FINANCIAL STATEMENTS 2019

KENYA

BANK OF AFRICA
BMCE GROUP

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Opening date: July 2004

Created in 1981: BANQUE INDOSUEZ Kenyan Branch > CREDIT AGRICOLE–INDOSUEZ > CALYON.
Incorporated under Kenyan law, integrated as a subsidiary into BOA network in 2004.

Capital as at 31/12/2019

Kenyan Shillings (KES) 6.405 billion

Board of Directors as at 31/12/2019

Ambassador Dennis AWORI, Chairman

Amine BOUABID

Abdelkabir BENNANI

Kathleen Cornelia Paulina Jobina Josina GOENSE

Susan KASINGA

Ghali LAHLOU

Eunice MBOGO

Ronald MARAMBII

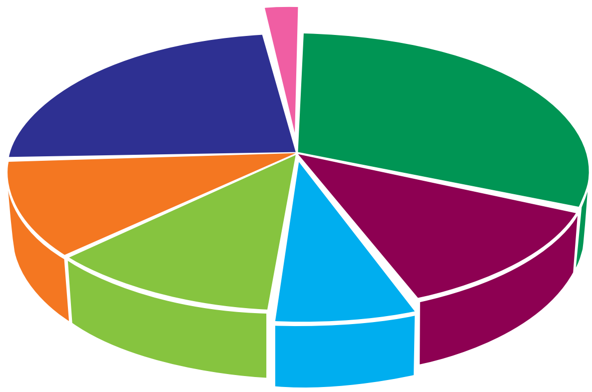
Auditors

KPMG KENYA

Registered office

BOA House, Karuna Close off Waiyaki Way, Westlands P.O. Box 69562-00400
Nairobi - Kenya
Tel.: (254) 20 327 5000
Fax : (254) 20 221 1477

Principal Shareholders as at 31/12/2019



BANK OF AFRICA - BENIN	31.34%
NETHERLANDS DEVELOPMENT FINANCE COMPANY (FMO)	13.01%
BANK OF AFRICA - MER ROUGE	7.03%
BANK OF AFRICA - MADAGASCAR	11.65%
BANK OF AFRICA - CÔTE D'IVOIRE	11.00%
BOA GROUP S.A.	24.01%
AGORA S.A.	1.95%

yoursay@boakenya.com
www.boakenya.com

KENYA

Key figures 2019 (in KES million)

Activity	2018	2019	Variation
Deposits	30,122	33,327	10.6%
Loans	21,188	15,982	-24.6%
Number of branches	32	31	-3.1%
Structure			
Total Assets	48,414	43,996	-9.1%
Shareholders' equity	6,069	4,275	-29.5%
Number of employees	423	445	5.2%
Income			
Operating income	2,188	1,778	-18.8%
Operating expenses (including depreciation and amortization)	2,284	2,582	13.0%
Net Operating Income	-95	-804	-738.3%
Cost of risk in value (*)	156	-2,396	-1,636.4%
Profit after tax	173	-2,040	-1,278.6%
Operating ratio (%)	104%	145%	39.1%
Cost of risk (%)	0.5%	12.9%	2,478.1%
Return on Assets (ROA %)	0.4%	-4.6%	-1,396.9%
Return on Equity (ROE %)	2.9%	-47.7%	-1,772.9%
Capital Adequacy Ratio			
Tier 1	3,334	1,511	
Tier 2	1,535	1,147	
Risk Weighted Asset (RWA)	30,953	24,546	
Tier 1 + Tier 2 / RWA (%)	15.7%	10.8%	

(*) Including general provision

- 9.1%
Total assets

Deposits

2018
30 122 KES million

2019
33 327 KES million

Loans
- 24.6%

Net operating income
- 738.3%

Financial analysis

In the year ended 31 December 2019, the Bank recorded a net loss of KES 2 billion compared to a net profit of KES 173 million as at 31 December 2018, (1,279%) decrease. The loss is primarily due to; additional provisions booked in the year, a net of Kes 2.4 billion was booked in 2019.

The Bank operating environment has been particularly challenging in 2019 due to thin capital margins, thus:

The Bank has had to manage the financial year with the following in mind;

o Need to reduce loans and advances to keep the ratios within CBK threshold.

o Need to grow non-risk assets (government securities) so as to increase interest income with nil impact on capital.

o Need to recover bad debts so as to improve on profitability.

The balance sheet size reduced by 9% in 2019 reflecting efforts made on short term strategies above which were largely geared towards balance sheet optimization. Loans and advances reduced to 36% of total assets down from 43% in December 2018. Government securities improved to 17% of total assets up from 13% due to the need to grow non-risk assets (government securities) so as to increase interest income with nil impact on capital.

On the liability side, customer deposits have increased by 11% in 2019 attributed to receipts by China Road.

Significant performances (in KES billion)

Deposits

33.3 +10.6%

2019	
2018	30.1

Net Operating Income

-804.2 -738.3%

2019	
2018	-95

Stock information (in KES)

	2017	2018	2019	AAGR*
Net earnings per share	11	27	-318	-411.3%
Equity per share	1,322	948	668	-20.2%
Dividend per share				

(*) Average annual growth rate

Support towards Vikings Hockey Club

Highlights

February

- New version of the Internet Banking platform, more secure and more user-friendly: B-Web became BOAweb.

April

- Promotion of the «Mwanariadha Account» with a public broadcast of the «World Marathon Majors».

May

- Corporate Social Responsibility Angaza Kifafa, Kitui County Edition.

June

- SME Clinic, Thika Edition.

September

- Participation in the 2019 BANK OF AFRICA Director's Meetings, in Madrid, Spain.

October

- Promotion of the "Mwanariadha Account" with public broadcast of Chicago Marathon.
- Sponsorship of Pandya Memorial Hospital Cancer Medical Camp.

December

- SME Clinic, Nakuru Edition

BANK OF AFRICA Epilepsy Road Caravan Flag off in Homabay County

Epilepsy awarness campaign: Angaza Kifafa

Customer engagement during Thika SME Clinic

Corporate Social Responsibility

Corporate Social Responsibility at BANK OF AFRICA - KENYA is more than an initiative, it is our way of doing business. The bank has put in place three pillars of focus:

HEALTH

The Angaza Kifafa Caravan is an initiative by BANK OF AFRICA - KENYA in partnership with The National Epilepsy Committee Council. The aim of the caravan is to create awareness on epilepsy with the message that Epilepsy is Manageable. The caravan has reached over 5.5 million people in the five years that it has been in existence leading to more than 1,200 people seeking medical attention.

- Sponsorship towards Pandya Memorial Hospital Cancer screening Medical Camp

EDUCATION

- LEWA Conservancy Partnership: Bursary for four (4) students through tertiary education.
- EFAC (Education For All Children) Partnership: Sponsorship for 4 children through tertiary education.

The Bank's key role is to provide education to needy brilliant students with the opportunity to get education.

SPORTS, ARTS & CULTURE

- BOA Marathon viewing sponsorship (Boston, Berlin, London, Chicago and New York World Marathons).
- Sponsorship for BOA Vikings Ladies Hockey Club.
- Sponsorship for upcoming Music Artist – Lumumba Esuchi.

Nakuru SME Clinic

Nakuru SME Clinic

Board of Directors

Name	Position	Nationality
Ambassador Dennis Awori*	Chairman, Non-Executive Director	Kenyan
Amine Bouabid	Non-Executive Director	Moroccan
Abdelkabir Bennani	Non-Executive Director	Moroccan
Susan Kasinga*	Non-Executive Director	Kenyan
Eunice Mbogo*	Non-Executive Director	Kenyan
Kathleen Cornelia Paulina Jobina Josina Goense	Non-Executive Director	Dutch
Ghali Lahlou	Non-Executive Director	Moroccan
Ronald Marambii	Managing Director	Kenyan

**Independent Non-Executive Directors*

Company Secretary

Anne Wanjiru Gitau
CPS (K)
Reg No. 2497
BOA House
School Lane, Westlands
P.O. BOX 69562
00400 Nairobi, Tom Mboya

Registered Office

BOA House
L. R. Nos 1870/III/313 and 1870/III/314
School Lane, Westlands
P.O. Box 69562
00400 Nairobi, Tom Mboya

Independent Auditor

KPMG Kenya
8th Floor, ABC Towers
ABC Place, Waiyaki Way
P.O. Box 40612
00100 Nairobi, GPO

The Directors are pleased to submit their annual report together with the financial statements for the year ended 31 December 2019. The report discloses the state of affairs of the Bank.

1. Principal activities

The Bank is engaged in the business of commercial banking and provision of related services and is licensed under the Banking Act and regulated by the Central Bank of Kenya.

2. Results

The results of the company for the year are set out on pages 24.

3. Dividend

The Directors do not recommend the payment of a dividend in respect of the year ended 31 December 2019 (2018: Nil).

4. Directors

The Directors who served during the year ended 31 December 2019 and up to the date of this report are as set out in page 3.

5. Going concern

The Bank incurred a loss of KShs 2,039,838,000 during the year ended 31 December 2019 (2018 profit of KShs 173,073,000), the Bank's negative retained earnings dipped further and were in a debit of KShs 4,146,484,000 (2018 a debit of KShs 2,275,378,000). As at that date, all the Bank's Capital Adequacy Ratios (CAR) were in breach of the minimum requirements by the Central Bank of Kenya (CBK) as captured in note 4.5 on Capital Management. In an effort to ensure the Bank operates on a going concern basis, the shareholder has injected an additional USD 15 million (KShs1.5 billion) of tier 1 capital. See note 38.

6. Business review

Please see pages 14 to 19 for a detailed analysis of the above.

7. Relevant audit information

The Directors in office at the date of this report confirm that:

- There is no relevant audit information of which the Company's auditor is unaware; and
- Each Director has taken all the steps that they ought to have taken as a Director so as to be aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

8. Auditor

The Company's auditor, KPMG Kenya, continue in office in accordance with Section 719 of the Kenyan Companies Act, 2015, and subject to Section 24(1) of the Banking Act (Cap 488).

9. Approval of financial statements

The financial statements were approved and authorised for issue at a meeting of the Board of Directors held on.

BY ORDER OF THE BOARD Date: 25/03/2020

Anne Gitau
Company Secretary

Corporate governance outlines the way companies are run and managed, the role of the Board of Directors and the framework of internal controls. The Board of Bank of Africa Kenya Limited is keen on ensuring the adoption of good corporate governance.

The Board

As at 31 December 2019, the Board of Directors comprised of the Chairman, the Managing Director, and six Non-Executive Directors. All Directors are subject to periodic re-appointment in accordance with the Company's Articles of Association. On appointment, each Director receives information about the Bank and is advised of the legal, regulatory and other obligations of a Director.

The full Board meetings were held as shown in the table below. In the event that a Director cannot attend a Board Meeting, an acceptable apology with a valid reason is sent to the Chairman in advance of the meeting. Directors are given appropriate information that guides their control over strategic, financial, operational, compliance and governance matters. The Managing Director is in charge of the day-to-day operations while the Board oversees the performance of the executive management.

The following table shows the number of Board meetings held during the year and the attendance of individual Directors.

Board meeting attendance in 2019

	22 Feb. 2019	11 June 2019	16 Sept. 2019	11 Dec. 2019
Ambassador Dennis Awori	√	√	√	√
Amine Bouabid	AP	√	√	√
Abdelkabir Bennani	√	√	√	√
Susan Kasinga	√	√	√	√
Eunice Mbogo	√	√	√	√
Kathleen Cornelia Paulina Jobina Josina Goense	AP	√	√	AP
Ronald Marambii	√	√	√	√
Ghali Lahlou	√	√	√	√

√ – Attended
AP – Absent with apology

Board committees

To increase efficiency and allow deeper focus on the management of key functions of the Bank, the Board has established the following four main Committees:

The Board Audit Committee:

The main role of the Board Audit Committee is to provide independent oversight of the Bank's financial reporting and internal control systems to ensure that checks and balances within the Bank are in place. The Committee also reviews the performance and findings of the internal and external auditors, findings of the regulatory authorities, and recommends appropriate remedial action. The Committee has direct access to the Company's internal and external auditors. In the year 2019, the Members of this Committee were Ms. Susan Kasinga (Chairperson), Mr. Abdelkabir Bennani, Ms. Eunice Mbogo, Ms. Kathleen Cornelia Paulina Jobina Josina Goense (resigned from the Committee on 8th July 2019) and Mr. Ghali Lahlou.

Board Audit Committee Meeting attendance schedule

	1 Feb. 2019	2 Feb. 2019	7 June 2019	11 Dec. 2019	5 Dec. 2019
Susan Kasinga	√	√	√	√	√
Abdelkabir Bennani	√	√	√	√	√
Eunice Mbogo	√	√	√	√	√
Kathleen Cornelia Paulina Jobina Josina Goense	AP	√	√	NA	NA
Ghali Lahlou	√	√	√	AP	√

√ – Attended
AP – Absent with apology
NA – Not Applicable

The Board Credit Committee:

The overall responsibility of the Board Credit Committee is to approve and review the credit risk strategy and credit risk policies of the Bank. The Committee sets the acceptable risk appetite and tolerance that the Bank is willing to engage. In the year 2019, the Members of this Committee were Ms. Susan Kasinga (Chairperson), Mr. Abdelkabir Bennani, Ms. Kathleen Cornelia Paulina Jobina Josina Goense Goense (resigned from the Committee on 8th July 2019) and Mr. Ghali Lahlou.

The Board Risk Management Committee:

This Committee's main responsibility is to assist the Directors in discharging their responsibility of ensuring quality, integrity and reliability of the Bank's enterprise wide risk management and corporate accountability and associated risks in terms of management, assurance and reporting. The Committee also assists in fostering an effective risk management culture throughout the Bank as well as assisting the Board in fulfilling its oversight responsibility relating to compliance with legal and regulatory requirements and the Bank's policies. In the year 2019, the Members of this Committee were Ms. Eunice Mbogo (Chairperson), Mr. Abdelkabir Bennani, Ms. Susan Kasinga, Ms. Kathleen Cornelia Paulina Jobina Josina Goense Goense (resigned from the Committee on 8th July 2019) and Mr. Ghali Lahlou.

The Board Nomination, Compensation and Human Resources Committee:

The purpose of this Committee is to enable the Board to discharge its responsibilities in relation to the nomination of appropriate directors to the Board and its committees, the assessment of the performance of the Board, Directors (including the Executive Directors) and Senior Management, succession planning for Directors and Senior Management, remuneration, welfare, retention and human capital development policies and programs for the Directors and all staff of the Bank. In 2019, the Members of this Committee were Ms. Eunice Mbogo (Chairperson), Ms. Susan Kasinga, Mr. Abdelkabir Bennani, Ms. Kathleen Cornelia Paulina Jobina Josina Goense Goense (resigned from the Committee on 8th July 2019) and Mr. Ghali Lahlou.

At each quarterly Board Meeting, the Chairpersons of the various Board Committees report to the Board on the highlights of the Committees' deliberations and escalate to the Board all matters requiring its consideration and approval.

Directors' remuneration

The remuneration of all Directors is subject to regular review to ensure that levels of remuneration and compensation are appropriate. Information on the aggregate amount of emoluments and fees paid to Directors is disclosed in Note 16 (g) of the financial statements.

Board performance evaluation

Under the Prudential Guidelines issued by the Central Bank of Kenya, the Board is responsible for ensuring that an evaluation of its performance, that of its Committees and individual Directors is done. The results of such an evaluation are to be provided to the Central Bank of Kenya.

In a process led by the Board Chairman, a comprehensive evaluation of the performance of the Board, the Board Committees and the Board Chairman for the year 2019 was conducted in the last quarter of 2019, with the aim of assessing capacity and effectiveness relative to the mandates, and identifying any challenges that could form a basis for action in the coming year.

The Directors, following the evaluation exercise, agreed that the Board continues to operate effectively, and there is a high level of meaningful interaction amongst the Directors, and also between the Board and Management. Areas requiring further attention and action by individual Directors were noted and shall be acted upon in the course of the year 2020. Key areas of focus by the Board as a whole in 2020 were agreed on, and include developing the loan portfolio, Bank Profitability, compliance with all regulatory ratios, digital banking in general (ICT) and Capital Adequacy.

The Board shall be monitoring keenly the performance of the Bank against each of these parameters.

Going concern

The Board ensures that the Bank has adequate resources to continue in business into the foreseeable future. For this reason, it continues to adopt the going concern basis when preparing the financial statements. In an effort to ensure the Bank operates on a going concern basis, the shareholder has injected an additional USD 15 million (KShs1.5 billion) of tier 1 capital. See note 38.

Internal controls

The Board has the responsibility of ensuring that adequate systems of internal control that provide reasonable assurance of effective and efficient operations are in place.

The Board strives to achieve a strong control environment including the evaluation of non-financial risks guided by written policies and procedures to identify and manage risk.

The Bank's Internal Audit Department which is independent, reports to the Board Audit Committee and provides an independent confirmation that BOA Group business standards, policies and procedures are being complied with.

Business performance review

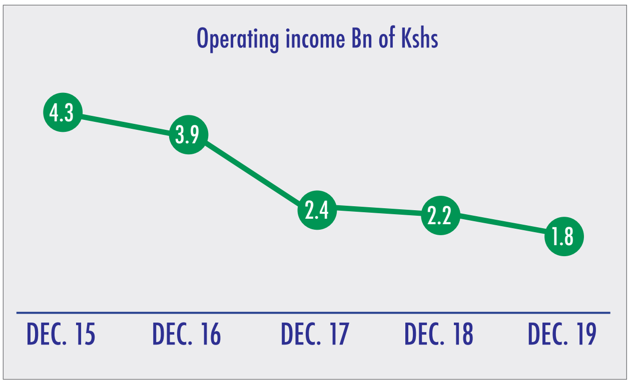
Statement of Profit or Loss

	31 DEC. 15 KSHS'000 AUDITED	31 DEC. 16 KSHS'000 AUDITED	31 DEC. 17 KSHS'000 AUDITED	31 DEC. 18 KSHS'000 AUDITED	31 DEC. 19 KSHS'000 AUDITED
INTEREST INCOME	6,914,635	6,515,259	4,125,249	3,389,688	2,926,200
INTEREST EXPENSE	(3,764,295)	(3,492,703)	(2,870,214)	(2,206,815)	(1,929,093)
NET INTEREST INCOME	3,150,340	3,022,556	1,255,035	1,182,873	997,107
NON-INTEREST INCOME	1,121,769	946,258	1,194,388	1,002,731	780,927
OPERATING INCOME	4,272,109	3,968,814	2,449,423	2,185,604	1,778,034
EXPENSES	(2,911,646)	(2,905,496)	(2,636,926)	(2,284,309)	(2,582,303)
IMPAIRMENT LOSSES ON LOANS AND ADVANCES	(2,777,945)	(1,216,268)	(6,756)	158,694	(2,395,761)
OPERATING EXPENSES	(5,689,591)	(4,121,764)	(2,643,682)	(2,125,615)	(4,978,064)
PROFIT/(LOSS) FROM OPERATIONS	(1,417,482)	(152,950)	(194,259)	59,989	(3,200,030)
SHARE OF PROFIT OF ASSOCIATES	3,558	136,453	229,444	149,572	270,354
LOSS ON LOSS OF CONTROL	(20,264)	-	-	-	-
PROFIT/(LOSS) BEFORE INCOME TAX	(1,434,188)	(16,497)	35,185	209,561	(2,929,676)
INCOME TAX CREDIT/(EXPENSE)	410,827	26,967	32,433	(36,488)	889,838
PROFIT/(LOSS) FOR THE YEAR	(1,023,361)	10,470	67,618	173,073	(2,039,838)

Statement of Profit or Loss

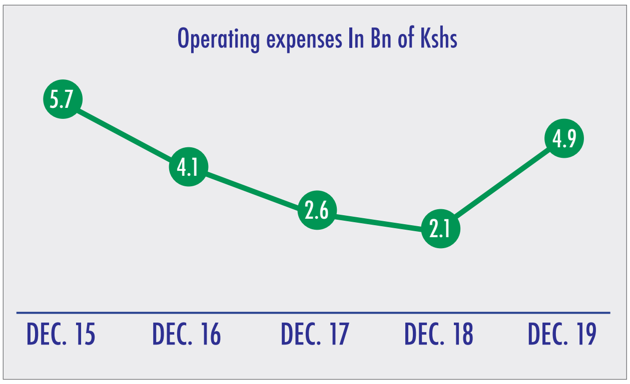
	31 DEC. 15 KSHS'000 AUDITED	31 DEC. 16 KSHS'000 AUDITED	31 DEC. 17 KSHS'000 AUDITED	31 DEC. 18 KSHS'000 AUDITED	31 DEC. 19 KSHS'000 AUDITED
ASSETS					
GOVERNMENT SECURITIES AND OTHER SECURITIES	6,487,110	5,293,768	4,919,866	6,512,645	7,287,730
LOANS AND ADVANCES TO CUSTOMERS	37,798,691	31,541,959	27,388,460	21,188,115	15,982,158
OTHER ASSETS	22,601,323	16,636,280	19,478,963	19,522,706	18,137,040
PROPERTY AND EQUIPMENT	2,393,143	2,523,664	2,404,002	1,857,393	2,589,190
TOTAL ASSETS	69,280,267	55,995,671	54,191,291	49,080,859	43,996,118
LIABILITIES					
CUSTOMER DEPOSITS	47,487,589	34,463,707	31,572,432	30,122,457	33,327,232
DUE TO BANKS	5,679,098	2,911,521	7,898,519	6,918,773	3,396,750
BORROWED FUNDS	6,794,425	9,108,249	5,662,402	4,683,357	1,439,516
OTHER LIABILITIES	823,419	1,094,208	590,233	620,090	1,556,859
TOTAL EQUITY	8,495,736	8,417,986	8,467,705	6,736,182	4,275,761
TOTAL LIABILITIES AND EQUITY	69,280,267	55,995,671	54,191,291	49,080,859	43,996,118

(i) Operating income



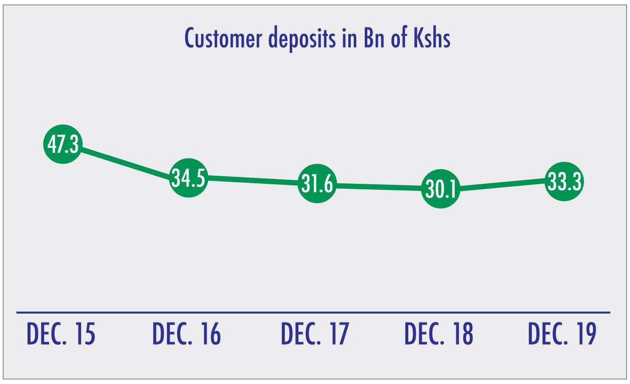
Operating income dropped by 18% in 2019 largely due to reduced credit portfolio. There were savings in interest expense in 2019, however the savings did not compensate sufficiently for the reduced interest income and thus the drop in operating income.

(ii) Operating expenses



Operating expenses increased by 134% in 2019 largely attributed to increased impairment losses for loans and advances. The bank took a deliberate decision to clean up the non-performing portfolio.

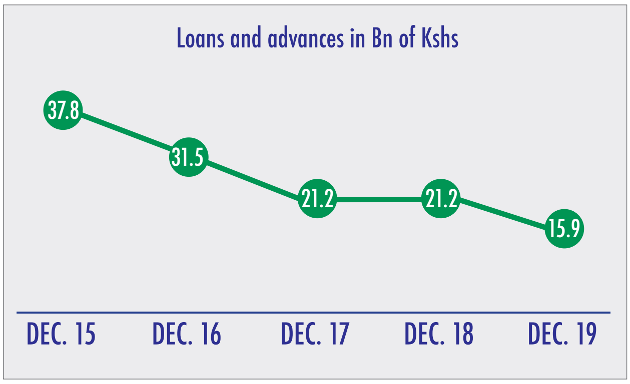
(iii) Customers deposits (in billion Kshs)



Customer deposits increased in 2019 due to the bank's continued effort to grow cheap deposits.

Bank's growth of customer deposits is in line with business strategy to grow assets. Growth of deposits is aimed at supporting growth in assets.

(iv) Loans and advances (in billion of Kshs)



Drop from 2015 to 2019 was due to clean-up of the portfolio and the passing of the interest rate capping law. There was need to recalibrate the deposit structure and shrink the balance sheet for better management of the assets and liabilities

In 2018, the loan book reduced due to Increased provisions after the implementation of IFRS 9. In 2019 the bank sought to clean up the non-performing portfolio by taking additional provisions.

Potential threats

Description	Example	Mitigation Measures
Credit risk		
Failure of an obligor of the bank to repay principal or interest at the stipulated time or failure of otherwise to perform as agreed.	Default on credit facilities.	Monitoring and reporting of loan book, setting appetite limits,sector concentration limits, risk adjusted loan pricing, calculating the basel II capital adequacy requirements for credit risk and core risk models.
Cyber Risk		
Cyber risk' means any risk of financial loss, disruption or damage to the reputation of an organisation from some sort of failure of its information technology systems.	Cyber security attack.	Cyber Security Policy and framework, increase awareness and train and retrain staff, monitor anti-virus and anti-malware software, put in place security controls to avert penetration and to constantly test and monitor.
Information Risk		
Risk arising from weaknesses in the ICT environment, system availability or data integrity.	Data fraud, phishing and privacy breaches Stringent information protection processes and policies.	IT security policy, IT operations and monitoring firewalls, strong BCP, stringent information protection processes and policies.BOA Group oversight and monitoring.
Market Risk		
Market risk at BOA includes: Interest rate risk, foreign exchange risk, investment risk, settlement risk, liquidity risk and country risk, this poses a potential loss of earning or economic value due to sudden shifts in financial and economic factors.	Loss in economic value due to shift in interest rate.	Regular monitoring of BOAK's risk profile against risk appetite limits e.g Exposure and risk limits, liquidity and solvency ratios which are contained In the market risk framework. BOA Group oversight and monitoring through group middle office.
Compliance Risk		
Failure to adhere to prudential guidelines, new or existing legislation including tax legislation as well as internal compliance policies.	Introduction of new or changes to existing legislation, regulation and prudential.	Gap analysis and enhancement of the internal policy environment Identifcation of changes to the regutory environment. Internal compliance checks and assessments. AML, FT, FATCA etc policies.

Description	Example	Mitigation Measures
Compliance Risk		
Failure to adhere to prudential guidelines, new or existing legislation including tax legislation as well as internal compliance policies.	Introduction of new or changes to existing legislation, regulation and prudential.	Gap analysis and enhancement of the internal policy environment Identifcation of changes to the regutory environment. Internal compliance checks and assessments. AML, FT, FATCA etc policies.
Reputational Risk		
Potential that negative publicity regarding BOAK's business practices, whether true or not, will cause a decline in the customer confidence, costly litigation or revenue reductions. This risk may be due to the failure of the bank to effectively manage all the other risks.	Negative publicity.	Senior management oversight,effective and efficient complaint management system, monitoring print, electronic and social media and resolution of issues. Strong risk management and ethics culture.
Operational risk		
This is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events.	Inadequate/insufficient documentation of processes or procedures. Lack of inbuilt controls in procedures. Health and safety issues.	Robust operations risk management framework that ensures operational risks are identified, measure and corrective action taken.

Employee Relations

Capacity Building

In 2019 against the backdrop of strategic repositioning, we have adopted a balanced approach to talent acquisition. It relies both on leveraging the skills and experience already available within the organization, while bringing in the necessary capabilities that will help position the Bank for long-term sustainable performance aligned.

Internal mobility will continue to play a vital role in retaining talent and providing attractive career opportunities. At the same time, it helped develop leaders who have experience in multiple areas of the bank. This contributed to operational stability by retaining expertise, providing business performance continuity, and helping to mitigate succession risk.

Learning and Development

The performance, creativity and innovation of our people are critical components of sustainable business growth and we continue to offer them relevant training programmes.

In 2019, we focused on "Acceleration Programs" for individuals who have the potential to be future leaders, preparing them for the next stage of their development and ensuring they gather the right skills and experience to accelerate their careers. In addition ensuring the right ways of working and culture throughout Branch Master Classes for the Retail/SME network. This would help drive engagement and productivity.

The Learning and development pillar focused on Growth, Profitability, Productivity and Risk to ensure our staff development is aligned to our key strategic pillars.

Employee wellness

Employee wellness remains a critical component of a healthy and productive workforce. We continued to proactively support employees in managing their health and wellbeing with annual health checks and providing a comprehensive support programme for those dealing with illness. Taking part in various wellness initiatives whilst ensuring a work life balance for our staff.

Awards and recognition

BANK OF AFRICA - KENYA (BOA-KENYA) has been participating in Kenya institute of Bankers games where the bank competes against other banks in Kenya. In 2019 we received an award for "Kenya Interbank games 1st Runners Up. The bank also participated in the Kenya Premier Chess League and brought the Best Corporate Winner's Trophy. In appreciation to support for epilepse, the first lady awrded the bank an Apreciation Support Award.

The Bank also seeks to recognise staff who have been exemplary in their service to both external and internal customers. This is done quarterly where staff who have performed well are recognised and rewarded.

Social and environmental management

The Bank believes in creating and maintaining long term valuable and sustainable partnerships with all its stake holders. This is achieved through ethical and responsible practices which are entrenched in the bank's business. Compliance, good governance and ethical code of conduct in all our business dealings is non-negotiable.

In line with sustainable development goals, the bank is committed to eradicate poverty by supporting business activities and investments aimed at creating environmentally sustainable economy. The bank has developed innovative products to enhance financial inclusion especially to the vulnerable groups such as the youth and farmers.

The Bank continues to play its role as a socially responsible citizen through four CSR pillars namely; Education, Sports , Environment and health. During the last financial year under review, under the CSR pillar on health, the bank undertook Epilepsy sensitization road shows to seventeen counties to create awareness and help to end stigma on the disease.''

The Directors are responsible for the preparation and fair presentation of the financial statements of BANK OF - AFRICA KENYA Limited set out on pages 24 to 113 which comprise the statement of financial position at 31 December 2019, statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

The Directors' responsibilities include: determining that the basis of accounting described in Note 2 is an acceptable basis for preparing and fairly presenting the financial statements in the circumstances, preparation and presentation of financial statements in accordance with International Financial Reporting Standards and in the manner required by the Kenyan Companies Act, 2015 and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatements, whether due to fraud or error.

Under the Kenyan Companies Act, 2015, the Directors are required to prepare financial statements for each financial period which give a true and fair view of the financial position of the Bank as at the end of the financial year and of the profit or loss of the Bank for that year. It also requires the Directors to ensure the Bank keeps proper accounting records which disclose with reasonable accuracy the financial position of the Bank.

The Directors accept responsibility for the annual financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgments and estimates, in conformity with International Financial Reporting Standards and in the manner required by the Kenyan Companies Act, 2015. The Directors are of the opinion that the financial statements give a true and fair view of the financial position of the Bank and of its profit or loss.

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

The directors have made an assessment of the Bank's ability to continue as a going concern and have no reason to believe the Bank will not be a going concern for at least the next twelve (12) months from the date of this statement based on initiatives disclosed in Note 2 (b).

Approval of the financial statements

The financial statements, as indicated above, were approved and authorised for issue by the Board of Directors on.

Ambassador Dennis Awori
Chairman

Ronald Marambii
Managing Director

Susan Kasinga
Director

Anne Gitau
Company Secretary

Date: 25/03/2020

Independent auditors' report

Report on the Audit of the Financial Statements

Option

We have audited the financial statements of BANK OF AFRICA - KENYA Limited set out on pages 24 to 113, which comprise the statement of financial position as at 31 December 2019, statement of profit or loss and other comprehensive income, the statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of BANK OF AFRICA - KENYA Limited as at 31 December 2019, and of the financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs) and the manner required by the Kenyan Companies Act, 2015.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Bank in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements that are relevant to our audit of the financial statements in Kenya. We have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other information

The Directors are responsible for other information. The other information comprises the information included in the Annual Report and Financial Statements, but does not include the financial statements and our auditor's report thereon.

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

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

Directors' responsibilities for the financial statements

As stated on page 12, the Directors are responsible for the preparation of financial statements that give a true and fair view in accordance with IFRSs and in the manner required by the Kenyan Companies Act, 2015, and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement,whether due to fraud or error.

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

The Directors are responsible for overseeing the Bank's financial reporting process.

Auditor's responsibilities for the audit of the financial statements

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

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

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

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

Report on other legal and regulatory requirements

As required by the Kenyan Companies Act, 2015, we report to you based on our audit, that;

(i) In our opinion, the information given in the Directors' report for the year ended 31 December 2019 on page 9, is consistent with the financial statements; and

(ii) Our audit report on the financial statements is unqualified.

The signing partner responsible for the audit resulting in this independent auditor's report is FCPA Eric Aholi – P/1471.

Certified Public Accountants
P.O Box 40612
00100 Nairobi

Date: 25/03/2020

Statement of profit or loss and other comprehensive income

	NOTES	2019 KSHS'000	2018 KSHS'000
INTEREST INCOME	5	2,926,200	3,389,688
INTEREST EXPENSE	6	(1,929,093)	(2,206,815)
NET INTEREST INCOME		997,107	1,182,873
FEE AND COMMISSION INCOME	7	540,907	624,262
FEE AND COMMISSION EXPENSE	7	(6,982)	(4,327)
NET FEE AND COMMISSION INCOME		533,925	619,935
FOREIGN EXCHANGE INCOME		660,876	429,852
FOREIGN EXCHANGE FVTPL		(789)	6,274
NET FOREIGN EXCHANGE INCOME		660,087	436,126
OTHER OPERATING LOSS	8	(413,085)	(50,569)
TOTAL INCOME		1,778,034	2,188,365
IMPAIRMENT LOSSES ON OTHER FINANCIAL ASSETS	4.1.3	9,574	(2,761)
IMPAIRMENT (LOSSES)/GAINS ON LOANS AND ADVANCES	17	(2,405,335)	158,694
NET OPERATING (LOSS)/INCOME		(617,727)	2,344,298
STAFF COSTS	9	(1,027,313)	(1,069,304)
DEPRECIATION AND AMORTISATION	10	(393,258)	(199,067)
OTHER OPERATING COSTS	11	(1,161,732)	(1,015,938)
TOTAL OPERATING EXPENSES		(2,582,303)	(2,284,309)
(LOSS)/PROFIT FROM OPERATIONS		(3,200,030)	59,989
SHARE OF PROFIT OF ASSOCIATE	19	270,354	149,572
(LOSS)/PROFIT BEFORE INCOME TAX		(2,929,676)	209,561
INCOME TAX CREDIT/(EXPENSE)	12	889,838	(36,488)
(LOSS)/PROFIT FOR THE YEAR		(2,039,838)	173,073
OTHER COMPREHENSIVE INCOME			
ITEMS THAT WILL NOT BE RECLASSIFIED TO PROFIT OR LOSS			
NET CHANGES IN EQUITY INVESTMENTS AT FVOCI	18(A)	69,745	(284,960)
DEFERRED TAX ON EQUITY INVESTMENTS AT FVOCI	24	(3,487)	14,248
		66,258	(270,712)
ITEMS THAT MAY SUBSEQUENTLY BE RECLASSIFIED TO PROFIT OR LOSS			
NET LOSSES ON INVESTMENTS IN FINANCIAL INSTRUMENTS MEASURED AT FVOCI	19	-	(21,342)
FOREIGN CURRENCY TRANSLATION DIFFERENCES FOR INVESTMENTS IN FOREIGN OPERATIONS RECYCLED TO PROFIT OR LOSS	8/19	180,255	(55,984)
		180,255	(55,984)
OTHER COMPREHENSIVE INCOME, NET OF TAX		246,513	(326,696)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		(1,793,325)	(153,623)

The notes on pages 26 to 112 are an integral part of these financial statements.

Statement of financial position

	NOTES	2019 KSHS'000	2018 KSHS'000
ASSETS			
CASH AND BALANCES WITH CENTRAL BANK	13	9,250,628	9,927,343
DERIVATIVE ASSETS HELD FOR RISK MANAGEMENT	14	212,110	83,155
DUE FROM OTHER BANKING INSTITUTIONS	15	2,938,741	2,872,506
DUE FROM GROUP BANKS	16(A)	844,230	1,012,283
LOANS AND ADVANCES TO CUSTOMERS	17	15,982,158	21,188,115
INVESTMENT SECURITIES- FVOCI	18(A)	552,931	283,027
INVESTMENT SECURITIES- AMORTISED COST	18(B)	7,287,730	6,512,645
INVESTMENT IN ASSOCIATE	19	-	1,311,749
CURRENT INCOME TAX	12	438,004	438,004
PROPERTY AND EQUIPMENT	21	2,396,382	1,857,393
NON- CURRENT ASSET HELD FOR SALE	22	-	29,746
INTANGIBLE ASSETS	23	192,808	40,129
DEFERRED INCOME TAX	24	2,546,320	1,659,968
OTHER ASSETS	25	1,354,076	1,197,700
TOTAL ASSETS		43,996,118	48,413,763
LIABILITIES			
DUE TO GROUP BANKS	16 (B)	3,394,873	6,860,714
DUE TO OTHER BANKING INSTITUTIONS	26	1,877	58,059
CUSTOMER DEPOSITS	27	33,327,232	30,122,457
BORROWINGS	28	1,439,516	4,683,357
OTHER LIABILITIES	29	1,556,859	620,090
TOTAL LIABILITIES		39,720,357	42,344,677
SHAREHOLDERS' EQUITY			
SHARE CAPITAL	30	6,404,949	6,404,949
SHARE PREMIUM	30	1,980,356	1,980,356
STATUTORY CREDIT RISK RESERVE	31	317,564	486,296
FAIR VALUE RESERVE		(280,624)	(346,882)
FOREIGN CURRENCY TRANSLATION RESERVE		-	(180,255)
RETAINED EARNINGS		(4,146,484)	(2,275,378)
TOTAL SHAREHOLDERS' EQUITY		4,275,761	6,069,086
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		43,996,118	48,413,763

The financial statements on pages 26 to 112 were approved for issue by the Board of Directors on 6 February 2020 and signed on its behalf by:

Ambassador Dennis Awori
Chairman

Ronald Marambii
Managing Director

Susan Kasinga
Director

Anne Gitau
Company Secretary

The notes on pages 26 to 112 are an integral part of these financial statements.

Statement of Changes in Equity

	NOTES	SHARE CAPITAL KSHS'000	SHARE PREMIUM KSHS'000	STATUTORY CREDIT RISK RESERVE KSHS'000	FAIR VALUE RESERVE KSHS'000	FOREIGN CURRENCY TRANSLATION RESERVE KSHS'000	RETAINED EARNINGS KSHS'000	TOTAL EQUITY KSHS'000
AT 31 DECEMBER 2018		6,404,949	1,980,356	486,296	(346,882)	(180,255)	(1,608,282)	6,736,182
PRIOR YEAR ADJUSTMENT	37						(667,096)	(667,096)
RESTATED BALANCE AT 1 JANUARY 2019								
TOTAL COMPREHENSIVE INCOME		6,404,949	1,980,356	486,296	(346,882)	(180,255)	(2,275,378)	6,069,086
LOSS FOR THE YEAR		-	-	-	-		(2,039,838)	(2,039,838)
TRANSFER TO STATUTORY CREDIT RISK RESERVE	31	-	-	(168,732)	-	-	168,732	-
NET CHANGE IN EQUITY INVESTMENTS AT FVOCI, NET OF DEFERRED TAX		-	-	-	66,258	-	-	66,258
FOREIGN CURRENCY TRANSLATION DIFFERENCES ON INVESTMENTS IN FOREIGN OPERATIONS (RECYCLED TO PROFIT OR LOSS)	8	-	-	-	-	180,255	-	180,255
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		-	-	(168,732)	66,258	180,255	(1,871,106)	(1,793,325)
AT 31 DECEMBER 2019		6,404,949	1,980,356	317,564	(280,624)	-	(4,146,484)	4,275,761
AT 1 JANUARY 2018		6,404,949	1,980,356	-	(76,170)	(124,271)	(1,295,059)	6,889,805
TOTAL COMPREHENSIVE INCOME								
PROFIT FOR THE YEAR		-	-	-	-	-	173,073	173,073
TRANSFER FROM STATUTORY CREDIT RISK RESERVE	31	-	-	486,296	-	-	(486,296)	-
NET CHANGE IN EQUITY INVESTMENTS AT FVOCI, NET OF DEFERRED TAX	18	-	-	-	(270,712)	-	-	(270,712)
FOREIGN CURRENCY TRANSLATION DIFFERENCES ON INVESTMENTS IN FOREIGN OPERATIONS	19	-	-	-	-	(55,984)	-	(55,984)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		-	-	486,296	(270,712)	(55,984)	(313,223)	(153,623)
AT 31 DECEMBER 2018		**6,404,949**	**1,980,356**	**486,296**	**(346,882)**	**(180,255)**	**(1,608,282)**	**6,736,182**

The notes on pages 26 to 112 are an integral part of these financial statements.

Statement of Cash Flows

	NOTES	2019 KSHS'000	2018 KSHS'000
CASH FLOWS FROM OPERATING ACTIVITIES			
NET (LOSS) /PROFIT BEFORE TAXATION		(2,929,676)	209,561
ADJUSTMENTS FOR:			
DEPRECIATION AND AMORTISATION	10	393,258	199,067
PROFIT ON DISPOSAL OF PROPERTY AND EQUIPMENT	8	(9,142)	(2,931)
SHARE OF PROFIT OF ASSOCIATE	19	(270,354)	(149,572)
IMPAIRMENT OF NON-CURRENT ASSETS	22	29,746	73,747
WRITE OFF OF WIP	21	15,325	
INTEREST ON LEASE LIABILITIES	20	76,850	
NET LOSS ON SALE OF INVESTMENT SECURITIES	19	329,638	
		(2,364,355)	329,872
CHANGES IN:			
DERIVATIVE ASSETS HELD FOR RISK MANAGEMENT	14	(128,955)	(83,155)
LOANS AND ADVANCES TO CUSTOMERS	17	5,205,957	3,998,704
CASH RESERVE REQUIREMENT	13	(152,945)	29,314
OTHER ASSETS	25	(174,610)	(217,842)
DERIVATIVE LIABILITIES HELD FOR RISK MANAGEMENT	14		(34,095)
CUSTOMER DEPOSITS	27	3,204,775	(1,449,975)
DUE FROM OTHER BANKING INSTITUTIONS		421	(1,057)
AMOUNTS DUE FROM GROUP BANKS	16(A)	(254,043)	1,846,073
AMOUNTS DUE TO GROUP BANKS	16(B)		(1,810,383)
INCREASE IN OTHER LIABILITIES	29	55,212	63,952
		7,755,812	2,341,536
INCOME TAX PAID	12		(339,410)
NET CASH FLOWS FROM OPERATING ACTIVITIES		5,391,457	2,331,998
CASH FLOWS FROM INVESTING ACTIVITIES			
ACQUISITION OF PROPERTY AND EQUIPMENT	21	(106,876)	(56,359)
ACQUISITION OF INTANGIBLE ASSETS	23	(65,013)	(9,294)
PROCEEDS FROM SALE OF PROPERTY AND EQUIPMENT		105,960	393,240
PROCEEDS FROM SALE OF SHARES IN ASSOCIATE	19	1,154,025	
MATURING OF INVESTMENT SECURITIES – BILLS AND BONDS	18(B)	449,097	(1,509,000)
DIVIDENDS RECEIVED	19	78,536	79,073
NET CASH FLOWS GENERATED/(USED IN) FROM INVESTING ACTIVITIES		1,615,729	(1,102,340)
CASH FLOWS FROM FINANCING ACTIVITIES			
NET REPAYMENTS FROM BORROWINGS	28	(3,243,841)	(979,045)
PAYMENT OF LEASE LIABILITY	20	(203,175)	
NET CASH FLOWS USED IN FINANCING ACTIVITIES		(3,447,016)	(979,045)
NET INCREASE IN CASH AND CASH EQUIVALENTS		3,560,170	250,613
CASH AND CASH EQUIVALENTS AT 1 JANUARY		5,197,822	4,947,209
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	34	8,757,992	5,197,822

The notes on pages 26 to 112 are an integral part of these financial statements.

Notes

1. GENERAL INFORMATION

BANK OF AFRICA - KENYA Limited is incorporated in Kenya under the Kenyan Companies Act, 2015 as a limited liability company, and is domiciled in Kenya. The company is regulated by the Central Bank of Kenya. The Bank is controlled by BOA Group S.A. incorporated in Luxembourg with its ultimate parent being BMCE Bank incorporated in Morocco. The address of its registered office is:

BOA House

LR No: 1870/III/313 and 1870/III/314

School Lane

Westlands, Nairobi

P.O. Box 69562

00400- Nairobi, Tom Mboya

2. SIGNIFICANT ACCOUNTING POLICIES

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

2.1. Basis of preparation

(a) Statement of compliance

The financial statements set out on pages 16 to 106 have been prepared in accordance with International Financial Reporting Standards (IFRS) and in the manner required by the Kenyan Companies Act, 2015.

For Kenyan Companies Act, 2015 reporting purposes in these financial statements, the balance sheet is represented by the statement of financial position, and the profit and loss account is presented in the statement of profit or loss and other comprehensive income.

This is the first set of the Bank's annual financial financial statement in which IFRS 16 Leases has been applied. The related changes to significant accounting policies are described at Note 2.1 (e).

(b) Going concern

The Bank incurred a loss of KShs 2,039,838,000 during the year ended 31 December 2019, the Bank's negative retained earnings dipped further and were in a deficit of KShs 4,146,484,000. As at that date, all the Bank's Capital Adequacy Ratios (CAR) were in breach of the minimum requirements by the Central Bank of Kenya (CBK) as captured in note 4.5 on Capital Management.

The Bank has put in place the following initiatives to ensure that it operates within the requirements of the Banking Act and the CBK Prudential Guidelines.

i. BOA Group Leverage

The Bank is part of wider BOA GROUP which has presence in 17 Sub-Saharan Countries and France. Within the BOA GROUP, there over 3 million customers, 560 branches and 6,000 employees. As of 31 December 2018, BOA Group had an equivalent total assets of KShs 855 billion, loans and advances of KShs 460 billion, customer deposits of KShs 600 billion and return on equity of 15.1%. By comparison to the local banking industry, BOA GROUP is 1.2x bigger in total assets than the largest Banking Group in Kenya.

In terms of Shareholding, BOA GROUP is 72.4% owned by BMCE BANK OF AFRICA, (The 3rd largest banking Group in Morocco, listed on Casablanca Stock Exchange with total assets of an equivalent KShs 3.1 trillion), FMO 9.4%, Proparco 3.7%, Belgian Investment Company (BIO) 2.0% and 12.4% by other investors.

This is a wide ecosystem that as a Group, the Bank will continue leveraging on Banking, Administrative, Financial and Information Systems support.

ii. Liquidity Management

The Bank will continue to monitor its Liquidity position which was at a high of 49.2% in December 2019. Through Group Leverage, the Bank has put in place a contingency funding plan of USD 100 million.

Led by the Group CEO Mr. Amine Bouabid, management has in January cascaded the Group and Bank's Vision to key stakeholders including Staff, Board Members, Regulators, key bank customers and partners at large.

The Bank's ability to settle its obligations is evidenced by the USD 30 million loan the Bank paid off in January 2019 to BOA-MER ROUGE, (note 28).

iii. BOA-KENYA Strategic Plan 2019-2021

The Bank is in the second year of the Group wide Triannual Development Plan (TDP) 2019-2021. The TDP is anchored on four pillars namely, Growth, Productivity, Profitability and Risk Management. The pillars are built on the premise of balance sheet transformation where the bank shall seek to enhance banking to the Middle and Small Enterprises (MSMES) that have been proven to be engines of economic development and job creation based on CBK Statistics.

To ensure additional value proposition to the SME's, the Bank is in process of finalizing partnership with Multilateral Development Financial Institutions. These include the International Finance Corporation (IFC) and African Guarantee Fund (AGF) on SME Risk Sharing arrangements.

Overall, the balance sheet transformation agenda will involve a review and clean-up of non-performing facilities which has majorly contributed to the loss position in 2019.

After the clean-up and with enhanced credit underwriting standards leveraging on BMCE BANK OF AFRICA Converge initiatives, Credit and other Risks are now well managed.

iv. Core Capital Enhancement

As per note 4.5 on Capital Management, the Core and Total Capital levels against Risk Weighted Assets are inadequate to meet the regulatory minimum ratios. The Shareholder is injecting an additional USD 15 million (KShs1.5 billion) in tier 1 capital and USD 7.5 million (KShs 750 million) in tier 2 Capital as follows;

- Tranche 1 KShs 1.5 billion by March 2020 (note 38)
- Tranche 2- Subordinated Debt of KShs 750 million by 31 December 2020

The planned Capital injection will remedy the ratio breaches and provide additional headroom for business growth.

Further, the Bank has concluded a sale of its significant BOA-UGANDA shareholding by disposing off to BMCE Bank of Africa of 17.4 million shares (representing 86.33% of its 20.2million shares) thus unlocking KShs 965 million of Core Capital (Net of KShs 579 million due to a disposal loss on reclassification of items in the Fair Value Reserves).

Both BOA-Group and the Bank's parent, BMCE BANK OF AFRICA have committed to support the Bank whenever Capitalisation and other issues occur.

v. Lending Activities

The Bank shall continue with lending activities in support of its clientele base but taking cognisant of the capital adequacy ratios and other statutory ratios as per the Banking Act. Continued lending is seen as important to instil market confidence on ability of the Bank and Group to continue financing the economy.

vi. Management Commitment

Management is confident that the steps on clean up and capital increase will enable the Bank to be in a stronger position to actively participate in business development and financing of the economy in a stable and consistent manner and will make BOA-KENYA more resilience to any shocks in the economy.

vii. Directors Assurance

The directors having taken into account the initiatives above and information at hand, are confident that the going concern assumption is appropriate in the preparation of these financial statements. The financial statements have therefore been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities will occur in the ordinary course of business.

(c) Basis of measurement

The measurement basis used is the historical cost basis except where otherwise stated in the accounting policies below.

For those assets and liabilities measured at 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. When measuring the fair value of an asset or a liability, the Bank uses market observable data as far as possible. If the fair value of an asset or a liability is not directly observable, it is estimated by the Bank using valuation techniques that maximise the use of relevant observable inputs and minimise the use of unobservable inputs (e.g. by use of the market comparable approach that reflects recent transaction prices for similar items or discounted cash flow analysis). Inputs used are consistent with the characteristics of the asset / liability that market participants would take into account.

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

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

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

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

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

(d) Use of estimates and judgements

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

(e) Borrowing costs

Borrowing costs, net of any temporary investment income on those borrowings, that are attributable to acquisition, construction or production of a qualifying asset are capitalised as part of the asset. The net borrowing cost capitalised is either the actual borrowing cost incurred on the amount borrowed specifically to finance the asset; or in the case of general borrowings, the borrowing cost is determined using the overall weighted average cost of the borrowings on all outstanding borrowings during the year less any specific borrowings directly attributable to the asset and applying this rate to the borrowing attributable to the asset. Capitalisation of borrowing costs ceases when all activities necessary to prepare the qualifying asset for its intended use or sale are complete.

(f) Changes in accounting policies and disclosures

The Bank initially applied the following standards and amendments to standards from 1 January 2019:

- Interest Rate Benchmark Reform (Amendments to IFRS 9, IAS 39 and IFRS 7)
- IFRS 16 Leases

A number of other new standards are also effective from 1 January 2019 but they do not have a material effect on the Bank's financial statements.

2.1.1 Leases

The Bank applied IFRS 16 using the modified retrospective approach under which, the comparative information presented for 2018 is not restated – i.e. it is presented, as previously reported, under IAS 17 and related interpretations. The details of the changes in accounting policies are disclosed below. Additionally, the disclosure requirements in IFRS 16 have not generally been applied to comparative information.

2.1.2 Definition of a lease

Previously, the Bank determined at contract inception whether an arrangement is or contains a lease under IFRIC 4. Determining whether an arrangement contains a Lease. The Bank now assesses whether a contract is or contains a lease based on the definition of a lease, as explained in Note 2.24.

On transition to IFRS 16, the Bank elected to apply the practical expedient to grandfather the assessment of which transactions are leases. The Bank applied IFRS 16 only to contracts that were previously identified as leases. Contracts that were not identified as leases under IAS 17 and IFRIC 4 were not reassessed for whether there is a lease under IFRS 16.

2.1.3 As a Lessee

As a lessee, the Bank leases some branch and office premises and IT equipment. The Bank previously classified these leases as operating leases under IAS 17 based on its assessment of whether the lease transferred substantially all of the risks and rewards incidental to ownership of the underlying asset to the Bank. Under IFRS 16, the Bank recognises right-of-use assets and lease liabilities for leases of branch and office premises – i.e. these leases are on-balance sheet.

Further, the Bank has not entered into any new leases during the year ended 31 December 2019, other than leases of low-value i.e. IT equipment (see Note 20).

At commencement or on modification of a contract that contains a lease component, the Bank allocates the consideration in the contract to each lease component on the basis of its relative stand-alone prices.

However, for leases of branches and office premises the Bank has elected to separate non-lease components and account for the lease components as a single lease component.

On transition, for these leases, lease liabilities were measured at the present value of the remaining lease payments, discounted at the Bank's incremental borrowing rate as at 1 January 2019 (see Note 2.1.4.1).

Right-of-use assets are measured at their carrying amount as if IFRS 16 had been applied since the commencement date, discounted using the lessee's incremental borrowing rate at the date of initial application.

The Bank used a number of practical expedients when applying IFRS 16 to leases previously classified as operating leases under IAS 17. In particular, the Bank: relied on its assessment of whether leases are onerous under IAS 37 Provisions, Contingent Liabilities and Contingent Assets immediately before the date of initial application as an alternative to performing an impairment review;

- did not recognise right-of-use assets and liabilities for leases for which the lease term ends within 12 months of the date of initial application;
- did not recognise right-of-use assets and liabilities for leases of low-value assets (i.e. IT equipment);
- excluded initial direct costs from measuring the right-of-use asset at the date of initial application; and
- used hindsight when determining the lease term.

2.1.4 As a Lessor

The Bank leases out certain property and equipment. The Bank had classified these leases as follows:

- finance leases of property and equipment: and
- operating leases of investment property:

The Bank is not required to make any adjustments on transition to IFRS 16 for leases in which it acts as a lessor.

2.1.4.1 Impact on financial statements

Impact on transition

On transition to IFRS 16, the Bank recognised additional right-of-use assets and additional lease liabilities. The impact on transition is summarised below.

	1 January 2019
Right-of-use asset presented in property and equipment (Note 21)*	1,025,181
Deferred tax asset	20,081
Retained earnings	-

* The Bank had a rent-prepayment of Kshs of 16 Million as at 1 January,2019 that has been included in the computation of the Right-of-Use asset.

When measuring lease liabilities for leases that were classified as operating leases, the Bank discounted lease payments using its incremental borrowing rate at 1 January 2019. The weighted-average rate applied is 13% for Kenya Shillings (Kshs) and 3% for USD denominated leases.

	1 January 2019 KSHS'000
Operating lease commitment at 31 December 2018 as disclosed under IAS 17 in the Banks financial statements	1,395,178
Discounted using the incremental borrowing rate at 1 January 2019	1,018,533
Recognition exemption for:	
- Short term leases with less than 12 months of lease term at transition	4,600
- Leases of low value assets	7,599
Lease liabilities recognised at 1 January 2019	**1,009,321**

2.2 Consolidation

(i) Associates

Associates are all entities over which the Bank has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting. Under the equity method, the investment is initially recognised at cost, and the carrying amount is increased or decreased to recognise the investor's share of the profit or loss of the investee after the date of acquisition. The Bank's investment in associates includes goodwill identified on acquisition.

If the ownership interest in an associate is reduced but significant influence is retained, only a proportionate share of the amounts previously recognised in other comprehensive income is reclassified to profit or loss where appropriate.

The Bank's share of post-acquisition profit or loss is recognised in profit or loss, and its share of post-acquisition movements in other comprehensive income is recognised in other comprehensive income with a corresponding adjustment to the carrying amount of the investment. When the Bank's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Bank does not recognise further losses, unless it has incurred legal or constructive obligations or made payments on behalf of the associate.

The Bank 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 Bank calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognises the amount adjacent to 'share of profit/(loss) of associates in profit or loss.

Profits and losses resulting from upstream and downstream transactions between the Bank and its associate are recognised in the Bank's financial statements only to the extent of unrelated investor's interests in the associates. Unrealised losses are eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Bank.

The Bank disposed off 86.3% of its 43.24% shareholding in BOA-UGANDA and BOA-UGANDA is no longer considered an associate but an investment security with a 5.91% shareholding.

2.3 Foreign currency translation

(i) Functional and presentation currency

Items included in the financial statements of the Bank are measured using the currency of the primary economic environment in which entity operates ('the functional currency') which is in Kenya shillings. Except as otherwise indicated, financial information presented in Kenya shillings (Kshs) has been rounded to the nearest thousand ('000).

(ii) Transactions and balances in foreign currency

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

Changes in the fair value of monetary securities denominated in foreign currency classified as Fair Value through Other Comprehensive Income (FVOCI) are analysed between translation differences resulting from changes in the amortised cost of the security and other changes in the carrying amount of the security. Translation differences related to changes in amortised cost are recognised in profit or loss, and other changes in carrying amount are recognised in other comprehensive income.

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

(iii) Interests in foreign operations

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

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

2.4 Sale and repurchase agreements

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

2.5 Financial assets and liabilities

2.5.1 Recognition and initial measurement

The Bank initially recognises loans and advances, deposits, debt securities issued and subordinated liabilities on the date on which they are originated. All other financial instruments (including regular-way purchases and sales of financial assets) are recognised on the trade date, which is the date on which the Bank becomes a party to the contractual provisions of the instrument.

A financial asset or financial liability is measured initially at fair value plus, for an item not at FVTPL, transaction costs that are directly attributable to its acquisition or issue. The fair value of a financial instrument at initial recognition is generally its transaction price.

2.5.2 Classification

Financial assets

On initial recognition, a financial asset is classified as measured at: amortised cost, FVOCI or FVTPL.

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL:

- the asset is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are SPPI.

A debt instrument is measured at FVOCI only if it meets both of the following conditions and is not designated as at FVTPL:

- the asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are SPPI.

On initial recognition of an equity investment that is not held for trading, the Bank may irrevocably elect to present subsequent changes in fair value in OCI. This election is made on an investment-by-investment basis.

All other financial assets are classified as measured at FVTPL.

In addition, on initial recognition, the Bank may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at FVOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

Business model assessment

The Bank makes an assessment of the objective of a business model in which an asset is held at a portfolio level because this best reflects the way the business is managed and information is provided to management. The information considered includes:

- the stated policies and objectives for the portfolio and the operation of those policies in practice. In particular, whether management's strategy focuses on earning contractual interest revenue, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of the liabilities that are funding those assets or realising cash flows through the sale of the assets;
- how the performance of the portfolio is evaluated and reported to the Bank's management;
- the risks that affect the performance of the business model (and the financial assets held within that business model) and its strategy for how those risks are managed;
- how managers of the business are compensated (e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected); and
- the frequency, volume and timing of sales in prior periods, the reasons for such sales and its expectations about future sales activity. However, information about sales activity is not considered in isolation, but as part of an overall assessment of how the Bank's stated objective for managing the financial assets is achieved and how cash flows are realised.
- The Bank's retail and corporate banking business comprises primarily loans to customers that are held for collecting contractual cash flows. In the retail business the loans comprise mortgages, overdrafts and unsecured personal lending. Sales of loans from these portfolios are very rare.

- Certain debt securities are held by the Bank's Central Treasury in a separate portfolio for long-term yield. These securities may be sold, but such sales are not expected to be more than infrequent. The Bank considers that these securities are held within a business model whose objective is to hold assets to collect the contractual cash flows.

- Certain other debt securities are held by the Bank's Central Treasury in separate portfolios to meet everyday liquidity needs. The Bank's Central Treasury seeks to minimise the costs of managing these liquidity needs and therefore actively manages the return on the portfolio. That return consists of collecting contractual cash flows as well as gains and losses from the sale of financial assets. The investment strategy often results in sales activity that is significant in value. The Bank considers that these financial assets are held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets.

Financial assets that are held for trading or managed and whose performance is evaluated on a fair value basis are measured at FVTPL because they are neither held to collect contractual cash flows nor held both to collect contractual cash flows and to sell financial assets.

Assessment of whether contractual cash flows are solely payments of principal and interest

For the purposes of this assessment, 'principal' is defined as the fair value of the financial asset on initial recognition. 'Interest' is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as profit margin.

In assessing whether the contractual cash flows are SPPI, the Bank considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making the assessment, the Bank considers:

- contingent events that would change the amount and timing of cash flows;
- leverage features;
- prepayment and extension terms;
- features that modify consideration of the time value of money (e.g. periodical reset of interest rates).

The Bank holds a portfolio of long-term fixed-rate loans for which the Bank has the option to propose to revise the interest rate at periodic reset dates. These reset rights are limited to the market rate at the time of revision. The borrowers have an option to either accept the revised rate or redeem the loan at par without penalty. The Bank has determined that the contractual cash flows of these loans are SPPI because the option varies the interest rate in a way that is consideration for the time value of money, credit risk, other basic lending risks and costs associated with the principal amount outstanding.

Equity instruments have contractual cash flows that do not meet the SPPI criterion. Accordingly, all such financial assets are measured at FVTPL unless the FVOCI option is selected – as follows.

Non-recourse loans

In some cases, loans made by the Bank that are secured by collateral of the borrower limit the Bank's claim to cash flows of the underlying collateral (non-recourse loans). The Bank applies judgment in assessing whether the non-recourse loans meet the SPPI criterion. The Bank typically considers the following information when making this judgement:

- whether the contractual arrangement specifically defines the amounts and dates of the cash payments of the loan;
- the fair value of the collateral relative to the amount of the secured financial asset;
- the ability and willingness of the borrower to make contractual payments, notwithstanding a decline in the value of collateral;
- whether the borrower is an individual or a substantive operating entity or is a special-purpose entity;
- the Bank's risk of loss on the asset relative to a full-recourse loan;
- the extent to which the collateral represents all or a substantial portion of the borrower's assets; and
- whether the Bank will benefit from any upside from the underlying assets.

Contractually linked instruments

Contractually linked instruments each have a specified subordination ranking that determines the order in which any cash flows generated by the pool of underlying investments are allocated to the instruments. Such an instrument meets the SPPI criterion only if all of the following conditions are met:

- the contractual terms of the instrument itself give rise to cash flows that are SPPI without looking through to the underlying pool of financial instruments;
- the underlying pool of financial instruments (i) contains one or more instruments that give rise to cash flows that are SPPI; and (ii) may also contain instruments, such as derivatives, that reduce the cash flow variability of the instruments under (i) and the combined cash flows (of the instruments under (i) and (ii)) give rise to cash flows that are SPPI; or align the cash flows of the contractually linked instruments with the cash flows of the pool of underlying instruments under (i) arising as a result of differences in whether interest rates are fixed or floating or the currency or timing of cash flows; and
- the exposure to credit risk inherent in the contractually linked instruments is equal to or less than the exposure to credit risk of the underlying pool of financial instruments.

The Bank did not have contractually linked investments.

Reclassifications

Financial assets are not reclassified subsequent to their initial recognition, except in the period after the Bank changes its business model for managing financial assets.

2.5.3 Derecognition

Financial assets

The Bank derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the Bank neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset derecognised) and the sum of (i) the consideration received (including any new asset obtained less any new liability assumed) and (ii) any cumulative gain or loss that had been recognised in OCI is recognised in profit or loss.

Any cumulative gain/loss recognised in OCI in respect of equity investment securities designated as at FVOCI is not recognised in profit or loss on derecognition of such securities, as earlier explained. Any interest in transferred financial assets that qualify for derecognition that is created or retained by the Bank is recognised as a separate asset or liability.

The Bank enters into transactions whereby it transfers assets recognised on its statement of financial position, but retains either all or substantially all of the risks and rewards of the transferred assets or a portion of them. In such cases, the transferred assets are not derecognised. Examples of such transactions are securities lending and sale-and-repurchase transactions.

When assets are sold to a third party with a concurrent total return swap on the transferred assets, the transaction is accounted for as a secured financing transaction similar to sale-and-repurchase transactions, because the Bank retains all or substantially all of the risks and rewards of ownership of such assets.

In transactions in which the Bank neither retains nor transfers substantially all of the risks and rewards of ownership of a financial asset and it retains control over the asset, the Bank continues to recognise the asset to the extent of its continuing involvement, determined by the extent to which it is exposed to changes in the value of the transferred asset.

In certain transactions, the Bank retains the obligation to service the transferred financial asset for a fee. The transferred asset is derecognised if it meets the derecognition criteria. An asset or liability is recognised for the servicing contract if the servicing fee is more than adequate (asset) or is less than adequate (liability) for performing the servicing.

The Bank securitises various loans and advances to customers and investment securities, which generally result in the sale of these assets to unconsolidated securitisation vehicles and in the Bank transferring substantially all of the risks and rewards of ownership. The securitisation vehicles in turn issue securities to investors. Interests in the securitised financial assets are generally retained in the form of senior or subordinated tranches, or other residual interests (retained interests). Retained interests are recognised as investment securities and measured as explained earlier.

Financial liabilities

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

2.5.4 Modifications of financial assets and financial liabilities

Financial assets

If the terms of a financial asset are modified, then the Bank evaluates whether the cash flows of the modified asset are substantially different.

If the cash flows are substantially different, then the contractual rights to cash flows from the original financial asset are deemed to have expired. In this case, the original financial asset is derecognised (see (iii)) and a new financial asset is recognised at fair value plus any eligible transaction costs. Any fees received as part of the modification are accounted for as follows:

- fees that are considered in determining the fair value of the new asset and fees that represent reimbursement of eligible transaction costs are included in the initial measurement of the asset; and
- other fees are included in profit or loss as part of the gain or loss on derecognition.

If cash flows are modified when the borrower is in financial difficulties, then the objective of the modification is usually to maximise recovery of the original contractual terms rather than to originate a new asset with substantially different terms. If the Bank plans to modify a financial asset in a way that would result in forgiveness of cash flows, then it first considers whether a portion of the asset should be written off before the modification takes place (see below for write off policy). This approach impacts the result of the quantitative evaluation and means that the derecognition criteria are not usually met in such cases.

If the modification of a financial asset measured at amortised cost or FVOCI does not result in derecognition of the financial asset, then the Bank first recalculates the gross carrying amount of the financial asset using the original effective interest rate of the asset and recognises the resulting adjustment as a modification gain or loss in profit or loss. For floating-rate financial assets, the original effective interest rate used to calculate the modification gain or loss is adjusted to reflect current market terms at the time of the modification. Any costs or fees incurred and modification fees received adjust the gross carrying amount of the modified financial asset and are amortised over the remaining term of the modified financial asset.

If such a modification is carried out because of financial difficulties of the borrower, then the gain or loss is presented together with impairment losses. In other cases, it is presented as interest income calculated using the effective interest rate method.

Financial liabilities

The Bank derecognises a financial liability when its terms are modified and the cash flows of the modified liability are substantially different. In this case, a new financial liability based on the modified terms is recognised at fair value. The difference between the carrying amount of the financial liability derecognised and the consideration paid is recognised in profit or loss. Consideration paid includes non-financial assets transferred, if any, and the assumption of liabilities, including the new modified financial liability.

If the modification of a financial liability is not accounted for as derecognition, then the amortised cost of the liability is recalculated by discounting the modified cash flows at the original effective interest rate and the resulting gain or loss is recognised in profit or loss. For floating-rate financial liabilities, the original effective interest rate used to calculate the modification gain or loss is adjusted to reflect current market terms at the time of the modification.

Any costs and fees incurred are recognised as an adjustment to the carrying amount of the liability and amortised over the remaining term of the modified financial liability by re-computing the effective interest rate on the instrument.

Offsetting

Financial assets and financial liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Bank currently has a legally enforceable right to set off the amounts and it intends either to settle them on a net basis or to realise the asset and settle the liability simultaneously.

Income and expenses are presented on a net basis only when permitted under IFRS Standards, or for gains and losses arising from a Bank of similar transactions such as in the Bank's trading activity.

2.5.5 Fair value measurement

'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 in the principal or, in its absence, the most advantageous market to which the Bank has access at that date. The fair value of a liability reflects its non-performance risk.

When one is available, the Bank measures the fair value of an instrument using the quoted price in an active market for that instrument. A market is regarded as 'active' if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

If there is no quoted price in an active market, then the Bank uses valuation techniques that maximise the use of relevant observable inputs and minimise the use of unobservable inputs. The chosen valuation technique incorporates all of the factors that market participants would take into account in pricing a transaction.

The best evidence of the fair value of a financial instrument on initial recognition is normally the transaction price – i.e. the fair value of the consideration given or received. If the Bank determines that the fair value on initial recognition differs from the transaction price and the fair value is evidenced neither by a quoted price in an active market for an identical asset or liability nor based on a valuation technique for which any unobservable inputs are judged to be insignificant in relation to the difference, then the financial instrument is initially measured at fair value, adjusted to defer the difference between the fair value on initial recognition and the transaction price. Subsequently, that difference is recognised in profit or loss on an appropriate basis over the life of the instrument but no later than when the valuation is wholly supported by observable market data or the transaction is closed out.

If an asset or a liability measured at fair value has a bid price and an ask price, then the Bank measures assets and long positions at a bid price and liabilities and short positions at an ask price.

Portfolios of financial assets and financial liabilities that are exposed to market risk and credit risk that are managed by the Bank on the basis of the net exposure to either market or credit risk are measured on the basis of a price that would be received to sell a net long position (or paid to transfer a net short position) for the particular risk exposure. Portfolio-level adjustments – e.g. bid-ask adjustment or credit risk adjustments that reflect the measurement on the basis of the net exposure – are allocated to the individual assets and liabilities on the basis of the relative risk adjustment of each of the individual instruments in the portfolio.

The fair value of a financial liability with a demand feature (e.g. a demand deposit) is not less than the amount payable on demand, discounted from the first date on which the amount could be required to be paid.

The Bank recognises transfers between levels of the fair value hierarchy as of the end of the reporting period during which the change has occurred.

2.5.6 Impairment

The Bank recognises loss allowances for ECL on the following financial instruments that are not measured at FVTPL:

- financial assets that are debt instruments;
- lease receivables;
- financial guarantee contracts issued; and
- loan commitments issued.

No impairment loss is recognised on equity investments.

The Bank measures loss allowances at an amount equal to lifetime ECL, except for the following, for which they are measured as 12-month ECL:

- debt investment securities that are determined to have low credit risk at the reporting date; and
- other financial instruments (other than lease receivables) on which credit risk has not increased significantly since their initial recognition.

Loss allowances for lease receivables are always measured at an amount equal to lifetime ECL.

The Bank considers a debt investment security to have low credit risk when its credit risk rating is equivalent to the globally understood definition of 'investment grade'. The Bank does not apply the low credit risk exemption to any other financial instruments.

12-month ECL are the portion of lifetime ECL that result from default events on a financial instrument that are possible within the 12 months after the reporting date. Financial instruments for which 12-month ECL are recognised are referred to as 'Stage 1 financial instruments'. Financial instruments allocated to Stage 1 have not undergone a significant increase in credit risk since initial recognition and are not credit-impaired.

Lifetime ECL are the ECL that result from all possible default events over the expected life of the financial instrument or the maximum contractual period of exposure. Financial instruments for which lifetime ECL are recognised but that are not credit-impaired are referred to as 'Stage 2 financial instruments'. Financial instruments allocated to Stage 2 are those that have experienced a significant increase in credit risk since initial recognition but are not credit-impaired.

Financial instruments for which lifetime ECL are recognised and that are credit-impaired are referred to as 'Stage 3 financial instruments'.

Measurement of ECL

ECL are a probability-weighted estimate of credit losses. They are measured as follows:

- financial assets that are not credit-impaired at the reporting date: as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Bank expects to receive);
- financial assets that are credit-impaired at the reporting date: as the difference between the gross carrying amount and the present value of estimated future cash flows;

- undrawn loan commitments: as the present value of the difference between the contractual cash flows that are due to the Bank if the commitment is drawn down and the cash flows that the Bank expects to receive; and

- financial guarantee contracts: the expected payments to reimburse the holder less any amounts that the Bank expects to recover.

If the terms of a financial asset are renegotiated or modified or an existing financial asset is replaced with a new one due to financial difficulties of the borrower, then an assessment is made of whether the financial asset should be derecognised and ECL are measured as follows.

- If the expected restructuring will not result in derecognition of the existing asset, then the expected cash flows arising from the modified financial asset are included in calculating the cash shortfalls from the existing asset.

- If the expected restructuring will result in derecognition of the existing asset, then the expected fair value of the new asset is treated as the final cash flow from the existing financial asset at the time of its derecognition. This amount is included in calculating the cash shortfalls from the existing financial asset that are discounted from the expected date of derecognition to the reporting date using the original effective interest rate of the existing financial asset.

Credit-impaired financial assets

At each reporting date, the Bank assesses whether financial assets carried at amortised cost, debt financial assets carried at FVOCI and finance lease receivables are credit impaired (referred to as 'Stage 3 financial assets'). A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit-impaired includes the following observable data:

- significant financial difficulty of the borrower or issuer;
- a breach of contract such as a default or past-due event;
- the restructuring of a loan or advance by the Bank on terms that the Bank would not consider otherwise;
- it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation; or
- the disappearance of an active market for a security because of financial difficulties.

A loan that has been renegotiated due to a deterioration in the borrower's condition is usually considered to be credit-impaired unless there is evidence that the risk of not receiving contractual cash flows has reduced significantly and there are no other indicators of impairment. In addition, a retail loan that is overdue for 90 days or more is considered credit-impaired even when the regulatory definition of default is different.

In making an assessment of whether an investment in sovereign debt is credit-impaired, the Bank considers the following factors.

- The market's assessment of creditworthiness as reflected in bond yields.
- The rating agencies' assessments of creditworthiness.
- The country's ability to access the capital markets for new debt issuance.
- The probability of debt being restructured, resulting in holders suffering losses through voluntary or mandatory debt forgiveness.

The international support mechanisms in place to provide the necessary support as 'lender of last resort' to that country, as well as the intention, reflected in public statements, of governments and agencies to use those mechanisms. This includes an assessment of the depth of those mechanisms and, irrespective of the political intent, whether there is the capacity to fulfil the required criteria.

Presentation of allowance for ECL in the statement of financial position

Loss allowances for ECL are presented in the statement of financial position as follows:

- financial assets measured at amortised cost: as a deduction from the gross carrying amount of the assets;
- loan commitments and financial guarantee contracts: generally, as a provision;
- where a financial instrument includes both a drawn and an undrawn component, and the Bank cannot identify the ECL on the loan commitment component separately from those on the drawn component: the Bank presents a combined loss allowance for both components. The combined amount is presented as a deduction from the gross carrying amount of the drawn component. Any excess of the loss allowance over the gross amount of the drawn component is presented as a provision; and
- debt instruments measured at FVOCI: no loss allowance is recognised in the statement of financial position because the carrying amount of these assets is their fair value. However, the loss allowance is disclosed and is recognised in retained earnings.

Write-off

Loans and debt securities are written off (either partially or in full) when there is no reasonable expectation of recovering a financial asset in its entirety or a portion thereof. This is generally the case when the Bank determines that the borrower does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. This assessment is carried out at the individual asset level.

Recoveries of amounts previously written off are recognised when cash is received and are included in 'impairment losses on financial instruments' in the statement of profit or loss and OCI.

Financial assets that are written off could still be subject to enforcement activities in order to comply with the Bank's procedures for recovery of amounts due.

Financial guarantee contracts held

The Bank assesses whether a financial guarantee contract held is an integral element of a financial asset that is accounted for as a component of that instrument or is a contract that is accounted for separately. The factors that the Bank considers when making this assessment include whether:

- the guarantee is implicitly part of the contractual terms of the debt instrument;
- the guarantee is required by laws and regulations that govern the contract of the debt instrument;
- the guarantee is entered into at the same time as and in contemplation of the debt instrument; and
- the guarantee is given by the parent of the borrower or another company within the borrower's Bank.

2.5.7 Designation at fair value through profit or loss

Financial assets

On initial recognition, the Bank has designated certain financial assets as at FVTPL because this designation eliminates or significantly reduces an accounting mismatch, that would otherwise arise.

Before 1 January 2018, the Bank also designated certain financial assets as at FVTPL because the assets were managed, evaluated and reported internally on a fair value basis.

Financial liabilities

The Bank has designated certain financial liabilities as at FVTPL in either of the following circumstances:

- the liabilities are managed, evaluated and reported internally on a fair value basis; or
- the designation eliminates or significantly reduces an accounting mismatch that would
- otherwise arise.

Note 4.1.1 sets out the amount of each class of financial asset or financial liability that has been designated as at FVTPL. A description of the basis for each designation is set out in the note for the relevant asset or liability class.

2.6 Offsetting financial instruments

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

2.7 Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held at call with banks and other short-term highly liquid investments with original maturities of three months or less.

2.8 Property and equipment

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

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

Depreciation of other assets is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives, as follows:

Buildings	1.5%
Fixtures, fittings and equipment	10.0%- 20.0%
Motor vehicles	33.3%

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

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

2.9 Intangible assets

Computer software

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

- it is technically feasible to complete the software product so that it will be available for use;
- management intends to complete the software product and use or sell it;
- there is an ability to use or sell the software product;
- it can be demonstrated how the software product will generate probable future economic benefits;
- adequate technical, financial and other resources to complete the development and to use or sell the software product are available; and
- the expenditure attributable to the software product during its development can be reliably measured.

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

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

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

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.

2.10 Non-current asset held for sale

Non-current assets that are expected to be recovered primarily through sale rather than through continuing use, are classified as held for sale. Immediately before classification as held for sale, the assets, or components of a disposal group, are re-measured in accordance with the Bank's accounting policies. Thereafter, generally the assets, or disposal Bank, are measured at the lower of their carrying amount and fair value less cost to sell. For non-financial assets, fair value takes into account the highest and best use either on a standalone basis or in combination with other assets or other assets and liabilities.

Any impairment loss on a disposal group is first allocated to goodwill, and then to remaining assets and liabilities on pro rata basis, except that no loss is allocated to financial assets, deferred tax assets and employee benefit assets which continue to be measured in accordance with the Bank's accounting policies. Impairment losses on initial classification as held for sale and subsequent gains or losses on re-measurement are recognised in profit or loss. Gains are not recognised in excess of any cumulative impairment loss.

2.11 Impairment of non-financial assets

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

2.12 Employee benefits

Pension obligations

The Bank operates a defined contribution retirement scheme, the assets of which are held in a separate trustee-administered fund. A defined contribution plan is a pension plan under which the Bank pays fixed contributions into a separate entity. For defined contribution plans, the Bank pays contributions to publicly or privately administered pension insurance plans on a mandatory, contractual or voluntary basis.

The Bank has no further payment obligations once the contributions have been paid. The contributions are recognised as employee benefit expense when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

Other entitlements

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

2.13 Provisions for liabilities

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

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

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

2.14 Income tax

Current income tax

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

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

Deferred income tax

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

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

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

2.15 Dividend payable

Dividends on ordinary shares are charged to equity in the period in which they are declared. Proposed dividends are not recognised until they have been declared at an annual general meeting.

2.16 Acceptances and letters of credit

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

2.17 Share capital premium

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

2.18 Leases

Policy applicable from 1 January 2019

At inception of a contract, the Bank assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Bank uses the definition of a lease in IFRS 16.

This policy is applied to contracts entered into before, on or after 1 January 2019 that were previously identified as leases.

Bank acting as a lessee

At commencement or on modification of a contract that contains a lease component, the Bank allocates consideration in the contract to each lease component on the basis of its relative stand-alone price. However, for leases of branches and office premises the Bank has elected to separate non-lease components from the space rental payment obligations.

The Bank recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove any improvements made to branches or office premises.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the end of the lease term. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Bank's incremental borrowing rate. Generally, the Bank uses its incremental borrowing rate as the discount rate.

The Bank determines its incremental borrowing rate by analysing its borrowings from various external sources and makes certain adjustments to reflect the terms of the lease and type of asset leased.

Lease payments included in the measurement of the lease liability comprise the following:

- fixed payments, including in-substance fixed payments;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable under a residual value guarantee; and
- the exercise price under a purchase option that the Bank is reasonably certain to exercise, lease payments in an optional renewal period if the Bank is reasonably certain to exercise an extension option, and penalties for early termination of a lease unless the Bank is reasonably certain not to terminate early.

The lease liability is measured at amortised cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Bank's estimate of the amount expected to be payable under a residual value guarantee, if the Bank changes its assessment of whether it will exercise a purchase, extension or termination option or if there is a revised in-substance fixed lease payment.

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

The Bank presents right-of-use assets in 'property and equipment' and lease liabilities in 'other liabilities' in the statement of financial position.

Short-term leases and leases of low-value assets

The Bank has elected not to recognise right-of-use assets and lease liabilities for leases of low-value assets and short-term leases, including leases of IT equipment. The Bank recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

Bank acting as a lessor

At inception or on modification of a contract that contains a lease component, the Bank allocates the consideration in the contract to each lease component on the basis of their relative stand-alone selling prices.

When the Bank acts as a lessor, it determines at lease inception whether the lease is a finance lease or an operating lease.

To classify each lease, the Bank makes an overall assessment of whether the lease transfers substantially all of the risks and rewards incidental to ownership of the underlying asset. If this is the case, then the lease is a finance lease; if not, then it is an operating lease. As part of this assessment, the Bank considers certain indicators such as whether the lease is for the major part of the economic life of the asset.

The Bank applies the derecognition and impairment requirements in IFRS 9 to the net investment in the lease. The Bank further regularly reviews estimated unguaranteed residual values used in calculating the gross investment in the lease.

Policy applicable before 1 January 2019

For contracts entered into before 1 January 2019, the Bank determined whether the arrangement was or contained a lease based on the assessment of whether:

- fulfilment of the arrangement was dependent on the use of a specific asset or assets; and
- the arrangement had conveyed a right to use the asset.

As a lessee

The Bank did not have any finance leases under IAS 17.

Assets held under other leases were classified as operating leases and were not recognised in the Bank's statement of financial position. Payments made under operating leases were recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received were recognised as an integral part of the total lease expense, over the term of the lease.

As a lessor

When the Bank acted as a lessor, it determined at lease inception whether each lease was a finance lease or an operating lease.

To classify each lease, the Bank made an overall assessment of whether the lease transferred substantially all of the risks and rewards incidental to ownership of the underlying asset. If this was the case, then the lease was a finance lease; if not, then it was an operating lease. As part of this assessment, the Bank considered certain indicators such as whether the lease was for the major part of the economic life of the asset.

2.19 Interest income and expense

Effective interest rate

Interest income and expense are recognised in profit or loss using the effective interest method. The 'effective interest rate' is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument to:

- the gross carrying amount of the financial asset; or
- the amortised cost of the financial liability.

When calculating the effective interest rate for financial instruments other than purchased or originated credit-impaired assets, the Bank estimates future cash flows considering all contractual terms of the financial instrument, but not ECL. For purchased or originated credit impaired financial assets, a credit-adjusted effective interest rate is calculated using estimated future cash flows including ECL.

The calculation of the effective interest rate includes fees and commissions related to lending received that are an integral part of the effective interest rate. Transaction costs include incremental costs that are directly attributable to the acquisition or issue of a financial asset or financial liability.

Amortised cost and gross carrying amount

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

The 'gross carrying amount of a financial asset' is the amortised cost of a financial asset before adjusting for any expected credit loss allowance.

Calculation of interest income and expense

The effective interest rate of a financial asset or financial liability is calculated on initial recognition

of a financial asset or a financial liability. In calculating interest income and expense, the effective interest rate is applied to the gross carrying amount of the asset (when the asset is not credit impaired) or to the amortised cost of the liability. The effective interest rate is revised as a result of periodic re-estimation of cash flows of floating rate instruments to reflect movements in market rates of interest. The effective interest rate is also revised for fair value hedge adjustments at the date amortisation of the hedge adjustment begins.

However, for financial assets that have become credit-impaired subsequent to initial recognition, interest income is calculated by applying the effective interest rate to the amortised cost of the financial asset. If the asset is no longer credit-impaired, then the calculation of interest income reverts to the gross basis.

For financial assets that were credit-impaired on initial recognition, interest income is calculated by applying the credit-adjusted effective interest rate to the amortised cost of the asset. The calculation of interest income does not revert to a gross basis, even if the credit risk of the asset improves.

Presentation

Interest income calculated using the effective interest method presented in the statement of profit or loss and OCI includes:

- interest on financial assets and financial liabilities measured at amortised cost;
- interest on debt instruments measured at FVOCI;
- the effective portion of fair value changes in qualifying hedging derivatives designated in cash flow hedges of variability in interest cash flows, in the same period as the hedged cash flows affect interest income/expense; and
- the effective portion of fair value changes in qualifying hedging derivatives designated in fair value hedges of interest rate risk.

Interest expense presented in the statement of profit or loss and OCI includes:

- financial liabilities measured at amortised cost; and
- the effective portion of fair value changes in qualifying hedging derivatives designated in cash flow hedges of variability in interest cash flows, in the same period as the hedged cash flows affect interest income/expense.
- Interest income and expense on all trading assets and liabilities are considered to be incidental to the Bank's trading operations and are presented together with all other changes in the fair value of trading assets and liabilities in net trading income.

Interest income and expense on other financial assets and financial liabilities at FVTPL are presented in net income from other financial instruments at FVTPL.

2.20 Fee and commission income

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

2.21 Dividend income

Dividends are recognised in profit or loss when the Bank's right to receive payment is established.

2.22 Fiduciary activities

Assets held for clients in an agency or fiduciary capacity by the Bank are not assets of the Bank and are not included in the statement of financial position.

2.23 New standards, amendments and interpretations

(i) New standards, amendments and interpretations effective and adopted during the year

The Bank has adopted the following new standards and amendments during the year ended 31 December 2019, including consequential amendments to other standards with the date of initial application by the Bank being 1 January 2019. The nature and effects of the changes are as explained here in.

New standard or amendments	1 January 2019 KSHS'000
- IFRS 16 Leases	1 January 2019
- IFRIC 23 Uncertainty over income tax treatments	1 January 2019
- IFRS 9 Prepayment Features with Negative Compensation	1 January 2019
- IAS 28 Long-term Interests in Associates and Joint Ventures	1 January 2019
- Annual improvements cycle (2015-2017)	1 January 2019
- IAS 19 Plan Amendment, Curtailment or Settlement (Amendments to IAS 19)	1 January 2019

IFRS 16: Leases

On 13 January 2016 the IASB issued IFRS 16 Leases, completing the IASB's project to improve the financial reporting of leases. IFRS 16 replaces the previous leases standard, IAS 17 Leases, and related interpretations.

IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract, i.e. the customer ('lessee') and the supplier ('lessor'). The standard defines a lease as a contract that conveys to the customer ('lessee') the right to use an asset for a period of time in exchange for consideration.

A Company assesses whether a contract contains a lease on the basis of whether the customer has the right to control the use of an identified asset for a period of time.

The standard eliminates the classification of leases as either operating leases or finance leases for a lessee and introduces a single lessee accounting model. All leases are treated in a similar way to finance leases.

Applying that model significantly affects the accounting and presentation of leases and consequently, the lessee is required to recognise:

Assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. A Company recognises the present value of the unavoidable lease payments and shows them either as lease assets (right-of-use assets) or together with property, plant and equipment. If lease payments are made over time, a Company also recognises a financial liability representing its obligation to make future lease payments.

a) depreciation of lease assets and interest on lease liabilities in profit or loss over the lease term; and

b) separate the total amount of cash paid into a principal portion (presented within financing activities) and interest (typically presented within either operating or financing activities) in the statement of cash flows

IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently. However, compared to IAS 17, IFRS 16 requires a lessor to disclose additional information about how it manages the risks related to its residual interest in assets subject to leases.

The standard does not require a Company to recognise assets and liabilities for:

(a) short-term leases (i.e. leases of 12 months or less) and;

(b) leases of low-value assets

The new standard is effective for annual periods beginning on or after 1 January 2019. Early application is permitted insofar as the recently issued revenue Standard, IFRS 15 Revenue from Contracts with Customers is also applied. The impact on financial statements is detailed in note 2.1.4.1.

IFRIC 23 Clarification on accounting for Income tax exposures

IFRIC 23 clarifies the accounting for income tax treatments that have yet to be accepted by tax authorities, whilst also aiming to enhance transparency.

IFRIC 23 explains how to recognise and measure deferred and current income tax assets and liabilities where there is uncertainty over a tax treatment.

An uncertain tax treatment is any tax treatment applied by an entity where there is uncertainty over whether that treatment will be accepted by the tax authority.

If an entity concludes that it is probable that the tax authority will accept an uncertain tax treatment that has been taken or is expected to be taken on a tax return, it should determine its accounting for income taxes consistently with that tax treatment. If an entity concludes that it is not probable that the treatment will be accepted, it should reflect the effect of the uncertainty in its income tax accounting in the period in which that determination is made. Uncertainty is reflected in the overall measurement of tax and separate provision is not allowed.

The entity is required to measure the impact of the uncertainty using the method that best predicts the resolution of the uncertainty (that is, the entity should use either the most likely amount method or the expected value method when measuring an uncertainty).

The entity will also need to provide disclosures, under existing disclosure requirements, about

(a) judgments made;

(b) assumptions and other estimates used; and

(c) potential impact of uncertainties not reflected.

The new Standard is effective for annual periods beginning on or after 1 January 2019.

The adoption of these amendments did not have an impact on the financial statements of the Bank.

Prepayment Features with Negative Compensation (Amendments to IFRS 9)

The amendments clarify that financial assets containing prepayment features with negative compensation can now be measured at amortised cost or at fair value through other comprehensive income (FVOCI) if they meet the other relevant requirements of IFRS 9.

The amendments apply for annual periods beginning on or after 1 January 2019 with retrospective application, early adoption is permitted.

The adoption of these amendments did not have an impact on the financial statements of the Bank.

Long-term Interests in Associates and Joint Ventures (Amendment to IAS 28)

The amendments clarify that an entity applies IFRS 9 to long-term interests in an associate and joint venture that form part of the net investment in the associate or joint venture but to which the equity method is not applied.

The amendments apply for annual periods beginning on or after 1 January 2019. Early adoption is permitted.

The adoption of these standards did not have an impact on the financial statements of the Bank.

Annual improvement cycle (2014 – 2016) – various standards

The adoption of these standards did not have a material impact on the amounts and disclosures of the Bank's financial statements.

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

The amendments clarify that:

- on amendment, curtailment or settlement of a defined benefit plan, a Company now uses updated actuarial assumptions to determine its current service cost and net interest for the period; and
- the effect of the asset ceiling is disregarded when calculating the gain or loss on any settlement of the plan and is dealt with separately in other comprehensive income (OCI).

Consistent with the calculation of a gain or loss on a plan amendment, entities will now use updated actuarial assumptions to determine the current service cost and net interest for the period. Previously, entities would not have updated the calculation of these costs until the year-end.

Further, if a defined benefit plan is settled, any asset ceiling would be disregarded when determining the plan assets as part of the calculation of gain or loss on settlement.

The amendments apply for plan amendments, curtailments or settlements that occur on or after 1 January 2019, or the date on which the amendments are first applied. Earlier application is permitted.

The adoption of this standard will not have an impact on the financial statements of the Bank.

(ii) New and amended standards and interpretations in issue but not yet effective for the year ended 31 December 2019

A number of new standards, amendments to standards and interpretations are not yet effective for the year ended 31 December 2019, and have not been applied in preparing these financial statements.

The Bank does not plan to adopt these standards early. These are summarised below;

- IFRS 3 Definition of a Business	1 January 2020
- Amendments to references to the Conceptual Framework in IFRS Standards	1 January 2020
- Amendments to IAS 1 and IAS 8 Definition of Material	1 January 2020
- IFRS 17 Insurance contracts	1 January 2023
- Sale or Contribution of Assets between an Investor and its Associate or Company (Amendments to IFRS 10 and IAS 28).	To be determined

All standards and interpretations will be adopted at their effective date (except for those standards and interpretations that are not applicable to the entity).

Standards	Amendments
IFRS 3 Business Combinations and IFRS 11 Joint Arrangements	Clarifies how a Company accounts for increasing its interest in a joint operation that meets the definition of a business: - If a party maintains (or obtains) joint control, then the previously held interest is not remeasured. - If a party obtains control, then the transaction is a business combination achieved in stages and the acquiring party remeasures the previously held interest at fair value.
IAS 12 Income taxes	Clarifies that all income tax consequences of dividends (including payments on financial instruments classified as equity) are recognised consistently with the transactions that generated the distributable profits – i.e. in profit or loss, OCI or equity.
IAS 23 Borrowing costs	Clarifies that the general borrowings pool used to calculate eligible borrowing costs excludes only borrowings that specifically finance qualifying assets that are still under development or construction. Borrowings that were intended to specifically finance qualifying assets that are now ready for their intended use or sale – or any non-qualifying assets – are included in that general pool. As the costs of retrospective application might outweigh the benefits, the changes are applied prospectively to borrowing costs incurred on or after the date an entity adopts the amendments.

The amendments are effective for annual reporting periods beginning on or after 1 January 2019 with earlier application permitted.

The adoption of these amendments is not expected to affect the amounts and disclosures of the Bank's financial statements.

The Bank did not early adopt new or amended standards in the year ended 31 December 2019.

IFRS 3 Definition of a Business

With a broad business definition, determining whether a transaction results in an asset or a business acquisition has long been a challenging but important area of judgement. These amendments to IFRS 3 Business Combinations seek to clarify this matter as below however complexities still remain.

- Optional concentration test

  The amendments include an election to use a concentration test. This is a simplified assessment that results in an asset acquisition if substantially all of the fair value of the gross assets is concentrated in a single identifiable asset or a Bank of similar identifiable assets.

- Substantive process

If an entity chooses not to apply the concentration test, or the test is failed, then the assessment focuses on the existence of a substantive process.

The definition of a business is now narrower and could result in fewer business combinations being recognised.

The amendment applies to businesses acquired in annual reporting periods beginning on or after 1 January 2020. Earlier application is permitted. The adoption of this standard will not have an impact on the financial statements of the Bank.

Amendments to References to the Conceptual Framework in IFRS Standards

This amendment sets out amendments to IFRS Standards (Standards), their accompanying documents and IFRS practice statements to reflect the issue of the International Accounting Standards Board (IASB) revised Conceptual Framework for Financial Reporting in 2018 (2018 Conceptual Framework).

Some Standards, their accompanying documents and IFRS practice statements contain references to, or quotations from, the IASC's Framework for the Preparation and Presentation of Financial Statements adopted by the IASB in 2001 (Framework) or the Conceptual Framework for Financial Reporting issued in 2010. Amendments to References to the Conceptual Framework in IFRS Standards updates some of those references and quotations so that they refer to the 2018 Conceptual Framework, and makes other amendments to clarify which version of the Conceptual Framework is referred to in particular documents.

These amendments are based on proposals in the Exposure Draft Updating References to the Conceptual Framework, published in 2015, and amend Standards, their accompanying documents and IFRS practice statements that will be effective for annual reporting periods beginning on or after 1 January 2020.

The adoption of these changes will not affect the amounts and disclosures of the Bank's financial statements.

IAS 1 and IAS 8 Definition of Material

The amendment refines the definition of Material to make it easier to understand and aligning the definition across IFRS Standards and the Conceptual Framework.

The amendment includes the concept of 'obscuring' to the definition, alongside the existing references to 'omitting' and 'misstating'. Additionally, the amendments also adds the increased threshold of 'could influence' to 'could reasonably be expected to influence' as below.

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

However, the amendment has also removed the definition of material omissions or misstatements from IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors.

The amendments are effective from 1 January 2020 but may be applied earlier.

The Bank is assessing the potential impact on its financial statements resulting from the application of the refined definition of materiality.

IFRS 17 Insurance Contracts

IFRS 17 Insurance Contracts sets out the requirements that an entity should apply in reporting information about insurance contracts it issues and reinsurance contracts it holds. An entity shall apply IFRS 17 Insurance Contracts to:

(a) insurance contracts, including reinsurance contracts, it issues;

(b) reinsurance contracts it holds; and investment contracts with discretionary participation features it issues, provided the entity also issues insurance contracts.

IFRS 17 requires an entity that issues insurance contracts to report them on the statement of financial position as the total of:

(a) the fulfilment cash flows—the current estimates of amounts that the entity expects to collect from premiums and pay out for claims, benefits and expenses, including an adjustment for the timing and risk of those amounts; and

(b) the contractual service margin—the expected profit for providing insurance coverage. The expected profit for providing insurance coverage is recognised in profit or loss over time as the insurance coverage is provided.

IFRS 17 requires an entity to recognise profits as it delivers insurance services, rather than when it receives premiums, as well as to provide information about insurance contract profits that the Company expects to recognise in the future. IFRS 17 requires an entity to distinguish between Banks of contracts expected to be profit making and Banks of contracts expected to be loss making. Any expected losses arising from loss-making, or onerous, contracts are accounted for in profit or loss as soon as the Company determines that losses are expected.

IFRS 17 requires the entity to update the fulfilment cash flows at each reporting date, using current estimates of the amount, timing and uncertainty of cash flows and of discount rates. The entity:

(a) accounts for changes to estimates of future cash flows from one reporting date to another either as an amount in profit or loss or as an adjustment to the expected profit for providing insurance coverage, depending on the type of change and the reason for it; and

(b) chooses where to present the effects of some changes in discount rates—either in profit or loss or in other comprehensive income.

IFRS 17 also requires disclosures to enable users of financial statements to understand the amounts recognised in the entity's statement of financial position and statement of profit or loss and other comprehensive income, and to assess the risks the Company faces from issuing insurance contracts.

IFRS 17 replaces IFRS 4 Insurance Contracts. IFRS 17 is effective for financial periods commencing on or after 1 January 2021. An entity shall apply the standard retrospectively unless impracticable. A Company can choose to apply IFRS 17 before that date, but only if it also applies IFRS 9 Financial Instruments and IFRS 15 Revenue from Contracts with Customers.

The adoption of these changes will not affect the amounts and disclosures of the Bank's financial statements.

Sale or Contribution of Assets between an Investor and its Associate or Company (Amendments to IFRS 10 and IAS 28).

The amendments require the full gain to be recognised when assets transferred between an investor and its associate or Company meet the definition of a 'business' under IFRS 3 Business Combinations. Where the assets transferred do not meet the definition of a business, a partial gain to the extent of unrelated investors' interests in the associate or Company is recognised. The definition of a business is key to determining the extent of the gain to be recognised.

The effective date for these changes has now been postponed until the completion of a broader review.

The adoption of these changes will not affect the amounts and disclosures of the Bank's financial statements.

3. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

The Bank makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

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

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

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

3.1 Measurement of the expected credit loss allowance

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

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

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

3.2 Fair value of financial instruments

For those assets and liabilities measured at 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. When measuring the fair value of an asset or a liability, the Bank uses market observable data as far as possible. If the fair value of an asset or a liability is not directly observable, it is estimated by the Bank using valuation techniques that maximise the use of relevant observable inputs and minimise the use of unobservable inputs (e.g. by use of the market comparable approach that reflects recent transaction prices for similar items or discounted cash flow analysis). Inputs used are consistent with the characteristics of the asset / liability that market participants would take into account.

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

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

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

Level 3 – fair values measurements are derived from valuation techniques that include inputs for assets or liabilities that are not based on observable market data (unobservable inputs). Transfers between levels of the fair value hierarchy are recognised by the Bank at the end of the reporting period during which the change occurred.

3.3 Taxes

Determining the income tax liability involves judgment on the tax treatment of certain transactions. Deferred tax is recognised on temporary differences where it is probable that there will be taxable revenue against which these can be offset.

4. FINANCIAL RISK MANAGEMENT

The Bank's business involves taking on risks in a targeted manner and managing them professionally. The effective management of risk within the stated risk appetite is fundamental to the banking activities of the Bank.

Risk management is at the core of the operating and management structures of the Bank and this involves managing and controlling of risks and in particular avoiding undue concentration of exposures, limiting potential losses from stress events and constraining profit or loss volatility. The core functions of the Bank's risk management are to identify all key risks for the Bank, measure these risks, manage the risk positions and determine capital allocations.

The overall responsibility for risk management within the Bank rests with the Board of Directors. Through the risk management structure, the Bank seeks to manage efficiently the core risks i.e credit, liquidity and market risks which arise directly through the Bank's commercial activities. Accountability for risk management resides at all levels within the Bank, from the Executive down through the organisation to each business manager and risk owner.

On a day- to -day basis, risks are managed through a number of management committees. Through this process the Bank monitors compliance with overall risk management policies. The Bank's risk management policies are approved by the Board and they identify, analyse the risks faced by the Bank as well as the appropriate risk limits and controls.

The Bank's Risk Management Committees are responsible for monitoring compliance with the Bank's risk management policies and procedures and for reviewing the adequacy of the risk management framework in relation to the risks faced by the Bank. Risk Management information is provided on a regular basis to the Board Risk Management and Compliance Committee.

The Board Audit Committee is responsible for monitoring compliance with the Bank's risk management policies and procedures and for reviewing the robustness of the risk management framework in relation to the risks faced by the Bank.

4.1 Credit risk

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

4.1.1 Credit Quality Analysis

The following tables set out information about the credit quality of financial assets measured at amortised cost, lease receivables and FVOCI debt investments without taking into account collateral or other credit enhancement.Unless specifically indicated, for financial assets the amounts in the table represent gross carrying amounts. For loan commitments and financial guarantee contracts, the amounts in the table represent the amounts committed or guaranteed, respectively. Explanation of the terms 'Stage 1', 'Stage 2' and 'Stage 3' is included in Note 4.1.3.

	2019					
	NOTE	12-MONTH PD RANGES	STAGE 1 12-MONTH ECL KSHS'000	STAGE 2 LIFETIME ECL KSHS'000	STAGE 3 LIFETIME ECL KSHS'000	TOTAL KSHS'000
BALANCES DUE FROM BANKING INSTITUTIONS						
NORMAL			2,939,162			2,939,162
LESS: LOSS ALLOWANCE			(421)			(421)
CARRYING AMOUNT	15		2,938,741			2,938,741
BALANCES DUE FROM GROUP BANKS						
NORMAL			844,744			844,744
LESS: LOSS ALLOWANCE			(514)			(514)
CARRYING AMOUNT	**16 (A)**		**844,230**			**844,230**

	2018					
	NOTE	12-MONTH PD RANGES	STAGE 1 12-MONTH ECL KSHS'000	STAGE 2 LIFETIME ECL KSHS'000	STAGE 3 LIFETIME ECL KSHS'000	TOTAL KSHS'000
BALANCES DUE FROM BANKING INSTITUTIONS						
NORMAL			2,872,542			2,872,542
LESS: LOSS ALLOWANCE			(36)			(36)
CARRYING AMOUNT	15		2,872,506			2,872,506
BALANCES DUE FROM GROUP BANKS						
NORMAL			1,013,777			1,013,777
LESS: LOSS ALLOWANCE			(1,494)			(1,494)
CARRYING AMOUNT	**16 (A)**		**1,012,283**			**1,012,283**

	NOTE	12-MONTH PD RANGES	2019 STAGE 1 12-MONTH ECL KSHS'000	STAGE 2 LIFETIME ECL KSHS'000	STAGE 3 LIFETIME ECL KSHS'000	TOTAL KSHS'000
LOANS AND ADVANCES TO CUSTOMERS AT AMORTISED COST						
NORMAL		1.34	11,530,025			11,530,025
WATCH		23.05		1,871,646		1,871,646
SUBSTANDARD		100			782,106	782,106
DOUBTFUL		100			7,848,720	7,848,720
LOSS		100			367,519	367,519
LESS: IMPAIRMENT			(108,327)	(292,605)	(6,016,926)	(6,417,858)
CARRYING AMOUNT	**17**		**11,421,698**	**1,579,041**	**2,981,419**	**15,982,158**

	NOTE	12-MONTH PD RANGES	2018 STAGE 1 12-MONTH ECL KSHS'000	STAGE 2 LIFETIME ECL KSHS'000	STAGE 3 LIFETIME ECL KSHS'000	TOTAL KSHS'000
LOANS AND ADVANCES TO CUSTOMERS AT AMORTISED COST						
NORMAL		1.34	13,995,343			13,995,343
WATCH		23.05		2,478,756		2,478,756
SUBSTANDARD		100			1,134,892	1,134,892
DOUBTFUL		100			7,962,539	7,962,539
LOSS		100			411,543	411,543
LESS: IMPAIRMENT			(100,127)	(363,925)	(4,330,906)	(4,794,958)
CARRYING AMOUNT	**17**		**13,895,216**	**2,114,831**	**5,178,068**	**21,188,115**

4.1.1 Credit Quality Analysis (continued)

INVESTMENT SECURITIES AT AMORTISED COST	NOTE	2019 STAGE 1 12-MONTH ECL KSHS'000	2019 STAGE 2 LIFETIME ECL KSHS'000	2019 STAGE 3 LIFETIME ECL KSHS'000	2019 TOTAL KSHS'000
GOVERNMENT BONDS AND TREASURY BILLS					
RATED AAA		7,300,067			7,300,067
LESS: IMPAIRMENT		(12,337)			(12,337)
CARRYING AMOUNT	18(B)	7,287,730			7,287,730

INVESTMENT SECURITIES AT AMORTISED COST	NOTE	2018 STAGE 1 12-MONTH ECL KSHS'000	2018 STAGE 2 LIFETIME ECL KSHS'000	2018 STAGE 3 LIFETIME ECL KSHS'000	2018 TOTAL KSHS'000
GOVERNMENT BONDS AND TREASURY BILLS					
RATED AAA		6,489,651			6,489,651
LESS: IMPAIRMENT		(20,439)			(20,439)
CARRYING AMOUNT	18(B)	6,469,212			6,469,212

	NOTE	2019 STAGE 1 12-MONTH ECL KSHS'000	2019 STAGE 2 LIFETIME ECL KSHS'000	2019 STAGE 3 LIFETIME ECL KSHS'000	2019 TOTAL KSHS'000
OUTSTANDING RECEIVABLES					
NEITHER PAST DUE NOR IMPAIRED		137,577			137,577
LESS: IMPAIRMENT		(1,928)			(1,928)
CARRYING AMOUNT	23	135,649			135,649

	NOTE	2018 STAGE 1 12-MONTH ECL KSHS'000	2018 STAGE 2 LIFETIME ECL KSHS'000	2018 STAGE 3 LIFETIME ECL KSHS'000	2018 TOTAL KSHS'000
OUTSTANDING RECEIVABLES					
NEITHER PAST DUE NOR IMPAIRED		153,924			153,924
LESS: IMPAIRMENT		(1,382)			(1,382)
CARRYING AMOUNT	23	152,542			152,542

4.1.1 Credit Quality Analysis (continued)

		2019			
	NOTE	STAGE 1 12-MONTH ECL KSHS'000	STAGE 2 LIFETIME ECL KSHS'000	STAGE 3 LIFETIME ECL KSHS'000	TOTAL KSHS'000
OUTSTANDING COMMITMENTS AND CONTIGENT LIABILITIES					
NEITHER PAST DUE NOR IMPAIRED		6,223,729			6,223,729
LESS: IMPAIRMENT		(21,586)			(21,586)
CARRYING AMOUNT	**33**	**6,202,143**			**6,202,143**

		2018			
	NOTE	STAGE 1 12-MONTH ECL KSHS'000	STAGE 2 LIFETIME ECL KSHS'000	STAGE 3 LIFETIME ECL KSHS'000	TOTAL KSHS'000
OUTSTANDING COMMITMENTS AND CONTIGENT LIABILITIES					
NEITHER PAST DUE NOR IMPAIRED		8,125,197			8,125,197
LESS: IMPAIRMENT		(41,879)			(41,879)
CARRYING AMOUNT	**33**	**8,083,318**			**8,083,318**

4.1.2 Collateral held and other credit enhancements

The Bank holds collateral and other credit enhancements against certain of its credit exposures. The following table sets out the principal types of collateral held against different types of financial assets.

TYPE OF CREDIT EXPOSURE	Percentage of exposure that is subject to collateral requirements 2019	2019	PRINCIPAL TYPE OF COLLATERAL HELD
LOANS AND ADVANCES TO BANKS	**100**	**100**	**MARKETABLE SECURITIES**
LOANS AND ADVANCES TO RETAIL CUSTOMERS:			
MORTGAGE	80	80	RESIDENTIAL PROPERTY
SECURED TERM LOANS	75	75	LEASE HOLD PROPERTY
NEW MOTOR VEHICLES	90	90	PERSONAL VEHICLE
OVERDRAFT FACILITIES	110	110	LIEN ON CASH DEPOSIT
LC'S, GUARANTEES & ACCEPTANCES	100	100	LIEN ON CASH DEPOSIT
LOANS AND ADVANCES TO CORPORATE CUSTOMERS:			
MORTGAGE	80	80	COMMERCIAL PROPERTY
SECURED TERM LOANS	75	75	LEASE HOLD PROPERTY
NEW MOTOR VEHICLES	90	90	COMMERCIAL VEHICLES
OVERDRAFT FACILITIES	110	110	LIEN ON CASH DEPOSIT
LC'S, GUARANTEES & ACCEPTANCES	100	100	LIEN ON CASH DEPOSIT

4.1.3 Amounts arising from ECL

Inputs, assumptions and techniques used for estimating impairment

Significant increase in credit risk

When determining whether the risk of default on a financial instrument has increased significantly since initial recognition, the Bank considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Bank's historical experience and expert credit assessment and including forward-looking information.

The objective of the assessment is to identify whether a significant increase in credit risk has occurred for an exposure by comparing:

- the remaining lifetime probability of default (PD) as at the reporting date; with
- the remaining lifetime PD at this point in time that was estimated at the time of initial recognition of the exposure (adjusted where relevant for changes in prepayment expectations).

The Bank uses three criteria for determining whether there has been a significant increase in credit risk:

- quantitative test based on movement in PD;
- qualitative indicators; and
- a backstop of 30 days past due.

Credit risk grades

The Bank allocates each exposure to a credit risk grade based on a variety of data that is determined to be predictive of the risk of default and applying experienced credit judgement. Credit risk grades are defined using qualitative and quantitative factors that are indicative of risk of default. These factors vary depending on the nature of the exposure and the type of borrower.

Credit risk grades are defined and calibrated such that the risk of default occurring increases exponentially as the credit risk deteriorates so, for example, the difference in risk of default between credit risk grades 1 and 2 is smaller than the difference between credit risk grades 2 and 3.

Each exposure is allocated to a credit risk grade on initial recognition based on available information about the borrower. Exposures are subject to ongoing monitoring, which may result in an exposure being moved to a different credit risk grade. The monitoring typically involves use of the following data.

CORPORATE EXPOSURES	RETAIL EXPOSURES	ALL EXPOSURES
- Information obtained during periodic review of customer files – e.g. audited financial statements, management accounts, budgets and projections. Examples of areas of particular focus are: gross profit margins, financial leverage ratios, debt service coverage, compliance with covenants, quality of management, senior management changes. - Data from credit reference agencies, press articles, changes in external credit ratings. - Quoted bond and credit default swap (CDS) prices for the borrower where available. - Actual and expected significant changes in the political, regulatory and technological environment of the borrower or in its business activities.	- Internally collected data on customer behaviour - Affordability metrics - External data from credit reference agencies, including industry-standard credit scores.	- Payment record – this includes overdue status as well as a range of variables about payment ratios. - Utilisation of the granted limit. - Requests for and granting of forbearance - Existing and forecast changes in business, financial and economic conditions.

The table below provides an indicative mapping of how the Bank's internal credit risk grades relate to PD and, for the wholesale portfolio, to external credit ratings of Moody's Agency.

Grading	12-month weighted-average PD	External rating
Grades A-K (Normal): Low-fair risk	1.34	AAA to B
Grades M-O (Watch): Higher risk	23.05	B to C
Grades R-S: Substandard, doubtful, loss	100	Default

The retail portfolios are comprised of mortgage lending and personal loans.

Grading	12-month weighted-average PD
Grades A-K (Normal): Low-fair risk	1.34
Grades M-O (Watch): Higher risk	23.05
Grades R-S: Substandard, doubtful, loss	100

Generating the term structure of PD

Credit risk grades are a primary input into the determination of the term structure of PD for exposures. The Bank collects performance and default information about its credit risk exposures analysed by jurisdiction or region and by type of product and borrower as well as by credit risk grading. For some portfolios, information purchased from external credit reference agencies is also used.

The Bank employs statistical models to analyse the data collected and generate estimates of the remaining lifetime PD of exposures and how these are expected to change as a result of the passage of time.

Determining whether credit risk has increased significantly

The Bank assesses whether credit risk has increased significantly since initial recognition at each reporting date. Determining whether an increase in credit risk is significant depends on the characteristics of the financial instrument and the borrower, and the geographical region. What is considered significant differs for different types of lending, in particular between wholesale and retail.

As a general indicator, credit risk of a particular exposure is deemed to have increased significantly since initial recognition if, based on the Bank's quantitative modelling:

- the remaining lifetime PD is determined to have increased by more than 20% of the corresponding amount estimated on initial recognition; or,
- if the absolute change is annualised, lifetime PD since initial recognition is greater than 200 basis points.

In addition, irrespective of the relative increase since initial recognition, credit risk of an exposure is deemed not to have increased significantly if its remaining annualised lifetime PD at the reporting date is 20% basis points or less.

The credit risk may also be deemed to have increased significantly since initial recognition based on qualitative factors linked to the Bank's credit risk management processes that may not otherwise be fully reflected in its quantitative analysis on a timely basis. This will be the case for exposures that meet certain heightened risk criteria, such as placement on a watch list.

Such qualitative factors are based on its expert judgment and relevant historical experiences.

As a backstop, the Bank considers that a significant increase in credit risk occurs no later than when an asset is more than 90 days past due or, for certain types of exposure, more than 30 days past due. Days past due are determined by counting the number of days since the earliest elapsed due date in respect of which full payment has not been received. Due dates are determined without considering any grace period that might be available to the borrower.

If there is evidence that there is no longer a significant increase in credit risk relative to initial recognition, then the loss allowance on an instrument returns to being measured as 12-month ECL. Some qualitative indicators of an increase in credit risk, such as delinquency or forbearance, may be indicative of an increased risk of default that persists after the indicator itself has ceased to exist. In these cases, the Bank determines a probation period during which the financial asset is required to demonstrate good behaviour to provide evidence that its credit risk has declined sufficiently. When contractual terms of a loan have been modified, evidence that the criteria for recognising lifetime ECL are no longer met includes a history of up-to-date payment performance against the modified contractual terms.

- The Bank monitors the effectiveness of the criteria used to identify significant increases in credit risk by regular reviews to confirm that:

- the criteria are capable of identifying significant increases in credit risk before an exposure is in default;
- the criteria do not align with the point in time when an asset becomes 30 days past due;
- the average time between the identification of a significant increase in credit risk and default appears reasonable;
- exposures are not generally transferred directly from 12-month ECL measurement to credit impaired; and
- there is no unwarranted volatility in loss allowance from transfers between 12-month PD (Stage 1) and lifetime PD (Stage 2 and 3).

Definition of default

The Bank considers a financial asset to be in default when:

- the borrower is unlikely to pay its credit obligations to the Bank in full, without recourse by the Bank to actions such as realising security (if any is held);
- the borrower is more than 90 days past due on any material credit obligation to the Bank. Overdrafts are considered as being past due once the customer has breached an advised limit or been advised of a limit smaller than the current amount outstanding; or
- it is becoming probable that the borrower will restructure the asset as a result of bankruptcy due to the borrower's inability to pay its credit obligations.

In assessing whether a borrower is in default, the Bank considers indicators that are:

- qualitative: e.g. breaches of covenant;
- quantitative: e.g. overdue status and non-payment on another obligation of the same issuer to the Bank; and
- based on data developed internally and obtained from external sources.

Inputs into the assessment of whether a financial instrument is in default and their significance may vary over time to reflect changes in circumstances.The definition of default largely aligns with that applied by the Bank for regulatory capital purposes.

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

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

Forward-looking information incorporated in the ECL models.

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

A total of 15 macro economic indicators were tested for correlation with the observed PD's and LGD's, and 5 were selected for the final modeling. The forecasts that were used in determining the macroeconomic adjustment for the selected macroeconomic variables, are provided below.

YEAR	NOMINAL GDP, %Y-O-Y	SUPPLY M3 % Y-O-Y	POPULATION % Y-O-Y	INFLATION (CPI) % Y-O-Y	FISCAL REVENUE	BOP: GOODS IMPORTS, USD, % Y-O-Y
2020	6.7%	9.0%	2.5%	6.5%	12.2%	11.7%
2021	7.8%	9.0%	2.4%	6.5%	12.3%	10.0%
2022	8.1%	9.0%	2.4%	6.5%	12.2%	10.5%
2023	7.8%	9.0%	2.3%	6.5%	12.2%	10.6%
2024	7.6%	9.0%	2.3%	6.5%	12.2%	10.8%
2025	8.2%	9.0%	2.3%	6.5%	12.2%	10.8%
2026	8.8%	9.0%	2.3%	6.5%	12.3%	10.9%
2027	0.09	9.0%	2.2%	6.5%	12.3%	11.0%
2028	0.091	9.0%	2.2%	6.5%	12.4%	11.1%

Key:
BoP: Balance of Payments
CPI: Consumer Price Index
GDP: Gross Domestic Product
M3: Broad Money Supply
y-o-y: Year on Year

Modified Financial assets

The contractual terms of a loan may be modified for a number of reasons, including changing market conditions, customer retention and other factors not related to a current or potential credit deterioration of the customer. An existing loan whose terms have been modified may be derecognised and the renegotiated loan recognised as a new loan at fair value in accordance with the accounting policy.

When the terms of a financial asset are modified and the modification does not result in derecognition, the determination of whether the asset's credit risk has increased significantly reflects comparison of:

- its remaining lifetime PD at the reporting date based on the modified terms; with
- the remaining lifetime PD estimated based on data on initial recognition and the original contractual terms.

When modification results in derecognition, a new loan is recognised and allocated to Stage 1 (assuming it is not credit-impaired at that time).

The Bank renegotiates loans to customers in financial difficulties (referred to as 'forbearance activities) to maximise collection opportunities and minimise the risk of default. Under the Bank's forbearance policy, loan forbearance is granted on a selective basis if the debtor is currently in default on its debt or if there is a high risk of default, there is evidence that the debtor made all reasonable efforts to pay under the original contractual terms and the debtor is expected to be able to meet the revised terms.

The revised terms usually include extending the maturity, changing the timing of interest payments and amending the terms of loan covenants. Both retail and corporate loans are subject to the forbearance policy. The Bank Credit Committee regularly reviews reports on forbearance activities. For financial assets modified as part of the Bank's forbearance policy, the estimate of PD reflects whether the modification has improved or restored the Bank's ability to collect interest and principal and the Bank's previous experience of similar forbearance action. As part of this process, the Bank evaluates the borrower's payment performance against the modified contractual terms and considers various behavioural indicators. Generally, forbearance is a qualitative indicator of a significant increase in credit risk and an expectation of forbearance may constitute evidence that an exposure is credit-impaired. A customer needs to demonstrate consistently good payment behaviour over a period of time before the exposure is no longer considered to be credit-impaired/in default or the PD is considered to have decreased such that the loss allowance reverts to being measured at an amount equal to Stage 1.

Measurement of ECL

The key inputs into the measurement of ECL are the term structure of the following variables:

- probability of default (PD);
- loss given default (LGD); and
- exposure at default (EAD).

ECL for exposures in Stage 1 is calculated by multiplying the 12-month PD by LGD and EAD.
Lifetime ECL is calculated by multiplying the lifetime PD by LGD and EAD.

The methodology of estimating PDs is discussed above under the heading 'Generating the term structure of PD'

LGD is the magnitude of the likely loss if there is a default. The Bank estimates LGD parameters based on the history of recovery rates of claims against defaulted counterparties. The LG models consider the structure, collateral, seniority of the claim, counterparty industry and recovery costs of any collateral that is integral to the financial asset. For loans secured by retail property, LTV ratios are a key parameter in determining LGD. LGD estimates are recalibrated for different economic scenarios and, for real estate lending, to reflect possible changes in property prices.

They are calculated on a discounted cash flow basis using the effective interest rate as the discounting factor.

The EAD of a financial asset is its gross carrying amount at the time of default. For lending commitments, the EADs are potential future amounts that may be drawn under the contract, which are estimated based on historical observations and forward-looking forecasts. For financial guarantees, the EAD represents the amount of the guaranteed exposure when the financial guarantee becomes payable. For some financial assets, EAD is determined by modelling the range of possible exposure outcomes at various points in time using scenario and statistical techniques.

As described above, and subject to using a maximum of a 12-month PD for Stage 1 financial assets, the Bank measures ECL considering the risk of default over the maximum contractual period (including any borrower's extension options) over which it is exposed to credit risk, even if, for credit risk management purposes, the Bank considers a longer period. The maximum contractual period extends to the date at which the Bank has the right to require repayment of an advance or terminate a loan commitment or guarantee.

However, for retail overdrafts that include both a loan and an undrawn commitment component, the Bank measures ECL over a period longer than the maximum contractual period if the Bank's contractual ability to demand repayment and cancel the undrawn commitment does not limit the Bank's exposure to credit losses to the contractual notice period.

These facilities do not have a fixed term or repayment structure and are managed on a collective basis. The Bank can cancel them with immediate effect but this contractual right is not enforced in the normal day-to-day management, but only when the Bank becomes aware of an increase in credit risk at the facility level.

This longer period is estimated taking into account the credit risk management actions that the Bank expects to take, and that serve to mitigate ECL. These include a reduction in limits, cancellation of the facility and/ or turning the outstanding balance into a loan with fixed repayment terms.

Loss Allowance

The following tables show reconciliations from the opening to the closing balance of the loss allowance by class of financial instrument. The basis for determingn transfers due to changes in credit risk is set out in our accounting policy.

	2019			
	STAGE 1 12-MONTH ECL KSHS'000	STAGE 2 LIFETIME ECL KSHS'000	STAGE 3 LIFETIME ECL KSHS'000	TOTAL KSHS'000
LOANS AND ADVANCES TO CUSTOMERS AT AMORTISED COST				
BALANCE AS AT 1 JANUARY	58,248	363,925	4,330,906	4,753,079
TRANSFER TO STAGE 1	10,646	(7,335)	(3,311)	
TRANSFER TO STAGE 2	(1,104)	10,256	(9,152)	
TRANSFER TO STAGE 3	(4,310)	(88,479)	92,789	
NET REMEASUREMENT OF LOSS ALLOWANCE	(110,156)	353,801	2,642,843	2,886,488
NEW FINANCIAL ASSETS ORIGINATED OR PURCHASED	38,008	130,988	302,262	471,258
FINANCIAL ASSETS THAT HAVE BEEN DERECOGNISED	(140,136)	(358,520)	(549,093)	(1,047,749)
WRITE-OFFS	(1)	(50)	(682,978)	(683,029)
FOREIGN EXCHANGE AND OTHER MOVEMENTS	(253,546)	(111,981)	(107,340)	(16,225)
BALANCE AS AT 31 DECEMBER	26,741	292,605	6,016,926	6,396,272

	2018			
	STAGE 1 12-MONTH ECL KSHS'000	STAGE 2 LIFETIME ECL KSHS'000	STAGE 3 LIFETIME ECL KSHS'000	TOTAL KSHS'000
LOANS AND ADVANCES TO CUSTOMERS AT AMORTISED COST				
BALANCE AS AT 1 JANUARY	121,667	736,159	5,279,651	6,137,477
TRANSFER TO STAGE 1	365,366	(2,006)	(363,360)	
TRANSFER TO STAGE 2	(3,992)	119,560	(115,568)	
TRANSFER TO STAGE 3		(660,775)	660,775	
NET REMEASUREMENT OF LOSS ALLOWANCE			(200,443)	(200,443)
NEW FINANCIAL ASSETS ORIGINATED OR PURCHASED	9,073	304,322	3,323	316,718
FINANCIAL ASSETS THAT HAVE BEEN DERECOGNISED	(29,068)	(4,087)	(120,944)	(154,099)
WRITE-OFFS			(1,538,284)	(1,538,284)
FOREIGN EXCHANGE AND OTHER MOVEMENTS	(404,799)	(129,248)	725,756	191,709
BALANCE AS AT 31 DECEMBER	58,247	363,925	4,330,906	4,753,078

	2019			
	STAGE 1 12-MONTH ECL KSHS'000	STAGE 2 LIFETIME ECL KSHS'000	STAGE 3 LIFETIME ECL KSHS'000	TOTAL KSHS'000
OUTSTANDING COMMITMENTS AND CONTINGENT LIABILITIEST				
BALANCE AS AT 1 JANUARY	41,879			41,879
TRANSFER TO STAGE 1				
TRANSFER TO STAGE 2				
TRANSFER TO STAGE 3				
NET REMEASUREMENT OF LOSS ALLOWANCE	2,400			2,400
NEW FINANCIAL ASSETS ORIGINATED OR PURCHASED	4,972			4,972
FINANCIAL ASSETS THAT HAVE BEEN DERECOGNISED				
WRITE-OFFS				
FOREIGN EXCHANGE AND OTHER MOVEMENTS	(27,665)			(27,665)
BALANCE AS AT 31 DECEMBER	21,586			21,586

	2018			
	STAGE 1 12-MONTH ECL KSHS'000	STAGE 2 LIFETIME ECL KSHS'000	STAGE 3 LIFETIME ECL KSHS'000	TOTAL KSHS'000
OUTSTANDING COMMITMENTS AND CONTINGENT LIABILITIES				
BALANCE AS AT 1 JANUARY	298,089			298,089
TRANSFER TO STAGE 1				
TRANSFER TO STAGE 2				
TRANSFER TO STAGE 3				
NET REMEASUREMENT OF LOSS ALLOWANCE				
NEW FINANCIAL ASSETS ORIGINATED OR PURCHASED	36,040			36,040
FINANCIAL ASSETS THAT HAVE BEEN DERECOGNISED	(144,244)			(144,244)
WRITE-OFFS				
FOREIGN EXCHANGE AND OTHER MOVEMENTS	(148,006)			(148,006)
BALANCE AS AT 31 DECEMBER	41,879			41,879

	2019 KSHS'000	2018 KSHS'000
DEBT INVESTMENT SECURITIES AT AMORTISED COST		
BALANCE AS AT 1 JANUARY	20,480	17,757
FINANCIAL ASSETS THAT HAVE BEEN DERECOGNISED	(20,480)	(17,757)
NEW FINANCIAL ASSETS ORIGINATED OR PURCHASED	12,337	20,480
BALANCE AS AT 31 DECEMBER	12,337	20,480

	2019 KSHS'000	2018 KSHS'000
PLACEMENTS FROM OTHER BANKING INSTITUTIONS		
BALANCE AS AT 1 JANUARY	36	1,057
FINANCIAL ASSETS THAT HAVE BEEN DERECOGNISED	(36)	(1,057)
NEW FINANCIAL ASSETS ORIGINATED OR PURCHASED	421	36
BALANCE AS AT 31 DECEMBER	421	36

	2019 KSHS'000	2018 KSHS'000
BALANCES FROM GROUP BANKS		
BALANCE AS AT 1 JANUARY	1,494	2,235
FINANCIAL ASSETS THAT HAVE BEEN DERECOGNISED	(1,494)	(2,235)
NEW FINANCIAL ASSETS ORIGINATED OR PURCHASED	514	1,494
BALANCE AS AT 31 DECEMBER	514	1,494

The loss allowance on Outstanding commitments and contingent liabilities, debt investment, placement from other banking institutions and that from Group Bank has been recorded in miscellaneous expenses.

The following table provides a reconciliation between:

- amounts shown in the above tables reconciling opening and closing balances of loss allowance per class of financial instrument; and
- the 'impairment losses on financial instruments' line item in the statement of profit or loss and other comprehensive income.

	LOANS AND ADVANCES TO CUSTOMERS KSHS'000	OUTSTANDING COMMITMENTS AND CONTINGENT LIABILITIES KSHS'000	BALANCES DUE FROM OTHER BANKS KSHS'000	BALANCES DUE FROM BANKING INSTITUTION KSHS'000	INVESTMENT SECURITIES KSHS'000	OTHER ASSETS RECEIVABLE BALANCES KSHS'000	TOTAL KSHS'000
2019							
NET REMEASUREMENT OF LOSS ALLOWANCE	1,889,291	44,279					1,933,570
NEW FINANCIAL ASSETS ORIGINATED OR PURCHASED	480,833	4,972	385	(980)	(8,143)	(836)	476,231
TOTAL	2,370,124	49,251	385	(980)	(8,143)	(836)	2,409,801
RECOVERIES OF AMOUNTS PREVIOULSY WRITTEN OFF	(14,040)						(14,040)
TOTAL	2,356,084	49,251	385	(980)	(8,143)	(836)	2,395,761
2018							
NET REMEASUREMENT OF LOSS ALLOWANCE	(354,542)	(144,244)					(498,786)
NEW FINANCIAL ASSETS ORIGINATED OR PURCHASED	316,718	36,040	(1,021)	(741)	2,723	1,800	355,519
TOTAL	(37,824)	(108,204)	(1,021)	(741)	2,723	1,800	(143,267)
RECOVERIES OF AMOUNTS PREVIOULSY WRITTEN OFF	(12,666)						(12,666)
TOTAL	(50,490)	(108,204)	(1,021)	(741)	2,723	1,800	(155,933)

4.1.4 Concentration of risks of financial assets with credit exposure

All financial instruments' carrying amounts as per the statement of financial position represent the maximum exposure to credit risk without taking account of any collateral held or other credit enhancements.

Off balance sheet items carrying amounts represents the maximum exposure to credit risk without taking into account any collateral held or other credit enhancements as disclosed in note 32.

	2019				2018
CARRYING AMOUNTS BY ECONOMIC SECTOR	STAGE 1 12-MONTH ECL KSHS'000	STAGE 2 LIFETIME ECL KSHS'000	STAGE 3 LIFETIME ECL KSHS'000	TOTAL KSHS'000	TOTAL KSHS'000
LOANS AND ADVANCES TO CUSTOMERS					
BUILDING AND CONSTRUCTION	1,234,345	127,012	1,533,432	2,894,789	3,447,559
MANUFACTURING	1,505,810	61,868	2,585,420	4,153,098	4,666,916
PERSONAL SERVICES	2,889,999	440,647	1,135,151	4,465,797	4,599,419
TRADE	2,703,693	518,408	2,506,522	5,728,623	5,634,737
TRANSPORT AND COMMUNICATION	1,937,057	505,834	798,334	3,241,225	3,563,361
OTHERS	1,259,121	217,876	439,485	1,916,484	4,071,081
TOTAL ON BALANCE SHEET	11,530,025	11,530,025	8,998,344	22,400,016	25,983,073
ACCEPTANCES AND LETTERS OF CREDIT	641,143			641,143	1,002,246
GUARANTEES AND PERFORMANCE BONDS	5,561,000			5,561,000	7,081,072
COMMITMENTS TO LEND	767,893			767,893	771,453
OUTSTANDING COMMITMENTS AND CONTINGENT LIABILITIES	**6,970,036**			**6,970,036**	**8,854,771**
	18,500,061	1,871,645	8,998,344	29,370,052	34,837,844

CARRYING AMOUNTS	BALANCES DUE FROM BANKS STAGE 1 KSHS'000	INVESTMENT SECURITIES STAGE 1 KSHS'000
BANKS (BOTH BANK AND NON-BANK)	3,782,971	
CORPORATE		
GOVERMENT		7,300,067
OUTSTANDING BALANCES DUE FROM BANKS AND INVESTMENT SECURITIES	**3,782,971**	**7,300,067**

4.1.5 Risk limit control and mitigation policies

The Bank manages, limits and controls concentrations of credit risk wherever they are identified in particular, to individual counterparties and banks, and to industries and countries.

The Bank structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or Banks of borrowers, and to geographical and industry segments. Limits on the level of credit risk by product, industry sector and country are approved quarterly by the Board of Directors.

The exposure to any one borrower including banks and brokers is further restricted by sublimits covering on- and off-balance sheet exposures, and daily delivery risk limits in relation to trading items such as forward foreign exchange contracts. Actual exposures against limits are monitored daily.

Lending limits are reviewed in the light of changing market and economic conditions and periodic credit reviews and assessments of probability of default. Some other specific control and mitigation measures are outlined below:

(a) Collateral

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

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

Longer-term finance and lending to corporate entities are generally secured; revolving individual credit facilities are generally unsecured. In addition, in order to minimise the credit loss the Bank will seek additional collateral from the counterparty as soon as impairment indicators are identified for the relevant individual loans and advances.

The Bank's policies regarding obtaining collateral have not significantly changed during the reporting period and there has been no significant change in the overall quality of the collateral held by the Bank since the previous period.

A portion of the Banks financial assets originated by the mortgage business has sufficiently low "loan to value" ratios, which results in a no loss allowance being recognised in accordance with the Banks expected credit loss model. The Bank closely monitors collateral held for financial assets considered to be credit impaired, as it becomes more likely that the Bank will take possession of collateral to mitigate potential credit losses. Financial assets that are credit-impaired and related collateral held in order to mitigate potential losses are shown below.

LTV is calculated as the ratio of the gross amount of the loan – or the amount committed for loan commitments – to the value of the collateral. The valuation of the collateral excludes any adjustments for obtaining and selling the collateral. The value of the collateral for residential mortgage loans is based on the collateral value at origination updated based on changes in house price indices. For credit-impaired loans the value of collateral is based on the most recent appraisals.

	GROSS LOANS KSHS'000	IMPAIRMENT ALLOWANCE KSHS'000	CARRYING AMOUNT KSHS'000	FAIR VALUE OF COLLATERAL HELD KSHS'000	CARRYING AMOUNT KSHS'000
CORPORATE	11,515,310	4,337,108	7,178,202	11,583,002	10,862,196
SME	6,195,423	939,560	5,255,863	13,168,957	5,953,453
RETAIL	4,702,075	733,660	3,968,415	6,408,861	4,372,466
TOTAL CREDIT IMPAIRED ASSETS	22,412,808	6,010,328	16,402,480	31,160,820	21,188,115

The bank's policy is to dispose of any repossessed collateral on the open market at market value. As at the reporting date, the Bank had possession of the following collateral:

	2019 KSHS'000	2018 KSHS'000
RESIDENTIAL PROPERTY	1,592,865	1,621,632
MOTOR VEHICLES	1,280	4,990
TOTAL COLLATERAL REPOSSESSED	1,594,145	1,626,622

(b) Lending limits (for derivative and loan books)

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

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

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

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

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

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

4.2 Liquidity risk

Liquidity risk is the risk that the Bank is unable to meet its obligations when they fall due as a result of customer deposits being withdrawn, cash requirements from contractual commitments, or other cash outflows, such as debt maturities or margin calls for derivatives.

Such outflows would deplete available cash resources for client lending, trading activities and investments. In extreme circumstances, lack of liquidity could result in reductions in the statement of financial position and sales of assets, or potentially an inability to fulfil lending commitments. The risk that the Bank will be unable to do so is inherent in all banking operations and can be affected by a range of institution-specific and market-wide events including, but not limited to, credit events, merger and acquisition activity, systemic shocks and natural disasters.

The Bank's liquidity management process, as carried out within the Bank and monitored by the Assets and Liabilities Committee (ALCO) includes:

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

A key measure of liquidity risk is the ratio of net liquid assets to deposit liabilities. The Central Bank of Kenya requires banks to maintain a statutory minimum ratio of 20% of liquid assets to all its deposit liabilities. For this purpose, liquid assets comprise cash and balances with Central Bank of Kenya, net loans and advances with banks, treasury bonds and bills and net balances with banks abroad. Deposit liabilities comprise deposits from customers and other liabilities that have matured or maturing within 91 days.

The Bank also monitors on a regular basis the advances to deposits ratio. This is defined as the ratio of total loans and advances to customers relative to total customer deposits. A low advances to deposits ratio demonstrates that customer deposits exceed customer loans resulting from the emphasis placed on generating a high level of stable funding from customers.

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

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

	Months			Years		
	UP TO 1 KSHS'000	1 TO 3 KSHS'000	3 TO 12 KSHS'000	1 TO 5 KSHS'000	>5 KSHS'000	TOTAL KSHS'000
BALANCE AT 31 DECEMBER 2019						
CUSTOMER DEPOSITS	26,201,735	4,773,765	2,512,582	2,051		33,490,133
DEPOSITS AND BALANCES DUE TO BANKING INSTITUTIONS (NOTE 26)	1,877					1,877
INTEREST PAYABLE ON DEPOSITS AND BALANCES DUE TO BANKING INSTTUTIONS						
AMOUNTS DUE TO GROUP BANKS (NOTE 16 (B))	3,394,873					3,394,873
INTEREST PAYABLE ON AMOUNTS DUE TO OTHER BANKS	121					121
BORROWINGS (NOTE 28)	287,903		287,903	863,710		1,439,516
INTEREST PAYABLE ON BORROWINGS			8,032	78,118		86,150
OTHER LIABILITIES (NOTE 29)	569,590					569,590
OTHER LIABILITIES- LEASE LIABILITIES			6,926	885,083	361,244	1,253,253
TOTAL FINANCIAL LIABILITIES (CONTRACTUAL MATURITY DATES)	30,456,099	4,773,765	2,815,443	1,828,961	361,244	40,235,513
ASSETS HELD FOR MANAGING LIQUIDITY (CONTRACTUAL MATURITY DATES)	16,469,102	2,125,667	6,002,015	8,316,658	4,744,121	37,657,563
BALANCE AT 31 DECEMBER 2018						
CUSTOMER DEPOSITS	23,172,947	4,322,146	2,755,362	28,586		30,279,041
DEPOSITS AND BALANCES DUE TO BANKING INSTITUTIONS (NOTE 26)	58,059					58,059
INTEREST PAYABLE ON DEPOSITS AND BALANCES DUE TO BANKING INSTTUTIONS						
AMOUNTS DUE TO GROUP BANKS (NOTE 16 (B))	6,860,714					6,860,714
INTEREST PAYABLE ON AMOUNTS DUE TO OTHER BANKS	46					46
BORROWINGS (NOTE 28)		3,207,385		1,475,972		4,683,357
INTEREST PAYABLE ON BORROWINGS		3,896	81,140	162,503		247,539
OTHER LIABILITIES (NOTE 29)	525,658					525,658
TOTAL FINANCIAL LIABILITIES (CONTRACTUAL MATURITY DATES)	30,617,424	7,533,427	2,836,502	1,667,061		42,654,414
ASSETS HELD FOR MANAGING LIQUIDITY (CONTRACTUAL MATURITY DATES)	**18,111,621**	**1,041,813**	**5,721,477**	**14,177,732**	**3,657,949**	**42,710,592**

Assets held for managing liquidity risk

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

- Cash and balances with Central Bank;
- Government bonds and other securities that are readily acceptable in repurchase agreement with Central Banks; and
- Secondary sources of liquidity in the form of highly liquid instruments in the Bank's trading portfolios.

4.3 Market risk

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

The market risks arising from trading and non-trading activities are concentrated with the Bank's Treasury and monitored by two teams separately. Regular reports are submitted to the Assets and Liabilities Committee (ALCO), Heads of each business unit and the Board of Directors.

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

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

Overall authority for market risk for both trading and non-trading portfolios is vested in Assets and Liabilities Committee (ALCO). The bank's Risk department is responsible for the development of detailed risk management policies (subject to review and approval by ALCO) and for the day-to-day review of their implementation.

Foreign exchange risk

The Bank takes on exposure to the effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. The Board sets limits on the level of exposure by currency and in total for both overnight and intra-day positions, which are monitored daily. The tables below summarises the Bank's exposure to foreign currency exchange rate risk as at 31 December 2019 and 2018. Included in the table are the Bank's financial instruments categorised by currency:

	USD KSHS'000	GBP KSHS'000	EUR KSHS'000	OTHERS KSHS'000	TOTAL KSHS'000
BALANCE AT 31 DECEMBER 2019					
ASSETS					
CASH AND BALANCES WITH CENTRAL BANK	493,399	91,812	138,775	208	724,194
PLACEMENTS WITH BANKS	2,195,113	67,770	172,137	3,562	2,438,582
AMOUNTS DUE FROM GROUP COMPANIES	597,877		99,798	823	698,498
LOANS AND ADVANCES	6,980,517	17,061	636,920	1	7,634,499
OTHER ASSETS		1	1,957,836	4,011	1,961,848
TOTAL FINANCIAL ASSETS	10,266,906	176,644	3,005,466	8,605	13,457,621
LIABILITIES					
CUSTOMER DEPOSITS	5,074,504	61,020	878,806	866	6,015,196
DEPOSITS AND BALANCES DUE TO BANKING INSTITUTIONS				1,877	1,877
AMOUNTS DUE TO GROUP BANKS	2,896,976		264,926		3,161,902
BORROWINGS			3,396,750		3,396,750
OTHER LIABILITIES	1,639,916	115,621	3,521	5,963	1,765,021
TOTAL FINANCIAL LIABILITIES	9,611,396	176,641	4,544,003	8,706	14,340,746
NET ON-BALANCE SHEET POSITION	655,510	3	(1,538,537)	(101)	(883,125)
NET OFF-BALANCE SHEET POSITION	506,628	(114,394)	2,370,881	590	2,763,705
NET OVERALL POSITION	1,162,138	(114,391)	832,344	489	1,880,580
BALANCE AT 31 DECEMBER 2018					
ASSETS					
CASH AND BALANCES WITH CENTRAL BANK	5,300,977	40,278	790,284	1,444	6,132,983
PLACEMENTS WITH BANKS	2,579,717	83,134	62,537	147,118	2,872,506
AMOUNTS DUE FROM GROUP BANKS	613,708	-	211,829	12,682	838,219
LOANS AND ADVANCES	8,315,648	9,680	1,213,676	1	9,539,005
OTHER ASSETS	114,178	79,348	3,313	43,080	239,919
TOTAL FINANCIAL ASSETS	16,924,228	212,440	2,281,639	204,325	19,622,632
LIABILITIES					
CUSTOMER DEPOSITS	6,681,556	53,781	1,200,790	109,295	8,045,422
DEPOSITS AND BALANCES DUE TO BANKING INSTITUTIONS	56,962	-	-	1,097	58,059
AMOUNTS DUE TO GROUP BANKS	6,688,460	-	152,886	6,053	6,847,399
BORROWINGS	3,207,385	-	1,475,972	-	4,683,357
OTHER LIABILITIES	39,988	4	-	477	40,469
TOTAL FINANCIAL LIABILITIES	16,674,351	53,785	2,829,648	116,922	19,674,706
NET ON-BALANCE SHEET POSITION	249,877	158,655	(548,009)	87,403	(52,074)
NET OFF-BALANCE SHEET POSITION	2,143,556	-	1,216,589	1,293,261	4,653,406
NET OVERALL POSITION	2,393,433	158,655	668,580	1,380,664	4,601,332

Foreign exchange risk sensitivity analysis

At 31 December 2019 if the shilling had strengthened or weakened by 5% against major trading currencies, with other variables held constant, the impact on after tax profit or loss / equity would have been as shown below. This analysis is performed on the same basis for 2018.

	2019 KSHS'000	2018 KSHS'000
+ 5% MOVEMENT	30,909	1,823
- 5% MOVEMENT	(30,909)	(1,823)

5% sensitivity rate represents management's assessment of the reasonable possible change in foreign exchange rates.

Interest rate risk

Cash flow interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate because of changes in market interest rates.

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

The table below summarises the Bank's exposure to interest rate risks. Included in the table are the Bank's assets and liabilities at carrying amounts (non-derivatives), categorised by the earlier of contractual repricing or maturity dates. The Bank does not bear any interest rate risk on off balance sheet items.

	EFFECTIVE INTEREST RATE	Month: UP TO 1 KSHS'000	1 TO 3 KSHS'000	3 TO 12 KSHS'000	>12 KSHS'000	NON-INTEREST BEARING KSHS'000	TOTAL KSHS'000
BALANCE AT 31 DECEMBER 2019							
CASH AND BALANCES WITH CENTRAL BANK (NOTE 13)						9,250,628	9,250,628
INVESTMENT SECURITIES-AMORTISED COST (NOTE 18(B))	8.76%		1,570,057	3,330,580	2,387,093		7,287,730
PLACEMENTS WITH BANKS (NOTE 15)	3.36%	2,938,741					2,938,741
AMOUNTS DUE FROM GROUP BANKS (NOTE 16(A))	2.66%	109,847		734,383			844,230
OTHER ASSETS (NOTE 25)						1,012,686	1,012,686
INVESTMENT SECURITIES-FVOCI (NOTE 18 (A))						552,931	552,931
LOANS AND ADVANCES (NOTE 17)	10.7%	2,815,810	555,610	12,610,738			15,982,158
TOTAL FINANCIAL ASSETS		5,864,398	2,125,667	16,675,701	2,387,093	10,816,245	37,869,104
CUSTOMER DEPOSITS (NOTE 27)	3.7%	26,216,803	4,829,509	2,604,528	2,194		33,653,034
DEPOSITS AND BALANCES DUE TO BANKING INSTITUTIONS (NOTE 26)	4.8%	1,877					1,877
AMOUNTS DUE TO GROUP BANKS (NOTE 16(B))	2.8%	3,394,873					3,394,873
BORROWINGS (NOTE 28)	5.58%	287,903		287,903	863,710		1,439,516
OTHER LIABILITIES (NOTE 29)						569,590	569,590
TOTAL FINANCIAL LIABILITIES		29,901,456	4,829,509	2,892,431	865,904	569,590	39,058,890
INTEREST SENSITIVITY GAP		**(24,037,058)**	**(2,703,842)**	**13,783,270**	**1,521,189**	**10,246,655**	**(1,189,786)**

	EFFECTIVE INTEREST RATE	Month UP TO 1 KSHS'000	1 TO 3 KSHS'000	3 TO 12 KSHS'000	>12 KSHS'000	NON-INTEREST BEARING KSHS'000	TOTAL KSHS'000
BALANCE AT 31 DECEMBER 2018							
CASH AND BALANCES WITH CENTRAL BANK (NOTE 13)						9,927,343	9,927,343
INVESTMENT SECURITIES-AMORTISED COST (NOTE 18(B))	8.15%	149,273	196,602	2,891,793	3,274,977		6,512,645
PLACEMENTS WITH BANKS (NOTE 15)	3.02%	2,872,506					2,872,506
AMOUNTS DUE FROM GROUP BANKS (NOTE 16(A))	1.58%	235,114	297,343	479,826			1,012,283
OTHER ASSETS (NOTE 25)						812,316	812,316
INVESTMENT SECURITIES-FVOCI (NOTE 18 (A))						283,027	283,027
LOANS AND ADVANCES (NOTE 17)	9.11%	3,729,685	547,868	16,910,562			21,188,115
TOTAL FINANCIAL ASSETS		6,986,578	1,041,813	20,282,181	3,274,977	11,022,686	42,608,235
CUSTOMER DEPOSITS (NOTE 27)	5.06%	23,150,853	4,282,672	2,662,301	26,631		30,122,457
DEPOSITS AND BALANCES DUE TO BANKING INSTITUTIONS (NOTE 26)	3.44%	58,059					58,059
AMOUNTS DUE TO GROUP BANKS (NOTE 16(B))	1.16%	6,860,714					6,860,714
BORROWINGS (NOTE 28)	5.07%		3,207,385		1,475,972		4,683,357
OTHER LIABILITIES (NOTE 29)						525,658	525,658
TOTAL FINANCIAL LIABILITIES		30,069,626	7,490,057	2,662,301	1,502,603	525,658	42,250,245
INTEREST SENSITIVITY GAP		(23,083,048)	(6,448,244)	17,619,880	1,772,374	10,497,028	357,990

The matching and controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental to the management of the Bank. It is unusual for banks ever to be completely matched since business transacted is often of uncertain terms and of different types. An unmatched position potentially enhances profitability, but can also increase the risk of losses.

Interest rate risk sensitivity analysis

At 31 December 2019 if interest rates were to increase or decrease by 2.5%, with other variables held constant, the impact on after tax profit or loss / equity would have been as shown below. This analysis is performed on the same basis for 2018.

	2019 KSHS'000	2018 KSHS'000
+ 2.5% MOVEMENT	200,138	177,433
- 2.5% MOVEMENT	(200,138)	(177,433)

4.4 Fair value of financial instruments

(a) Classification and fair values

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

		Carrying value				Fair value hierarchy			
	NOTE	FVOCI KSHS'000	FVTPL KSHS'000	AMORTISED COST KSHS'000	TOTAL KSHS'000	LEVEL 1 KSHS'000	LEVEL 2 KSHS'000	LEVEL 3 KSHS'000	TOTAL KSHS'000
BALANCE AT 31 DECEMBER 2019									
FINANCIAL ASSETS MEASURED AT FAIR VALUE									
DERIVATIVE ASSETS HELD FOR RISK MANAGEMENT	14		212,110		212,110		212,110		212,110
INVESTMENT SECURITIES - FVOCI	18 (A)	552,931			552,931			552,931	552,931
		552,931	212,110		765,041		212,110	552,931	765,041
FINANCIAL ASSETS NOT MEASURED AT FAIR VALUE									
CASH AND BALANCES WITH CENTRAL BANK	13			9,250,628	9,250,628		9,250,628		9,250,628
DUE FROM OTHER BANKING INSTITUTIONS	15			2,938,741	2,938,741		2,938,741		2,938,741
INVESTMENTS IN GOVERNMENT SECURITIES	18 (B)			7,287,730	7,287,730		7,242,914		7,242,914
LOANS AND ADVANCES TO CUSTOMERS	17			15,982,158	15,982,158		15,982,158		15,982,158
OTHER ASSETS	25			1,012,686	1,012,686		1,012,686		1,012,686
DUE FROM GROUP BANKS	16 (A)			844,230	844,230		844,230		844,230
				37,316,173	37,316,173		37,271,357		37,271,357
TOTAL FINANCIAL ASSETS		**552,931**	**212,110**	**37,316,173**	**38,081,214**		**37,483,467**	**552,931**	**38,036,398**
FINANCIAL LIABILITIES NOT MEASURED AT FAIR VALUE									
CUSTOMER DEPOSITS	27			33,327,232	33,327,232		33,327,232		33,327,232
DUE TO OTHER BANKING INSTITUTIONS	26			1,877	1,877		1,877		1,877
DUE TO GROUP BANKS	16 (B)			3,394,873	3,394,873		3,394,873		3,394,873
BORROWINGS	28			1,439,516	1,439,516		1,159,940		1,159,940
OTHER LIABILITIES – BILLS PAYABLE	29			569,590	569,590		568,151		568,151
TOTAL FINANCIAL LIABILITIES				**38,733,088**	**38,733,088**		**38,452,073**		**38,452,073**

		Carrying value				Fair value hierarchy			
	NOTE	FVOCI KSHS'000	FVTPL KSHS'000	AMORTISED COST KSHS'000	TOTAL KSHS'000	LEVEL 1 KSHS'000	LEVEL 2 KSHS'000	LEVEL 3 KSHS'000	TOTAL KSHS'000
BALANCE AT 31 DECEMBER 2019									
FINANCIAL ASSETS MEASURED AT FAIR VALUE									
DERIVATIVE ASSETS HELD FOR RISK MANAGEMENT	14		83,155		83,155		83,155		83,155
INVESTMENT SECURITIES - FVOCI	18 (A)	283,027			283,027			283,027	283,027
		283,027	83,155		366,182		83,155	283,027	366,182
FINANCIAL ASSETS NOT MEASURED AT FAIR VALUE									
CASH AND BALANCES WITH CENTRAL BANK	13			9,927,343	9,927,343		9,927,343		9,927,343
DUE FROM OTHER BANKING INSTITUTIONS	15			2,872,506	2,872,506		2,872,506		2,872,506
INVESTMENTS IN GOVERNMENT SECURITIES	18 (B)			6,512,645	6,512,645		6,462,402		6,462,402
LOANS AND ADVANCES TO CUSTOMERS	17			21,188,115	21,188,115		21,188,115		21,188,115
OTHER ASSETS	25			812,316	812,316		812,316		812,316
DUE FROM GROUP BANKS	16 (A)			1,012,283	1,012,283		1,012,283		1,012,283
				42,325,208	42,325,208		42,274,965		42,274,965
TOTAL FINANCIAL ASSETS		**283,027**	**83,155**	**42,325,208**	**42,691,390**		**42,358,120**	**283,027**	**42,641,147**
FINANCIAL LIABILITIES NOT MEASURED AT FAIR VALUE									
CUSTOMER DEPOSITS	27			30,122,457	30,122,457		30,122,457		30,122,457
DUE TO OTHER BANKING INSTITUTIONS	26			58,059	58,059		58,059		58,059
DUE TO GROUP BANKS	16 (B)			6,860,714	6,860,714		6,860,714		6,860,714
BORROWINGS	28			4,683,357	4,683,357		4,683,980		4,683,980
OTHER LIABILITIES – BILLS PAYABLE	29			525,658	525,658		525,658		525,658
TOTAL FINANCIAL LIABILITIES				**42,250,245**	**42,250,245**		**42,250,868**		**42,250,868**

(b) Measurement of fair values

Financial instruments measured at fair value

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

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

Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the

asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices). The sources of input parameters like LIBOR yield curve or counterparty credit risk are Bloomberg and Reuters.

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

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

The following sets out the Bank's basis of establishing fair value of the financial instruments:

Cash and balances with Central Bank of Kenya

The fair value of cash and bank balances with the Central Bank of Kenya approximates their carrying amount.

Deposits and advances to banks

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

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

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

Loans and advances to customers

Loans and advances to customers are net of provisions for impairment. The estimated fair value of loans and advances represents the discounted amount of future cash flows expected to be received, including assumptions relating to prepayment rates. Expected cash flows are discounted at current market rates to determine fair value for low interest loans. A substantial proportion of loans and advances reprice within 12 months and hence the carrying amount is a good proxy of the fair value.

Unquoted equity securities

These comprise investment securities held at FVOCI. The fair value for these assets is estimated using market prices and earnings multiples of quoted securities of comparable companies.

Investments in government securities

Investments in government securities are measured at amortised cost using the effective interest method. The estimated fair value represents the discounted amount of future cash flows expected to be received.

Deposits from banks and customers

The estimated fair value of deposits with no stated maturity is the amount repayable on demand. The estimated fair value of fixed interest bearing deposits without quoted market prices is based on discounting cash flows using the prevailing market.

A substantial proportion of deposits mature within 6 months and hence the carrying amount is a good proxy of the fair value.

4.5 Capital management

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

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

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

The Central Bank of Kenya requires each bank to: (a) hold the minimum level of regulatory capital of KShs 1 Billion; (b) maintain a ratio of total regulatory capital to the risk-weighted assets plus risk-weighted off-balance sheet assets (the 'Basel ratio') at or above the required minimum of 10.5%; (c) maintain core capital of not less than 8% of total deposit liabilities; and (d) maintain total capital of not less than 14.5% of risk-weighted assets plus risk-weighted off-balance sheet items.

The bank's total regulatory capital is divided into two tiers:

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

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

The table below summarises the composition of regulatory capital and the ratios of the Bank for the years ended 31 December 2019 and 2018. In 2019, the Bank was non-compliant with all its capital ratios as outlined below. To remedy this breach, the shareholder is injecting KShs 1.5 billion in March 2020 as Tier 1 capital.

	2019 KSHS'000	2018 KSHS'000
TIER 1 CAPITAL (CORE CAPITAL)		
SHARE CAPITAL	6,404,949	6,404,949
SHARE PREMIUM	1,980,356	1,980,356
RETAINED EARNINGS	(4,146,484)	(2,275,378)
INVESTMENT IN ASSOCIATE	(550,743)	(1,570,179)
DEFERRED TAX ASSET[1]	(2,177,512)	(1,205,993)
	1,510,566	3,333,755
TIER 2 CAPITAL		
SUBORDINATED DEBT[2]	840,037	1,148,588
STATUTORY RESERVES	306,822	386,908
	1,146,859	1,535,496
TOTAL REGULATORY CAPITAL	2,657,425	4,869,251
RISK WEIGHTED ASSETS		
ON BALANCE SHEET- CREDIT RISK	17,713,753	23,018,097
OFF BALANCE SHEET- CREDIT RISK	2,313,428	2,730,985
MARKET AND OPERATIONAL RISK	4,518,606	5,203,558
TOTAL RISK WEIGHTED ASSETS	24,545,787	30,952,640
DEPOSIT LIABILITIES	**36,496,309**	**36,977,156**

CAPITAL RATIOS		
CORE CAPITAL/TOTAL DEPOSIT LIABILITIES (CBK MINIMUM 8%) (2018: 8%)	4.1%	9.0%
CORE CAPITAL/TOTAL RISK WEIGHTED ASSETS (CBK MINIMUM 10.5%) (2018: 10.5%)	6.2%	10.8%
TOTAL REGULATORY CAPITAL/TOTAL RISK WEIGHTED ASSETS (CBK MINIMUM 14.5%) (2018: 14.5%)	10.8%	15.7%
INVESTMENT IN LAND AND BUILDINGS RATIO		
INVESTMENT IN LAND AND BUILDINGS/CORE CAPITAL (CBK MAXIMUM 20% (2018: 20%)	65.8%	32.8%
INVESTMENT IN FINANCIAL INSTITUTIONS RATIO		
INVESTMENT IN FINANCIAL INSTITUTIONS/CORE CAPITAL (CBK MAXIMUM 25% (2018: 25%)	36.5%	47.1%

(1) Effective 1 January 2018, Deferred tax assets (DTAs) are deductible from Tier 1 capital as per the 2013 Central Bank of Kenya Prudential Guidelines (CBK/PG/003). DTAs relating to temporary differences such as allowance for credit losses can only be recognized up to a limit of 10% of the institution's core capital.

(2) Subordinated debt has been amortised at 40% as at end of 2019 as per Central Bank of Kenya Prudential Guidelines (CBK/PG/003) that require the debt to be amortised by 20% per annum during the last five years to maturity.

With the additional new capital of Kes 1.5 billion, the Bank will be compliant with all capital ratios except investment in land and building ratio. A simulation of the new ratios is shown in note 38.

5. INTEREST INCOME

	2019 KSHS'000	2018 KSHS'000
AMORTISED COST		
LOANS AND ADVANCES	2,238,617	2,713,067
GOVERNMENT AND OTHER SECURITIES	604,655	508,207
BALANCES WITH OTHER BANKING INSTITUTIONS	78,268	130,068
OTHER	4,660	38,346
	2,926,200	3,389,688

Included in interest income on loans and advances is KShs 372 million in 2019 interest accrued on impaired loans and advances (457 million in 2018).

6. INTEREST EXPENSE

	2019 KSHS'000	2018 KSHS'000
CUSTOMER DEPOSITS	1,173,019	1,528,426
DEPOSITS BY BANKS	113,176	75,363
SURBODINATED DEBT AND BORROWINGS	87,620	254,095
INTEREST EXPENSE ON LEASE LIABILITIES (NOTE 20)	76,850	
SWAPS AND FORWARD CONTRACTS	478,428	348,931
	1,923,093	2,206,815

7. NET FEE AND COMMISSION INCOME

	2019 KSHS'000	2018 KSHS'000
TRADE FINANCE RELATED FEES AND COMMISSIONS	80,522	115,803
CREDIT RELATED FEES AND COMMISSIONS	130,312	162,106
SERVICE RELATED FEES AND COMMISSIONS	330,073	346,353
FEE AND COMMISSION INCOME	540,907	624,262
FEES AND COMMISSION PAID	(6,982)	(4,327)
NET FEE AND COMMISSION INCOME	533,925	619,935

Fees and commissions income from contracts with customers have been disaggregated by major type of services. They are measured based on the consideration specified in a contract with a customer. The Bank recognizes revenue when it transfers over a service to a customer.

The following table provides information about the nature and timing of the satisfaction of performance obligations in contracts with customers, including significant payment terms and the related revenue recognition policies.

TYPE OF SERVICE	NATURE OF TIMING OF SATISFACTION OF PERFORMANCE OBLIGATIONS, INCLUDING SIGNIFICANT PAYMENT TERMS	REVENUE RECOGNITION UNDER IFRS 15
Trade finance service	The Bank provides trade finance services to corporate, SME and retail customers. Trade finance fees are charged when the transaction takes place. The Bank provides credit related services including loan administration, securities underwriting and provision of overdraft facilities. Fees from term loans are charged once the transaction takes place. Fees on overdrafts are charged annually at the beginning of the year on renewal of credit lines. The Bank provides banking services including account management, execution of client transactions, debit card and other account services.	Revenue from trade finance is recognized at a point in time when the services are provided.
Credit related services	The Bank provides credit related services including loan administration, securities underwriting and provision of overdraft facilities. Fees from term loans are charged once the transaction takes place. Fees on overdrafts are charged annually at the beginning of the year on renewal of credit lines.	Revenue from credit related services is recognized over time as the services are provided.
Account services	The Bank provides banking services including account management, execution of client transactions, debit card and other account services. Fees for ongoing account management are charged to the customer's account on a monthly basis. The Bank sets the rates separately for retail, SME and corporate clients with approvals from the Central Bank of Kenya (CBK). Transaction based fees are charged to the customer's account when the transaction takes place.	Revenue from account services is recognized at a point in time when the services are provided. Revenue related to transactions is recognized at the point in time when the transaction takes place.

8. OTHER OPERATING LOSS

	2019 KSHS'000	2018 KSHS'000
DIVIDENDS RECEIVED		12,043
GAIN ON SALE OF PROPERTY AND EQUIPMENT	9,142	2,931
RENTAL INCOME	20,348	1,118
IMPAIRMENT OF NON CURRENT ASSETS HELD FOR SALE (NOTE 22)	(29,746)	(73,747)
LOSS FROM SALE OF SHARES IN ASSOCIATE (NOTE 19)	(149,383)	
FOREIGN CURRENCY RECYCLED THROUGH PROFIT AND LOSS	(180,255)	
OTHER	(83,191)	7,086
	(413,085)	(50,569)

Rental income relates to income received from leases on the fourth and fifth floors of BOA House.

9. STAFF COSTS

	2019 KSHS'000	2018 KSHS'000
SALARIES AND WAGES	833,584	779,880
RETIREMENT BENEFIT COSTS		
- DEFINED CONTRIBUTION PENSION SCHEME	56,211	59,574
- NATIONAL SOCIAL SECURITY FUND	1,097	1,028
STAFF MEDICAL COSTS	78,166	74,275
STAFF TRAINING COSTS	30,203	20,704
OTHER STAFF COSTS	28,052	133,843
	1,027,313	1,069,304

The number of employees of the Bank as at 31 December 2019 was 445 (2018: 423). Other staff costs comprises of staff welfare costs, leave provisions, performance based incentives among others.

10. DEPRECIATION AND AMORTISATION

	2019 KSHS'000	2018 KSHS'000
DEPRECIATION OF PROPERTY AND EQUIPMENT (NOTE 21)	168,738	179,156
AMORTISATION OF INTANGIBLE ASSETS (NOTE 23)	29,819	19,911
RIGHT-OF-USE ASSET DEPRECIATION (NOTE 21)	194,701	
	393,258	199,067

11. OTHER OPERATING COSTS

	2019 KSHS'000	2018 KSHS'000
DIRECTORS' EXPENSES	26,918	24,461
AUDITOR'S REMUNERATION	7,841	8,182
MARKETING AND ADVERTISEMENT COSTS	44,222	51,985
PROPERTY OCCUPANCY COSTS	173,066	314,042
SOFTWARE SUBSCRIPTIONS AND LICENCE FEES	147,085	97,020
COMPUTER HARDWARE MAINTENANCE	12,765	6,424
DEPOSITORS' PROTECTION FUND PREMIUMS	52,003	55,049
COMMUNICATION COSTS	69,008	60,505
OPERATING LEASE RENTALS	11,668	11,978
OFFICE ADMINISTRATIVE COSTS	360,786	180,647
OTHER COSTS*	256,370	205,645
	1,161,732	1,015,938

(*) Other costs mainly consist of BOA Group recharges (see Note 16 (d)), professional fees, operational losses, transport costs, and stationery costs.

12. TAXATION

	2019 KSHS'000	2018 KSHS'000
CURRENT INCOME TAX:		
CURRENT INCOME TAX		
DEFERRED TAX:		
DEFERRED TAX MOVEMENT (NOTE 24)	(889,838)	36,488
	(889,838)	36,488

The effective rax rate (ETR) for the year ended 31 December 2019 is 30.7% (2018: negative 17.4%). The increase in the ETR is mainly attributed to the impact of tax allowable loan provisions.

CURRENT INCOME TAX (RECOVERABLE) /PAYABLE	2019 KSHS'000	2018 KSHS'000
BALANCE AT 1 JANUARY	(438,004)	(98,594)
CHARGE FOR THE YEAR		
TAX PAID		(339,410)
BALANCE AT 31 DECEMBER	(438,004)	(438,004)
THE TAX ON THE BANK'S PROFIT BEFORE INCOME TAX DIFFERS FROM THE THEORETICAL AMOUNT THAT WOULD ARISE USING THE STATUTORY INCOME TAX RATE AS FOLLOWS:		
(LOSS)/ PROFIT BEFORE INCOME TAX	(2,929,676)	209,561
TAX CALCULATED AT THE STATUTORY INCOME TAX RATE OF 30% (2018: 30%)	(878,903)	62,868
TAX EFFECT OF:		
INCOME NOT SUBJECT TO TAX	(309,608)	(205,920)
EXPENSES NOT DEDUCTIBLE FOR TAX PURPOSES	298,673	179,540
INCOME TAX EXPENSE/ (CREDIT)	(889,838)	36,488

13. CASH AND BALANCES WITH CENTRAL BANK

	2019 KSHS'000	2018 KSHS'000
CASH IN HAND	713,298	760,143
BALANCES WITH CENTRAL BANK:		
CASH RESERVE RATIO	1,714,531	1,561,586
OTHER CURRENT ACCOUNTS	6,822,799	7,605,614
	9,250,628	9,927,343

The cash reserve ratio with Central Bank of Kenya (CBK) is non-interest earning and is based on the value of deposits as adjusted for CBK requirements. At 31 December 2019, the cash reserve ratio requirement was 5.25% of eligible deposits (2018: 5.25%). The Bank is free to deviate from the 5.25% requirement on any given day, but not to fall below 3%, provided that the overall average for the month will be at least 5.25%.

14. DERIVATIVE ASSETS AND LIABILITIES HELD FOR RISK MANAGEMENT

	2019 KSHS'000	2018 KSHS'000
INTEREST RATE DERIVATIVE CONTRACTS	42,860	5,628
FORWARD EXCHANGE CONTRACTS	169,250	77,527
	212,110	83,155

The types of derivatives used by the bank are set out below.The table analyses the notional principal amounts and the positive (assets) and negative (liabilities) fair values of the derivative financial instruments. Notional principal amounts are the amount of principal underlying the contract at the reporting date.

	2019		
	NOTIONAL PRINCIPAL KSHS'000	ASSETS KSHS'000	LIABILITIES KSHS'000
INTEREST RATE DERIVATIVE CONTRACTS	1,430,378	2,495,478	(2,452,618)
FORWARD EXCHANGE CONTRACTS	19,192,062	22,062,096	(21,892,846)
	20,622,440	24,557,574	(24,345,464)

	2018		
	NOTIONAL PRINCIPAL KSHS'000	ASSETS KSHS'000	LIABILITIES KSHS'000
INTEREST RATE DERIVATIVE CONTRACTS	2,770,600	3,890,905	(3,885,277)
FORWARD EXCHANGE CONTRACTS	11,030,098	15,933,111	(15,855,584)
	13,800,698	19,824,016	(19,740,861)

15. DUE FROM OTHER BANKING INSTITUTIONS

	2019 KSHS'000	2018 KSHS'000
PLACEMENTS	601,488	18,335
CURRENT ACCOUNT BALANCES DUE FROM OTHER BANKS	2,337,253	2,854,171
	2,938,741	2,872,506
MATURING WITHIN 90 DAYS	2,938,741	2,872,506

16. RELATED PARTY 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 operation decisions, or one party controls both. The Bank is controlled by BOA Group S.A. incorporated in Luxembourg with its ultimate parent being BMCE BANK incorporated in Morocco. There are other companies which are related to BANK OF AFRICA - KENYA Limited through common shareholdings or common directorships.

In the normal course of business, current accounts are operated and placement of foreign currency balances are made with the parent company and other Bank companies at interest rates in line with the market. The relevant balances are shown below:

(a) Amounts due from Group Banks

	2019 KSHS'000	2018 KSHS'000
BANK OF AFRICA - UGANDA	72,885	133,042
BANK OF AFRICA - TANZANIA	400	12,682
BOA-FRANCE	99,323	130,484
BANK OF AFRICA - GHANA	518,254	469,529
BANK OF AFRICA - MADAGASCAR	143,745	174,994
BMCE INTERNATIONAL	9,303	5,617
BMCE BANK BANQUE OFFSHORE	3	5,112
BANK OF AFRICA - TOGO		80,823
BANK OF AFRICA - RWANDA	317	
	844,230	1,012,283

	2019 KSHS'000	2018 KSHS'000
MATURING WITHIN 90 DAYS	109,847	532,457
MATURING AFTER 90 DAYS	734,383	479,826
	844,230	1,012,283
PLACEMENTS	734,383	777,916
CURRENT ACCOUNT BALANCE	109,847	234,367
	844,230	1,012,283
INTEREST INCOME EARNED ON THE ABOVE	16,119	38,656
LEDGER FEES EARNED ON THE ABOVE	2,147	2,495

(b) Amounts due to Group Banks

	2019 KSHS'000	2018 KSHS'000
BANK OF AFRICA - MADAGASCAR	1,751,635	2,230,885
BANK OF AFRICA - UGANDA	227,862	12,927
BANK OF AFRICA - TANZANIA	2,425	52
BANQUE DE CRÉDIT	24,992	88,109
BANK OF AFRICA - RDC	132	713,935
BANK OF AFRICA - GHANA	3,161	3,221
BANK OF AFRICA - TOGO	1,292,435	37,954
BANK OF AFRICA - NIGER	42,541	76,650
BOA-FRANCE	19,193	1,490
BANK OF AFRICA - MER ROUGE	28,375	3,695,491
BANK OF AFRICA - RWANDA	2,122	
	3,394,873	6,860,714

	2019 KSHS'000	2018 KSHS'000
MATURING WITHIN 90 DAYS	3,394,873	6,860,714
INTEREST EXPENSE INCURRED ON THE ABOVE	32,432	49,491

(c) Investments in Group related companies

	2019 KSHS'000	2018 KSHS'000
BANK OF AFRICA - TANZANIA (NOTE 18 (A))	383,484	273,789
BANK OF AFRICA - UGANDA (NOTE 18 (A)) AND NOTE 19	159,447	1,311,749
BOA-FRANCE (NOTE 18 (A))	7,812	7,050
	550,743	1,592,588

(d) Expenses incurred within the BOA GROUP

	2019 KSHS'000	2018 KSHS'000
TECHNICAL ASSISTANCE FEES PAID TO AFRICAN FINANCIAL HOLDINGS (AFH)	132,036	140,522
INFORMATION TECHNOLOGY FEES PAID TO AFRICAN INFORMATION SERVICES AND SOFTWARE ASSOCIATED (AISSA)	45,423	18,614
	177,459	159,136

(e) Loans to key management and directors

	2019 KSHS'000	2018 KSHS'000
KEY MANAGEMENT	68,268	49,415
DIRECTORS	10,962	20,065

Advances to customers as at 31 December 2019 includes loans to key management amounting to KShs 68 million (2018: KShs 49 million).

Total loans to directors amounted to KShs 11.5 million as at 31 December 2019 (2018: KShs 12 million).

(f) Key management compensation

	2019 KSHS'000	2018 KSHS'000
SALARIES AND OTHER SHORT-TERM EMPLOYMENT BENEFITS	128,764	115,388

(g) Directors' remuneration

	2019 KSHS'000	2018 KSHS'000
SALARIES TO EXECUTIVE DIRECTORS (INCLUDED IN KEY MANAGEMENT COMPENSATION ABOVE)	36,850	37,766
COMPENSATION TO NON-EXECUTIVE DIRECTORS	16,733	16,716
	53,583	54,482

(h) Subordinated debt and borrowings

The disclosures on the subordinated debt from BOA Group S.A. and borrowings from BOA-MER ROUGE are included in Note 28.

	AMORTISED COST 2019 KSHS'000	AMORTISED COST 2018 KSHS'000
OVERDRAFTS	6,487,051	7,887,344
PERSONAL LOANS	2,589,211	2,592,642
MORTGAGES	2,983,215	3,615,911
COMMERCIAL LOANS	9,016,700	9,534,707
DISCOUNTED BILLS	1,323,839	2,352,469
GROSS LOANS AND ADVANCES	22,400,016	25,983,073
LESS: IMPAIRMENT LOSS ALLOWANCE		
STAGE 1 ECL ALLOWANCE	(108,327)	(100,127)
STAGE 2 ECL ALLOWANCE	(292,605)	(363,925)
STAGE 3 ECL ALLOWANCE	(6,016,926)	(4,330,906)
TOTAL IMPAIRMENT	(6,417,858)	(4,794,958)
NET LOANS AND ADVANCES	**15,982,158**	**21,188,115**
WEIGHTED AVERAGE EFFECTIVE INTEREST RATE	**10.72%**	**9.11%**

31 DECEMBER 2019 LOSS ALLOWANCE	STAGE 1 12-MONTH ECL KSHS'000	STAGE 2 LIFETIME ECL KSHS'000	STAGE 3 LIFETIME ECL KSHS'000	TOTAL KSHS'000
BALANCE AS AT 1 JANUARY	100,127	363,925	4,330,906	4,794,958
CHANGES IN THE LOSS ALLOWANCE				
– TRANSFER TO STAGE 1	10,646	(7,335)	(3,311)	
– TRANSFER TO STAGE 2	(1,104)	10,256	(9,152)	
– TRANSFER TO STAGE 3	(4,310)	(88,479)	92,789	
– WRITE-OFFS	(1)	(50)	(682,978)	(683,029)
NET REMEASUREMENT OF LOSS ALLOWANCE	(110,156)	353,801	2,642,843	2,886,488
NEW FINANCIAL ASSETS ORIGINATED OR PURCHASED	38,008	130,988	302,262	471,258
FINANCIAL ASSETS THAT HAVE BEEN DERECOGNISED	(140,136)	(358,520)	(549,093)	(1,047,749)
FOREIGN EXCHANGE AND OTHER MOVEMENTS	215,253	(111,981)	(107,340)	(4,068)
LOSS ALLOWANCE AS AT 31 DECEMBER	108,327	292,605	6,016,926	6,417,858

31 DECEMBER 2018 LOSS ALLOWANCE	STAGE 1 12-MONTH ECL KSHS'000	STAGE 2 LIFETIME ECL KSHS'000	STAGE 3 LIFETIME ECL KSHS'000	TOTAL KSHS'000
BALANCE AS AT 1 JANUARY	419,756	736,159	5,279,651	6,435,566
CHANGES IN THE LOSS ALLOWANCE				
- TRANSFER TO STAGE 1	365,366	(2,006)	(363,360)	
- TRANSFER TO STAGE 2	(3,992)	119,560	(115,568)	
- TRANSFER TO STAGE 3		(660,775)	660,775	
NET REMEASUREMENT OF LOSS ALLOWANCE			(200,443)	(200,443)
NEW FINANCIAL ASSETS ORIGINATED OR PURCHASED	45,113	304,322	3,323	352,758
FINANCIAL ASSETS THAT HAVE BEEN DERECOGNISED	(173,312)	(4,087)	(120,944)	(298,343)
WRITE-OFFS			(1,538,284)	(1,538,284)
FOREIGN EXCHANGE AND OTHER MOVEMENTS	(552,804)	(129,248)	725,756	43,704
LOSS ALLOWANCE AS AT 31 DECEMBER	100,127	363,925	4,330,906	4,794,958

Movements in provisions for impairment of loans and advances are as follows:

	2019 KSHS'000	2018 KSHS'000
NET INCREASE/ (DECREASE)/ IN IMPAIRMENT LOSS ALLOWANCE:		
NET REMEASUREMENT OF LOSS ALLOWANCE	2,419,375	(146,028)
RECOVERIES OF LOANS AND ADVANCES PREVIOUSLY WRITTEN OFF	(14,040)	(12,666)
NET IMPAIRMENT CHARGED TO PROFIT OR LOSS	2,405,335	(158,694)

All impaired loans have been written down to their estimated recoverable amount. The aggregate carrying amount of impaired loans at 31 December 2019 was KShs 8,998 million (2018: KShs 9,509 million).

18. INVESTMENT SECURITIES

(a) Unquoted equity securities

	2019 KSHS'000	2018 KSHS'000
1 JANUARY	283,027	567,987
DERECOGNITION OF ASSOCIATE AND RECOGNITION OF INVESTMENT SECURITIES (NOTE 19)	200,159	
GAIN/ (LOSS) ON FAIR VALUE OF INVESTMENT SECURITIES	69,745	(284,960)
31 DECEMBER	552,931	283,027

2019: FVOCI	BOA-UGANDA KSHS'000	BOA-TANZANIA KSHS'000	BOA-FRANCE KSHS'000	SWIFT SHARES KSHS'000	TOTAL KSHS'000
BALANCE AT 1 JANUARY 2019		273,789	7,050	2,188	283,027
DERECOGNITION OF ASSOCIATE AND RECOGNITION OF INVESTMENT SECURITIES (NOTE 19)	200,159				200,159
FAIR VALUE ADJUSTMENTS	(40,712)	109,695	762		69,745
BALANCE AT 31 DECEMBER 2019	159,447	383,484	7,812	2,188	552,931

2018: FVOCI	BOA-TANZANIA KSHS'000	BOA-FRANCE KSHS'000	SWIFT SHARES KSHS'000	TOTAL KSHS'000
BALANCE AT 1 JANUARY 2019	533,709	32,090	2,188	567,987
FAIR VALUE ADJUSTMENTS	(259,920)	(25,040)		(284,960)
BALANCE AT 31 DECEMBER 2018	273,789	7,050	2,188	283,027

The Bank has used the market approach in determing the fair value of its equity investments as per IFRS 13 that defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants.

(b) Bills and bonds

	AMORTISED COST 2019 KSHS'000	AMORTISED COST 2018 KSHS'000
CORPORATE BONDS		43,433
TREASURY BILLS	3,169,112	2,856,398
TREASURY BONDS	4,118,618	3,612,814
	7,287,730	6,512,645
MATURING WITHIN 90 DAYS OF ACQUISITION	1,570,057	345,875
MATURING AFTER 90 DAYS OF ACQUISITION	5,717,673	6,166,770
	7,287,730	6,512,645
WEIGHTED AVERAGE EFFECTIVE INTEREST RATE:		
CORPORATE BONDS		12.00%
TREASURY BILLS	9.85%	10.47%
TREASURY BONDS	7.96%	6.72%

The unamortised premium on treasury bonds as at 31 December 2019 was KShs 224 million (2018: KShs 254 million).

19. INVESTMENT IN ASSOCIATE COMPANIES

	2019 KSHS'000	2018 KSHS'000
AT 1 JANUARY	1,311,749	1,297,234
CURRENT YEAR SHARE OF PROFIT	241,371	149,572
PRIOR YEAR UNDERSTATED SHARE OF PROFIT	28,983	
DIVIDENDS RECEIVED	(78,536)	(79,073)
SALE OF INVESTMENT SECURITIES	(1,154,025)	
LOSS FROM SALE OF SHARES IN ASSOCIATES (NOTE 8)	(149,383)	
DERECOGNITION OF ASSOCIATE AND RECOGNITION OF INVESTMENT (NOTE 18)	(200,159)	
EXCHANGE DIFFERENCE		(55,984)
		1,311,749

The Bank disposed off its investment in BOA-UGANDA and no longer considers BOA-UGANDA an associate (see Note 18 (a)). The Associate has share capital consisting solely of ordinary shares, which are held directly by the Bank. The country of incorporation or registration is also their principal place of business.

NAME OF ENTITY	PLACE OF BUSINESS/ COUNTRY OF INCORPORATION	% OF OWNERSHIP INTEREST	NATURE OF THE RELATIONSHIP	MEASUREMENT METHOD
BANK OF AFRICA - UGANDA	UGANDA	2019: 5.9%	BANKING SERVICES	EQUITY
		(2018: 43.24%)		

SUMMARISED BALANCE SHEET

	AS AT NOVEMBER 2019 KSHS'000	2018 KSHS'000
ASSETS		
CASH AND BALANCES WITH BANKS	4,881,348	2,877,475
GOVERNMENT SECURITIES – AMORTISED COST (2019)/ HTM (2018)	4,422,523	4,831,352
LOANS AND ADVANCES TO CUSTOMERS	10,746,214	9,413,230
OTHER ASSETS	1,703,541	4,744,175
TOTAL ASSETS	21,753,626	21,866,232
LIABILITIES		
CUSTOMER DEPOSITS	15,361,632	15,624,528
DEPOSITS FROM OTHER BANKS	2,113,361	2,687,219
OTHER LIABILITIES	901,266	520,837
TOTAL LIABILITIES	18,376,259	18,832,584
NET ASSETS	3,377,367	3,033,648

SUMMARISED INCOME STATEMENT

	AS AT NOVEMBER 2019 KSHS'000	2018 KSHS'000
TOTAL OPERATING INCOME	2,453,708	2,121,335
TOTAL OPERATING EXPENSES	(1,795,529)	(1,654,949)
PROFIT BEFORE INCOME TAX	658,179	466,386
INCOME TAX CHARGE	(99,966)	(120,475)
PROFIT FOR THE YEAR	558,213	345,911

RECONCILIATION OF SUMMARISED FINANCIAL INFORMATION

	AS AT NOVEMBER 2019 KSHS'000	2018 KSHS'000
OPENING NET ASSETS	3,033,648	3,000,080
PROFIT FOR THE PERIOD	558,213	345,911
EXCHANGE DIFFERENCES	(214,494)	(312,343)
CLOSING NET ASSETS	3,377,367	3,033,648
INTEREST IN ASSOCIATE (2018: 43.24%)	1,460,373	1,311,749
CARRYING VALUE IN ASSOCIATES	1,460,373	1,311,749
DIFFERENCE		

20. LEASES

20.1 Leases as lessee

The Bank leases a number of branch and office premises. The leases typically run for a period of 6 years, with some leases carrying an option to renew the lease after that date. For some leases, payments are renegotiated after expiry to reflect market rentals. Some leases provide for additional rent payments (rent escalation) that are based on changes in local price indices.

The Bank also leases IT equipment with contract terms of one year. These leases are short-term and/or leases of low-value items. The Bank has elected not to recognise right-of-use assets and lease liabilities for these leases.

Previously, these leases were classified as operating leases under IAS 17.

Information about leases for which the Bank is a lessee is presented below.

20.1.1 Right-of-Use Assets

Right-of-use assets relate to leased branch and office premises that are presented within property and equipment.

The Bank has applied IFRS 16 using the modified retrospective approach and therefore the comparative information has not been restated and continues to be reported under IAS 17 and IFRIC 4. The details of accounting policies under IAS 17 and IFRIC 4 are disclosed separately.

	BRANCH & OFFICE PREMISE 2019 KSHS'000
BALANCE 1 JANUARY 2019 (NOTE 21)	1,025,181
DEPRECIATION CHARGE FOR THE YEAR (NOTE 21)	(194,701)
ADDITIONS	
BALANCE AS AT 31 DECEMBER	830,480

At 31 December 2019, the future minimum lease payments under non-cancellable operating leases were payable as follows.

MATURITY ANALYSIS – CONTRACTUAL UNDISCOUNTED CASH FLOWS	KSHS'000
LESS THAN ONE YEAR	6,926
BETWEEN ONE AND FIVE YEARS	885,083
MORE THAN FIVE YEARS	361,244
TOTAL UNDISCOUNTED LEASE LIABILITIES AT 31 DECEMBER	1,253,253

At 31 December 2018, the future minimum lease payments under non-cancellable operating leases were payable as follows.

MATURITY ANALYSIS – CONTRACTUAL UNDISCOUNTED CASH FLOWS	KSHS'000
LESS THAN ONE YEAR	4,600
BETWEEN ONE AND FIVE YEARS	941,132
MORE THAN FIVE YEARS	454,070
TOTAL UNDISCOUNTED LEASE LIABILITIES AT 31 DECEMBER	1,399,802

20.1.2 Amounts recognised in profit or loss

2019 - Leases under IFRS 16

	KSHS'000
INTEREST ON LEASE LIABILITIES (NOTE 6)	76,850
EXPENSE RELATING TO SHORT-TERM LEASES	
EXPENSES RELATING TO LEASES OF LOW VALUE ASSETS, EXCLUDING SHORT TERM LEASES OF LOW VALUE ASSETS	8,260

Amounts recognised in statement of cash flows

	2019 KSHS'000
TOTAL CASH OUTFLOWS FOR LEASES	203,175

20.1.3 Extension Options

Some leases of branch premises contain extension options exercisable by the Bank before the end of the non-cancellable contract period. Where practicable, the Bank seeks to include extension options in new leases to provide operational flexibility. The extension options held are exercisable only by the Bank and not by the lessors. The Bank assesses at lease commencement date whether it is reasonably certain to exercise the extension options. The Bank reassesses whether it is reasonably certain to exercise the options if there is a significant event or significant changes in circumstances within its control.

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

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

The Bank has estimated that the potential future lease payments, should it exercise the extension options, would result in an increase in lease liability of KShs 466 million.

20.2 Leases as lessor

20.2.1 Finance Lease

The Bank leases out certain property and equipment under finance leases in its capacity as a lessor.

20.2.2 Operating Lease

The Bank leases out its building property. The Bank has classified these leases as operating leases, because they do not transfer substantially all of the risks and rewards incidental to the ownership of the assets. Note 28 sets out information about the operating leases of investment property.

Rental income recognised by the Bank during the year ended 31 December 2019 was KShs 20 million.

21. LEASES

	LAND AND BUILDINGS KSHS'000	MOTOR VEHICLES KSHS'000	FIXTURES, FITTINGS AND EQUIPMENT KSHS'000	WORK IN PROGRESS KSHS'000	TOTAL KSHS'000
2019 COST					
BALANCE AT 1 JANUARY 2019	1,094,174	60,066	1,719,117	162,292	3,035,649
RECOGNITION OF RIGHT-OF-USE ON INITIAL APPLICATION OF IFRS 16	1,025,180				1,025,180
ADDITIONS		20,623	86,253		106,876
TRANSFER TO PROPERTY & EQUIPMENT			29,482	(146,967)	(117,485)
DISPOSALS	(100,200)	(28,103)			(128,303)
WRITE OFFS				(15,325)	(15,325)
BALANCE AT 31 DECEMBER 2019	2,019,154	52,586	1,834,852		3,906,592
DEPRECIATION:					
BALANCE AT 1 JANUARY 2019	26,225	46,545	1,105,486		1,178,256
RIGHT-OF-USE DEPRECIATION CHARGE	194,701				194,701
CHARGE FOR THE YEAR	11,985	9,458	147,295		168,738
DISPOSALS	(3,382)	(28,103)			(31,485)
BALANCE AT 31 DECEMBER 2019	229,529	27,900	1,252,781		1,510,210
NET CARRYING AMOUNT AT 31 DECEMBER 201	1,789,625	24,686	582,071		2,396,382
2018 COST					
BALANCE AT 1 JANUARY 2018	1,473,946	49,356	1,681,005	162,292	3,366,599
ADDITIONS		17,466	38,893		56,359
DISPOSALS	(379,772)	(6,756)	(781)		(387,309)
BALANCE AT 31 DECEMBER 2018	1,094,174	60,066	1,719,117	162,292	3,035,649
DEPRECIATION:					
BALANCE AT 1 JANUARY 2018	22,109	40,512	950,722		1,013,343
CHARGE FOR THE YEAR	17,860	6,483	154,813		179,156
DISPOSALS	(10,444)	(450)	(49)		(10,943)
REVERSAL 2018 DEPRECIATION ON LAND	(3,300)				(3,300)
BALANCE AT 31 DECEMBER 2018	26,225	46,545	1,105,486		1,178,256
NET CARRYING AMOUNT AT 31 DECEMBER 201	1,067,949	13,521	613,631	162,292	1,857,393

During the financial year, the Bank disposed half a floor of its Head Office to Saham insurance in an effort to comply with the regulatory limit on Investments in Land and Buildings ratio.

22. NON-CURRENT ASSET HELD FOR SALE

	2019 KSHS'000	2018 KSHS'000
BALANCE AT 1 JANUARY	29,746	107,843
IMPAIRMENT	(29,746)	(73,747)
CASH PROCEED FROM DISPOSALS		(4,350)
BALANCE AT 31 DECEMBER		29,746

23. INTANGIBLE ASSETS

SOFTWARE

	2019 KSHS'000	2018 KSHS'000
COST		
BALANCE AT 1 JANUARY 2019	318,509	309,215
ADDITIONS	65,013	9,294
TRANSFER FROM WORK IN PROGRESS	117,485	
BALANCE AT 31 DECEMBER 2019	501,007	318,509
AMORTISATION		
BALANCE AT 1 JANUARY	278,380	258,469
CHARGE FOR THE YEAR	29,819	19,911
WRITE OFFS		
BALANCE AT 31 DECEMBER	308,199	278,380
NET CARRYING AMOUNT		
BALANCE AT 31 DECEMBER	192,808	40,129

24. DEFERRED INCOME TAX

The deferred income tax assets, deferred income tax charge/(credit) in the statement of profit or loss and deferred income tax charge/(credit) in other comprehensive income are attributable to the following items:

DEFERRED INCOME TAX ASSET	31/12/2018 KSHS'000	RECOGNISED IN PROFIT OR LOSS KSHS'000	RECOGNISED IN OTHER COMPREHENSIVE INCOME KSHS'000	31/12/2019 KSHS'000
IMPAIRMENT LOSS ALLOWANCE	(1,450,677)	422,541		(1,028,136)
PROVISIONS	(24,817)	(27,744)		(52,561)
TAX LOSSES	(323,558)	(1,257,153)		(1,580,711)
PROPERTY AND EQUIPMENT	157,341	(7,402)		149,939
EQUITY INVESTMENTS AT FVOCI	(18,257)		3,487	(14,770)
IFRS 16		(20,081)		(20,081)
NET DEFERRED INCOME TAX ASSET	(1,659,968)	(889,838)	3,487	(2,546,320)

DEFERRED INCOME TAX ASSET	31/12/2018 KSHS'000	RECOGNISED IN PROFIT OR LOSS KSHS'000	RECOGNISED IN OTHER COMPREHENSIVE INCOME KSHS'000	31/12/2019 KSHS'000
IMPAIRMENT LOSS ALLOWANCE	(1,757,956)	307,279		(1,450,677)
PROVISIONS	(16,708)	(8,109)		(24,817)
TAX LOSSES		(323,558)		(323,558)
PROPERTY AND EQUIPMENT	96,465	60,876		157,341
EQUITY INVESTMENTS AT FVOCI	(4,009)		(14,248)	(18,257)
NET DEFERRED INCOME TAX ASSET	(1,682,208)	36,488	(14,248)	(1,659,968)

25. OTHER ASSETS

	2019 KSHS'000	2018 KSHS'000
FINANCIAL ASSETS		
UNCLEARED EFFECTS	138,842	138,245
MOBILE BANKING AND MONEY TRANSFER RECEIVABLES397,728	239,882	
SECURITY DEPOSIT REFUNDABLE	79,324	79,531
GUARANTEE FEES RECEIVABLE	8,887	18,397
OTHER RECEIVABLES	387,905	336,261
	1,012,686	812,316
OTHER ASSETS		
PREPAYMENTS	341,390	385,384
	1,354,076	1,197,700

Other receivables include Kes 137 million for amounts due from Group Banks for reimbursements for costs incurred by the Bank on behalf of the Bank and commissions receivable for syndicated facilities.

26. DUE TO OTHER BANKING INSTITUTIONS

	2019 KSHS'000	2018 KSHS'000
MATURING WITHIN 90 DAYS	1,877	58,059

Other banking institutions include both local and foreign non-Group banks.

27. CUSTOMER DEPOSITS

	2019 KSHS'000	2018 KSHS'000
CURRENT AND DEMAND DEPOSITS	19,975,736	13,872,844
SAVINGS ACCOUNTS	2,017,850	1,998,984
FIXED DEPOSIT ACCOUNTS	11,004,849	14,140,338
MARGIN DEPOSITS	328,797	110,291
	33,327,232	30,122,457
WEIGHTED AVERAGE INTEREST RATE	3.70%	5.06%

28. BORROWINGS

	2019 KSHS'000	2018 KSHS'000
BORROWINGS FROM:		
BOA - MER ROUGE		3,207,385
		3,207,385
SUBORDINATED DEBT		
BOA BANK S.A	1,439,516	1,475,972
	1,439,516	4,683,357

	2019 KSHS'000	2018 KSHS'000
BALANCE AT 1 JANUARY	4,683,357	5,662,402
ADDITIONS		
REPAYMENTS	(3,057,000)	(969,297)
NET ACCRUED INTEREST	(151,168)	124,566
EXCHANGE DIFFERENCES	(35,673)	(134,314)
BALANCE AT 31 DECEMBER	1,439,516	4,683,357

The fair values of borrowings are disclosed in Note 4. Fair values, are based on discounted cash flows using a discount rate based upon the borrowing rate that the Directors expect would be available to the Bank at the year end date.

Borrowings by BANK OF AFRICA - KENYA Limited are;

- An unsecured 1 year and 30 days term loans of USD 30.0 million from BOA-MER ROUGE for the development of the Bank's lending business in foreign currency. The loans were obtained in 2018 and matured in 2019. Interest is payable on maturity of the loan. The effective interest rate on the loans at 31 December 2019 was 4.86%. (2018: 5.07%).

The subordinated debt is made up of the below facility;

- A subordinated convertible loan as an unsecured 7 year loan of EUR 12.3 million issued by BOA Bank S.A to enhance the Banks capital base. The loan was obtained on 31 December 2014 and has a maturity date of 31 December 2021.The debt has an initial five year principal repayment moratorium. It bears an interest rate referenced to the Euribor payable semi-annually in arrears. The effective interest rate on the subordinated debt as at 31 December 2019 was 5.57% (2018: 5.57%). The subordinated debt is treated as Tier 2 capital in line with Central Bank of Kenya Prudential Guidelines.

None of the borrowings were in default during the year.

29. OTHER LIABILITIES

	2019 KSHS'000	2018 KSHS'000
FINANCIAL LIABILITIES		
OUTSTANDING BANKERS CHEQUES	32,834	96,119
ACCRUED EXPENSES	99,254	113,426
INSURANCE PREMIUMS PAYABLE	1,647	5,006
PROVISIONS	7,296	69,963
OTHER PAYABLES*	428,559	241,144
OTHER LIABILITIES		
DEFERRED INCOME	105,712	94,432
LEASE LIABILITY-IFRS 16	881,557	
	1,556,859	620,090

(*) Included in other payables is 100% provision of KShs 137 million for amounts long outstanding with Group related banks.

30. SHARE CAPITAL AND SHARE PREMIUM

	2019 KSHS'000	2018 KSHS'000
AUTHORISED SHARE CAPITAL:		
6,404,949 ORDINARY SHARES OF KSHS 1,000 EACH	6,404,949	6,404,949
ISSUED AND FULLY PAID UP SHARE CAPITAL:		
THE MOVEMENT IN ISSUED AND FULLY PAID UP SHARE CAPITAL AND SHARES AWAITING ALLOTMENT DURING THE YEAR WAS AS FOLLOWS;		
BALANCE AT 1 JANUARY AND 31 DECEMBER 2019	6,404,949	6,404,949
SHARE PREMIUM		
BALANCE AT 1 JANUARY AND 31 DECEMBER 2019	1,980,356	1,980,356

Share premium arises from issue of shares at a price higher than the par value of the shares. These are being applied in business expansion of the Bank.

31. STATUTORY CREDIT RISK RESERVE

	2019 KSHS'000	2018 KSHS'000
BALANCE AT 1 JANUARY	486,296	2,152,182
IMPACT ON INITIAL APPLICATION OF IFRS 9 ON 1 JANUARY		(2,152,182)
RESTATED BALANCE AT 1 JANUARY	486,296	
TRANSFER TO/ (FROM) RETAINED EARNINGS	(168,732)	486,296
BALANCE AT 31 DECEMBER	317,564	486,296

The statutory credit risk reserve represents an appropriation from retained earnings to comply with Central Bank of Kenya Prudential Guidelines. The balance in the reserve represents the excess of impairment provisions determined in accordance with Central Bank Guidelines over the impairment provisions recognized in accordance with the International Financial Reporting Standards.

32. OTHER RESERVES

(a) Fair value reserve

The fair value reserve comprises the cumulative net change in the fair value of equity investment at FVOCI financial assets until the investments are derecognized or the asset is impaired at which point the cumulative changes are transferred to retained earnings.

(b) Foreign currency translation reserve

The foreign currency translation reserve represents translation differences on investments in foreign operations.

33. OFF BALANCE SHEET FINANCIAL INSTRUMENTS, CONTINGENT LIABILITIES AND COMMITMENTS

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

CONTINGENT LIABILITIES

	2019 KSHS'000	2018 KSHS'000
ACCEPTANCES AND LETTERS OF CREDIT	641,143	1,002,246
GUARANTEES AND PERFORMANCE BONDS	5,561,000	7,081,072
	6,202,143	8,083,318

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

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

Guarantees are generally written by a bank to support performance by a customer to third parties.

The Bank will only be required to meet these obligations in the event of the customer's default.

	2019 KSHS'000	2018 KSHS'000
UNUTILIZED CREDIT LINES AND OTHER FACILITIES	767,893	771,453
CURRENCY FORWARDS	169,161	77,439
FOREIGN EXCHANGE SPOTS	42,860	5,628
	979,914	854,520

Nature of commitments

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

Forward foreign exchange contracts are commitments to either purchase or sell a specified quantity of foreign currency at a specified future date at an agreed rate. The fair values of the respective currency forwards are carried under other assets or other liabilities as appropriate.

34. ANALYSIS OF CASH AND CASH EQUIVALENTS AS SHOWN IN THE CASH FLOW STATEMENT

	2019 KSHS'000	2018 KSHS'000
CASH AND BALANCES WITH CENTRAL BANK (NOTE 13)	9,250,628	9,927,343
LESS: CASH RESERVE REQUIREMENT (NOTE 13)	(1,714,531)	(1,561,586)
INVESTMENT AND OTHER SECURITIES (NOTE 18 (B))	1,570,057	345,875
DEPOSITS DUE FROM OTHER BANKS (NOTE 15)	2,938,741	2,872,506
DUE TO BANKS AND NON-BANK FINANCIAL INSTITUTIONS (NOTE 26)	(1,877)	(58,059)
AMOUNTS DUE TO OTHER BANK (NET) (NOTE 16)	(3,285,026)	(6,328,257)
BALANCE AT 31 DECEMBER	8,757,992	5,197,822

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

35. DIVIDENDS

At the next Annual General Meeting, no dividend in respect of the year ended 31 December 2019 is to be proposed (2018: Nil). Payment of dividends is subject to withholding tax at a rate of 5% for resident and 10% for non-resident shareholders.

36. FIDUCIARY ACTIVITIES

The Bank holds asset security documents on behalf of customers with a value of KShs 3,737 million (2018: KShs 2,298 million). These securities are held by the Custody Services department of the Bank. The assets held comprise of deposits, government securities, debentures, title deeds, quoted and unquoted shares.

37. PRIOR YEAR ADJUSTMENT

The prior year adjustment relates to corrections to recognise over provision of deferred tax relating to day 1 adjustment for adoption of IFRS 9 guidelines on financial instruments.

The impact of the prior year adjustments on the financial statements is detailed below:

STATEMENT OF FINANCIAL POSITION

	ASSETS DEFERRED INCOME TAX KSHS'000	LIABILITIES RETAINED EARNINGS KSHS'000
BALANCE AT 31 DECEMBER 2018 AS PREVIOUSLY REPORTED	2,327,064	1,608,282
REDUCTION IN DEFERRED INCOME TAX ASSETS	(667,096)	
REDUCTION IN RETAINED EARNINGS		(667,096)
RESTATED BALANCE AT 31 DECEMBER 2018	1,659,968	(2,275,378

38. SUBSEQUENT EVENTS

On 10 March 2020, the bank received USD 15 million from BOA Group S.A, the bank's main shareholder being funds earmarked for capital increase. The funds are in the BOA Group S.A Current Account in BOA-KENYA awaiting transfer instructions to the Deposit for Shares Account and eventually into Tier 1 Share Capital. With this additional capital, the new capital ratios will be as shown in the table below:

CAPITAL RATIOS

	AFTER CAPITAL INJECTION 31 DECEMBER 2019	BEFORE CAPITAL INJECTION AS AT 31 DECEMBER 2019
CORE CAPITAL/TOTAL DEPOSIT LIABILITIES (CBK MINIMUM 8%) (2018: 8%)	8.7%	4.1%
CORE CAPITAL/TOTAL RISK WEIGHTED ASSETS (CBK MINIMUM 10.5%) (2018: 10.5%)	12.9%	6.2%
TOTAL REGULATORY CAPITAL/TOTAL RISK WEIGHTED ASSETS (CBK MINIMUM 14.5%) (2018: 14.5%)	17.5%	10.8%
INVESTMENT IN LAND AND BUILDINGS RATIO		
INVESTMENT IN LAND AND BUILDINGS/CORE CAPITAL (CBK MAXIMUM 20%) (2018: 20%)	31.4%	65.8%
INVESTMENT IN FINANCIAL INSTITUTIONS RATIO		
INVESTMENT IN FINANCIAL INSTITUTIONS/CORE CAPITAL (CBK MAXIMUM 25%) (2018: 25%)	17.4%	36.5%

The world is currently facing a significant health challenge in the form of a Coronavirus which the World Health Organisation (WHO) has named COVID-19 and declared a pandemic.The situation with Covid-19 is still developing and is being followed worldwide with great interest and obvious concern.

The first confirmed case in Kenya was on 13 March 2020. The pandemic is expected to affect the economy by restricting movement of goods and services and reallocation of government development budget to combat widespread Corona disease infections.

At the Bank, Group and the wider banking Industry, we are keenly following the developments, in particular the impact to our business in order to better plan for containment of any unexpected exposures to all our stakeholders. The industry interventions are being spearheaded by the Kenya Banker's Association in close liaison with the Central Bank of Kenya. The Bank is assessing the impact of COVID -19 to our business.