132,298,696	117,157,920	32,478,601	378,799,140
LIABILITIES							
Deposits and balances due to banks	443,260	-	-	-	-	-	443,260
Customers' deposits	57,303,571	45,886,624	18,987,748	45,217	-	183,893,886	306,117,046
Loans	-	-	-	19,706,416	4,243,195	-	23,949,611
Total liabilities	57,746,831	45,886,624	18,987,748	19,751,633	4,243,195	183,893,886	330,509,917
Interest sensitivity gap	(13,608,326)	(35,310,218)	23,161,264	112,547,063	112,914,725	-	48,289,223

Reclassifications have been made to previously disclosed numbers in 2018 so as to align with the presentation of the same items in 2019. This largely results from a reorganization of the split between interest bearing and non-interest-bearing items as well as the time band classification of the same items.

3. FINANCIAL RISK MANAGEMENT (continued)

(c) Market risk (continued)

(i) Exposure to interest rate risk (Continued)

Interest rate risk sensitivity analysis
With all other variables held constant, the effect of 1% increase or decrease in interest rates on financial assets and liabilities on the group profit before tax and equity would be as follows:

ASSETS	2019 Carrying amount KShs'000	1% increase	1% decrease	2018 Carrying amount KShs'000	1% increase	1% decrease
Deposits and balances due from banks	9,709,748	97,097	(97,097)	18,081,648	180,816	(180,816)
Debt instruments at amortised cost	77,845,496	778,455	(778,455)	52,092,150	520,922	(520,922)
Debt instruments at fair value through other comprehensive income	41,310,900	413,109	(413,109)	30,736,439	307,364	(307,364)
Loans and advances to customers	266,712,696	2,667,127	(2,667,127)	245,410,302	2,454,103	(2,454,103)
		3,955,788	(3,955,788)	-	3,463,205	(3,463,205)
LIABILITIES & EQUITY						
Deposits and balances due to banks	176,975	(1,770)	1,770	443,260	(4,433)	4,433
Customers' deposits	136,069,714	(1,360,697)	1,360,697	122,223,160	(1,222,232)	1,222,232
Lease liabilities	5,009,040	(50,090)	50,090		-	-
Loans and borrowings	26,424,266	(264,243)	264,243	23,949,611	(239,496)	239,496
		(1,676,800)	1,676,800	-	(1,466,161)	1,466,161
Effect on profit before tax		2,278,988	(2,278,988)	-	1,997,044	(1,997,044)
As percentage of profit before tax (%)		11%	(11%)	-	11%	(11%)
Effect on equity		1,595,291	(1,595,291)	-	1,397,931	(1,397,931)
As percentage of equity (%)		1.98%	(1.98%)		1.98%	(1.98%)

3. FINANCIAL RISK MANAGEMENT (continued)

(c) Market risk (continued)

(ii) Exposure to currency risk

Currency risk is the potential for losses as a result of adverse exchange rate movements during a period in which the group has an open position, either spot or forward, or a combination of the two, in an individual foreign currency. Currently, the Group operates in 13 foreign currencies (namely USD, GBP, JPY, CHF, AUD, CAD, SEK, NOK, DKK, INR, ZAR, EUR and AED), but USD is the most significant exposure. The Group strives to minimize the potential impact of movements in exchange rates on its risk bearing capacity by having currency position and stop loss limits. The key risk indicators which are used pro-actively to manage and monitor foreign exchange risk are also developed.

The table below summarises foreign currency exposure to the Group as at close of period.

CURRENCY TYPE	USD	GBP	EURO	JPY	CHF	ZAR	OTHERS	TOTAL
EXCHANGE RATE	101.34	132.94	113.37	0.93	104.31	7.19	-	
31 December 2019	KShs`000	KShs`000	KShs`000	KShs`000	KShs`000	KShs`000	KShs`000	KShs`000
Foreign Currency Assets:								
Cash and balances with banks abroad	11,768,415	267,748	2,233,372	143,818	52,114	48,052	1,427,777	15,941,296
Loan and advances	29,705,250	140,164	115,413	-	-	-	-	29,960,827
Other foreign assets	1,298,852	15,964	2,174	-	-	(31)	6,821	1,323,780
Total statement of financial position items	42,772,517	423,876	2,350,959	143,818	52,114	48,021	1,434,598	47,225,903
Items not recognised in statement of financial position	25,658,798	232,376	4,339,651	-	-	-	-	30,230,824
Total Foreign Assets	68,431,315	656,253	6,690,610	143,818	52,114	48,021	1,434,598	77,456,727
Foreign Currency Liabilities:								
Deposits	7,928,382	287,855	2,087,849	67,393	9,461	1,759	4,243	10,386,941
Loan and advances	25,610,653	-	-	-	-	-	-	25,610,653
Other foreign liabilities	44,981	11,215	11,460	-	-	-	2,434	70,090
Total statement of financial position items	33,584,016	299,070	2,099,309	67,393	9,461	1,759	6,676	36,067,684
Items not recognised in statement of financial position	34,033,617	319,063	4,601,331	80,813	20,862	51,519	1,383,644	40,490,849
Total Foreign liabilities	67,617,633	618,133	6,700,640	148,206	30,323	53,278	1,390,321	76,558,534
Net Exposure at 31 December 2019	813,681	38,120	(10,030)	(4,388)	21,791	(5,256)	44,278	898,195

3. FINANCIAL RISK MANAGEMENT (continued)

(c) Market risk (continued)

(ii) Exposure to currency risk (Continued)

CURRENCY TYPE	USD	GBP	EURO	JPY	CHF	ZAR	OTHERS	TOTAL
EXCHANGE RATE	102	129	116	1	104	7	-	
31 December 2018	KShs`000	KShs`000	KShs`000	KShs`000	KShs`000	KShs`000	KShs`000	KShs`000
Foreign Currency Assets:								
Cash and balances with banks abroad	10,361,777	107,188	2,452,373	66,616	45,839	19,577	109,274	13,162,644
Loan and advances	32,045,668	138,110	236,953	-	-	-	-	32,420,731
Other foreign assets	1,140,559	10,938	454,251	-	-	5	111	1,605,864
Total statement of financial position items	43,548,004	256,236	3,143,577	66,616	45,839	19,582	109,385	47,189,239
Items not recognised in statement of financial position	17,132,072	221,805	2,979,203	-	-	-	5,804	20,338,884
Total Foreign Assets	60,680,076	478,041	6,122,780	66,616	45,839	19,582	115,189	67,528,123
Foreign Currency Liabilities:								
Balances due to banks abroad	-	-	-	-	-	-	-	-
Deposits	8,544,576	224,403	2,338,795	67,008	12,510	546	2,819	11,190,657
Loan and advances	22,734,403	-	-	-	-	-	-	22,734,403
Other foreign liabilities	3,509,686	24,951	488,800	4	91	2,133	2,526	4,028,191
Total statement of financial position items	34,788,665	249,354	2,827,595	67,012	12,601	2,679	5,345	37,953,251
Items not recognised in statement of financial position	23,203,182	242,246	3,256,346	-	20,391	20,528	88,465	26,831,158
Total Foreign liabilities	57,991,847	491,600	6,083,941	67,012	32,992	23,207	93,810	64,784,409
Net Exposure at 31 December 2018	2,688,229	(13,559)	38,839	(396)	12,847	(3,625)	21,379	2,743,714

3. FINANCIAL RISK MANAGEMENT (continued)

(c) Market risk (continued)

(ii) Exposure to currency risk (continued)

Currency risk sensitivity analysis
With all other variables held constant, the effect of 10% appreciation or depreciation of the shilling against major trading currencies on profit before tax and equity would be as follows: -

	2019 Carrying amount KShs'000	10% appreciation	10% depreciation	2018 Carrying amount KShs'000	10% appreciation	10% depreciation
Foreign Currency Assets:						
USD	68,431,314	(6,843,131)	6,843,131	60,680,076	(6,068,008)	6,068,008
GBP	656,253	(65,625)	65,625	478,041	(47,804)	47,804
EURO	6,690,609	(669,061)	669,061	6,122,780	(612,278)	612,278
JPY	143,818	(14,382)	14,382	66,616	(6,662)	6,662
CHF	52,114	(5,211)	5,211	45,839	(4,584)	4,584
ZAR	48,021	(4,802)	4,802	19,582	(1,958)	1,958
Other currencies	1,434,598	(143,460)	143,460	115,189	(11,519)	11,519
		(7,745,672)	7,745,672		(6,752,813)	6,752,813
Foreign Currency Liabilities:						
USD	67,617,634	6,761,763	(6,761,763)	57,991,847	5,799,185	(5,799,185)
GBP	618,133	61,813	(61,813)	491,600	49,106	(49,106)
EURO	6,700,639	670,064	(670,064)	6,083,941	608,394	(608,394)
JPY	148,206	14,821	(14,821)	67,012	6,701	(6,701)
CHF	30,323	3,032	(3,032)	32,992	3,299	(3,299)
ZAR	53,278	5,328	(5,328)	23,207	2,321	(2,321)
Other currencies	1,390,320	139,032	(139,032)	93,810	9,381	(9,381)
		7,655,853	(7,655,853)		6,478,387	(6,478,387)
Effect on profit before tax		(89,820)	89,820		(274,372)	274,372
As percentage (%) of profit before tax		(0.44%)	0.44%		(1.56%)	1.56%
Effect on equity (profit after tax)		(62,874)	62,874		(192,060)	192,060
As percentage (%) of equity		(0.08%)	0.08%		(0.28%)	0.28%

3. FINANCIAL RISK MANAGEMENT (continued)

(d) Operational risk

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

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

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

(i) requirements for appropriate segregation of duties, including the independent authorisation of transactions
(ii) requirements for the reconciliation and monitoring of transactions
(iii) compliance with regulatory and other legal requirements
(iv) documentation of controls and procedures
(v) requirements for the yearly assessment of operational risks faced, and the adequacy of controls and procedures to address the risks identified
(vi) requirements for the reporting of operational losses and proposed remedial action
(vii) development of contingency plans
(viii) training and professional development
(ix) ethical and business standards
(x) risk mitigation, including insurance where this is effective

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

Risk Management is charged with the role of overall planning, coordination, and monitoring of operational risk from a centralized operational risk management department. The department is responsible for collecting and collating all data on operational risk loss events, risk indicators, and developing risk matrices aimed at reducing the Group's Operational Risk Capital Charge.

4. CAPITAL MANAGEMENT

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

Capital Allocation

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

The process of allocating capital to specific operations and activities is undertaken independently of those responsible for the operation, by Group Risk and Group Credit, and is subject to review by the Group Credit Committee or ALCO as appropriate. Although maximisation of the return on risk-adjusted capital is the principal basis used in determining how capital is allocated within the Group to particular operations or activities, it is not the sole basis used for decision-making. Account also taken of synergies with other operations and activities, the availability of management and other resources, and the fit of the activity with the Group's longer-term strategic objectives. The Group's policies in respect of capital management and allocation are reviewed regularly by the Board of Directors.

5. FAIR VALUE OF ASSETS AND LIABILITIES

(a) Determination of fair value and fair value hierarchy

The Group uses the following hierarchy for determining and disclosing the fair value of assets and liabilities by valuation technique:
Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities. This level includes treasury and corporate bonds listed in Nairobi Securities exchange (NSE).
Level 2 – other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly; and
Level 3 – inputs for the asset or liability that are not based on observable market data (unobservable inputs).

5. FAIR VALUE OF ASSETS AND LIABILITIES (continued

(a) Determination of fair value and fair value hierarchy (continued)

The following table shows an analysis of assets and liabilities recorded at fair value by level of the fair value hierarchy. This hierarchy requires the use of observable market data where available. The Group considers relevant and observable market prices in its valuations where possible:
GROUP

As at 31 December 2019	Level 1	Level 2	Level 3	Total
	KShs'000	KShs'000	KShs'000	KShs'000
Assets measured at fair value:				
Free hold land and buildings	-	-	2,408,791	2,408,791
Debt instruments at FVOCI	-	-	-	-
Treasury bonds	40,931,155	-	-	40,931,155
Equity instruments at FVOCI	107,890	-	-	107,890
Unquoted equity instruments at FVOCI	-	-	303,424	303,424
Derivatives	-	379,745	-	379,745
Loans and advances				
Directors and staff loans	-	4,599,768	-	4,599,768
Assets for which fair values are disclosed (note 6b)				
Debt Instruments at Amortised cost				
Treasury bonds	38,876,142	-	-	38,876,142
Treasury bills	37,995,382	-	-	37,995,382
Corporate bonds	-	973,971	-	973,971
Liabilities for which fair values are disclosed (note 6b)				
Loans and borrowings	-	2,203,120	-	2,203,120

As at 31 December 2018	Level 1	Level 2	Level 3	Total
	KShs'000	KShs'000	KShs'000	KShs'000
Assets measured at fair value:				
Free hold land and buildings	-	-	2,367,148	2,367,148
Debt instruments at FVOCI	-	-	-	-
Treasury bonds	30,572,358	-	-	30,572,358
Equity instruments at FVOCI	128,930	-	-	128,930
Unquoted equity instruments at FVOCI	-	-	35,151	35,151
Derivatives	-	664,514	-	664,514
Loans and advances				
Directors and staff loans	-	4,044,752	-	4,044,752
Assets for which fair values are disclosed (note 6b)				
Debt Instruments at Amortised cost				
Treasury bonds	34,828,403	-	-	34,828,403
Treasury bills	16,418,924	-	-	16,418,924

As at 31 December 2018				
Assets for which fair values are disclosed (note 6b)				
Debt Instruments at Amortised cost				
Treasury bonds	34,828,403	-	-	34,828,403
Treasury bills	16,418,924	-	-	16,418,924
Corporate bonds	-	2,421,541	-	2,421,541
Liabilities for which fair values are disclosed (note 6b)				
Loans and borrowings	-	2,548,522	-	2,548,522

The transfers between levels 1 and 2 in the year are disclosed on note 6(e).

5. FAIR VALUE OF ASSETS AND LIABILITIES (Continued)

(b) Fair value of financial assets and liabilities not carried at fair value

The table below summarises the carrying amounts and fair values of those financial assets and liabilities not presented on the Group's consolidated statement of financial position at their fair value, other than those with carrying amounts that are reasonable approximation of fair values.

	2019		2018	
	Carrying amount	Fair value	Carrying amount	Fair value
Financial assets:	KShs'000	KShs'000	KShs'000	KShs'000
Amortised cost/ Held-to-maturity				
Corporate Bonds, Treasury bonds and bills	78,816,367	82,285,129	53,668,868	52,092,150
	78,816,367	82,285,129	53,668,868	52,092,150
Financial liabilities:				
Loans and borrowings				
Fixed-rates borrowings	2,619,194	2,203,120	3,135,015	2,548,522
	2,619,194	2,203,120	3,135,015	2,548,522

The following describes the methodologies and assumptions used to determine fair values for those financial instruments which are not already recorded at fair value in the financial statements:

(i) Assets for which fair value approximates carrying amounts

For financial assets and financial liabilities that have a short-term maturity (less than three months) it is assumed that the carrying amounts approximate to their fair value. This assumption is also applied to inter-bank placements, demand deposits, and savings accounts without a specific maturity and treasury bills at amortised cost (previously, held to maturity).

(ii) Loans and advances to customers

Loans and advances are net of expected credit losses /charges for impairment. The estimated fair value of loans and advances represents the discounted amount of estimated future cash flows expected to be received. Loans and advances to customers are at variable rates.

(iii) Government securities

Government debt securities include both long-term treasury bonds and short-term treasury bills with fixed rate interest payments. These instruments are generally highly liquid and traded in active markets resulting in a Level 1 classification. When active market prices are not available, the Group uses discounted cash flow models with observable market inputs of similar instruments and bond prices to estimate the fair value in which instances the Group classifies those securities as Level 2. The Group does not have Level 3 government securities where valuation inputs would be unobservable.

(iv) Debt securities issued by financial institutions and other debt securities

These include corporate bonds which are standard fixed rate securities. The Group uses active market prices when available, or other observable inputs in discounted cash flow models to estimate the corresponding fair value. Corporate bonds are generally Level 2 instruments.

(v) Foreign exchange contracts

Foreign exchange contracts include foreign exchange forward and swap contracts. These instruments are valued by either observable foreign exchange rates, observable or calculated forward points and option valuation models. With the exception of contracts where a directly observable rate is available which are disclosed as Level 1, the Group classifies foreign exchange contracts as Level 2 financial instruments when no unobservable inputs are used for their valuation or the unobservable inputs used are not significant to the measurement (as a whole).

(vi) Loans and borrowings

The estimated fair value of fixed interest-bearing loans is based on discounted cash flows using prevailing money-market interest rates for debts with similar credit risk and maturity.

5. FAIR VALUE OF ASSETS AND LIABILITIES (Continued)

(c) Description of significant unobservable inputs to valuation

The significant unobservable inputs used in the fair value measurements categorised within level 3 of the fair value hierarchy, are as shown below

Asset	Valuation Technique	Significant unobservable inputs	Range (Weighted Average)	Sensitivity of the input to fair value
Free hold land and building	DCF method	Estimated rental value per s.q.m. per month	KShs 30	+/-1% (2018: +/-1%) = Fair value change of +/- KShs 23million (2018: 24million)
		Rent growth p.a.	3%	
		Long-term vacancy rate	5%	
		Discount rate	5%	
Unquoted-equity instruments	DCF method	Long term growth rate	5%	+/-1% (2018: +/-1%) = Fair value change of +/- KShs 0.3million (2018: +/- Nil)
		Discount rate (WACC)	15%	

(d) Transfers between Level 1 and Level 2

The following table shows transfers between Level 1 and Level 2 of the fair value hierarchy for financial assets which are recorded at fair value:

	Transfers from Level 1 to Level 2	
	2019	2018
	KShs'000	KShs'000
Financial investments available-for-sale		
Corporate bonds	-	3,229,174
		-

There were no transfers between Level 1 & 2 in the year (2018: 3,229,174)

Reconciliation of fair value measurement of unquoted equity instruments classified as FVOCI/ AFS Financial asset

	Group	
	2019	2018
	KShs'000	KShs'000
At 1 January	35,150	30,009
Impairment	-	-
Purchase	200,000	-
Sales		-
Remeasurement recognised through OCI	68,274	5,141
At December	303,424	35,150

6. CASH AND BANK BALANCES

	Group		Society	
	2019	2018	2019	2018
	KShs'000	KShs'000	KShs'000	KShs'000
Cash on hand	8,959,634	9,809,390	-	-
Central Bank of Kenya:				
Restricted balances (Cash Reserve Ratio)	17,057,889	16,398,951	-	-
Unrestricted balances available for use by the Group	126,260	4,994,894	132,307	162,311
Central Bank of South Sudan	2,933,960	1,557,660	-	-
	29,077,743	32,760,895	132,307	162,311
Less: Allowance for credit losses	(49,069)	(282,294)	-	-
	29,028,674	32,478,601	132,307	162,311

The Cash Reserve Ratio are restricted deposits with the Central Bank of Kenya and Bank of South Sudan and represents mandatory reserve deposits and are not available for use in the Bank's day–to–day operations. The deposits are non-interest earning and are based on the value of deposits as adjusted by Central Bank of Kenya requirements. At 31 December 2019, the Cash Reserve Ratio requirement was 5.25% (2018 – 5.25%) on all deposits.

The allowance for credit losses relates to deposits held by Bank of South Sudan.

7. DEPOSITS AND BALANCES DUE FROM BANKS

	Group	
	2019	2018
	KShs'000	KShs'000
Local banks	1,573,074	7,887,523
Foreign banks	7,986,722	10,202,016
	9,559,796	18,089,539
Less: Allowance for credit losses	(3,348)	(7,891)
	9,556,448	18,081,648

The weighted average effective interest rate on deposits and balances due from banks as at 31 December 2019 was 2.3% (2018-2.89%).

8. FINANCIAL INVESTMENTS OTHER THAN THOSE MEASURED AT FVPL

DEBT INSTRUMENTS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	Group	
	2019	2018
	KShs'000	KShs'000
Treasury Bonds:		
Maturing within 91 days	-	-
Maturing after 91 days	40,931,155	30,572,358
	40,931,155	30,572,358

EQUITY INSTRUMENTS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	Group	
Quoted equity investments: -	2019	2018
Nairobi Securities Exchange: -		
7,000,000 shares of KShs 14.65 each	86,450	98,050
CIC Insurance Group Ltd: -		
8,000,000 shares of KShs 3.80 each	21,440	30,880
Unquoted equity Investments: -		
Consolidated Bank of Kenya Ltd: -		
135,000 ordinary shares of KShs 20 each	2,700	2,700
580,000 4% non-cumulative preference shares of KShs 20 each	1,562	1,562
Kenya National Federation of Co-operatives Ltd: -		
82 shares of KShs100 each	8	8
Kenya National Housing Co-operative Union Ltd: -		
1 share of KShs 1,000	1	1
Kenya Mortgage Finance Society: -		
2,000,000 shares of KShs 100 each	200,000	-
Menno Plaza Limited: -		
9,340 ordinary shares representing 12.39% ownership	99,153	30,880
	411,314	164,081

Movement in the year for debt and equity instrument through OCI		
At January 1	-	-
Transfer from FVOCI	30,736,439	28,698,765
Reclassifications	-	(6,712,465)
Additions	34,459,854	29,070,623
Disposals and maturities	(23,898,576)	(20,067,016)
Expected credit loss	(180,268)	(507,337)
Change in fair value recognized OCI	225,020	253,869
At December 31	41,342,469	30,736,439

The weighted average effective interest rate on FVOCI as at 31 December 2019 was 11.44%

The above unquoted instruments relate to investments in the banking sector co-operative movement. The unquoted equities are not actively traded, and management does not intend to dispose them in the immediate future. The unquoted equity investments are placed under level 3 of fair value hierarchy. The valuation technique used is equity calculation based on EBTDA and market data.

9. DERIVATIVE FINANCIAL INSTRUMENTS

The table below shows the fair values of derivative financial instruments recorded as assets or liabilities together with their notional amounts. The notional amount, recorded gross, is the amount of a derivative's underlying asset and is the basis upon which changes in the value of derivatives are measured. The notional amounts indicate the volume of transactions outstanding at the year end and are indicative of neither the market risk nor the credit risk. These derivative financial instruments are measured at fair value through profit or loss.

	Group			
	2019		2018	
	KShs'000	KShs'000	KShs'000	KShs'000
	Notional value	Fair value of contracts: Asset /(Liability)	Notional value	Fair value of contracts: Asset /(Liability)
Forward exchange contracts	(579,747)	45,808	(924,280)	(6,126)
Swaps	7,392,554	333,937	9,349,988	670,640
	6,812,807	379,745	8,425,708	664,514

10. OTHER ASSETS

	Group	
	2019	2018
	KShs'000	KShs'000
Interest receivable	3,592,981	2,847,811
Items in the course of collection from other banks	1,344,671	722,345
Deposits with financial Institutions	346,285	555,784
Sundry debtors and prepayments	2,867,455	12,050,683
Staff loan amortisation	4,599,768	4,044,752
	12,751,160	20,221,375
Impairment losses on deposits with financial institutions	(17,105)	(139,668)
	12,734,055	20,081,707

11. LOANS AND ADVANCES TO CUSTOMERS

	Group 2019	Group 2018
(a) Net loans and advances	KShs'000	KShs'000
Overdrafts	6,240,618	6,495,805
Commercial loans	254,726,802	248,106,945
Government/Donor funded loan schemes	548,232	434,375
Credit card balances	512,308	508,903
Micro enterprises & SME	27,013,487	9,298,077
Gross loans and advances	289,041,447	264,844,105
Staff loans amortisation (note 12)	(4,599,768)	(4,044,752)
	284,441,679	260,799,353
Allowance for ECL / impairment losses (note 12 c)	(18,477,170)	(16,096,341)
Net loans and advances	265,964,509	244,703,012

(b) The weighted average effective interest rates at 31 December were:-

	Group 2019	Group 2018
	%	%
Overdrafts	12.5	13
Commercial loans	12.4	13
Government/Donor funded loan schemes	8.5	8.6
Credit card balances	12.5	8

(c) Allowance for ECL / impairment losses
Group

Presented in KShs'000	Under IFRS 9 Stage 1	Stage 2	Stage 3	Total
At 1 January 2018	3,586,110	3,679,166	10,428,832	17,694,108
Expected credit loss	568,573	668,864	484,730	1,722,167
Interest on impaired loans recognised as income	-	-	(1,660,820)	(1,660,820)
Impaired loss written off during the year	-	-	(1,659,114)	(1,659,114)
At 31 December 2018	4,154,683	4,348,030	7,593,628	16,096,341
At 1 January 2019	4,154,683	4,348,030	7,593,628	16,096,341
Expected credit loss			2,539,071	2,539,071
Interest on impaired loans recognised as income	-	-	(96,656)	(96,656)
Exchange difference on translation of a foreign operation	-	-	11,155	11,155
Write off-E-credit loans	-	-	(72,741)	(72,741)
At 31 December 2019	4,154,683	4,348,030	9,974,457	18,477,170

11. LOANS AND ADVANCES TO CUSTOMERS (continued)

(c) Allowance for ECL/ Impairment losses (continued)

The table below provides overview of the credit quality and the maximum exposure to credit risk based on the Group's internal credit rating system and year end stage classification.

Group

31 December 2019

Internal risk rating category	12-month ECL Stage 1	Lifetime ECL not credit impaired Stage 2	Lifetime ECL credit Impaired Stage 3	Gross Carrying Amount	Provisions for impairment 12-month ECL Stage 1	Provisions for impairment Lifetime ECL not credit impaired Stage 2	Provisions for impairment Lifetime ECL credit Impaired Stage 3	Total ECL
	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000
Grade1	232,203,064	-	-	232,203,064	4,680,665	-	-	4,680,665
Grade2	-	26,310,125	-	26,310,125	-	1,738,471	-	1,738,471
Grade3	-	-	13,302,760	13,302,760	-	-	5,029,080	5,029,080
Grade4	-	-	17,356,708	17,356,708	-	-	6,453,086	6,453,086
Grade5	-	-	616,977	616,977	-	-	575,868	575,868
Total	232,203,064	26,310,125	31,276,445	289,789,634	4,680,665	1,738,471	12,058,034	18,477,170

31 December 2018

Internal risk rating category	12-month ECL Stage 1	Lifetime ECL not credit impaired Stage 2	Lifetime ECL credit Impaired Stage 3	Gross Carrying Amount	Provisions for impairment 12-month ECL Stage 1	Provisions for impairment Lifetime ECL not credit impaired Stage 2	Provisions for impairment Lifetime ECL credit Impaired Stage 3	Total ECL
	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000
Grade1	206,071,494	-	-	206,071,494	1,902,139	-	-	1,902,139
Grade2	1,825,606	28,167,926	-	29,993,532	57,658	1,126,287	-	1,183,945
Grade3	-	1,295,230	9,060,272	10,355,502	-	240,984	5,037,511	5,278,495
Grade4	-	-	17,862,302	17,862,302	-	-	6,665,407	6,665,407
Grade5	-	-	1,268,565	1,268,565	-	-	1,066,355	1,066,355
Total	207,897,100	29,463,156	28,191,139	265,551,395	1,959,797	1,367,271	12,769,273	16,096,341

11. LOANS AND ADVANCES TO CUSTOMERS (continued)

(c) Allowance for ECL/ Impairment losses (continued)

An analysis of changes in gross carrying amount and the corresponding ECL allowance in relation to Group loan portfolio is as follows

Group	Stage 1	Stage 2	Stage 3	Total
	KShs'000	KShs'000	KShs'000	KShs'000
Gross carrying amount as at 1 January 2019	207,018,369	29,774,480	28,051,256	264,844,105
Disbursement	62,242,170	(2,404,235)	6,287,332	66,125,267
Repayment (excluding write-off)	(38,913,623)	(5,738,047)	(3,597,139)	(48,248,809)
Movement to Stage 1	867,357	(731,491)	(135,866)	-
Movement to Stage 2	237,268	(574,695)	337,427	-
Movement to Stage 3	(469,043)	(154,206)	623,249	-
Restructures	-	6,393,625	-	6,393,625
Write-offs	-	-	(72,741)	(72,741)
31 December 2019	231,689,788	26,565,431	31,493,518	289,041,447

	Stage 1	Stage 2	Stage 3	Total
	KShs'000	KShs'000	KShs'000	KShs'000
Impairment allowance as at 1 January 2019 under IFRS 9	1,388,726	1,936,415	12,771,200	16,096,341
ECL on disbursement	6,946,276	67,350	4,848,650	11,862,276
ECL on repayment (excluding write-off)	(4,173,149)	(3,893,498)	(1,628,966)	(9,695,612)
Movement to Stage 1	(324,423)	(12,103)	336,526	-
Movement to Stage 2	77,369	3,023,011	(3,100,380)	-
Movement to Stage 3	179,022	847,352	(1,026,374)	-
Impact on year end ECL of exposures transferred between stages during the year	-	-	-	-
ECL on restructures	-	286,904	-	286,904
Write-Back	-	-	-	-
Write-offs	-	-	(72,741)	(72,741)
31 December 2019	4,093,821	2,255,431	12,127,916	18,477,170

Group	Stage 1	Stage 2	Stage 3	Total
	KShs'000	KShs'000	KShs'000	KShs'000
Gross carrying amount as at 1 January 2018	219,668,933	29,643,140	18,424,905	267,736,978
Disbursement	69,564,512	232,710	1,197,280	70,994,502
Repayment (excluding write-off)	(28,694,842)	(498,051)	(302,439)	(29,495,332)
Movement to Stage 1	1,597,002	(1,595,136)	(1,866)	-
Movement to Stage 2	(28,233,710)	28,588,259	(354,549)	-
Movement to Stage 3	(10,871,547)	(818,519)	11,690,066	-
Restructures	(16,011,979)	(25,777,923)	(918,116)	(42,708,018)
Write-offs	-	-	(1,684,025	(1,684,025)
31 December 2018	207,018,369	29,774,480	28,051,256	264,844,105

11. LOANS AND ADVANCES TO CUSTOMERS (continued)

(c) Allowance for ECL/ Impairment losses (continued)

	Stage 1	Stage 2	Stage 3	Total
	KShs'000	KShs'000	KShs'000	KShs'000
Impairment allowance as at 1 January 2018 under IFRS 9	5,756,274	2,155,112	9,782,722	17,694,108
ECL on disbursement	6,684,925	76,389	1,154,812	7,916,126
ECL on repayment (excluding write-off)	(6,234,781)	(1,476,526)	(118,561)	(7,829,868)
Movement to Stage 1	217,883	(217,880)	(3)	-
Movement to Stage 2	(1,112,303)	1,379,567	(267,264)	-
Movement to Stage 3	(3,516,502)	(266,519)	3,783,021	-
Impact on year end ECL of exposures transferred between stages during the year	(406,770)	286,272	120,498	-
ECL on restructures	-	-	-	-
Write-Back	-	-	-	-
Write-offs	-	-	(1,684,025)	(1,684,025)
31 December 2018	1,388,726	1,936,415	12,771,200	16,096,341

12. INVENTORY

	Group	
	2019	2018
	KShs	KShs
Stocks on green coffee	64,995	65,926
Roasted coffee	319	368
Hay	-	874
Instant coffee	14,227	7,541
Percolators	7,531	6,162
Packaging	4,862	8,881
	91,934	89,752

The inventory is held by Kenya Co-operative Coffee Dealers Limited a subsidiary of Kenya Co-operative Coffee Exporters Limited. The Company is licensed by the Coffee Board of Kenya as a coffee Dealer, to value add and sell coffee locally and internationally.

13. DEBT INSTRUMENTS AT AMORTISED COST

	Group 2019 KShs'000	2018 KShs'000
Government treasury bills:		
Maturing within 91 days	13,325,094	984,486
Maturing after 91 days	24,670,289	15,277,875
Treasury bonds:		
Maturing within 91 days	-	-
Maturing after 91 days	38,876,142	33,438,668
Corporate bonds:		
Maturing within 91 days	-	200,000
Maturing after 91 days	973,971	2,191,121
	77,845,496	52,092,150
Movement in the year:		
At 1 January	52,092,150	43,983,288
Additions	59,210,392	12,571,460
Allowance for credit losses	(251,103)	(719,768)
Maturities	(33,205,943)	(3,742,830)
At December 31	77,845,496	52,092,150

The weighted average effective interest rate on Debt instruments measured at amortised cost as at 31 December 2019 was 12.01%. In assessing for the expected credit losses, the debt instruments at amortised cost were assessed to be of high grade credit quality and classified under stage 1 category.

14. INVESTMENT IN SUBSIDIARIES

The following subsidiaries are owned by the society.

	Ownership	Principal activity	2019 KShs'000	2018 KShs'000
The Co-operative Bank of Kenya Limited: 3,787,715,400 ordinary shares of KShs 1 each	64.56%	Banking	3,787,715	3,787,715
The Kenya Co-operative Coffee Exporters Limited: 2,800,000 (2018: 2,800,000) ordinary shares of KShs 100 each	91%	Coffee Marketing	280,000	280,000
			4,067,715	4,067,715
Less: Allowance for impairment losses			(280,000)	-
			3,787,715	4,067,715

The investment in the above subsidiaries is at cost. The investment in Kenya Co-Operative Coffee Exporters was fully impaired during the year due to the history of losses.

15. INVESTMENTS IN ASSOCIATES

The Group has 33.41% interest in Co-operative Insurance Society Limited which is the majority shareholder of CIC Insurance Group Limited. This is a reduction from the 35.71% interest held in prior year following the sale of 44.7M shares in two tranches of 30.4M and 14.3M respectively during the year. CIC Insurance Group Limited is a listed Society at Nairobi Securities Exchange (NSE) and is incorporated in Kenya. The principal activity of the Society is insurance business and fund management. The fair value of the investment as at 31 December 2019 was KShs 1,740 million.

The Group's Interest in Co-operative Insurance Society Limited is accounted for using the equity method in the consolidated financial statements.

The Bank's interest in Co-operative Insurance Society Limited is accounted for at cost in the separate financial statements.

Co-operative Bank of South Sudan owns 31% stake in CIC South Sudan. The interest in CIC South Sudan is accounted for using the equity method in the consolidated financial statements. During the year, the Associate changed its functional currency from South Sudan Pounds (SSP) to US dollars (USD).

During the year, Co-operative bank of Kenya concluded the incorporation of Co-op Bank Fleet Africa Leasing Limited, a joint venture with South Africa based Super Group Limited to carry out leasing business. The terms of the joint venture are such that the bank owns 25% shareholding with Super Group owning 75% shareholding with a 50:50 profit sharing arrangement.

The following table illustrates the summarised financial information of the Group's investment in CIC Insurance Group Limited:

	Group	
	2019	2018
	KShs'000	KShs'000
At 1 January	2,161,475	2,143,347
Share of profit	40,035	171,416
Other comprehensive income	39,886	(39,609)
Exchange difference on translation	(7,613)	(30,392)
Sale of shares	(48,699)	-
Investment in Co-op Bank Fleet Africa Leasing Limited	25	-
Dividends received	(86,755)	(83,287)
As at 31 December	2,098,354	2,161,475

15. INVESTMENTS IN ASSOCIATES (continued)

The following table illustrates summarized financial information of the Group's investment in associates: -

	Co-operative Insurance Society Limited		CIC South Sudan Limited	
	2019	2018	2019	2018
Statement of financial position:	KShs'000	KShs'000	KShs'000	KShs'000
Non-current assets	9,671,817	9,927,023	356,971	370,389
Current assets	25,393,985	23,237,773	839,397	408,536
	35,065,802	33,164,796	1,196,368	778,925
Current liabilities	(27,409,120)	(25,294,421)	(638,059)	(243,087)
Equity	7,656,682	7,870,375	558,309	535,839
Group's share in equity	2,558,097	2,810,511	173,075	166,110
Cumulative share of profit	(1,390,410)	(1,412,577)	-	-
Cumulative dividends received	630,868	544,113	-	-
Cumulative share of OCI	85,518	53,318	-	-
Inflation adjustment	-	-	-	-
Group's carrying amount of the investment	1,884,073	1,995,365	173,075	166,110

Statement of comprehensive income:	Co-operative Insurance Society Limited		CIC South Sudan Limited	
	2019	2018	2019	2018
	KShs'000	KShs'000	KShs'000	KShs'000
Revenue	17,655,031	17,078,727	718,019	464,150
Operating and other expenses	(17,457,144)	(16,260,545)	(660,380)	(417,816)
Profit before tax	197,887	818,182	57,639	46,334
Income tax expense	(108,586)	(226,258)	-	-
Profit after tax	89,301	591,924	57,639	46,334
Other comprehensive income	129,720	(252,681)	24,792	88,435
Total comprehensive income for the year	219,021	339,243	82,431	134,769
Attributable to parent	162,733	252,336	-	-
Attributable to Non-controlling interest	56,288	86,907	-	-
	219,021	339,243	-	-
Group's share of comprehensive income	54,368	90,029	25,554	41,778
Split as follows				
Share of profit or loss	22,168	157,053	17,868	14,363
Share of other comprehensive income	32,200	(67,024)	7,686	27,415
	54,368	90,029	25,554	41,778

16. INTANGIBLE ASSETS

(a) GROUP

	Computer software KShs'000	Business Rights KShs'000	Other intangible assets KShs'000	Work-in-progress KShs'000	Total KShs'000
COST					
At 1 January 2019	3,654,328	131,460	25,000	1,634,461	5,445,249
Additions	330,727	-	-	394,918	725,645
Transfers from WIP	1,482,745	-	-	(1,482,745)	-
Write off	-	-	-	(2,085)	(2,085)
Exchange difference on translation	9,973	22,714	-	60,946	93,633
At 31 December 2019	5,477,772	154,174	25,000	605,495	6,262,442
AMORTISATION					
At 1 January 2019	2,822,782	125,225	-	-	2,948,007
Amortisation for the year	594,476	-	-	-	594,476
Exchange difference on translation	12,926	(985)	-	-	11,941
At 31 December 2019	3,430,184	124,240	-	-	3,554,424
NET CARRYING AMOUNT					
At 31 December 2019	2,047,589	29,934	25,000	605,495	2,708,018

(a) GROUP

	Computer software KShs'000	Business rights KShs'000	Other intangible assets KShs'000	Work-in-progress KShs'000	Total KShs'000
COST					
At 1 January 2018	3,433,974	114,584	25,000	823,372	4,396,930
Additions	211,668	-	-	765,838	977,506
Exchange difference on translation	8,686	16,876	-	45,251	70,813
At 31 December 2018	3,654,328	131,460	25,000	1,634,461	5,445,249
AMORTISATION					
At 1 January 2018	2,295,460	82,595	-	-	2,378,055
Amortisation for the year	524,494	37,834	-	-	562,328
Write offs	(637)	-	-	-	(637)
Exchange difference on translation	3,464	4,796	-	-	8,260
At 31 December 2018	2,822,781	125,225	-	-	2,948,006
NET CARRYING AMOUNT					
At 31 December 2018	831,547	6,235	25,000	1,634,461	2,497,243

Other intangible assets relate to trading rights by Kingdom Securities Limited to participate in trading at Nairobi Securities Exchange (NSE). The business rights relate to the costs incurred in negotiating a business arrangement with the Government of South Sudan for the Co-Operative Bank of South Sudan. Under the Joint Venture agreement with the Government of South Sudan, the Bank acquired certain rights that are identifiable e.g., business relationships with the government and co-operative movement.

Work-in-progress relates to partially paid and ongoing software projects not yet commissioned for use by the group.

17. PREPAID LEASE RENTALS

	Group and Bank	
	2019	2018
	KShs'000	KShs'000
COST		
At 1 January 2019	54,413	105,656
AMORTISATION:		
At 1 January 2019	19,281	35,504
Charge for the year	610	11,256
At 31 December 2019	19,891	46,760
NET CARRYING AMOUNT		
At 31 December 2019	34,522	58,896

Prepaid lease rentals relate to the lease payments for leasehold land to the government. Amortization is done over the remaining lease period of the lease as at the time of purchase.

18. (a) PROPERTY AND EQUIPMENT-GROUP

COST/VALUATION	Freehold land & buildings KShs'000	Capital work-in progress KShs'000	Fixtures KShs'000	Office machinery, furniture & equipment KShs'000	Motor vehicles KShs'000	Computers KShs'000	Total KShs'000
At 1 January 2019	2,408,791	643,280	8,626,621	2,395,706	197,211	6,352,532	20,624,141
Additions	1,423	228,996	75,218	129,887	19,784	610,113	1,065,421
Disposals	-	-	-	(3,730)	(6,498)	(6,488)	(16,716)
Revaluation	(60,091)	-	-	-	-	-	(60,091)
Transfers from WIP	-	(398,953)	104,292	3,503	-	291,158	-
Exchange difference on translation	-	25,156	-	194,720	(4,860)	25,246	240,262
Asset Reclassification	-	-	(366)	366	-	-	-
Write off	-	(7,311)	(116,232)	-	-	-	(123,543)
At 31 December 2019	2,350,123	491,168	8,689,533	2,720,452	205,637	7,272,561	21,729,474
ACCUMULATED DEPRECIATION							
At 1 January 2019	186,286	-	6,719,954	1,759,163	125,701	5,188,128	13,979,232
Charge for the year	93,143	-	614,882	221,971	20,352	579,966	1,530,314
Disposals	-	-	-	(3,107)	(6,498)	(6,441)	(16,046)
Revaluation	(279,429)	-	-	-	-	-	(279,429)
Write off	-	-	(90,055)	-	-	-	(90,055)
Exchange difference on translation	-	-	-	47,044	1,295	11,662	60,001
At 31 December 2019	-	-	7,244,781	2,025,071	140,850	5,773,315	15,184,017
NET CARRYING AMOUNT							
At 31 December 2019	2,350,123	491,168	1,444,752	695,381	64,787	1,499,246	6,545,457

(i) Capital work-in-progress represents ongoing construction work at the various branches of the Group.

(ii) Land and Buildings were revalued on open market value basis by professional valuers (Realty Valuers, Mwaka, Musau Consultants and Solomon & Associates Co Ltd) as at 31 December 2019. The resulting surplus on revaluation was adjusted to book values of the properties and credited to revaluation reserve. If land and building were measured using the cost model, the net carrying amount would have been KShs 2,129,363,324 (2018: KShs 1,284,818,514)

(iii) Freehold land and buildings are revalued every three years. Freehold land and buildings includes an amount of KShs 292,790,830 (2018- KShs. 292,790,830) against which no depreciation has been charged, as these are pieces of land.

(iv) No depreciation has been charged in arriving at the results for the year in respect of certain fully depreciated property and equipment with a cost of KShs 5,246,718,954 (2018- KShs 5,246,718,954), which are still in use. If depreciation had been charged during the year on the cost of these assets at normal rates, it would have amounted to KShs 886,435,730 (2018 - KShs 886,435,730).

(v) The Group has not pledged any item of property, plant and equipment as security as at 31 December 2019 (31 December 2018: Nil)

(vi) The write offs in PPE & Intangibles relate to abandoned projects during the year. Their book values were written off through the statement of Profit or Loss.

18. PROPERTY AND EQUIPMENT-GROUP

	Freehold land & buildings	Capital work-in progress	Fixtures	Office machinery ,furniture & equipment	Motor vehicles	Computers	Total
	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000
COST/VALUATION							
At 1 January 2018	2,408,791	747,412	8,283,210	2,184,113	187,978	5,934,588	19,746,092
Additions	-	83,657	208,123	72,001	27,213	404,355	795,349
Disposals	-	-	(8,353)	(6,663)	(33,065)	(45,940)	(94,021)
Transfers from WIP		(201,560)	143,641	14646	-	43,273	-
Exchange difference on translation		13,771	-	131,336	15,085	16,529	176,721
Asset Reclassification	-	-	-	273	-	(273)	-
At 31 December 2018	2,408,791	643,280	8,626,621	2,395,706	197,211	6,352,532	20,624,141
ACCUMULATED DEPRECIATION							
At 1 January 2018	93,143	-	6,001,994	1,502,959	137,237	4,487,489	12,222,822
Charge for the year	93,143	-	725,328	242,414	19,770	741,656	1,822,311
Disposals	-	-	(7,369)	(6,611)	(31,676)	(45,423)	(91,079)
Exchange difference on translation	-	-	-	20,401	370	4,406	25,177
At 31 December 2018	186,286	-	6,719,953	1,759,163	125,701	5,188,128	13,979,231
NET CARRYING AMOUNT							
At 31 December 2018	2,222,505	643,280	1,906,668	636,543	71,510	1,164,404	6,644,910

(i) Capital work-in-progress represents ongoing construction work at the various branches of the Bank.

(ii) Land and Buildings were revalued on open market value basis by professional valuers (N.W Realite Limited, Seven Degrees North Valuers, Kiragu and Mwangi Valuers and Afriland Valuers Limited) as at 31 December 2016. The resulting surplus on revaluation was adjusted to book values of the properties and credited to revaluation reserve. If land and building were measured using the cost model, the net carrying amount would have been KShs 129,813,710 (2017: KShs 137,133,480).

(iii) Freehold land and buildings are revalued every three years. Freehold land and buildings includes an amount of KShs 292,790,830 (2017- KShs. 292,790,830) against which no depreciation has been charged, as these are pieces of land.

(iv) No depreciation has been charged in arriving at the results for the year in respect of certain fully depreciated property and equipment with a cost of KShs 5,246,718,954 (2017- KShs 3,812,851,933), which are still in use. If depreciation had been charged during the year on the cost of these assets at normal rates, it would have amounted to KShs 886,435,730 (2017 - KShs 690,075,369).

(v) The Group has not pledged any item of property, plant and equipment as security as at 31 December 2018 (31 December 2017: Nil)

19. RIGHT OF USE ASSETS

(a) GROUP

	Land and Buildings KShs'000	Motor Vehicles KShs'000	Total KShs'000
COST			
Effect of adoption of IFRS 16 as at 1 January 2019	6,005,521	170,323	6,175,844
Additions	-	-	-
Disposals	-	-	-
Exchange differences	-	-	-
At 31 December 2019	6,005,521	170,323	6,175,844
DEPRECIATION			
At 1 January 2019	-	-	-
Depreciation for the year	1,225,635	7,111	1,232,746
Disposals	-	-	-
Exchange differences	-	-	-
At 31 December 2019	1,225,635	7,111	1,232,746
NET CARRYING AMOUNT			
At 31 December 2019	4,779,886	163,212	4,943,098

Set out below are the carrying amounts of lease liabilities (included in other liabilities in note 26) and the movements during the period:

	2019 KShs'000
As at 1 January-effect of adoption of IFRS 16	6,095,405
Additions	
Accretion of Interest	309,172
Payments	(1,364,215)
As at 31st December 2019	5,040,362

The Group's lease holdings include leased space where the group conduct their business as well as twenty-three leased motor vehicles used by various departments and branches of the bank. The leased spaces have a tenor of six years while the motor vehicles have a tenor of four years. Some of the leases have termination or extension clauses. However, the lease contracts do not have a residual value guarantee. Some of the leases have escalations clauses after two years, which vary from contract to contract on the leases mentioned above.

The Group had total cash outflows for leases of Kshs 1.34B. The initial application of IFRS 16 resulted in non-cash additions to right of use assets and lease liabilities of Kshs 6.1B at 1st January 2019.

20. DEFERRED TAX

The following table shows deferred tax recorded on the statement of financial position and changes recorded in the Income tax expense:

ROUP	2019 Deferred tax assets KShs'000	2019 Through Profit or loss KShs'000	2019 Through reserves KShs'000	2018 Deferred tax assets KShs'000	2018 Through Profit or loss KShs'000	2018 Through reserves KShs'000
Collective allowance for impairment disallowed for tax purposes	(2,873,034)	(284,735)		(2,585,026)	(52,936)	(1,609,949)
Revaluation surplus	498,463	-	65,801	432,663	-	(12,493)
Excess of tax wear and tear allowance over depreciation	(1,087,094)	49,701	-	(1,136,311)	(12,413)	-
Unrealised exchange gains	183,188	45,753	-	137,434	(447,242)	-
Right-of-use asset	43,974	43,912	-	-	-	-
Other temporary differences	(81,163)	(30,585)	-	(51,194)	8,775	-
Deferred tax asset	(3,315,666)	(175,954)	65,801	(3,202,434)	(503,816)	1,622,442)
Collective allowance for impairment disallowed for tax purposes	(89,904)	22,738	-	95,978	3,591	42,771
Excess of tax wear and tear allowance over depreciation	182,571	(430)	-	155,928	391	-
Right of use asset	(5,901)	(603)				
Other temporary differences	14,012	1,261	-	5,591	(18,839)	-
	-	-	-			
Deferred tax liability	100,778	22,966	-	257,497	(14,857)	42,771
Net deferred tax asset	(3,214,888)	(152,988)	65,801	(2,944,937)	(518,673)	(1,579,671)

21. DEPOSITS AND BALANCES DUE TO BANKS

	Group 2019 KShs'000	Group 2018 KShs'000
Payable within 30 days	108,873	342,524
Payable after 30 days but within 1 year	68,102	100,736
	176,975	443,260

The weighted average effective interest rate on deposits from other banks at 31 December 2019 was 1.7% (2018-0.00%). These current accounts do not accrue any interest.

22. CUSTOMER DEPOSITS

	Group	
(a) Deposit category	2019 KShs'000	2018 KShs'000
Call deposits	40,755,000	39,827,623
Fixed deposits	62,717,083	65,011,989
Transaction accounts	104,194,080	105,490,618
Savings accounts	19,672,150	15,203,436
Current accounts	103,815,175	68,141,660
Foreign currency deposits	1,376,002	12,278,676
	332,529,490	305,954,002
(b) From government and parastatals: -		
Payable on demand	46,871,654	20,191,851
Payable within 30 days	5,405,679	6,219,809
Payable after 30 days but within 1 year	17,580,001	19,995,236
	69,857,334	46,406,896
From private sector and individuals: -		
Payable on demand	165,404,666	164,897,289
Payable within 30 days	35,643,246	33,383,296
Payable after 30 days but within 1 year	61,624,244	61,266,521
	262,672,156	259,547,106
	332,529,490	305,954,002

Included in customers' deposits is an amount of KShs. 8,794 Million (2018- KShs 2,588 Million) that has been pledged to the Bank by customers as security for loans and advances. The weighted average effective interest rate on interest-bearing customer deposits as at 31 December was 3.71% (2018– 4.74 %).

23. LOANS AND BORROWINGS

	Group	
Long-term borrowing	2019 KShs'000	2018 KShs'000
IFAD	-	30,000
DEG	1,070,929	2,155,536
International Finance Corporation (IFC)	22,024,201	17,550,881
European Investment Bank	742,126	1,113,396
AFD Microfinance & line of credit	2,587,010	3,105,015
KFW Loan –SIPMK	-	63,709
Loan accrual adjustment	-	(68,926)
	26,424,266	23,949,611
Movement in the year:		
At 1 January	23,949,611	25,156,054
Additional loan disbursement	7,600,238	7,638,458
Central Bank REPO	-	-
Accrued interest	89,092	107,173
Loan Repayment	(5,066,175)	(8,562,857)
Accrual adjustment	-	(68,926)
Foreign exchange difference	(148,500)	(320,291)
At 31 December	26,424,266	23,949,611

23. LOANS AND BORROWINGS (continued)

The long-term borrowings are loans received by the Bank for onward lending to customers in specific segments. The terms for these loans is as described below:-

European Investment Bank
A loan agreement of Euros 50 million was entered into in April 2012 between the European Investment Bank and The Co-operative Bank of Kenya Limited. The loan were to be disbursed upon request for onward lending to micro and small enterprises including self-employed entrepreneurs and sole proprietorships in income generating activities and productive sectors such as trade, retail, agro industries, fishing, food processing, manufacturing, construction transport, tourism. The interest on loan is 2.43% plus a currency risk premium determined over a period of time. As at end of 2019, Euros 35.39 Million had been disbursed to the bank. The outstanding loan amount unpaid as at end of 2019 was 6.67 Million Euros.

French Development Agency (AFD)

The bank entered into agreement with AFD in 2011 for a credit facility at fixed rate of 3.25% to finance investments in the fields of sustainable energy (energy efficiency & renewable energy) projects. As at the end of year 2019, the amount disbursed to the bank was USD 35,710,169. The bank secured an additional credit facility of USD 50 Million in year 2016 with variable interest rate which is pegged to the LIBOR rate and the first drawdown of USD 8 Million has already being disbursed.

International Finance Corporation

The loan agreement was entered into on 5th December 2012 between International Finance Corporation and the Co-operative bank of Kenya Limited for a total of USD 60 Million. The purpose of the loan is to support the bank's asset growth and in particular, financing the small and medium enterprises as well as the agribusiness sector.

The loan has an element of fixed and variable interest rate which is pegged to the LIBOR rate. Repayment shall be in eleven (11) equal semi-annual instalments starting December 2013. The 1st disbursement of USD 30M was in March 2013 and the 2nd in March 2014. By 31 December 2019, the bank had drawn USD 60 Million from this facility.

In December 2015 the bank entered into agreement with IFC for a senior unsecured loan of USD 105 Million to finance the growth of SMEs portfolio, WOEs portfolio and affordable housing through expansion of mortgage & construction finance. The loan has an element of fixed and variable interest rate which is pegged to the LIBOR rate. The loan has a maturity period of 7 years and a 2-year grace period on principal repayment. As at the end of year 2019, the bank had received a drawdown of USD 105 Million.

In March 2019, the bank entered into a new agreement with IFC for a total of USD 150 Million. The loan is repayable in eleven equal instalments and will mature in December 2025.The loan was disbursed in two tranches, as at the end of year 2019, the bank had received a drawdown of USD 150 Million.

DEG - Deutsche Investitions- Und Entwicklungsgesellschaft Mbh

The Co-operative Bank of Kenya Limited signed a financing agreement with DEG - Deutsche Investitions - Und Entwicklungsgesellschaft Mbh of the Federal Republic of Germany in December 2013. The loan facility of USD 52,500,000 was disbursed in 2014. The facility is for onward lending to small and medium-sized enterprises. The loan will be repaid in 10 instalments ending in 2020. The agreement has an arrangement for interest computation on floating rate basis (pegged on LIBOR) or a fixed rate option based on mutual agreement.

24 TAXATION

	Group 2019 KShs'000	Group 2018 KShs'000
(a) Income Statement: -		
Current tax at 30% on the taxable profit for the year	6,547,494	5,937,854
Under provision in previous year	-	5,463
Hyper-inflationary adjustment	-	-
Deferred tax (credit) / charge	(152,988)	(518,672)
Income tax expense	6,394,506	5,424,645
(b) Statement of Financial Position: -		
Tax Payable		
Balance brought forward	303,280	(156,695)
Under provision in previous year	-	5,463
Charge for the year	6,547,494	5,937,854
Paid during the year	(6,826,421)	(5,483,342)
	24,353	303,280
(c) Reconciliation of tax expense to tax based on accounting profit: -		
Accounting profit	20,705,754	18,157,131
Tax applicable rate at 30%	6,211,726	5,447,139
Under provision in previous year	-	5,463
Share of profit in associate	(12,011)	(51,425)
Unrecognized deferred tax asset on tax loss	3,770	(869)
Hyper inflationary adjustments	184,098	127,640
Tax effect of items not eligible for tax	6,923	(103,303)
Tax expense in the income statement	6,394,506	5,424,645

The opening balance in the prior year tax reconciliation has been arrived at by offsetting the closing tax recoverable and payable positions from the prior year.

The corporation tax rate applicable to the Bank, subsidiaries and associates is 30% except for Co-operative Bank of South Sudan charged at a rate of 10-25% depending on the revenue of the tax payer.

Items not eligible for tax relates to items disallowed for purpose of calculating the income tax in accordance with the Income Tax Act. These mainly relates to donations, interest on infrastructure bonds.

The Society did not have taxable income as dividend income is exempt from taxation.

25. PROVISIONS

	Group 2019 KShs'000	Group 2018 KShs'000
Leave liability	151,426	151,147
Balance at 1 January	151,147	187,793
Movement through profit or loss	279	(36,646)
Balance at 31 December	151,426	151,147

This provision is for obligations in respect of annual leave entitlements not taken as at close of the period. The amount has been accrued at remuneration rates expected to apply when the obligation is settled.

26. OTHER LIABILITIES

	Group 2019 KShs'000	Group 2018 KShs'000	Society 2019 KShs'000	Society 2018 KShs'000
Bills payable	5,276,545	4,250,094	-	-
Sundry creditors and accruals	11,683,237	7,469,642	64,931	63,873
	16,959,782	11,719,736	64,931	63,873

27. GOVERNMENT GRANTS

	Group 2019 KShs'000	Group 2018 KShs'000
At 1 January	461,892	480,368
Amortisation for the year	(18,475)	(18,475)
At 31 December	443,417	461,893

The grants relate to rehabilitation work on Co-operative House financed by USAID following the August 1998 bomb blast. The grant is amortised in line with the depreciation on the building. The grant is amortised for the same period of the building since it was part of the cost to reconstruct the building.

28. SHARE CAPITAL

	Group and Society 2019 KShs'000	Group and Society 2018 KShs'000
Authorised: - An unlimited number of ordinary shares of KShs 1 each.		
Issued and fully paid: - 3,787,715,400 (2018: 3,787,715,400 ordinary shares of KShs 1 each)	3,787,715	3,787,715

29. SHARE PREMIUM

These reserves arose in 2008 when the Bank issued 557,242,300 new shares through an Initial Public Offering. The shares, with a par value of KShs 1 were issued at KShs 9.50. These reserves may be applied towards capital in the future.

	Group and Society 2019 KShs'000	Group and Society 2018 KShs'000
At 1 January	1,234,295	1,234,295
At 31 December	1,234,295	1,234,295

30. RESERVES

(a) Revaluation reserve
The revaluation reserve is used to record increases in the fair value of land and buildings and decreases to the extent that such decrease relates to an increase on the same asset previously recognised in equity. Revaluation reserves are not distributable.

(b) Retained earnings
This reserve includes accumulated profits over the years. The retained earnings are distributable to the shareholders.

(c) Fair value reserve
This comprises changes in fair value on debt instruments at fair value through other comprehensive income, excluding impairment losses, until the net investment is derecognised. This reserve is not distributable as it relates to unrealised fair value changes.

(d) Statutory reserve
Where impairment losses required by legislation or regulations exceed those computed under International Financial Reporting Standards (IFRS), the excess is recognised as a statutory reserve and accounted for as an appropriation of retained earnings. This reserve is not distributable.

(e) Foreign currency translation reserve
The reserves represent exchange differences arising from translation of the net assets of the Group's foreign operations in the Co-operative Bank of South Sudan from their functional currency (South Sudan pounds), to the Group's presentation currency (Kenya shillings). These differences are recognised directly through other comprehensive income and accumulated in the foreign currency translation reserve in equity. The reserve is not available for distribution to the shareholders.

31. PROPOSED DIVIDENDS AND DIVIDENDS PER SHARE

	Group and Society	
	2019	2018
	KShs'000	KShs'000
Proposed dividends	3,694,538	3,694,538

(a) Dividend per share is arrived at by dividing the total dividends by the weighted average number of shares in issue during the year.
(b) Proposed dividends are accounted for as a separate component of equity at year end until they are ratified at an Annual General Meeting (AGM). At the AGM to approve year 2019 financial statements, a first and final dividend in respect of year 2019 of KShs 97.54 cents (2018 - KShs 97.54 cents) for every ordinary share of KShs 1 each will be proposed by the directors and is subject to approval by shareholders.
(c) Payment of dividend is subject to withholding tax at the rate of 5% for residents and 10% for non-resident shareholders.
(d) The Society recognized dividend receivable from the bank at KShs 1.00 (2018: KShs 1.00) for every ordinary share. Dividend payable in the society's books represent uncollected dividend by the shareholders.

32. INTEREST AND SIMILAR INCOME

	Group	
	2019	2018
Interest income calculated using the effective interest method	KShs'000	KShs'000
Loans and advances to customers	32,716,341	33,522,342
Debt instruments at amortised cost	4,515,317	3,743,734
Debt instruments at FVOCI	4,130,270	4,619,041
Amortization of financial instruments	2,709,724	1,366,486
Deposits and balances due from other banks	477,320	261,878
Interest received repo placements	29,087	118,561
	44,578,059	43,678,946

33. INTEREST AND SIMILAR EXPENSE

Interest expense calculated using the effective interest method		
Call deposits	1,680,559	1,774,420
Fixed deposits	6,148,566	6,816,649
Savings accounts	1,176,984	999,601
Current accounts	1,311,697	1,261,646
Deposits and balances due to banks	149,558	134,697
Lease obligations	304,231	-
Borrowed funds	1,564,552	1,253,102
	12,336,147	12,240,115

34. FEES AND COMMISSIONS

	Group 2019 KShs'000	2018 KShs'000
Fees and commissions income	12,965,677	9,068,386
Fees and commissions expense	(118,546)	(111,322)
Net fees and commissions income	12,847,131	8,957,064

Disaggregated fees and commission information for the year ended 31 December 2019

	Banking services KShs'000	Advisory & training KShs'000	Banc assurance KShs'000	Investment management KShs'000	Brokerage KShs'000	Total KShs'000
Fees and commission income						
Custodial	141,515	-	-	-	-	141,515
Share registration	138,148	-	-	-	-	138,148
Fund management	-	-	-	213,983	-	213,983
Brokerage	-	-	-	-	50,427	50,427
Consultancy	-	37,564	-	-	-	37,564
Training	-	59,334	-	-	-	59,334
Insurance agency	-	-	742,944	-	-	742,944
Ledger fees and service charges	1,299,486	-	-	-	-	1,299,486
Other fees & commissions	10,163,730	-	-	-	-	10,163,730
Total revenue from contracts with customers	11,742,879	96,898	742,944	213,983	50,427	12,847,131
Timing of revenue recognition						
Services transferred at a point in time	11,463,216	96,898	742,944		50,427	12,353,485
Services that are provided over time	279,663			213,983		493,646
Total revenue from contracts with customers	11,742,879	96,898	742,944	213,983	50,427	12,847,131

35 OTHER OPERATING INCOME

	Group		Society	
	2019	2018	2019	2018
	KShs'000	KShs'000	KShs'000	KShs'000
Gain on disposal of property and equipment	1,572	4,355	-	-
Dividend income	-	-	3,787,715	3,787,715
Rental income	103,670	99,028	-	-
Gain on sale of financial assets at Fair value	620,306	458,114	-	-
Sundry Income	615,817	536,300	-	-
	1,341,365	1,097,797	3,787,715	3,787,715

Dividends from associate and equity investments are recognised when the Group's right to receive payment is established.

Rental income is accounted for on a straight-line basis over the lease terms on ongoing leases and is recognised on a monthly basis when it falls due.

36 OTHER OPERATING EXPENSES

	Group		Society	
	2019	2018	2019	2018
	KShs'000	KShs'000	KShs'000	KShs'000
Staff costs (36(a))	12,408,563	11,488,824	-	-
Depreciation on property and equipment	1,450,181	1,822,316	-	-
Depreciation on Right of use assets	1,212,163	-		
Rent and maintenance costs	721,910	1,726,304	-	-
Motor vehicle running & other equipment maintenance	1,765,209	2,042,760	-	-
Contribution to Deposit Protection Fund	447,153	396,697	-	-
Amortization of intangible assets	594,476	562,328	-	-
Amortization of leasehold land	609	609	-	-
Directors' emoluments	214,043	209,669	-	-
Other administrative expenses	5,422,052	3,593,243	-	-
Other operating expenses	1,653,721	2,316,889	387,483	99,750
	25,890,080	24,159,639	387,483	99,750

36. (a) EMPLOYEE COSTS

	Group	
	2019	2018
	KShs'000	KShs'000
Basic salaries	10,176,705	9,529,826
Allowances	415,361	422,000
Pension scheme contribution		
-Statutory scheme	9,274	8,864
-Employee scheme	766,562	684,841
Medical expenses	544,042	550,556
Education and training	72,420	87,249
Others	424,199	205,488
	12,408,563	11,488,824

37. PROFIT BEFORE TAX

Profit before tax is stated after charging: -

	Group 2019 KShs'000	Group 2018 KShs'000
Staff costs	12,408,563	11,488,824
Directors' emoluments:		
-Fees	194,135	190,168
-Others	19,908	19,501
Depreciation on property and equipment	1,450,181	1,822,316
Depreciation on Right of use assets	1,212,163	-
Amortisation of leasehold land	609	609
Amortisation of intangible assets	594,476	562,328
Auditors' remuneration	26,359	23,070
Impairment of loans and advances	2,539,071	1,840,728
Contribution to Deposit Protection Fund	447,153	396,697
Contribution to staff retirement benefit scheme	754,005	693,705
and after crediting: -		
Foreign exchange gains	2,184,844	2,284,887
Gain on disposal of property and equipment	1,572	4,355
Net rental income	103,670	99,028

38. BASIC AND DILUTED EARNINGS PER SHARE

The calculation of basic earnings per share for the Group and the Bank is based on the year's profit attributable to equity holders of the parent and the weighted average number of ordinary shares outstanding during the year.

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. There were no potentially dilutive shares outstanding at the respective reporting dates, hence diluted earnings per share was the same as basic earnings per share.

The calculation of basic earnings per share for the Group and the Bank is based on the year's profit attributable to equity holders of the parent and the weighted average number of ordinary shares outstanding during the year.

	Group 2019	Group 2018	Society 2019	Society 2018
Profit for the year attributable to shareholders (KShs'000)	8,916,020	8,080,721	3,417,504	3,746,106
Weighted average number of ordinary shares for basic earnings per share ('000)	3,787,715	3,787,715	3,787,715	3,787,715
Weighted average number of ordinary shares for diluted earnings per share ('000)	3,787,715	3,787,715	3,787,715	3,787,715
Basic earnings per share (KShs)	2.35	2.13	0.90	0.98
Diluted earnings per share (KShs)	2.35	2.13	0.90	0.98

39. CASH AND CASH EQUIVALENTS

Cash and cash equivalents include in the cash flow statement comprise the following amounts: -

	Group		Society	
	2019	2018	2019	2018
	KShs'000	KShs'000	KShs'000	KShs'000
Cash on hand	8,959,634	9,809,390	-	-
Cash with Central Banks	20,118,108	22,669,211	-	-
Deposits and balances due from banking institutions	9,559,796	18,089,304	132,307	162,311
Items in the course of collection from other Banks	1,344,671	722,345	-	-
	39,982,209	51,290,250	132,307	162,311
Less: Restricted cash (CRR)	(17,057,889)	(15,825,117)	-	-
Cash and cash equivalents	22,924,320	35,465,133	132,307	162,311

40. RELATED PARTY BALANCES AND TRANSACTIONS

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions.

(a) Loans due from directors, employees and other related parties:-

Balances outstanding at the close of year as advanced to directors, employees of Co-operative Bank of Kenya and other related parties in the ordinary course of business is as follows:

	Group	
	2019	2018
	KShs'000	KShs'000
Directors	330,753	450,895
Employees	9,117,557	8,425,634
Associates	6,123,845	1,946,051
	15,572,155	10,822,580
Interest income earned	768,047	749,465
Weighted average interest rate	6%	7%

The loans are secured by property and are repayable in less than 30 years. No impairment losses have been recorded against balances outstanding during the period and no specific allowance has been made for impairment losses on balances at period end (2018-Nil) as staff and directors are all active and currently in-service for the bank and recoveries are made directly through payroll.

All loan repayments are made through cash repayments.

During the year, the Co-operative bank of Kenya advanced CIC Limited, an associate, a loan of Kshs 4.5Bn for a tenor of 60 months with 1 principal bullet payment on the 60th month and interest payment after every 4 months

As at year end, the Co-operative bank of Kenya had an undisbursed loan commitment to a subsidiary, Kingdom Securities Limited of Kshs 45M at arm's length. The terms of the facility are such that the facility is to be repaid in cash once the Society's liquidity/capital has improved to above regulatory levels and the Society is profitable.

40. RELATED PARTY BALANCES AND TRANSACTIONS (continued)

(b) Deposits received from directors, employees and other related parties: -

Balances held at the close of year as received from directors, employees of the Bank and other related parties in the ordinary course of business is as follows:

	Group	
	2019 KShs'000	2018 KShs'000
Directors and Employees (Key personnel)	834,041	638,154
Subsidiaries and Associate companies	1,097,043	948,168
Interest expensed	40,682	49,458
Weighted average interest rate	5%	7%

(c) Intercompany balances: -
The financial statements include the following balances due to the Co-operative Bank of Kenya Limited:

	Bank	
	2019 KShs'000	2018 KShs'000
Delegate expenses	1,370	33,410

(d) Compensation of key management personnel: -

	Group	
	2019	2018
Non-executive directors	KShs'000	KShs'000
Directors' emoluments:		
-Fees	194,135	190,168
-Others	19,908	19,501
	214,043	209,669
Executive director		
-Short-term employee benefits	113,510	105,460
-Post-employment benefits/bonus	271,010	271,010
	384,520	376,470
Senior Managers:		
-Short-term employee benefits	1,188,610	951,645
-Post-employment pension	105,629	76,499
-Termination benefits	1,006	103,294
	1,295,245	1,131,438

40. RELATED PARTY BALANCES AND TRANSACTIONS (continued) (continued)

(e) Co-operative Bank Foundation:-

The Foundation is a registered trust established to assist bright needy students from the Co-operative movement in paying school fees. In 2019, KShs 151,102,002 (2018-KShs 149,611,814) was disbursed to the Foundation. At 31 December 2019, the Foundation held deposits of KShs 3,709,744 (2018 - KShs 3,790,996) with the Bank.

(f) Co-operative Bank of Kenya Limited Staff Retirement Contribution Scheme: -

This is a defined contribution scheme and provides, under the rules of the scheme, retirement benefits for the staff of Co-operative Bank of Kenya Limited and its subsidiaries. The Group contributed KShs 754 million (2018 - KShs 674 million) as at 31 December 2019. Under the terms of their appointment, Co-optrust Investment Services Limited, a subsidiary of the Bank, is responsible for the investment of funds.

Transactions during the year are as highlighted below and were at similar terms and conditions as those offered to other customers:

	2019 KShs'000	2018 KShs'000
Rent paid to the scheme on leased property	8,273	7,095
Dividends paid on the Bank's ordinary shares	36,904	28,323

41. CONTINGENT LIABILITIES

	Group	
(a) Financial guarantees, Letters of credit and other undrawn commitments	2019 KShs'000	2018 KShs'000
Letters of credit	5,571,338	8,350,239
Guarantees	19,056,592	11,283,670
	24,627,930	19,633,909
Unutilised overdraft	1,967	288
Unutilised Credit Card	487,886	135,989
	489,853	136,277
Gross Carrying Amount	25,117,783	19,770,186
Allowance for credit losses	(755,638)	(867,446)
Net Carrying Amount	24,362,145	18,902,740

a) Financial guarantees, Letters of credit and other undrawn commitments

To meet the financial needs of customers, Co-operative Bank of Kenya enters into various irrevocable commitments and contingent liabilities. These consist of financial guarantees, letters of credit and other commitments to lend. Even though these obligations may not be recognised on the statement of financial position, they contain credit risk and, therefore, form part of the overall risk of the Bank.

Guarantees are documents written by the Bank to support performance by a customer to third parties. The bank will only be required to meet these obligations in case 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 the Bank to pay a bill of exchange on a customer. Most acceptances are presented and reimbursement by the customer is almost immediate.

41. CONTINGENT LIABILITIES (continued)

b) Impairment losses on financial guarantees, letters of credit and other undrawn commitments

An analysis of changes in the outstanding exposures and the corresponding ECLs are, as follows

Letters of credit

	Stage 1 KShs'000	Stage 2 KShs'000	Stage 3 KShs'000	Total KShs'000
Gross carrying amount as at 1 January 2019	8,350,239	-	-	8,350,239
Disbursement	4,710,610	-	-	4,710,610
Repayment (excluding write-off)	(7,489,511)	-	-	(7,489,511)
Movement to Stage 1	-	-	-	-
Movement to Stage 2	-	-	-	-
Movement to Stage 3	-	-	-	-
At 31 December 2019	5,571,338	-	-	5,571,338

	Stage 1 KShs'000	Stage 2 KShs'000	Stage 3 KShs'000	Total KShs'000
ECL allowance as at 1 January 2019	678,419	-	-	678,419
ECL on disbursements	341,048	-	-	341,048
ECL on Repayment (excluding write-off)	(611,982)	-	-	(611,982)
Movement to Stage 1	-	-	-	-
Movement to Stage 2	-	-	-	-
Movement to Stage 3	-	-	-	-
At 31 December 2019	407,485	-	-	407,485

41. CONTINGENT LIABILITIES (continued)

b) Impairment losses on financial guarantees, letters of credit and other undrawn commitments

Guarantees

	Stage 1 KShs'000	Stage 2 KShs'000	Stage 3 KShs'000	Total KShs'000
Gross carrying amount as at 1 January 2019	11,283,670	-	-	11,283,670
Disbursements	14,507,275	-	-	14,507,275
Repayment (excluding write-off)	(6,734,353)	-	-	(6,734,353)
Movement to Stage 1	-	-	-	-
Movement to Stage 2	-	-	-	-
Movement to Stage 3	-	-	-	-
At 31 December 2019	19,056,592	-	-	19,056,592

	Stage 1 KShs'000	Stage 2 KShs'000	Stage 3 KShs'000	Total KShs'000
ECL allowance as at 1 January 2019	176,217	-	-	176,217
ECL on disbursements	(37,199)	-	-	(37,199)
ECL on Repayment (excluding write-off)	189,970	-	-	189,970
Movement to Stage 1	-	-	-	-
Movement to Stage 2	-	-	-	-
Movement to Stage 3	-	-	-	-
At 31 December 2019	328,988	-	-	328,988

Undrawn commitment

	Stage 1 KShs'000	Stage 2 KShs'000	Stage 3 KShs'000	Total KShs'000
Gross carrying amount as at 1 January 2019	134,279	1,997	-	136,276
Disbursements	438,188	-	-	438,188
Repayment (excluding write-off)	(82,614)	(1,997)	-	(84,611)
Movement to Stage 1	-	-	-	-
Movement to Stage 2	-	-	-	-
Movement to Stage 3	-	-	-	-
At 31 December 2019	489,853	-	-	489,853

	Stage 1 KShs'000	Stage 2 KShs'000	Stage 3 KShs'000	Total KShs'000
ECL allowance as at 1 January 2019	11,122	1,688	-	12,810
ECL on disbursements	14,885	-	-	14,885
ECL on Repayment (excluding write-off)	(6,843)	(1,688)	-	(8,531)
Movement to Stage 1	-	-	-	-
Movement to Stage 2	-	-	-	-
Movement to Stage 3	-	-	-	-
At 31 December 2019	19,164	-	-	19,164

41. CONTINGENT LIABILITIES (Continued)

c) Pending legal suits

The Group and the bank operate in a regulatory and legal environment that, by nature, has a heightened element of litigation risk inherent to its operations. As a result, it is involved in various litigation, arbitration and regulatory investigations and proceedings, arising in the ordinary course of the Bank's business. When the Bank can reliably measure the outflow of economic benefits in relation to a specific case and considers such outflows to be probable, the Bank records a provision against the case. Where the probability of outflow is considered to be remote, or probable, but a reliable estimate cannot be made, a contingent liability is disclosed. However, when the Bank is of the opinion that disclosing these estimates on a case-by-case basis would prejudice their outcome, then the Bank does not include detailed, case-specific disclosures in its financial statements.

Given the subjectivity and uncertainty of determining the probability and amount of losses, the Bank takes into account a number of factors including legal advice, the stage of the matter and historical evidence from similar incidents. Significant judgement is required to conclude on these estimates.

Some of the key pending legal suits include:-

(i) Kenya Continental Holdings
This is an injunction application seeking to stop the Bank from selling the Society's security alleging fraud and misrepresentation on the part of the Bank with a claim for special damages for alleged loss of opportunities amounting to Kshs. 404,785,225. The Bank has a counterclaim amounting to Kshs 521,318,439 against the debtor. The matter is slated for mention in May 2020.

(ii) Boaz Mathews Ouma Awiti & three others
This is a claim for KShs 31,864,120 against the Bank relating to the sale and purchase of shares in Bob Mathews Stock Brokers Ltd (now Kingdom Securities Limited). The Bank has successfully applied for and obtained a stay of proceedings and referral of the matter to arbitration as per the terms of the Share purchase agreement. The plaintiffs have not been able to agree on an arbitrator.

(iii)Alice Anyona Mumo & Others vs. RBA & Co-operative Bank of Kenya Limited Retirement Benefit Scheme, 2007 RBA Tribunal appeal no. 8 of 2013 (NBI)
This is an appeal against the RBA ruling dated 26 May 2011 confirming that member benefits were duly paid in accordance with the applicable Trust Deed and Rules. The ruling is in regard to the initial claim filed with the Retirement Benefits Authority (RBA) under section 46 of the RBA Act alleging that the scheme had not computed and paid the ex-staff the correct amounts. They claimed that the estimated amount allegedly due to them is approximately KShs 2 billion. The ex-staff being dissatisfied with the ruling appealed against the same citing various grounds of appeal. The matter is pending for determination before the Tribunal. Based on advice received from the Scheme Administrators and the Actuaries, no liability is expected to arise in future in respect of this claim.

No provision has been made in these financial statements for the above pending suits as based on professional legal advice, the directors are of the opinion that no liabilities are expected to arise in future in respect of these claims.

(d) Excise duty on financial transactions

In 2016, the Kenya Revenue Authority (KRA) demanded from the Bank tax amounting to KShs 621,537,611 relating to alleged non-payment of excise duty for the period 2013 to 2015. This amount is made up of principal excise duty of KShs 495,403,544 and interest of KShs 126,134,067 as shown below:-

Period	Principal KShs	Interest KShs	Total KShs
2013	134,213,458	51,167,844	185,381,302
2014	263,528,443	63,246,826	326,775,269
2015	97,661,643	11,719,397	109,381,040
	495,403,544	126,134,067	621,537,611

As at 31 December 2019, this amount had not been paid to KRA. The above interest amount is calculated up to 2015 and excludes any such amounts that may be demanded after this date.

41. CONTINGENT LIABILITIES (Continued)

(d) Excise duty on financial transactions (continued)

The management, through the tax agent, disputed the demand on factual and technical grounds and the matter was referred to the Tax Appeals Tribunal. The subject of the dispute is industry-wide.

No provision has been made in these financial statements for the principal tax and interest shown above as the directors based on the advice by the tax consultant are of the opinion that no liability will arise.

42. FIDUCIARY ACTIVITIES

The Group provides custody, trustee, corporate administration, investment management and advisory services to third parties, which involve the Group making allocation and purchase and sale decisions in relation to a wide range of financial instruments. These financial instruments comprise deposits with financial institutions, government securities and quoted and unquoted securities, among others. Those assets that are held in a fiduciary capacity are not included in these financial statements. Some of these arrangements involve the Group accepting targets for benchmark levels of returns for the assets under the Group's care. These services give rise to the risk that the Group will be accused of maladministration or under-performance.

The Group at Custodial Services department holds assets on behalf of customers with a value of KShs 94.199 billion (2018 – KShs 61.728 billion). The income for the period for custodial services was KShs 107.054 million (2018- KShs 60.777 million) while the expenses amounted to KShs 52.868 million (2018- KShs 44.36 million).

The Group, through Co-op Trust Investment Services Limited manages securities with a value of KShs 102.09 billion (2018- KShs 40.54 billion) on behalf of customers. The total income for the period from fund management was KShs 208.91 million (2018- KShs 137.22 million), with total expenses amounting to KShs 147.16 million (2018 - KShs 121.30 million).

43. ASSETS PLEDGED AS SECURITY

As at 31 December 2019, there were no assets pledged by the Group to secure liabilities.

44. HOLDING ENTITY

The holding entity of The Co-operative Bank of Kenya Limited is Co-opholdings Co-operative Society Limited incorporated in Kenya under the Co-operative Societies Act.

45. INCORPORATION

The Bank is incorporated in Kenya under the Companies Act, 2015

46. CURRENCY

These financial statements are presented in Kenya Shillings (KShs), and are rounded to the nearest KShs 1,000.

47. EVENTS AFTER REPORTING PERIOD

Outbreak of the Coronavirus Disease 2019 (COVID-19)

The coronavirus outbreak occurred at a time close to the reporting date. The rapidly spreading coronavirus outbreak continues to threaten life around the world and more countries have tightened quarantine measures.

On 15th March 2020, the Government of Kenya announced a nationwide partial lockdown following a positive test. The directors have determined that the country is in the early stages of the outbreak and the high level of uncertainty due to the unpredictable outcome of this disease may make it difficult to estimate the financial effects of the outbreak.

The directors are not aware of any other events after the reporting date that require disclosure in or adjustments to the financial statements as at the date of this report.