



*Building lasting
relationships*

DTB
2019

DIAMOND
TRUST
BANK

INTEGRATED REPORT
AND FINANCIAL STATEMENTS

About Us

The Diamond Trust Bank (DTB) Group is a leading East African commercial banking institution operating in Kenya, Tanzania, Uganda and Burundi. DTB Kenya is headquartered in Nairobi, Kenya and listed on the Nairobi Securities Exchange (NSE). DTB has contributed to the region's economic development as well as the improvement in the quality of lives of East Africans for the past 75 years by providing financial intermediary services to its core customer segments i.e. small and medium enterprises (SMEs), local corporates and individuals.



Scan here to view this report on our website.

Our Integrated Report

The year 2020 marks the fourth year since the Group adopted integrated reporting. The intention of this Report is to provide a clear and meaningful understanding of the Group's strategy, business model, governance, material risks, stakeholders' interests, performance, remuneration and prospects and how these factors lead to value creation. We welcome all related feedback, which can be shared via email to dtbinvestorrelations@dtbafrica.com



Our goal is to use our financial knowledge, experience and expertise to nurture individuals, families, businesses and the communities around us. Helping you achieve more is core to us – from the dream of owning a home, educating a child, buying a new family car to starting a business, or even expanding an existing one, amongst other dreams.

To this end, what drives us is not only our human capital, or our customers, but the number of lives we touch. We take immense pride in being the reason for countless smiles and achieving dreams. We not only ensure our own resilience and success, but also aim to increase our effectiveness as a catalyst of positive change.

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About our Integrated Report for the Year 2019

Scope and Framework of Reporting

The Group's Integrated Report is produced and published annually and provides the Group's material information relating to our strategy, governance, business model, operating context, material risk, stakeholder interests and financial performance covering the year 1 January 2019 to 31 December 2019.

This report is prepared in compliance with global practices and prudent accounting frameworks further, guided by the principles and requirements contained in the Kenya Companies Act, 2015, Central Bank of Kenya (CBK) Prudential Guidelines, International Financial Reporting Standards (IFRS), the International Integrated Reporting Council's (IIRC's) Framework, the Capital Markets Authority (CMA) Code of Corporate Governance for Issuers of Securities to the Public 2015, the listing rules. The report extends to beyond financial reporting and includes non-financial performance, opportunities, risks and initiatives undertaken during the reporting period. The Report reinforces our commitment to remain a transparent, responsible institution.

Assurance

DTB Kenya 2019 financial statements were audited by KPMG Kenya, DTB Tanzania by KPMG Tanzania, DTB Uganda and Network Insurance Agency Limited by Deloitte Uganda, DTB Burundi by KPMG Rwanda while Diamond Trust Insurance Agency was audited by RSM Eastern Africa.

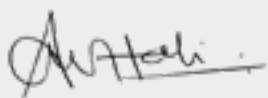
Target Audience and Materiality

This Report is primarily intended to address the information requirements of all stakeholders of the Group covering information about our value creation for stakeholders such as the Group's staff, customers, investors, regulators and the society.

Any additional information that is not seen to be material for these purposes, but that may be of interest to other stakeholders, is provided in the annual financial statements that form part of this Integrated Report.

Statement of Board of Directors' Approval

The Board of Directors acknowledges its responsibility in ensuring integrity of the Integrated Report, which in the Board's opinion, addresses the activities, material issues, relationships and performance of the Group. This Report, together with the annual financial statements of the Group for the year ended 31 December 2019, were approved by the Board of Directors of DTB Kenya on 18 March 2020 and signed on its behalf by:



Linus Gitahi
Chairman



Nasim Devji
Managing Director

Forward-looking Statements and Disclaimer

The Integrated Report includes forward-looking statements which could have an impact on the future financial position and results of the Group. Forward-looking statements are not statements of fact, but statements made by the Group based on our current estimates, projections, expectations, beliefs and assumptions regarding the Group's future performance. No assurance can be given that forward-looking statements will be correct and undue reliance should not be placed on such statements. These statements, by their nature, involve risk and uncertainty, as they relate to events and depend upon circumstances that may or may not occur in the future. Factors that could cause actual future results to differ materially from those in the forward-looking statements include, but are not limited to, changes in (a) global and national economic conditions, (b) our trading environment, (c) future strategies as contained in our strategic priorities and plans included in the strategic trends, (d) interest rates, (e) credit conditions and the associated risks of lending, (f) actual cash collections, (g) gross and operating margins, (h) capital management and (i) competitive and regulatory factors.

The Group does not undertake to update or revise any of these forward-looking statements publicly, whether to reflect new information or future events or otherwise. The forward-looking statements have not been reviewed or reported upon by the Group's external auditor.

The Group does not assume responsibility for any loss or damage arising as a result of the reliance by any party thereon, including, but not limited to, loss of earnings, profits, or consequential loss or damage.

Who We Are

Diamond Trust Bank (DTB) is a leading East African commercial bank headquartered in Nairobi, Kenya and listed on the Nairobi Securities Exchange (NSE) since 1972. As one of Eastern Africa's leading and longest established banking groups, we understand the intricacies of the region's markets and provide a wide range of services in business and retail banking. To continue staying at the forefront of the industry, we are re-imagining banking. We are using innovation and digital technology to extend our reach, provide convenience and a better customer experience, as well as become more agile in creating tomorrow's solutions. The Group remains a **purpose-driven institution** with a tailored corporate culture to the local markets in which the Group operates in, driven towards a more **customer-centric and innovative business operation**.

Our focus on the Small and Medium Enterprises (SME) sector, in particular, and commitment to enhancing access and convenience for customers through our branch and agency banking networks, and an array of innovative digital channels has propelled our growth in recent years. Digitisation has enabled us to increase our regional footprint and reach out to new customer segments without expensive physical distribution networks. Through our digital products and channels, we have offered our customers a variety of efficient and reliable payment solutions to meet their everyday needs, such as paying for their household utility bills or purchasing an airline ticket. We constantly receive feedback from our customers with a view to providing solutions that meet their needs and **involving our customers in the product development process**.

Our notable growth has been guided by our Corporate **Vision, Mission and Values**

Vision:

Enabling people to advance with confidence and success.



Mission:

To make our customers prosper, our staff excel and create value for our stakeholders.



Values:

Our values are the fundamental principles that define our culture and are brought to life in both our attitudes and our behavior; as we create value for our various stakeholders. Our values shape the way we operate and serve our customers. Deeply entrenched in us, these values enable us to perform our roles meaningfully and ethically, as well as interact with our customers through that special human element which

creates enriched connections and builds sustainable relationships.



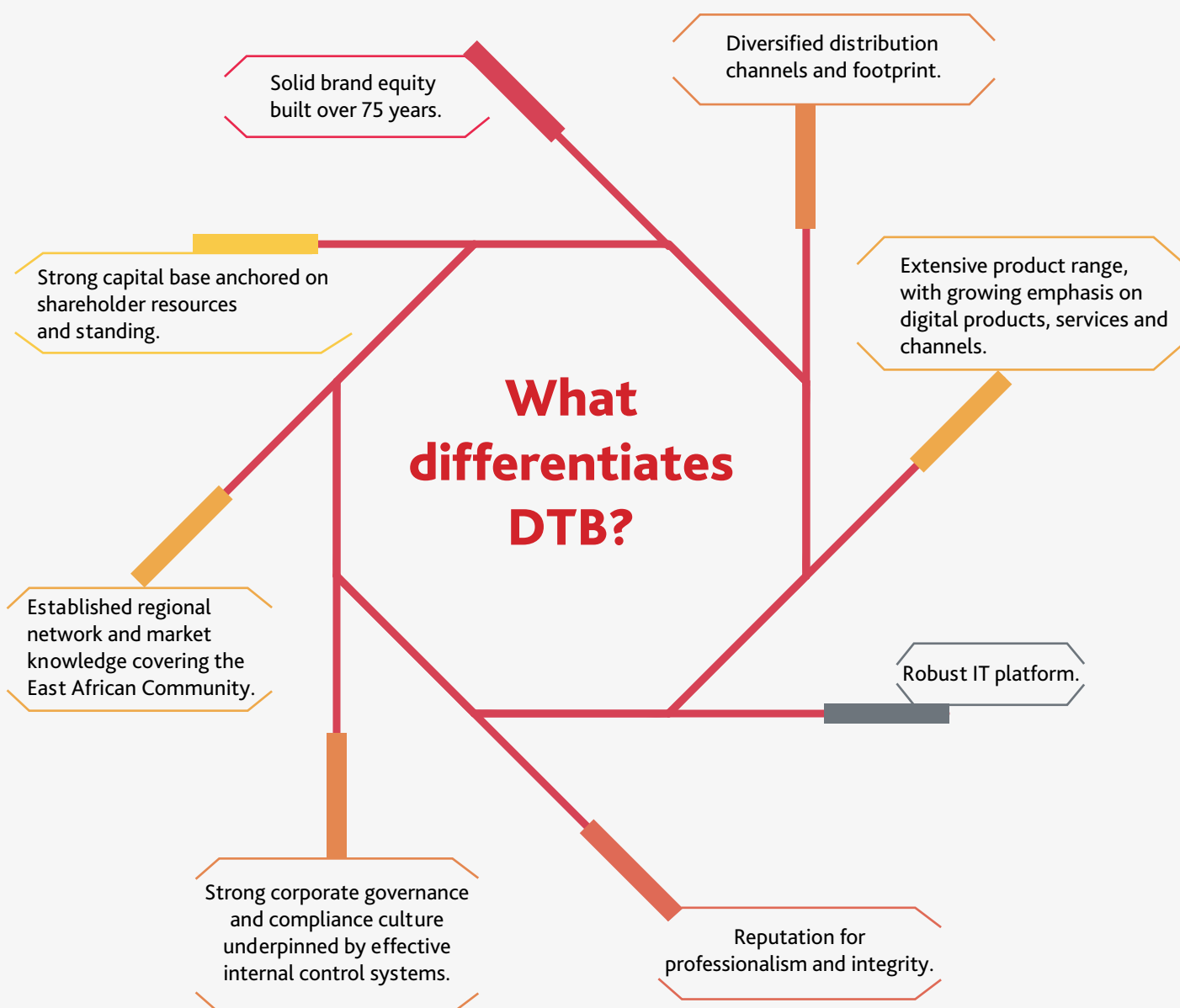
Over time, we have invested in the most valuable anchor of our strategy - our people. By continuously enriching our peoples' skills, re-architecting ourselves to make technology and innovation our backbone and **fostering a customer-centric culture**. DTB aims to become the top-of-mind, go-to- financial partner, deeply embedded in the lifestyles of our customers.

Our values make us unique and unmistakable:

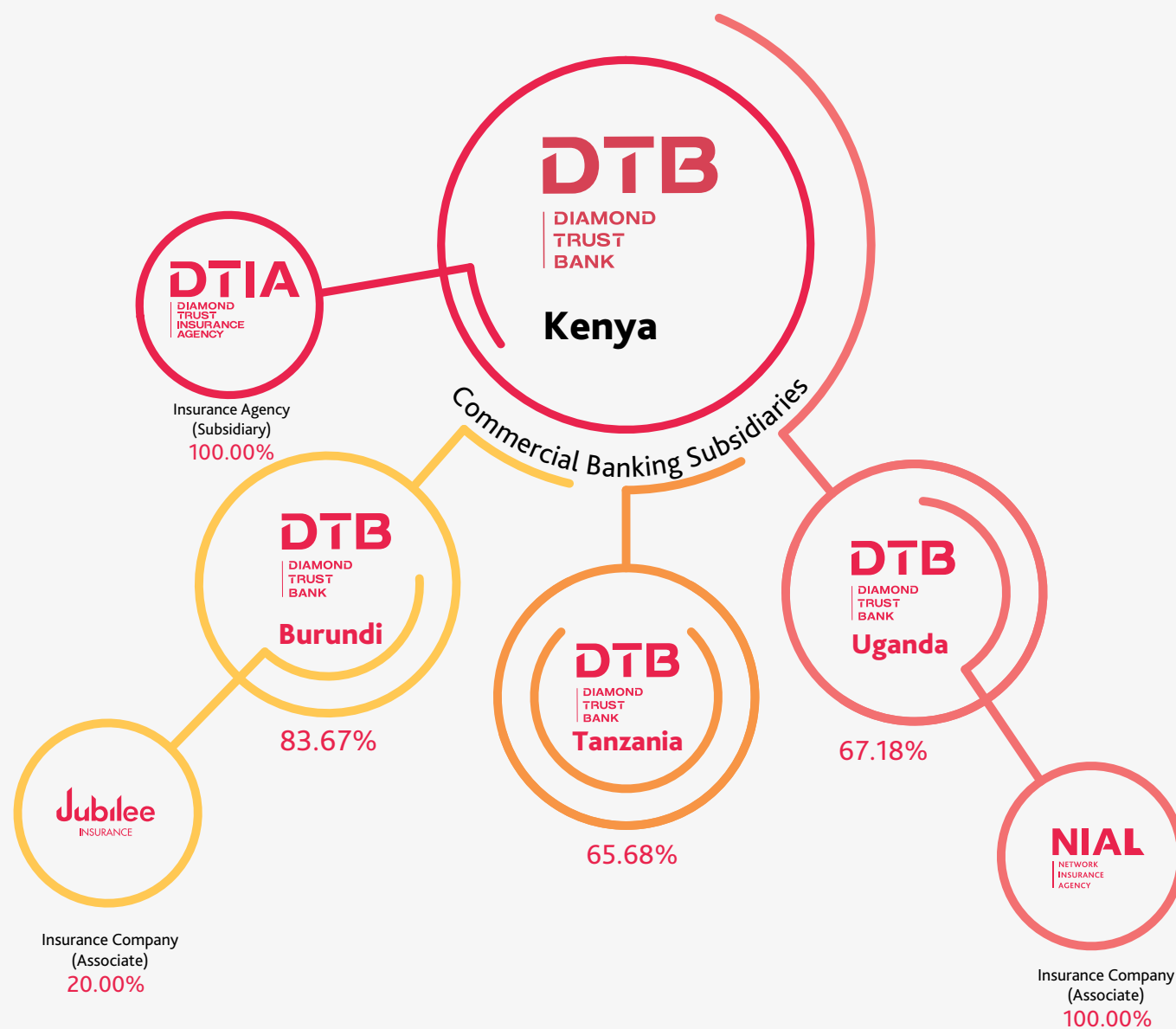
- **Excellence** - This is the core of everything we do. We believe in being the best in everything we do in terms of our services, products and premises.
- **Integrity**: We steadfastly adhere to high moral principles and professional standards, knowing that our success depends on our customers' trust.
- **Customer Focus**: We fully understand the needs of our customers and we adapt our products and services to meet them. We always strive to put satisfaction of our customers first.
- **Meritocracy**: We believe in giving opportunities and advantages to our employees on the basis of their ability. We believe in rewarding achievement and in providing first-class career opportunities for all.
- **Progressiveness**: We believe in the advancement of society through the adoption of enlightened working practices, innovative new products and processes.

Who We Are (Continued)

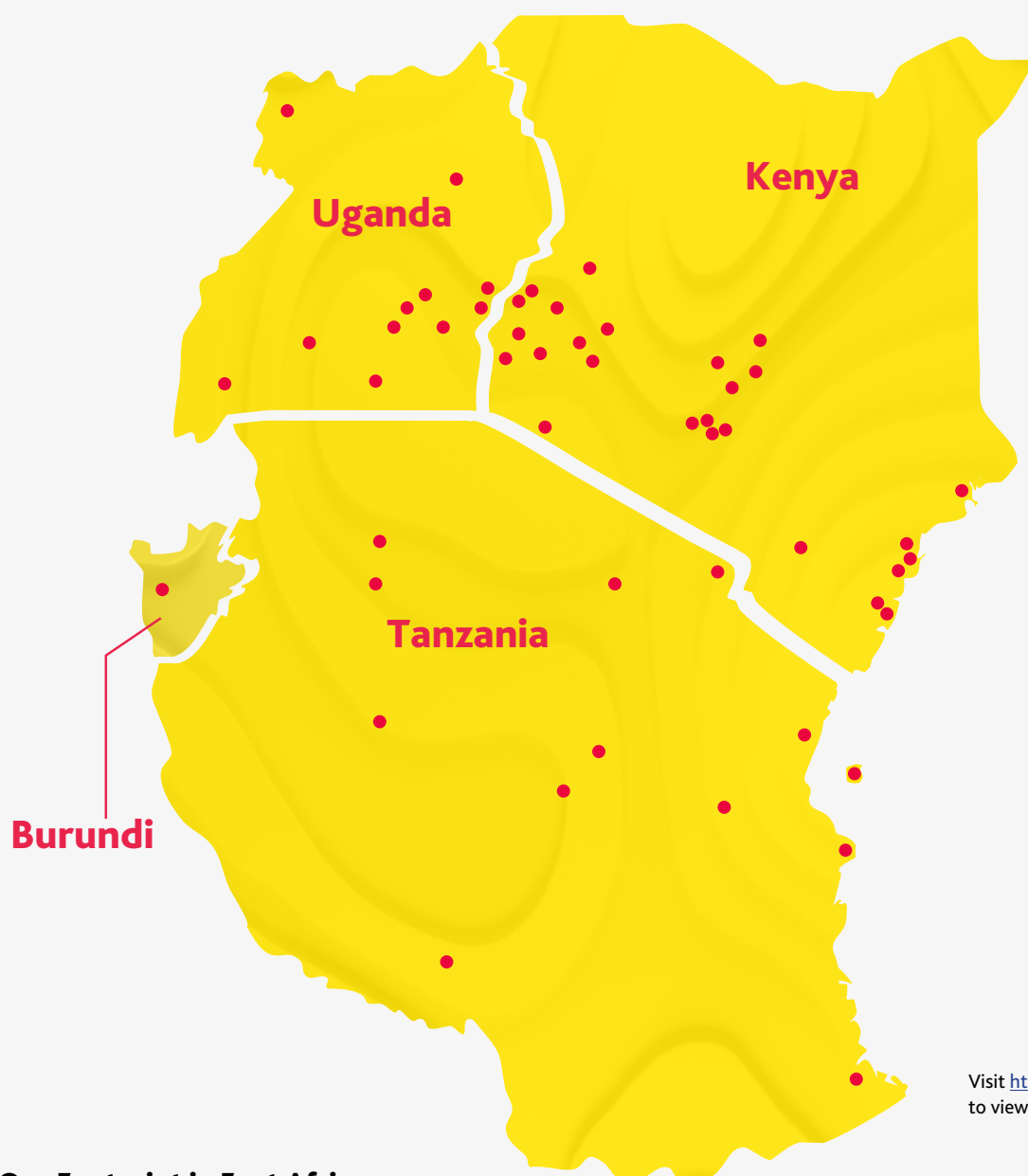
Our core purpose is anchored on DTB contributing to the **improvement in the quality of lives of its customers** – those that it is currently serving as well as those that are underserved. This involves implementing an aggressive and expansive financial inclusion agenda targeting various customer segments (large corporates, SMEs, micro- enterprises, high net worth individuals, white- and blue- collared employees, etc.) and ensuring that the Bank has the digital capabilities that are at the core of delivering banking solutions. This requires DTB to continue investing significantly in (i) equipping its people with skills for digitised banking and enhancing customer service excellence, (ii) new technologies (Big Data analytics, Artificial Intelligence (AI), robotics, block chain technology, cloud computing, etc.) and (iii) innovation over the next 10 plus years. These strategic plans are also underpinned by building strong frameworks in core areas by continuously benchmarking DTB's risk management and compliance frameworks to best practices.



Group Structure



Group Footprint



Visit <https://dtbafrica.com> to view a detailed list of all our branches

Our Footprint in East Africa (December 2019)



Customers
598,232



Employees
2,269



Branches
137



ATMs
160

Corporate History and Other Milestones

Corporate History and Other Milestones (Continued)

Incorporated as the Diamond Jubilee Investment Trust ("DJIT") to commemorate the Diamond Jubilee of the ascension to the Imam by the late Aga Khan III. DJIT operated in East Africa with its head office in Dar-es-Salaam (Tanzania) and branches in Mombasa (Kenya), Kampala (Uganda) and, subsequently, in Nairobi and Kisumu (Kenya). It operated initially as a community-based finance house, canvassing savings and extending credit to members of the Ismaili Community.

1946

DJIT was split into three companies – DJIT (Kenya), DJIT (Tanzania) and DJIT (Uganda) – with head offices in Nairobi, Dar-es-Salaam and Kampala respectively. It transformed itself from a community-based finance house into a growing non-bank financial institution ("NBFI") specialising in installment credit/hire purchase and serving the general public.

1965

DJIT Kenya changed its name to Diamond Trust of Kenya ("DTK") and was floated on the NSE through an Initial Public Offering, with over 8,500 shareholders.



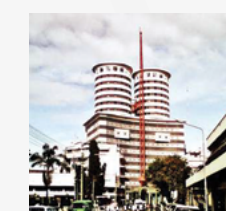
1972

Participation of institutional shareholders, including International Finance Corporation ("IFC") who took up a 10% equity interest in DTK.

1983

The shares held by the Aga Khan and members of his family in DTK were consolidated under the Aga Khan Fund for Economic Development ("AKFED"). AKFED had 20.2% shareholding in DTB.

1986



1995

DTK and AKFED re-capitalised DJIT (Tanzania) whose operations had become moribund following the nationalisation policy pursued by the authorities. DJIT (Tanzania) was re-named Diamond Trust of Tanzania (DTT) and operated as an NBFI, with DTK holding a 33% equity stake (AKFED – 31% and the general public – 36%). DTK and AKFED also revived the banking operations in Uganda which had become moribund, following the political events in Uganda in the 1970s. DJIT (Uganda)'s operations were taken over by Diamond Trust of Uganda (DTU) which also operated as a NBFI, with DTK holding a 27% equity stake in the company (AKFED – 33%, DJIT(Uganda) – 40%).

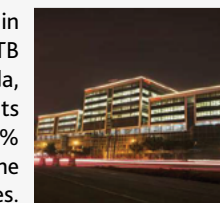
DTK acquired a licence to conduct commercial banking business and changed its name to Diamond Trust Bank Kenya Limited ("DTB Kenya"). It commenced commercial banking operations in July 1997, offering a full range of services targeting principally small and mid-sized corporates. DTT and DTU were also converted into commercial banks and re-named Diamond Trust Bank Tanzania Limited ("DTB Tanzania") and Diamond Trust Bank Uganda Limited ("DTB Uganda") respectively.

1995

In 2018 DTB Kenya increased its shareholding in DTB Burundi to 84% from 67%, after acquisition of shares held by International Financial Corporation (IFC). To-date, DTB Kenya has raised additional equity and debt capital for asset growth and market expansion through the NSE and institutional investors (IFC, DEG, PROPARCO, AFD and AfDB). The Bank has also expanded operations in the region through its subsidiaries DTB Tanzania, DTB Uganda and DTB Burundi.

2018

DTB Kenya participated in successive rights issues of DTB Tanzania and DTB Uganda, progressively increasing its shareholding to 66% and 62% respectively in both the subsidiaries.



2017

DTB Kenya acquired HBL's branch operations and assets in Kenya by way of a merger (i.e. acquisition of HBL's assets and liabilities in exchange for shares of DTB Kenya). DTB Kenya increased its shareholding in DTB Uganda to 67%, from 62%, after participating in a rights issue by the latter.

2012 - 2016

DTB Burundi, a commercial banking subsidiary of DTB Kenya (67%) started operations with one branch in Bujumbura, Burundi. Diamond Trust Insurance Agency Ltd, DTB's fully-owned insurance agency subsidiary, commenced operations.

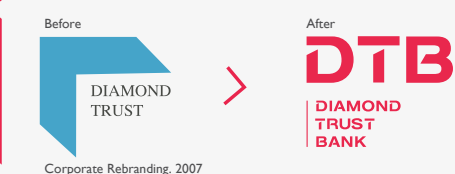
2009

DTB Kenya increased its shareholding in DTB Uganda to 51%, from 27%, after participating in a rights issue by the latter

2008

DTB Kenya increased its shareholding in DTB Tanzania to 55% from 33% following a rights issue by the latter.

2007



DTB Kenya acquired the assets and liabilities of its fully-owned subsidiary, Premier Savings & Finance Limited, which was operating as an NBFI.

1999

Being a Purpose-Driven Bank

Being a purpose-driven bank is core to how we operate our business. Whether it is through responsible banking business practices or **creating socio-economic impact**, our desire is to be relevant and impactful to the society **beyond just being a banking partner**. To achieve this, we aspire to touch real people, real businesses and real lives. To embed ourselves into the lifestyles of our customers by developing simple yet efficient digital financial solutions. To achieve this, we continue to build on and **leverage digital solutions**, as well as **embrace data driven analytics**, to effectively **respond to evolving customer needs and aspirations**.



Adoption of Sustainable Business Practices:

- Adoption of eight UN Sustainable Development Goals (SDGs) (Refer to **pages 65 - 74** on Sustainability Review).
- Conduct business in equitable responsible manner with lending decisions aligned to SDGs.
- Financing of businesses aligned to our values and run professionally.
- Ensuring that our borrowing customers remain sustainable and acquire the capacity to scale up.
- Take proactive steps to support borrowers distressed by adverse macroeconomic, industry/ sectoral or business specific factors.



Creating Social Impact:

- Conducted a financial literacy programmes in Kenya and Tanzania to train over **500** MSME customers to build financial and non-financial skills and competences.
- Promoted low cost housing by investing equity in the Kenya Mortgage Refinancing Company set up to promote one of Kenya's Big 4 Agenda- Affordable Housing.



Strong Governance and Oversight:

- Highly diversified skills base of Board of Directors (refer to **page 29** under Statement of Compliance with Corporate Governance) and Senior Management.
- Average tenure of service of the Board of Directors: **6 years**.
- Average age of service of the Senior Leadership Team in Kenya: **15 years**.
- 46% of the Board are independent Directors.
- 82% are non-executive Directors.

Being a Purpose-Driven Bank (Continued)



Promoting Gender Diversity:

- Achieved a Gender Ratio of **48:52** Female to Male accross the Group.
- Women make up **32%** of the Senior Leadership Team in DTB Kenya.
- Two out of four DTB entities (Kenya and Burundi) **led by Women CEOs**.



Having an Ethical Culture:

- Meaningful values promoting an ethical culture.
- Performance-based pay linked to contribution by employees to the Bank's vision, mission and values and not just achievement of profits and other business targets.
- Strong culture of compliance with Policies and Procedures.
- Key Risk Management frameworks covering Credit Risk Management and Combatting Financial Crime benchmarked to best practice.
- Right tone at the top cascaded from Board level down to junior officials of the Bank.



Environmental Impact:

- Adoption of Social and Environmental Management System (SEMS) applied to the Bank's lending operations.
- Bankwide initiatives promoting use of energy efficient and environmentally friendly solutions e.g. energy efficient lighting at DTB offices, reduction in paper usage, recycling of wastepaper.
- #MMTT initiative (refer to **page 70** on Sustainability Review).



Committing to Transparent Disclosures:

- Cost of credit link to KBA website.
- Adoption of credit risk-based price model from 2020.
- Publication of tariffs as part of key fact statements on all products and services .
- Adoption of the Kenya Banking Sector Charter issued by CBK.



Board of Directors Profiles

Board of Directors Profiles (Continued)



Mr. Linus Gitahi, MBS (Chairman)

Mr. Gitahi, MBS, was appointed to the Board in April 2017. He holds a B. Com (Hons) in Accounting from the University of Nairobi, a Diploma in Management from the Kenya Institute of Management and an MBA from the United States International University. He is also a Fellow of the Kenya Institute of Management. Mr. Gitahi is currently the Chairman of Tropical Brands (Africa) Limited and of Oxygene Communication Limited. In addition, he is a director of Simba Corp, Outspan Hospital and Medical College, Allianz Insurance (K) Limited and Kenya Association of Manufacturers. He previously served as the Chief Executive Officer of the Nation Media Group and prior to that was the Group Chief Executive Officer for GlaxoSmithKline in West Africa after having held diverse management positions with them. Mr. Gitahi is aged 57 years.

Mr. Jamaludin Shamji (Director)

Mr. Shamji was appointed to the Board in March 2010. He holds a B.A. (Hons.) in Business Administration from Washington State University, U.S.A. and has undertaken courses towards an M.B.A. (Strategic Management) from Drexel University, U.S.A. He is a Fellow of the Kenya Institute of Bankers and a prominent businessman based in Kisii. Mr. Shamji is a director of various companies including DTB Burundi, A. Jiwa Shamji Limited and Sansora Bakers & Confectioners Limited. He has previously served on the Boards of the Aga Khan Health Services, Kenya, the Aga Khan Education Services, Kenya and as Chairman of the Board of Governors of Kisii Special School for the Mentally Handicapped. He is a member of the Kisii County Public Private Partnership Committee, Kisii County Budget & Economic Forum Committee and Board of Directors - Kisii Teaching & Referral Hospital and the Institute of Directors (Kenya). Mr. Shamji is aged 57 years.

Mrs. Nasim Devji (Group CEO and MD)

Mrs. Devji joined the Group in 1996 following which she was appointed Group Chief Executive Officer of Diamond Trust Bank in East Africa in 2001. She is a Fellow of The Institute of Chartered Accountants of England and Wales, an Associate of the Institute of Taxation (United Kingdom) and a Fellow of the Kenya Institute of Bankers. She is also a member of the Institute of Directors (Kenya). Mrs. Devji is a director of DTB Tanzania, DTB Uganda, DTB Burundi, Jubilee Insurance Burundi, Diamond Trust Insurance Agency Limited and the Nairobi Securities Exchange Limited. She has also previously served as a member of the Kenya Deposit Insurance Corporation. Mrs. Devji is aged 66 years.

Mr. Ismail Mawji (Director)

Mr. Mawji was appointed to the Board in September 2014. He is the founder and Senior Partner in Mawji Sennik and Company, Certified Public Accountants. Mr. Mawji is a member of the Institute of Certified Public Secretaries of Kenya and a Chartered Accountant from United Kingdom and a member of the Institute of Directors (Kenya). For many years Mr. Mawji has served on the Insurance Committee of the Institute of Certified Public Accountants of Kenya and on the Corporate Governance Committee of The Institute of Certified Public Secretaries of Kenya. Mr. Mawji is aged 69 years.

Mrs. Pamela Ager (Director)

Mrs. Ager was appointed to the Board in May 2013. She is a partner in Oraro & Company Advocates and holds a First Class Honours LLM Degree from Auckland University and a Bachelor of Laws Degree from the University of Waikato - Hamilton, New Zealand. She also holds a diploma from the Kenya School of Law. Besides being an Advocate of the High Court of Kenya, Mrs. Ager is a member of the Law Society of Kenya, Federation of Women Lawyers, East African Law Society and Commonwealth Lawyers Association. She is also a member of the Institute of Directors (Kenya) and sits on various boards for education and non-profit organisations. Mrs. Ager is aged 49 years.

Mr. Moez Jamal (Director)

Mr. Jamal was appointed to the Board in December 2009. He has vast experience in banking and is currently a Director of HBL Pakistan and Marcuard Family Office, Switzerland. Mr. Jamal has previously worked in various senior positions with Credit Suisse and Lloyds Bank International London/New York and his last assignment was as the Global Treasurer, Credit Suisse. Mr. Jamal holds an MBA in Finance from Stern Business School, New York University and a BA (Hons.) from Manchester University in England. He is a member of the Institute of Directors (Kenya). Mr. Jamal is aged 64 years.

Mr. Shaffiq Dharamshi (Vice-Chairman)

Mr. Dharamshi was appointed to the Board in April 2015. He is a professional banker with over twenty years of senior management experience in the Middle East and Africa. Mr. Dharamshi is the Head of Banking for the Aga Khan Fund for Economic Development (AKFED), and responsible for providing oversight on operations of financial institutions in the AKFED portfolio across Asia and Africa. He also serves as a Vice-Chairman of the Boards of DTB Uganda and DTB Tanzania, as well as a director of the Boards of HBL Pakistan, Kyrgyz Investment and Credit Bank, Kyrgyzstan and DCB Bank, India. Prior to taking this position with AKFED, he was Senior Vice President, Wholesale Credit Risk Management at Mashreq Bank in Dubai. Before joining Mashreq Bank, Mr. Dharamshi spent 17 years with Citibank in a wide range of positions across different areas of the bank in Africa and the Middle East. Mr. Dharamshi holds a MSc. in Economics/ Information Systems from the London School of Economics. He is also a member of the Institute of Directors (Kenya). Mr. Dharamshi is aged 55 years.

Mr. Guedi Ainache (Director)

Mr. Ainache was appointed to the Board in April 2017. He holds a Masters Degree in Economic Science and Management from the University of Le Mans, France and a Post Graduate Degree in Audit and Risk Management from the University of Angers, France. He is currently the Corporate Finance Director for MMD Group in Nairobi. He has also previously served as the Head of the Syndication for The Eastern and Southern African Trade and Development Bank (PTA Bank) in Nairobi and as the Regional Director for PROPARCO in East Africa in addition to having held diverse positions with PROPARCO and Credit Agricole Corporate and Investment Banking, both in Paris. Mr. Ainache is aged 44 years.

Mr. Sagheer Mufti (Director)

Mr. Mufti was appointed to the Board in January 2020. He is a professional banker with over 38 years' experience within the international financial industry. Mr. Mufti is currently the Chief Operating Officer for HBL Pakistan and is responsible for building a corporate culture based on operational excellence and technology capabilities for fulfilment of client services to the over 14 million customers served by HBL Pakistan in over 20 countries. Prior to that, he was the Chief Operating Officer for ADIB based in Abu Dhabi and also spent 34 years at Citi in different management and leadership roles where he led various enterprise transformation programmes and business redesign responsibilities regionally and globally. At the time he left Citi, Mr. Mufti was the Global Head of Anti-Money Laundering operations. Mr. Mufti holds a Masters in Business Administration from The George Washington University, Washington DC, USA. Mr. Mufti is aged 62 years.

Mr. Irfan Keshavjee (Director)

Mr. Keshavjee was appointed to the Board in May 2013. He has an MBA from the University of Oxford, UK and a Bachelors' Degree in Civil-Environmental Engineering from Queen's University in Canada. He also holds a certificate in Housing Finance from the Wharton Real Estate Centre, University of Pennsylvania. Mr. Keshavjee has had over 20 years of commercial experience in East Africa as a Director of the White Rose Group of Companies. He is also the Founder of Karibu Homes, an organisation dedicated to providing affordable housing to hardworking Kenyans, with over 1,000 homes currently under development in peri-urban Kenya. He was awarded the prestigious Ashoka Fellowship and the Acumen Fund East Africa Fellowship for having co-founded award-winning enterprises that impact on the livelihoods of low-income Kenyans. He is also a member of the Institute of Directors (Kenya). Mr. Keshavjee is aged 49 years.

Mr. Alkarim Jiwa (Finance Director)

Mr. Jiwa was appointed to the Board in September 2018 as the Finance Director. Mr. Jiwa joined the Bank in 1998 and was appointed to the position of Chief Finance Officer in 2001, a position he continues to hold to-date. In addition, he is responsible for the Procurement and Logistics and Property Services functions. He is also a director of Diamond Trust Bank Burundi S.A., the Bank's subsidiary in Burundi. Prior to joining the Bank, Mr. Jiwa worked for several years with an accountancy and audit firm in Nairobi, Kenya. He is a Fellow of the United Kingdom-based Association of Chartered Certified accountants and a member of the Institute of Certified Public Accountants of Kenya. He is also a member of the Institute of Directors (Kenya). Mr. Jiwa is aged 50.

Mr. Stephen Kodumbe (Company Secretary)

Mr. Kodumbe joined DTB Kenya in 2008 as the Manager, Legal Services and was appointed Company Secretary in August 2009. He holds a Bachelor of Laws (LL. B) Degree and a Masters in Business Administration Degree from the University of Nairobi together with a Diploma from the Kenya School of Law. Besides being an Advocate of the High Court of Kenya and a registered Certified Public Secretary, Mr. Kodumbe is a member of the Law Society of Kenya, the Institute of Certified Public Secretaries of Kenya and the Institute of Directors (Kenya). He is also currently pursuing qualification as a Certified Anti-Money Laundering Specialist (CAMS). Mr. Kodumbe is aged 43 years.





Back row (Standing)- Left to Right

- Nizar Tundai**
Head of Technology
- Naftali Mwangi**
Head of Security, Fraud and Forensic Investigation
- Farouk Khimji**
Head of Products & Marketing
- Millerangum Jayaraman**
Head of Credit
- Nita Shah**
Head of Credit Support
- Lillian Ngala**
Head of Human Resource
- Peter Kimani**
Head of Internal Audit
- Suraj Shah**
Head of Centralised Operations
- Hilda Gituro**
Head of Risk & Compliance
- Azra Thobani**
Head of Service excellence
- Venkatramani Iyer**
Head of Treasury
- Shibu Jacob**
Head of Coast Region

Front row (Sitting)- Left to Right

- Gopa Kumar**
Head of Retail Banking
- Kennedy Nyakomitta**
Head of Business Development
- Alkarim Jiwa**
Finance Director
- Nasim Devji**
Group CEO and MD
- Stephen Kodumbe**
Company Secretary and Head of Legal & Debt Recovery
- Shahzad Karim**
Head of Corporate Banking
- George Otiende**
Head of Branches & Alternate Channels

Message from the Chairman



“We aspire to improve, in a meaningful way, the quality of lives of all the people we touch.”

2019 Business Overview

The year 2019 has been a transformational one for DTB across a number of fronts: putting our customers at the helm of everything we do, enabling our employees to develop and unlock their true potential, augmenting our business resilience to mitigate against existing and emerging risks and ensuring excellent governance and conformance to the highest ethical standards. These focal points are critical for DTB to continue on its trajectory of achieving sustainable, long-term growth and creating value for all our stakeholders.

The strides made by your Bank in 2019 were against the backdrop of a generally stable macro- economic environment and a resilient banking sector in East Africa.

East Africa- an Economic Overview

On the macro-economic front, in Kenya, which is the Group's principal market, real GDP grew by an estimated 5.9% in 2019, driven by household consumption and investment on the demand side and services on the supply side (such as public administration, information technology, finance and insurance, transport and storage). GDP growth was down from 6.5% in 2018, caused mainly by unfavourable weather and reduced Government investment in large scale public infrastructure projects. At 5.2%, inflation remained within the CBK's target band. The exchange rate was also stable, induced by a narrowing (albeit marginal) current account deficit, from 5.0% of GDP in 2018 to 4.9% in 2019. Foreign exchange reserves stood at USD 8.8 billion as at December 2019, providing 5.4 months of import cover.

In Tanzania, real GDP grew by 6.8% last year, down slightly from 7.0% in 2018. The growth was underpinned by an economy that is increasingly diversifying and characterised by steady private consumption, substantial public spending and an upturn in exports underpinned the positive performance. Tourism, mining services, construction, agriculture, and manufacturing are notable growth sectors. Inflation fell to an estimated

3.3% in 2019 from 3.6% in 2018 due to an improved food supply. The Tanzanian Shilling was fairly stable in 2019, exchanging at an average of 2,290 to the US Dollar, compared with 2,263 in 2018. The current account deficit slightly widened to 3.4% of GDP in 2019 from 3.3% in 2018.

The Ugandan economy also reported steady growth in 2019, estimated at 6.3%, largely driven by the expansion of the services sector compared to 6.1% in the previous year. Inflation remained below 3.0% throughout the year. Government spending continues to increase, underpinned by public infrastructure and capital investments for the nascent oil and gas industry. Expenditures have increased faster than domestic revenues, widening the fiscal deficit in 2019. The deficit is largely financed through external borrowing, supplemented with domestic securities. The increasing current account deficit has been largely financed by foreign direct investment (2.6% of GDP) and externally financed projects. External reserves were at 4.4 months imports cover, while the exchange rate was stable, averaging 3,727 Ugandan Shillings per US Dollar.

In Burundi, the economic recovery strengthened in 2019 (4.0% GDP growth, compared to 1.4%, as per Government statistics), on the back of higher coffee exports, a slight increase in public investment and a particularly good year for agricultural production. The fiscal deficit rose to 4.2% for 2019, after 3.3% in 2018, mainly due to an increase in recurrent expenditures that was not offset by good performance in tax collection. The deficit has been financed through increased recourse to Central Bank advances and the accumulation of domestic payment arrears. The risk of public debt distress remains high (63.5% of GDP in 2019 compared with 58.4% in 2018) because of increased domestic debt. Inflation continued on an upward trajectory from -2.8% in 2018 to 3.1% in 2019. In December 2019, the official exchange rate was 1,881.60 Francs to the US Dollar.

A Resilient Banking Sector

The Kenyan banking sector continues to witness consolidation with a number of banks merging or being acquired by larger and more resilient players in recent years, with 2019 being no exception. These moves are very welcome as they result in greater stability, resilience, competitiveness and agility of the industry at a time of rapid disruption brought about by an evolving digital revolution. The operating environment section of the Integrated Report on [pages 75- 78](#) go into detail about the key developments within the banking industries in Kenya, Tanzania, Uganda and Burundi. As one of East Africa's leading commercial banking groups, I wish to assure you that DTB will continue to make the necessary strategic interventions so that it remains not only a relevant player in the region's banking landscape, but also contributes meaningfully to the economic development of the communities and markets the Group is present in.

Transformational Journeys

2019 has been a watershed year for DTB as it saw the Bank embark on two significant transformation journeys aimed at augmenting its risk management frameworks to not only conform to local regulatory requirements, but also to best practice standards. These journeys which were undertaken with the support of an external consulting firm resulted in DTB revamping its Credit Risk Management and Financial Crime Risk Management frameworks during 2019. This involved a comprehensive review and strengthening of policies, processes and systems as well as in the skills development of our employees. Some of the milestones marking these transformation journeys will continue in the year 2020 and beyond, particularly with respect to the ongoing training and development of our staff as well as in the implementation of robust systems. The investments that DTB has made, and will continue to make, in implementing these transformation journeys, will augment DTB's resilience in managing internal and external shocks over the long term, as well as position it as a beacon for adopting best practice standards.

A key outcome of these transformation journeys was the adoption of an enhanced corporate governance structure at the end of 2019 which resulted in the strengthening of existing committees and creation of new ones at Board and management level. The new governance structure and the mandates of the committees are articulated in detail in the Statement of Compliance with Corporate Governance and the Risk Management Framework sections of this Integrated Report. This journey also enabled the Bank to achieve a key milestone of training and upskilling all staff across the organisation through a series of Combatting Financial Crime programmes, some of which were also tailored for training the Bank's Board of Directors.

DTB Vision 2020 and Looking Ahead to Strategy 2030 and Beyond

DTB's business strategy- *DTB Vision 2020* – has provided the Bank with the direction and the growth propulsion over the past 10 years when it was first developed. Its key objective, that of positioning DTB as a leading Tier I banking player across all the East African markets it operates in, has been achieved. This has been, in large part, due to the unbridled confidence and solid support that it continues to receive from you, the shareholders, as well as the unswerving loyalty, implicit trust and steady custom from its clients. As we embark on a new decade, your Bank is in the throes of finalising the development of a new business strategy blueprint- *Strategy 2030 and Beyond*.

Strategy 2030 and Beyond will be anchored on DTB contributing to the improvement in the quality of lives of its customers – those that it is currently serving as well as those that are underserved. Under the new strategy, being digital will be at the core of delivering banking solutions. *Strategy 2030 and Beyond* will also involve implementing a broadened financial inclusion agenda targeting various customer segments- those that it is currently serving as well as those that are underserved. It will require DTB to continue investing significantly in its people, new technologies (Big Data analytics, Artificial Intelligence (AI), robotics, block chain technology, cloud computing, etc.) and innovation over the next 10 plus years.

Purpose-led Business

I strongly believe that any business that sees itself as separate to the society in which it operates cannot be successful and sustainable over time. Simply put, it is very difficult to operate a successful business model in the midst of an unsuccessful society. In this respect, and in resonance with the development-anchored ethos of some of our principal stakeholders, we continue to invest in strategic interventions and programmes so that we remain relevant and impactful to the society, beyond just being a banking partner. We aspire to improve, in a meaningful way, the quality of lives of all the people we touch - be it our employees, our customers, our suppliers or the communities we are present in. This purpose-driven mission is in our DNA and what we have been doing successfully since our founding. I am proud of the commitments we have made and the actions we have taken, as well as the initiatives we plan to make in the future to bring our purpose truly to life: inculcating a strong ethical culture, embedding strong governance and oversight standards in the organisation, adopting sustainable business practices, promoting gender diversity and creating lasting, positive environmental and social impact through the adoption of sustainable business practices. The continued pursuit of fulfilling this purpose is what will keep us sustainable and successful in the coming years and decades.

Board Changes

I now turn to the changes in the composition of your Board. I was privileged to take over as Chairman of the Board from Abdul Samji who retired at the conclusion of the Bank's last Annual General Meeting in May 2019. Abdul was the Chairman of the Bank for 9 years, having previously served as a non-executive Director of the Bank since 1997. During his tenure, DTB transformed itself into a leading and broad-based Tier I banking group across the region. This is testimony to his wise guidance, strong leadership and unrelenting dedication to the Bank. I would like to take this opportunity to thank him on behalf of all the stakeholders of the Bank, for his valuable contribution throughout his long tenure of service. Shaffiq Dharamshi, who has been a non-executive Director since 2015 was elected Vice-Chairman of the Board in May 2019. Rizwan Hyder, who represented Habib Bank Limited (HBL)- one of DTB's key shareholders- also retired at the last Annual General Meeting. Following this, HBL nominated Mr. Sagheer Mufti as a member of the Board. Sagheer, who was appointed in January 2020, is a professional banker with nearly 40 years experience within the international financial industry. He is currently the Chief Operating Officer for HBL Pakistan. Sagheer brings to the Board rich experience spanning several years, particularly in leading various enterprise transformation programmes and business redesign projects across different geographies, including as the Global Head of Anti-Money Laundering Operations at Citibank. We welcome Sagheer to the Board and look forward to his wise counsel and experience which DTB will, undoubtedly, benefit from immensely.

The Evolving Impact of the Corona Virus (COVID-19)

It would be remiss of me if I do not talk, in this Message, about the growing and fast-evolving disruptive impact of the COVID-19 virus on the global economy and indeed, the World's population. It is a truism that the impact of this unprecedented and unfolding crisis the globe faces, in the face of the COVID-19 pandemic, remains difficult to assess. There continues to remain a huge amount of uncertainty across geographies about this pandemic. As in most parts of the World, here in East Africa, many people are beginning to limit social interaction. With a growing number of people working remotely or not at all, congregational worship, conferences and events suspended, schools shut, people mobility and global supply chains continuing to be disrupted, we have begun walking down the path of significant economic slowdown which has the potential of devastating nations' economies and upsetting social fabric as we know it.

The United Nations report on the Economic Impact of COVID-19 released in early March 2020 highlights that apart from the tragic human consequences of the COVID-19 coronavirus epidemic, the likelihood of an estimated US\$ 1 trillion cost to the global economy in 2020. A disruption of global supply chains will lead to a drop in value creation. There is also likely to be demand shocks in the oil and tourism sectors, as well as remittances from abroad. There may also be unanticipated increases in health spending. As history has shown, those most vulnerable and marginalised in society struggle the most and are, invariably, hardest hit.

Recognising the above risks and impacts, the Kenyan banking industry, in coordination with the Central Bank of Kenya, has announced several measures to alleviate some of the adverse consequences brought about by the crisis. This includes the encouragement of the cashless transactions, on mobile platforms at reduced or no costs. To help alleviate the adverse effects of the pandemic on borrowers, banks have committed to provide relief to individual borrowers for personal loans based on their individual circumstances. Distressed SMEs and corporates will also have the opportunity for their borrowing obligations to be reassessed, based on their unique circumstances, and restructured where necessary.

Over and above these debt relief measures, the safety and wellbeing of our employees and customers will continue to remain our paramount concern. We have already instituted the necessary measures to keep our workplaces safe and clean, taking cognisance of industry standards and protocols. Recognising that banking is an essential service, in the event of business interruption brought about by the crisis, DTB will invoke its business continuity plan to ensure a seamless delivery of service to all our customers.

Whilst we do not have all the answers yet, we remain confident that the human spirit which has been tested several times before will eventually endure and that, as global citizens, we will eventually emerge from it with confidence and hope.

Appreciation

I would like to take this opportunity to thank you, our shareholder. We would not be where we are today without your unwavering trust, support and confidence in DTB. We express our gratitude to you for believing in us and your confidence in the Institution. We will do our best, to do the best. We remain committed to strengthening controls, compliance and audit functions, as we build business function areas with every passing day.

To our cherished customers, who have supported us and stood by us over the past years, we wish to record our sincere appreciation. We commit that we will continue to work on bringing service quality improvements and delivering first class service to our customers through innovative digital solutions and building a "fine institution".

Thank you also to my fellow Board members for your support, dedication and wise counsel which have all contributed immensely to stewarding DTB to even more lofty levels. Finally, I want to recognise the tremendous energy, agility and commitment that the management and staff, led by Nasim Devji, put in day in and day out as we pursue new frontiers, ensuring that we leave a lasting positive impact on all the stakeholders that we serve.

Linus Gitahi
Chairman
18 March 2020

Ujumbe wa Mwenyekiti

Muhtasari wa Biashara Mwaka 2019

Mwaka wa 2019 umekuwa wa mabadiliko kwa DTB kupitia njia kadhaa: kuweka wateja wetu mbele kwa kila jambo tunalofanya, kuwezesha wafanyikazi wetu kuendelea na kueneza uwezo wao, kuipa biashara yetu uwezo na nguvu dhidi ya changamoto za kibiashara na kuhakikisha kuna uongozi bora na kutekelezwa kwa viwango vya juu vya maadili. Mambo haya ni muhimu kwa mwelekeo wa DTB wa kuafikia malengo yake ya ukuaji wa muda mrefu na unaoendelea pamoja na kuleta thamani kwa washika dau wetu wote.

Hatua zilizochukuliwa na Benki yenu mwaka wa 2019 zilikuja wakati hali ya uchumi kwa ujumla ilikuwa thabiti na sekta ya Benki Afrika Mashariki ikiwa na ujasiri.

Afrika Mashariki – Muhtasari wa Kiuchumi

Tukiangazia hali ya kiuchumi kwa ujumla, nchini Kenya, ambapo ndio soko kuu la Kampuni, pato la nchi (GDP) liliongezeka kwa asilimia 5.9 mwaka wa 2019, kutokana na msukumo wa utumiaji wa vitu vya vyumbani na uwekezaji kwa upande wa mahitaji na huduma upande wa usambazaji (kama vile utawala wa umma, teknolojia ya habari, fedha na bima, na usafiri na uhifadhi). Ukuaji wa pato la taifa (GDP) ulikuwa chini kutoka asilimia 6.5 mwaka wa 2018, chanzo ikiwa hali mbaya ya hewa na upungufu wa Serikali kuwekeza katika ujenzi wa miradi mikubwa ya miundomsingi ya Umma. Mfumuko wa bei (inflation) ilipokuwa asilimia 5.2 ilikuwa katika kiwango kinacholengwa na Benki kuu ya Kenya (CBK). Kiwango cha ubalishaji pia kilikuwa imara, kulikuwa na upungufu wa kiwango (japokuwa cha chini) cha akaunti ya sasa, kutoka asilimia 5.0 ya pato la nchi mwaka wa 2018 hadi asilimia 4.9 mwaka wa 2019. Hifadhi za fedha za kigeni ilikuwa Dola za Amerika Bilioni 8.8 kufikia mwezi Disemba mwaka wa 2019, ikiwa na uwezo wa kuagiza vitu kutoka nje kwa miezi 5.4.

Nchini Tanzania pato la nchi (GDP) liliongezeka kwa asilimia 6.8 mwaka uliopita, ikiwa ni upungufu kutoka asilimia 7.0 mwaka wa 2018. Ongezeko lilichangiwa na uchumi ulio na mseto na unaofaidi kutokana na matumizi ya kibinafsi, matumizi makubwa kutoka kwa umma pamoja na ongezeko la mauzo ya nje, yote haya yakichangia matokeo mazuri. Utalii, uchimbaji madini, huduma, ujenzi, ukulima na viwanda ni baadhi ya sekta zilizofanya vyema. Mfumuko wa bei (inflation) ulishuka kutoka makadirio ya asilimia 3.3 mwaka wa 2019 kulinganishwa na asilimia 3.6 mwaka wa 2018 kwasababu ya kuboreshwa kwa ugavi wa chakula. Shilingi ya Tanzani pia ilikuwa imara mwaka wa 2019, ikiwa inabadilishwa kwa wastani wa 2,290 dhidi ya dola ya Amerika, ikilinganishwa na shilingi 2,263 mwaka wa 2018. Hata hivyo upungufu katika akaunti ya sasa uliongezeka kidogo kufikia asilimia 3.4 ya pato la nchi mwaka wa 2019 kutoka asilimia 3.3 mwaka wa 2018.

Uchumi wa Uganda pia uliripoti kuongezeka mwaka wa 2019, ikiwa na makadirio ya asilimia 6.3, ambayo ilisukumwa na upanuzi wa sekta ya huduma ikilinganishwa na asilimia 6.1 mwaka uliotangulia.

Mfumuko wa bei ulibaki kuwa chini ya asilimia 3.0 mwaka huo wote. Matumizi ya serikali yaliendelea kuongezeka, ikichangiwa na ujenzi wa miundo msingi ya umaa, uwekezaji mkuu katika sekta ya mafuta na gesi ya nascent. Matumizi yameongezeka kuliko mapato ya ndani kwa ndani, hivyo basi kuongeza upungufu wa fedha mwaka wa 2019. Upungufu huu hugharamiwa kupitia kukopa nje za nje pamoja na rasimali za nchi.

Upungufu wa fedha katika akauti ya sasa umegharimiwa kupitia uwekezaji wa kutoka nje (asilimia 2.6 ya mapato ya nchi) pamoja na miradi inayoyogharimiwa kutoka nje. Hifadhi ya nje ilikuwa inaweza kutosheleza miezi 4.4 ya kuagiza vitu kutoka nje huku ubadilishaji fedha ukiwa imara na wastani wa 3,727 shilingi ya Uganda ikilinganishwa na dola ya Amerika.

Katika nchi ya Burundi, ufufuaji wa uchumi ulipigwa jeki mwaka wa 2019 (pato la nchi likiongezeka kwa asilimia 4.0 ikilinganishwa na asilimia 1.4 kulingana na takwimu za Serikali), hii ilichangiwa na uuzaji mwingi wa kahawa katika nchi za nje, uongezeko kidogo katika uwekezaji wa umma na mwaka mzuri katika uzalishaji wa kilimo. Hata hivyo upungufu wa fedha uliongezeka kufikia asilimia 4.2 mwaka wa 2019, baada ya kufikia asilimia 3.3 mwaka wa 2018, ikichangiwa na ongezeko la matumizi ya kila siku ambayo hayakuweza kutatuliwa kupitia ukusanyaji bora wa ushuru. Upungufu huu umegharimiwa kupitia ongezeko la malipo ya mapema kutoka kwa Benki kuu na mkusanyiko wa malipo ya humu nchini. Hatari ya deni la umma kutolipwa inabaki kuwa juu (asilimia 63.5 ya pato la nchi mwaka wa 2019 ukilinganishwa asilimia 58.4 mwaka wa 2018) kwasababu ya ongezeko la deni ya nchi. Mfumuko wa bei uliendelea kuwa juu kutoka asilimia 2.8 mwaka wa 2018 mwaka wa 2018 hadi asilimia 3.1 mwaka wa 2019. Mwezi wa Disemba mwaka wa 2019, kiwango rasmi cha ubadilishaji kilikuwa 1,881.60 francs dhidi ya dola ya Amerika.

Sekta Dhabiti ya Benki

Sekta ya Benki nchini Kenya inaendelea kuonyesha kuimarika huku benki kadhaa zikiungana au kununuliwa na benki zengine kubwa zilizo na uwezo zaidi katika miaka ya hivi karibuni, mwaka wa 2019 pia ukichukukua mwelekeo huu. Hatua hizi ni nzuri kwani zinaimarisha, kuipa nguvu, kuleta mashindano na wepesi katika sekta ya benki, wakati ambapo kuna mabadiliko makubwa yanayoletwa na digitali. Sehemu inayoonyesha hali ya kuendesha biashara iliyomo kwa ripoti kuu katika **ukurasa wa 75-78** inaelezea kwa kina mabadiliko haya muhimu katika sekta ya benki Kenya, Tanzania, Uganda na Burundi. Kama moja wapo ya kundi linaloongoza katika biashara ya benki za kibiashara, ningependa kuwahakikishia kwamba DTB itaendelea kuweka mikakati na kufanya maamuzi muhimu ili kuweka ushindano bora, katika sekta ya benki maeneo haya pamoja na kuchangia katika ukuzaji wa uchumi kwa jamii na masoko ambapo benki hii utoa huduma zake.

Safari ya mabadiliko

Mwaka wa 2019 umeleta mabadiliko makubwa DTB haswa katika nyanja mbili kuu ambazo zililenga kujenga mfumo wa usimamizi wa hatari za kibiashara ili kufuata maagizo ya taasisi ya kusimamia benki na viwango vya juu vya utoaji huduma. Safari hizi ambazo zilitekelezwa na kampuni ya nje ya ushauri zilileta matokeo ya DTB kufanya mabadiliko katika mfumo wake wa usimamizi wa hatari za mikopo na uhalifu wa kifedha mwaka wa 2019. Shughuli hii ilihitaji kuangaliwa kwa undani na kujenga sera, mchakato, mifumo pamoja na kuendeleza ujuzi wa wafanyikazi wetu. Baadhi ya mafanikio ya safari hii yataendelezwa mwaka wa 2020 na kuendelea, haswa katika kuwafunza na kuwajenga wafanyikazi wetu pamoja na kuwekwa kwa mifumo imara. Juhudi ambazo DTB imeweka na itaendelea kuweka katika kubadilisha safari hii ya mabadiliko zitasaidia pakubwa kuhakikisha DTB inabaki kuwa imara katika usimamizi wa utekelezaji kazi na changamoto za nje kwa muda mrefu, pamoja na kuifanya kuwa mfano mzuri wa benki inayoweka viwango vya juu vya utowaji huduma.

Moja wapo ya matokeo muhimu ya safari hii ya mabadiliko ilikuwa kupitishwa kwa muundo uliobora zaidi wa usimamizi wa kampuni mwishoni mwa mwaka wa elfu ishirini kumi na tisa, jambo hili liliipa nguvu kamati zilizoko na kuundwa kwa zengine mpya katika kiwango cha bodi na usimamizi. Muundo huu mpya wa usimamizi na maagizo ya kamati hizi imeelezwa zaidi na kwa upana katika sehemu ya taarifa hii ya jumla haswa katika kufuata utawala wa kampuni na mifumo ya usimamizi wa hatari za kibiashara. Safari hii pia iliwezesha benki kufanya jambo kuu la kuwapa mafunzo na kuinua ujuzi wa wafanyikazi wote katika mfululizo wa mipango ya kupigana na vita dhidi ya uhalifu wa kifedha, baadhi ya mipango hii ikiwafunza wakurugenzi wa bodi ya DTB.

Ruwaza ya DTB Ya Mwaka wa Elfu Ishirini Na Ishirini Na Mikakati ya Mwaka wa Elfu Ishirini Na Thelathini Kuendelea

Mikakati ya kibiashara ya Benki ya DTB – Ruwaza ya Mwaka wa elfu ishirini na ishirini – imetoa mwelekeo wa benki na kuelezea upanuzi wake kwa miaka kumi iliyopita tangu kuanzishwa kwa DTB. Lengo kuu, la kuiwezesha DTB kuwa mstari wa mbele kitengo cha benki za msururu wa kwanza (tier 1) katika masoko ya Afrika mashariki tunapotoa huduma zetu, limefanikiwa. Hii imewezeshwa pakubwa kutokana na ushirikiano na uaminifu wenu, washikadau, pamoja na hali ya umakinifu walio nayo wateja. Tunapo anza safari muongo mpya, benki yako iko katika mikakati ya kumalizia mfumo mpya wa mikakati ya kibiashara – Strategy 2030 and Beyond.

'Strategy 2030 and Beyond' itaweka nguzo yake kwa juhudi za DTB kuchangia pakubwa kuimarisha ubora wa maisha ya wateja wake – wale tunao wahudumia hivi sasa na wale ambao tunaweza kuwapa huduma bora zaidi. Chini ya mpango huu mpya, utumiaji wa digitali utakuwa mstari wa mbele kutoa huduma za benki. Strategy 2030 and Beyond pia itajumuisha kuongezwa kwa ajenda ya kifedha kwa kuwaleta wateja wa sehemu mbalimbali – wale tunaowapa huduma kwa sasa pamoja na wale ambao tunaweza kuwapa huduma bora zaidi. Mambo haya yatahitaji DTB kuendelea kuwekeza kwa wafanyikazi wake, teknolojia mpya, (Big Data analytics, Artificial Intelligence (AI), robotics, block chain technology, cloud computing, etc.) na uvumbuzi katika miaka 10 au zaidi ijayo.

Biashara inayoendeshwa na Malengo

Naamini kabisa kwamba biashara yeyote inayojitenga na jamii ambapo inatoa huduma zake haiwezi kufanikiwa au kutoa huduma kwa muda mrefu. Kwa ufupi, ni vigumu sana kuwa na biashara inayofanya vyema palipo na jamii ambayo haina mafanikio. Tukiangazia mtazamo huu na pia maendeleo yanayotokana na msimamo waa baadhi ya washika dau wetu wakuu, basi tutaendelea kuweka mikakati na mipango ili tubaki kuwa mstari wa mbele na kuleta mabadiliko makubwa kwa jamii, kando na kuwa benki yao. Tunajitahidi kuboresha huduma zetu, katika njia mwafaka, kuboresha maisha ya wale tunaowashirikisha katika kazi zetu – iwe ni wafanyi kazi wetu, wateja wetu, wanaotuzia bidhaa au jamii tunapotoa huduma zetu. Malengo haya ni nguzo za DTB na yamekuwa nasi tangu kuanzishwa kwa benki yetu. Niko na furaha kwa ajili ya ahadi tulizoweka na pia hatua tulizochukua, pamoja na mipango tunayoiweka kwa siku za usoni kutimiza na kuipa lengo letu sura: kushinikiza taabia ya maadili mema, kuweka usimamizi bora, kuzingatia uwepo wa uangalizi wa viwawango bora katika shirika, kupitisha njia bora na za muda mrefu za kuendesha biashara yetu, kusimamia usawa wa kijinsia na kuweka msingi mzuri wa maswala ya mazingira na jamii kupitia utekelezaji wa kazi kwa njia ipasavyo. Kuhakikisha tunatekeleza malengo haya ndio kutatuzesha kuendelea na biashara yetu kwa muda mrefu na kupata mafanikio katika miaka na miongo ijayo.

Mabadiliko ya Bodi

Ningependa sasa kuangazia mabadiliko katika bodi yako. Nilipata fursa ya kuchungua uongozi wa Mwenyekiti wa bodi kutoka kwa Abdul Samji ambaye alistaafu baada ya kukamilika kwa Mkutano Mkuu wa Mwaka wa Benki, mwezi Mei mwaka wa elfu ishirini kumi na tisa. Bwana Abdul, alikuwa Mwenyekiti wa benki kwa muda wa miaka 9, mbeleni akihudumu kama Mkurugenzi tangu mwaka wa elfu moja mia tisa tisaini na saba. Alipokuwa usukani, DTB iliweza kupata mafanikio katika msururu wa benki za Tier 1 katika eneo la Afrika mashariki. Mafanikio haya ni ushuhuda tosha kutokana na juhudi alizoweka, uongozi wake, na kujitolea kwake kuendelea benki hii. Ningependa kuchukua fursa hii kumshukuru kwa niaba ya washika dau wote wa benki hii, kwa mchango wake wa maana katika miaka yake mingi ya kazi.

Shaffiq Dharamshi, ambaye amekuwa Mkurugenzi non-executive tangu mwaka wa elfu mbili kumi na tano alichaguliwa Naibu wa Mwenyekiti wa bodi mwezi Mei mwaka wa 2019. Rizwan Hyder, ambaye aliwakilisha Habib Bank Limited (HBL)-mojawapo ya washikadau wakuu wa DTB pia alistaafu katika mkutano mkuu uliopita. Kufuatia matukio haya, HBL walimteua Mr. Sagheer Mufti kama mwanachama wa bodi. Sagheer, ambaye alipata uteuzi huo rasmi Januari mwaka wa elfu ishirini na ishirini, ni mfanyikazi wa benki aliyehitimu na mwenye uzoefu wa karibia miaka 40 katika Sekta ya kimataifa ya maswala ya kifedha. Hivi sasa anahudumu kama Chief Operating Officer wa Habib Bank Limited Pakistan. Sagheer analeta kwa bodi uzoefu wa

miaka mingi haswa katika uongozi wa mipango ya kubadilishwa kwa mienendo ya kampuni na jinsi ya kuendesha biashara katika sehemu mbali mbali ulimwenguni, ikiwemo Global Head of Anti-Money Laundering Operations at Citibank. Tunamkaribisha Sagheer katika bodi na kutarajia wasia wake na uzoefu wake katika sekta hii ambao tunahakika itafaidi pakubwa DTB.

Athari za Ugonjwa wa Coronavirus (COVID-19)

Itakuwa makosa kama sitazungumzia janga la Ugonjwa wa COVID-19 na athari zake ambazo zimeshuhudiwa kote ulimwenguni haswa kwa halaiki ya watu. Ukweli ni kwamba jambo hili la COVID-19 pandemic lenye uzito mkubwa na ambalo Ulimwengu mzima bado unajaribu kulitatia ni swala ambalo halijulikani mwisho wake au mwelekeo wake. Wasiwasi bado umetanda kote ulimwenguni kuhusu ugonjwa huu, ikiwemo Afrika mashariki, ambapo watu wameanza kupunguza mawasiliano ya kipamoja. Idadi ya watu wanaofanya kazi kutoka manyumani au hata kutofanyi kazi kabisa, ibada pamoja na kongamano na tamasha kupigwa marufuku, shule kufungwa, ugumu wa kusambazwa kwa bidhaa na watu kutembea ni ishara tosha kwamba uchumi wa kimataifa utapata pigo na jambo hili linauwezo wa kuharibu ushumi wa inchi na kuleta maafa kwa jamii kama tunavyofahamu.

Ripoti ya Umoja wa Kimataifa kuhusu hali ya kiuchumi kutokana na ugonjwa wa COVID-19 iliyotolewa mwanzoni mwa mwezi wa Mei mwaka wa elfu ishirini na ishirini inaangazia jinsi kando na maafa ya binadamu kutokana na ugonjwa huu, kuna makadirio ya Trilioni moja ya dola za Amerika ambayo itakuwa pigo la kiuchumi kimataifa mwaka wa elfu ishirini na ishirini. Kupungua kwa usambazaji wa vitu ulimwenguni kutasababisha kushuka kwa uundaji wa vitu. Vile vile, kuna uwezekano wa kupungua kwa mafuta na utalii, pamoja na pesa zinazotumwa kutoka nchi za ng'ambo. Pia utumiaji wa pesa kwa mahitaji ya kiafya unaweza ongezekana. Historia imeonyesha kwamba walio na changamoto za kimaisha ndio watakoathirika zaidi.

Tukimulika athari hizi na kuangazia changamoto zake, sekta ya benki nchini Kenya kwa mawasiliano na Benki kuu ya Kenya imetangaza mikakati kaadhaa ili kupunguza athari zilizoletwa na janga la ugonjwa huu. Baadhi ya mikakati hii ni pamoja na kushawishi wanainchi kutumia njia za kiteknolojia, simu au digitali kupata mahitaji ya kifedha huku wakitozwa ada ya chini au kupata huduma hiyo bila kutozwa ada yeyote. Ili kuwasaidia walio na mikopo, benki zimejitolea kuwapa muda wa ziada walio na mikopo ya kibinafsi kulingana na hali zao. Isitoshe biashara ndongondogo pamoja na kampuni zinazopata changamoto wakati huu pia zina nafasi ya kupata afueni kutoka kwa benki kulingana na hali zao kila mmoja na kubadili maelewano ya kulipa mikopo panapohitajika.

Kando na kuangali upya maswala haya ya mikopo, usalama na ulinzi wa wafanyikazi wetu pamoja na wateja ni jambo ambalo tutaendelea kulitilia maanani. Tayari tumeweka mikakati ya kuhakikisha maeneo yetu ya kazi ni masafi na salama kulinga na masharti yaliowekwa na serikali tukizingatia pia utenda kazi wa sekta ya benki. Tunatambua kwamba sekta ya benki ni muhimu kila wakati na haswa kunapotokea janga kama hili la COVID-19 ndio maana, DTB itawezesha mpango wake wa kuendelea kutoa huduma kwa wateja wake.

Japokuwa hatuna majibu ya kila kitu kinachoendelea kwasasa, tuko na matumaini kwamba uwezo wetu kama binadamu ambao umewahi kupitia changa moto kuu kama hii, utatuwezesha kufaulu, na kwamba kama wanainchi wa ulimwengu, tunashinda vita hivi na kuibuka na matumaini kama washindi.

Shukrani

Ningependa kuchukua fursa hii kusema asante, kuwashukuru nyote pamoja na wenye hisa. Hatungeweza kuwa mahapali tulipo leo hii bila ushirikiano wenu, msaada wenu na imani yenu kwa DTB. Tunatoa shukrani zetu za dhati kwenu nyinyi kwa kutuamini na kuiamini benki yetu. Tutafanya tuwezavyo, ili kuzidi kuinua DTB. Vile vile tunajitahidi kuhakikisha kwamba tunakaza kamba panapohitajika, kufuata maagizo ya sekta pamoja na uchunguzi wa ndani kwa ndani tunapoendelea kupanua vitengo vya biashara yetu kila siku. Kwa wateja wetu wapendwa, ambao wamesimama nasi na kutuunga mkono kwa miaka yote hii, tunasema asanteni sana. Tunaendelea kuhakikisha kwamba huduma zetu ni bora, za kipekee na za hali ya juu tunapoangazia kuwapa suluhisho kupitia njia mpya za teknolojia na ubunifu, tukijenga shirika la kipekee.

Vile vile, singependa kusahau wenzangu wanachama wa bodi, kwa kusimama na mimi, kujitolea kwenu na pia wasia wenu ambao umechangia pakubwa katika kuiweka DTB katika kiwango cha juu. Nikimalizia, ningependa pia kutaja na kutambua juhudi, bidii na motisha ya timu nzima ya usimamizi pamoja na wafanyikazi, wakiongozwa na Nasim Devji, wanapoendelea kujizatiti katika kazi zao tunapoazimia kufikia malengo makuu na mapya, pamoja na mabadiliko makubwa katika sekta hii na washika dau wote tunaowahudumia.

Linus Gitahi

Mwenyekiti

18 Machi 2020

Taarifa iliyoko hapa juu ni tafsiri ya ujumbe wa mwenyekiti ulioko **ukurasa wa 14 - 16**. Iwapo patatokea utata wowote katika tafsiri ya maana halisi ya maneno yaliyotumika, basi tafsiri ya Kiingereza ndiyo itakayo tawala.

The text set above is a Swahili translation of the Message From the Chairman, which appears on **pages 14 - 16**. In the event of any dispute in the interpretation of the Swahili version, the English version shall be the authoritative version.

CEO's Statement



“At DTB, we are making the re-imagining of banking, in the digital era, a priority.”

Reflecting on last year, the Group's performance remained resilient despite an otherwise difficult operating environment. As you read this year's Integrated Report, you will gather more details on our performance. Allow me to highlight below some of the significant initiatives DTB has been involved in over the past year:

Adoption of the Kenya Banking Sector Charter

DTB Kenya adopted the Kenya Banking Sector Charter (BSC) pillars in *toto* following its issuance by the Central Bank of Kenya early last year. The Bank's approach in embracing the pillars of the Charter has been fairly seamless. These pillars have found a natural fit with our ethos, culture and values as an Institution, as well as with our business strategy and operations which are all about embedding customer centricity and an ethical culture at all levels of the Bank and ensuring transparency and information disclosures in our engagement with customers. The Charter also calls for the adoption of a risk-based credit pricing model, which DTB will roll from 2020.

Sustainable Impact, Beyond Banking

During the year, the Bank leveraged on its expansive branch network, alternate digital channels and regional presence to engage its customers in several interactive ways. In October 2019, we continued our annual celebration of the internationally renowned, Customer Service Week. During the week, we kick-started a number of flagship projects to promote our social and environmental agenda and create a lasting positive impact on our various stakeholders. These included the acceleration of our green agenda, which in 2018 was characterised by DTB's sponsorship of the planting of tree seedlings across Kenya. We ramped up on this agenda in 2019 by launching an initiative towards taking preventative measures to conserve the environment. We adopted the sustainable business practice of paper recycling. I am pleased to announce that since its launch in October 2019, we have recycled over one tonne of used paper generated from our head office.

Being a sustainable business over the long term requires us to have a clear purpose for our existence. This is a key responsibility we do not take lightly. Whether we implement localised initiatives, such as the provision of weekly courtesy bus services and building of a bus stop at the Bank's DTB Centre headquarters in Nairobi, or those which have an impact on the larger community, DTB continues to take the necessary steps to fulfil its mandate to improve the quality of lives of the communities it operates in. Recently, as part of the International Women's Day 2020, the Bank proudly launched the #AchieveMoreGirl initiative informed by the prevalent Menstrual Hygiene Management (MHM) challenge which remains unresolved for vulnerable women and girls. I am pleased to announce that the Bank has committed to spend KShs 50 million over the next five years to support over 30,000 school girls across Kenya access quality menstrual health products.

Digital without Boundaries

At DTB, we are making the re-imagining of banking, in the digital era, a priority. As part of this journey, it is essential that we re-invent ourselves and make "digital at the core" of all that we offer and do. In 2019, we launched re-vamped versions of DTB's mobile app, *m24/7*, as well as its internet banking platform, *i24/7*. These upgraded digital platforms, which were implemented with the active involvement of a group of the Bank's customers, offer enhanced features and capabilities. Going forward, we will continue to engage and involve our customers in co-creating new products and services, all aimed at augmenting customer experiences and convenience.

Financial Inclusion, Promoting the MSME agenda

The cornerstone of the Bank's strategy is to enable the Bank continue to pursue a financial inclusion agenda which, ultimately, seeks to improve the quality of life of its customers and the broader communities in which DTB operates in, covering not only the SME and large local corporate business segments which have been DTB's traditional customer segments, but also new segments such as the un-banked and under-banked segments of the population.

In this context, there has been an emergence of lenders who provide short-term facilities of between 1 to 30 days, particularly to the micro-enterprise and retail market segments. DTB collaborated with three other Kenyan banks: NCBA Bank, Co-operative Bank and KCB Bank, to launch a mobile lending product in May 2019 to cater for the "Missing Middle", branded *Stawi*. Through *Stawi*, MSMEs can now get access to funding for up to one year. To support businesses, DTB also partnered with select motor vehicle dealers on a product called *Beba Leo* which provides SMEs with 100% financing for vehicles. I am pleased to report

that to-date loans amounting to nearly KShs 400 million had been disbursed by the Bank under the *Beba Leo* programme. DTB also extended an invoice financing facility to one of Kenya's leading supermarket chains, which enables its SME suppliers to be paid immediately after invoicing, as opposed to waiting the typical 90-day credit period. The facility has seen the Bank make disbursements of KShs. 7.7 billion in 2019, sustaining the livelihoods of these SMEs and the economy at large. These have been significant steps that we have taken towards supporting SMEs and we commit to continue these amongst other initiatives going forward.

Recognising that MSMEs are a key pillar of economic growth and employment, in 2019, we rolled out financial literacy programmes across the major cities and some towns in Kenya aimed at building awareness and capacity amongst SME customers. The Bank undertook a seven- module training curriculum in partnership with the Kenya Bankers Association under the *Inuka* Initiative for both in-house training of its staff as well as capacity building training for targeted (existing and prospective) micro, small and medium enterprise (MSME) owners. Through the programme, some 400 MSME business owners were trained on a variety of subjects, covering entrepreneurship, business and strategic planning, marketing and business communication, human resource management, operations and value chain management, etc.

The Big Four Agenda

The Government of Kenya identified four key pillars on which the country's development will be pegged on: universal healthcare, affordable housing, manufacturing and food security. Over the years, DTB has shown support towards these pillars mainly through the provision of financial intermediary services to key sectors of the economy including real estate development, manufacturing and (albeit to a limited extent) agriculture. DTB took a step further in 2019, by investing equity in the newly formed Kenya Mortgage Refinancing Company (KMRC). KMRC is a joint initiative of the National Treasury and the World Bank who have committed to support the affordable housing agenda by providing secure, long- term funding to the mortgage lenders, thereby increasing the availability and affordability of mortgage loans to Kenyans. We commit to support the agenda of low-cost housing through our involvement in the KMRC.

Our People, Our True Assets

We firmly believe that our people are our true assets. We continue to invest in our people, some 2,269 in number across

East Africa, who bring different backgrounds, skills, talents and experience to DTB. During the digital transformation journey, recruitment and retention of the right people, has become even more critical and must be anchored on proper communication and incentives. Merit based intake and people actions are paramount as we strive to build a truly world - class institution.

In the year, the Group made significant investments in training and up- skilling our people in a variety of disciplines, including leadership development, Combating Financial Crime awareness, etc. DTB Kenya also rolled out a new performance achievement framework which has simplified and made more effective the way we appraise staff performance. The new framework enables a fair assessment of each employee's capability and contribution to the Bank. As a testimony to this, in 2019, we were recognised as the winners of the most innovative deployment of HR technology by the Institute of Human Resource Management (IHRM).

We take pride in being an employer of choice and continue to attract highly talented resources in East Africa. DTB's senior leadership has worked actively over the years to promote team work and encourage transparency and a culture of meritocracy. Their efforts must be acknowledged and appreciated. I also wish to also recognise our high achievers and we salute them for working hard, for doing what is right for the Institution, and for maintaining high compliance and service standards.

Financial Performance & Dividends

The year 2019 was a relatively difficult environment for business in East Africa. In the face of this, the Group has delivered a resilient performance, with DTB's ranking as a Tier 1 player maintained in all three of its principal markets in East Africa. In Kenya, the bank has maintained its weighted average market share, covering key performance parameters, at 6% plus. The Group's full year pre-tax profit rose to KShs 11.3 billion in 2019, compared to KShs 11 billion in the previous year. The Group's asset base stood at KShs 386 billion at the end of the year. Following this performance, the Bank's Board of Directors has recommended a dividend of KShs 2.70 per share, compared to KShs 2.60 paid in the previous year.

Appreciation

On behalf of the senior leadership team and staff of the Bank, I would like to thank the Chairman, Vice- Chairman and members of the Board for their continuing guidance and support. Thank you also to our dedicated customers who have continued to show us unconditional support and loyalty, even during challenging times. Lastly, we express our appreciation to our primary regulator, the Central Bank of Kenya and all other regulators who regulate subsidiary operations in East Africa for their support and guidance. I would like to assure you that we will continue to steer your Bank forward to add further value to the Institution.

Nasim Devji
Managing Director and
Group Chief Executive Officer
18 March 2020

Taarifa ya Afisa Mkuu

Kwa kuutathmini mwaka uliopita, matokeo ya Shirika hili yalisalia imara licha ya kuwepo kwa mazingira magumu ya kikazi. Wakati unapoisoma Ripoti ya mwaka huu, utapata maelezo ya kina kuhusu matokeo ya shirika hili. Naomba nikubainishie baadhi ya mikakati muhimu iliyoshughulikiwa na DTB katika kipindi cha mwaka mmoja uliopita:

Kuidhinisha Matumizi ya Chata ya Sekta ya Benki Nchini Kenya

DTB Kenya iliidhinisha kikamilifu matumizi ya nguzo za Chata ya Sekta ya Benki Nchini Kenya (BSC) baada ya kukabidhiwa chata hiyo na Benki Kuu ya Kenya mnamo mwaka uliopita. Utaratibu uliochukuliwa na Benki hii katika hatua za kushughulikia nguzo za chata hiyo umeendelea vizuri sana. Nguzo hizi zimelandana kabisa na kanuni za utendakazi wetu, tamaduni na maadili kama taasisi, na hali kadhalika mkakati wa biashara pamoja na uendeshaji wa shughuli zetu, mambo hayo yote yakilenga kumpatia kipaumbele na kumzingatia vyema mteja wetu pamoja na tamaduni iliyojaa maadili mema katika ngazi zote kwenye Benki hii na pia kuhakikisha uwazi na kuwepo kwa wepesi wa kutoa taarifa kila tunaposhirikiana na wateja wetu. Chata hii inahimiza kuidhinisha mfumo wa kulingania athari za bei za mikopo, ambao tayari DTB imezindua kuanzia mwaka huu wa 2020.

Athari Endelevu, Nje ya Shughuli za Benki

Katika kipindi cha mwaka huo, Benki ilizingatia pakubwa uwepo wa matawi yake mengi nchini, mifumo yake m'badala ya kidijitali na pia kuwepo Benki hii kwenye mataifa ya ukanda huu ili kuwashughulikia wateja katika njia mbali mbali za kimawasiliano. Mnamo mwezi Oktoba 2019, tuliendelea kuadhimisha sherehe ya kila mwaka inayoadhimishwa kimataifa ya Wiki ya Huduma kwa Mteja (Customer Service Week). Katika kipindi cha wiki hiyo, tulianzisha miradi mingi ili kuimarisha ajenda yetu ya kijamii na kimazingira pamoja na kuacha athari muhimu kwa washikadau wetu wote. Hii ni pamoja na kuboresha mpango wetu wa kuzingatia mazingira ya 'kijani' unaofahamika kama 'green agenda', ambayo yalisheheni shughuli zetu za 2018 baada ya DTB kudhamini mradi wa uapanzi wa miche ya miti katika pembe zote za taifa la Kenya. Tuliufanyia kazi mpango ilipofika mwaka wa 2019 kwa kuzindua mkakati wa kuchukua hatua ya kimakusudi ya kuyalinda mazingira. Tuliidhinisha matumizi ya mfumo endelevu wa kibiashara wa kutumia tena ama usindikaji wa karatasi. Nina furaha kutangaza kwamba tokea kuzinduliwa kwako mnamo Oktoba 2019, tumesindika zaidi ya tani moja ya karatasi iliyotumika katika ofisi za makao makuu yetu.

Kwa kuwa ni biashara endelevu ya muda mrefu inatuhitaji sisi kuwa na malengo wazi na kamilifu ya mustakabali wa kuwepo kwetu. Hili ni jukumu la kimsingi ambalo tunalizingatia sana. Ima tuitekeleze mikakati hii, kama vile kutoa huduma za basi za kila wiki na kujenga kituo cha basi nje ya makao makuu ya Benki yetu ya DTB jijini Nairobi, ama mikakati iliyo na athari kubwa kwa jamii yetu pana, Benki ya DTB inaendelea kuchukua hatua muhimu ili kutimiza wajibu wake wa kuimarisha viwango vya maisha ya jamii iliyo katika mazingira yao ya kazi. Hivi majuzi, kama sehemu ya Maadhimisho ya Siku ya Kina Mama Ulimwenguni 2020, Benki hii ilizindua mkakati wa #AchieveMoreGirl uliotokana na changamoto na tatizo sugu la Usimamizi wa Usafi wa Hedhi (MHM) ambalo halijatatuliwa hususan kwa wanawake na wasichana wanaotoka kwenye jamii zisizojiweza. Nina furaha kuwatangazia kwamba Benki imejitolea kutumia Shilingi Milioni 50 katika kipindi cha miaka mitano (5) ijayo ili kuwasaidia zaidi ya wasichana 30,000 walioko shuleni katika maeneo yote nchini Kenya ili wapate bidhaa bora kushughulikia afya yao ya hedhi.

Mfumo wa Kidijitali bila Mipaka

Hapa DTB, tunatoa kipaumbele kwa kuweka mikakati ya kisasa zaidi kwenye Benki yetu, hususan katika enzi hizi za Dijitali. Kama sehemu ya safari hii, ni muhimu sana tuwe wabunifu zaidi na kufanya "mfumo wa kidijitali kuwa uti wa mgongo" wa huduma tunazotoa pamoja na shughuli zetu zote nyingine. Mnamo 2019, tulizindua matoleo mapya na ya kisasa zaidi ya Programu ya Simu ya Rununu za DTB, m24/7, na hali kadhalika kuzindua mfumo wa shughuli za Benki kwa kutumia mtandao za, i24/7. Matoleo haya ya mfumo hii ya kidijitali, iliyotekelezwa kwa ushirikiano wa moja kwa moja na wateja wa Benki, inatoa vipengele na vitendeakazi muhimu. Tunapoendelea mbele, tutazidi kushirikiana na kudumu kuwahusisha wateja wetu katika ubunifu wa pamoja wa bidhaa na huduma, yote haya yakilenga mtagusano bora kwa wateja na mazingira faafu ya kihuduma.

Uhusika wa Kifedha, Uimarishaji wa Ajenda ya MSME

Nguzo kuu ya Mkakati wa Benki hii ni kuiwezesha Benki kuendelea kufuatilia ajenda ya ushirika wa kifedha ambao hatimaye, unalenga kuimarisha maisha ya wateja wake na jamii pana kwa ujumla inayofanya kazi kwa karibu sana na Benki hii ya DTB, ikihusisha wanabiashara wadogo wadogo pamoja na vitengo vya kibiashara vya mashirika makubwa ya humu nchini yaliyo na vitengo vya mteja halisi wa DTB, lakini pia vitengo kama vile wateja wasioweka pesa kwenye Benki na wale wasiokuwa na pesa za kuweka kwenye Benki walio katika jamii.

Katika muktadha huu, pameibuka wakopeshaji wanaotoa mikopo ya muda mfupi ya kati ya siku 1-30, hususan kwa wajasiriamali wadogo pamoja na vitengo vya masoko ya rejareja. DTB inashirikiana na benki 3 nyingine za humu nchini Kenya: Benki za NCBA Bank, Co-operative Bank na KCB Bank, ili kuzindua bidhaa ya kukopesha pesa kwa kutumia mfumo wa simu ya Rununu ifikapo mwezi Mei ili kushughulikia wateja wa "Matao ya Katikati kwenye Jamii" yaani Walalaheri, mradi unaoitwa Stawi. Kupitia Stawi, MSMEs sasa wanaweza kupata mikopo ya kipindi cha hadi mwaka mmoja. Ili kuzisaidia biashara mbali mbali, kadhalika DTB ilishirikiana na makampuni kadhaa maalum yanayoshughulikia magari katika bidhaa inayoitwa Beba Leo inayowapatia wanabiashara wadogo wadogo 100% ya fedha za mikopo ya magari. Nina furaha kuwafahamisha kwamba mikopo ya sasa ya kiasi cha takribani Shilingi Milioni 400 imetolewa na Benki kupitia kwa programu hiyo ya Beba Leo. Kadhalika, DTB iliimarisha programu yake ya utoaji fedha kwa kutumia Ankara kwa moja ya Maduka Makuu ya Jumla humu nchini Kenya, inayoweza kuwalipa mara moja wanaowaletea bidhaa baada ya kutoa ankara, badala ya kungoja kipindi cha siku 90. Programu hii imeiwezesha Benki kutoa kima cha Shilingi (Kshs.) Bilioni 7.7 mnamo 2019, kwa lengo la kuendeleza maisha ya biashara hizi ndogo ndogo na uchumi kwa ujumla. Hizi zimekuwa ni hatua muhimu sana za kuzisaidia biashara ndogo ndogo na tunaahidi kuendeleza mikakati hii kati ya mingine mingi katika utendakazi wetu.

Kutambua kwamba MSMEs ni nguzo muhimu sana ya ukuaji wa kiuchumi na uajiri, mnamo 2019, tulianzisha programu za ufundishaji wa masomo ya kifedha katika miji mikuu na miji mingineyo nchini Kenya kwa lengo la kutoa mafunzo pamoja na uwezo katika ya wateja wa biashara ndogo ndogo.

Taarifa ya Afisa Mkuu (Inaendelea)

wa Inuka kwa ajili ya mafunzo ya ndani ya wafanyikazi wa benki na hali kadhalika kuimarisha mafunzo ya uwezeshaji kwa ajili ya wajasiriamali (MSME) maalum (waliopo na wanaotarajiwa) wakiwa ni wamiliki wakubwa, wadogo na wastani. Katika kipindi cha Programu hii, baadhi ya wamiliki 400 wa biashara ndogo ndogo walifunzwa katika mada mbali mbali, ikiwepo ujasiriamali, biashara na mipango mkakati, mauzo na mawasiliano ya kibiashara, usimamizi wa wafanyikazi, utendakazi na usimamizi wa maduka ya jumla, n.k.

Ajenda Kuu Nne

Serikali ya Kenya ilitambua nguzo nne kuu ambazo kwazo zitaongoza maendeleo ya nchi: Nguzo hizo zilikuwa ni pamoja na Huduma ya Afya kwa wote, makao ya bei nafuu, uzalishaji wa viwanda na Usalama wa Chakula. Kwa miaka mingi sasa, Benki ya DTB imeunga mkono hatua ya uwepo wa nguzo hizi hususan kupitia kwa huduma za muda za kifedha katika sekta kuu kwa uchumi ikiwa ni pamoja na maendeleo ya ujenzi wa nyumba za makao, uzalishaji wa viwanda na (japo kwa uchache) kilimo. Benki ya DTB ilichukua hatua mnamo mwaka wa 2019, kwa kuwekeza kwenye Kampuni mpya iliyoungwa ya Kampuni ya Kujaliza Fedha za Mikopo ya Kenya (KMRC). KMRC ni Mradi Shirika wa Wizara ya Fedha na Benki ya Dunia ambao wamejitolea kusaidia ajenda ya ujenzi wa nyumba za bei nafuu kwa kutoa mikopo salama, na ya muda mrefu kwa wanaokopesha mikopo ya ujenzi wa nyumba, hivyo basi kuongeza na kurahisisha upatikanaji wa mikopo ya ujenzi wa nyumba kwa Wakenya. Tunajitolea kusaidia ajenda hii ya nyumba hizi za bei nafuu kwa kushirikiana na kampuni ya KMRC.

Watu Wetu, Mali Yetu Halisi

Tunaamini kwa dhati kwamba watu wetu ndio mali yetu halisi. Tutaendelea kuwekeza kwa watu wetu, wakiwa takribani watu 2,269 katika ukanda wa Afrika Mashariki, wanaotuletea hali na mazingira mbali mbali, maarifa, vipawa na tajriba kwa DTB. Katika uzinduzi wetu wa safari ya kidijitali, uandikaji na ubakizaji wa wafanyikazi wanaostahiki, imekuwa hatua muhimu sana kwetu na ni lazima iangikwe kupitia kwa mawasiliano bora pamoja na takrima. Kuwaajiri watu kupitia kwa uwezo wao pamoja na matendo yao ndio ngao yetu wakati tunapoendelea kujenga taasisi ya daraja la kimataifa.

Katika mwaka huo, Shirika liliwekeza pakubwa kwa kutoa mafunzo na maarifa kwa wafanyikazi katika tasnia mbali mbali, ikiwa ni pamoja na ustawi wa kiusimamizi, Maarifa ya Kuthibiti Wizi wa Kifedha, n.k. Kadhalika, DTB Kenya ilizindua mfumo wa kupimia utendakazi ambao umerahisisha na kuwezesha kutathmini utendakazi wa wafanyikazi. Mfumo huo mpya unawezesha utathmini unaofaa kwa uwezo wa kila mfanyikazi pamoja na mchango wake kwa Benki. Kama ushuhuda kwa hili, mnamo 2019, tulitambuliwa na kutangazwa kama washindi wa Benki Bunifu zaidi katika Teknolojia ya Usimamizi wa Wafanyikazi na Taasisi ya Usimamizi wa Wafanyikazi (IHRM).

Tunajifaharia kwa kuwa muajiri anayependwa na tunaendelea kuvutia vipawa vyenye maarifa katika ukanda wa Afrika Mashariki. Viongozi wakuu wa DTB wameendelea kufanya kazi kwa dhati kwa miaka mingi ili kuimarisha mtagusano wa kikazi na kushinikiza uwazi na tamaduni ya kuwatuza wanaofaa kutuzwa. Jitihada zao ni lazima zitambulike na kutuzwa. Kadhalika, napenda kuwatambua wafanyikazi bora na tunawahongera kwa bidii yao ya mchwa, kwa kufanya kile kinachofaa kufanywa na Benki hii, na kuzingatia viwango bora vya utendakazi pamoja na huduma.

Matokeo ya Kifedha na Migao ya Hisa

Mwaka wa 2019 ulikuwa na mazingira magumu ya kufanyia biashara katika ukanda mzima wa Afrika Mashariki. Katika hali hii, Shirika hili lilifanya vyema, huku Benki ya DTB iliyo katika ngazi ya Mhusika wa Daraja la 1 zikibakia kifua mbele katika masoko yake makuu katika Afrika Mashariki. Nchini Kenya, Benki iliimarisha matokeo yake wastani ya mgao wa soko, huku ikilingania vipengele muhimu vya matokeo, zaidi ya 6%. Faida ya Shirika kabla ya Ushuru iliongezeka hadi Shilingi Bilioni 11.3 mnamo 2019, ikilinganishwa na Shilingi Bilioni 11 mwaka uliotangulia. Mali ya jumla ya Shirika ilifikia kima cha Shilingi Bilioni 386 billion kufikia mwisho wa mwaka. Kufuatia matokeo haya, Bodi ya Wakurugenzi Wakuu wa Benki imependekezwa mgao wa hisa wa Shilingi 2.70 kwa kila hisa, ikilinganishwa na Shilingi 2.60 zilizolipwa mwaka uliotangulia.

Shukrani

Kwa niaba ya kikosi cha usimamizi mkuu pamoja na wafanyikazi wa Benki, ningependa kumshukuru kwa dhati Mwenyekiti, Naibu Mwenyekiti na wanachama wa Bodi Kuu kwa mwongozo na usaidizi wao wa kiushauri. Kadhalika, Shukrani za dhati ziwaendee wateja wetu ambao wameendelea kutuonyesha usaidizi usio kifani na uungwana wa kipekee hata katika vipindi vilivyokuwa na changamoto tele. Mwisho kabisa, tunawashukuru kwa dhati wasimamizi wetu wakuu, ambao ni Benki Kuu ya Kenya pamoja na wasimamizi wengine wanaosimamia shughuli za uendeshaji wa mikakati yetu katika ukanda wa Afrika Mashariki, kwa usaidizi na ushauri wao kabambe. Napenda kuwahakikishia kwamba tutaendelea kuimarisha huduma za Benki yako na kuongeza zaidi thamani ya taasisi hii.

Nasim Devji

Mkurugenzi Mkuu na

Mkurugenzi Mkuu Mtendaji wa Shirika

18 Machi 2020

Taarifa iliyoko hapa juu ni tafsiri ya Taarifa ya Afisa Mkuu ilioko **ukurasa wa 20 - 21**. Iwapo patatokea utata wowote katika tafsiri ya maana halisi ya maneno yaliyotumika, basi tafsiri ya Kiingereza ndiyo itakayo tawala.

The text set above is a Swahili translation of the CEO's statement, which appears on **pages 20 - 21**. In the event of any dispute in the interpretation of the Swahili version, the English version shall be the authoritative version.

Key Metrics of 2019

Financial (Group)



All amounts in KShs. million (unless otherwise stated)

Profit before Tax

2019	11,263
2018	11,000

Net Loans and Advances

2019	199,089
2018	193,074

Customer Deposits

2019	280,187
2018	282,860

Non-performing Loans

2019	13,604
2018	12,143

Shareholders' Funds

2019	58,851
2018	53,657

Total Assets

2019	386,230
2018	377,719

Return on Equity

2019	12.06%
2018	13.11%

Non-performing Loan Ratio

2019	6.59%
2018	6.04%

Cost to Income Ratio

2019	46.58%
2018	43.95%

Non- Financial (Bank)



Employee Gender Ratio (Female: Male)

2019	48:52
2018	48:52

Net Promoter Score

2019	52% (Great)
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Reams of paper used

2019	10,010
2018	11,048

9%
Reduction

Investments in IT & Cybersecurity

2019	559 Million
2018	532 Million

Statement of Compliance with Corporate Governance

Preamble

At the core of our success is effective and ethical leadership provided by a highly experienced and widely skilled Board of Directors and executive management team. Diamond Trust Bank Kenya Limited ("Bank") understands that practising good corporate governance is fundamental to ensuring accountability, fairness and transparency in the Bank's relationship with all its diverse stakeholders. Consequently, good corporate governance is a key priority of the Board of Directors ("Board") and it has put in place policies, systems and controls to enable the Bank achieve the highest levels of good corporate governance that enables continuous accountability and deters malpractice and fraud. The Chairman, on behalf of the Board, further takes this opportunity to restate to the Bank's stakeholders, the Board and the Bank's commitment to best practice in all their activities and to full and continued compliance with the legislation, regulations and guidelines governing the Bank including but not limited to the Banking Act, the Central Bank of Kenya ("CBK") Prudential Guidelines, the Capital Markets Authority Code of Corporate Governance Practices for Issuers of Securities to the Public 2015 ("CMA Code") and the Bank's internal policies relating to corporate governance.

Our Directors have a fiduciary duty to act with care and skill and to exercise their powers and perform their functions as Directors in the best interest of the Bank. Each Director has attested that he/she undertakes to:

- act in good faith towards the Bank;
- avoid as far as possible and, as a minimum, declare any conflict between his/her other interests and the interests of the Bank.
- place the interest of the Bank and its depositors above all other interests.

Board of Directors

The Bank is governed by a duly elected, highly competent and diverse Board which is accountable to all of its shareholders, including the minority shareholders. The duties and responsibilities of the Board are as stipulated by the legislation and regulations governing the Bank, its Articles of Association and resolutions of the Shareholders.

The Board works with the framework to:

1. Review the strategic direction of the Group and adopting business plans proposed by management for the achievement of the strategic direction set.
2. Approve specific financial and non-financial objectives and policies proposed by management.
3. Review processes for the identification and management of business risk and processes for compliance with key regulatory and legal areas.
4. Delegate authority for lending and provisioning and write-off limits, with capital expenditure, investment, capital and funding proposals being reserved for the Board's approval.
5. Review succession planning for the management team and making senior executive appointments, organisational changes and high-level remuneration matters.
6. Provide oversight of performance against targets and objectives.
7. Provide oversight of reporting to shareholders on the direction, governance and performance of the Group as well as other processes that need reporting and disclosure.
8. Provide oversight over the activities of the subsidiaries of the Group.

The Board fulfills its fiduciary obligations to the shareholders by maintaining control over the strategic, financial, operational and compliance requirements of the Bank. That notwithstanding, whilst the Board provides direction and guidance on strategic and general policy matters and remains responsible for establishing and maintaining overall internal controls over financial, operational and compliance issues, it has delegated authority to the Bank's Managing Director (Chief Executive Officer) to conduct the day-to-day business of the Bank.

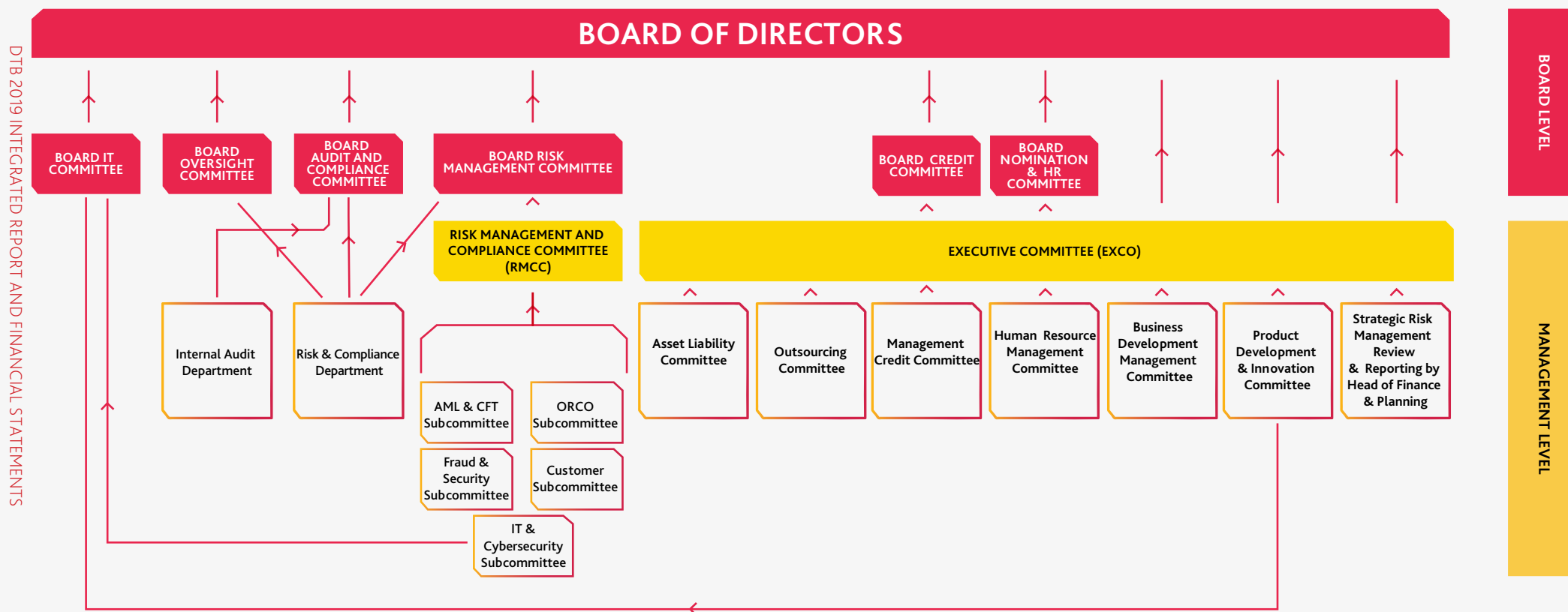


Statement of Compliance with Corporate Governance (Continued)

Corporate Governance Framework Structure

The Board is ultimately responsible for ensuring that its approved strategy is implemented and that the Group's purpose is fulfilled. The Board also recognises its responsibility to ensure that risks are adequately identified, measured, managed and monitored and that good governance is maintained. The Board discharges its duty through policies and frameworks and is supported in the discharge of its mandate by six Board committees.

In 2019, the Board approved an enhanced Governance structure which reflected the various committees that have existed as well as those newly set up at Board and Management level. The Governance structure is illustrated below:



As part of its Corporate Governance Framework, the Bank has in place a Corporate Governance Policy, Board Charter and Code of Ethics and Conduct, which define *inter alia* the role of the Board and how its powers and responsibilities are exercised as well as the role of the Chairman and the Managing Director (Chief Executive Officer), having regard at all times to principles of good corporate governance, international best practice and applicable laws. The provisions of the said Corporate Governance Policy, Board Charter and Code of Ethics and Conduct are informed by the requirements, amongst others, of the Banking Act, CBK Prudential Guidelines, the CMA Code and the Capital Markets Authority Regulations. Each year, the regulators in Kenya as well as in the countries in the region in which the Group operates, have continued to enhance the regulatory and risk management guidelines. The Group continuously embraces the changes and remains at the forefront in adopting best practices in corporate governance and risk management in the rapidly evolving banking landscape.

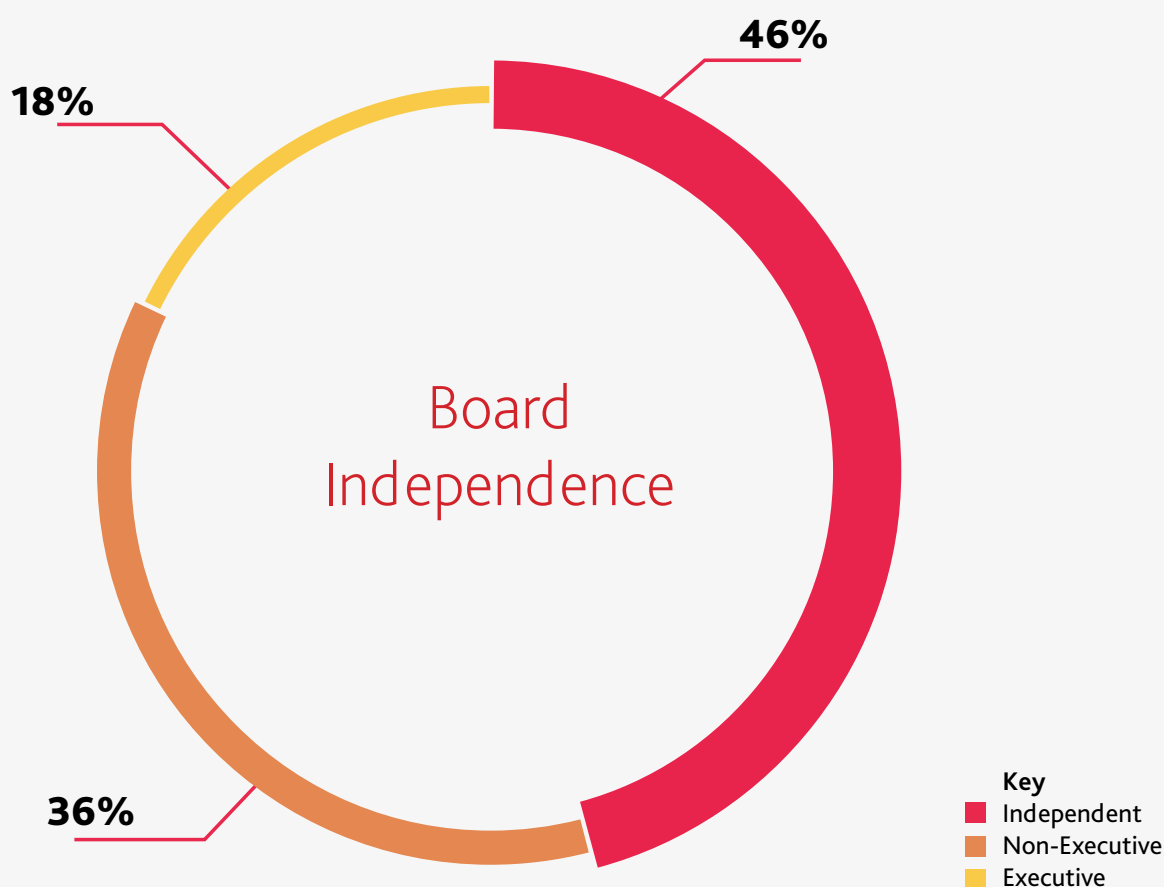
Statement of Compliance with Corporate Governance (Continued)

Separation of Functions of Chairman and Chief Executive Officer

As part of its commitment to good corporate governance, the Board has ensured that the functions of the Chairman and the Chief Executive Officer are not exercised by the same individual. Furthermore, the roles and responsibilities of the Chairman and the Chief Executive Officer of the Bank are separate and distinct. There is clear division of responsibility with the Chairman having the primary duty of chairing the Board of the Bank and the Chief Executive Officer having the primary duty of running the day-to-day business of the Bank.

Board Independence

The Bank's Corporate Governance Policy, which is aligned to the CBK Prudential Guidelines and the CMA Code, provides that at least one third of the Board should be independent whereas the non- executive Directors should not be less than three-fifths of the Directors in order to enhance accountability in the decision- making process. The Bank is compliant with these requirements and the independent and non- executive Directors together constitute **over 80%** of the Board. Directors are considered independent where they are not part of the management, have not served on the Board for a period of more than nine years and are free of any business or other relationship that could materially interfere with their ability to make objective assessment of matters presented before the Board and to act in the best interest of the Bank and its stakeholders generally.



Annual Review of Board Independence

The Board, on an annual basis, reviews and determines its independent members, as they bring impartial and objective judgement to the Board and mitigates against risks arising from conflict of interest or undue influence from interested parties. In determining each Director's independence, the Board specifically takes cognisance of the definition of an independent director as set out in both the CBK Prudential Guidelines and the CMA Code.

Statement of Compliance with Corporate Governance (Continued)

Role of the Board

- Sets the strategic vision, direction and long-term goals
 - Provides sound leadership to the Managing Director and Senior Management
 - Ensures that adequate resources are available to meet these objectives
- Directs management to conduct prudent business practices
 - Ensures that corporate responsibility, ethical standards and robust risk management frameworks underpin the conduct of DTB's core business
- Bears ultimate responsibility for
 - Governance
 - Strategy
 - Risk management
 - Financial performance
 - Sustainability

Areas of Focus in 2019



Key:

BACC - Board Audit & Compliance Committee

BCC - Board Credit Committee

BITC - Board Information Technology Committee

BNHRC - Board Nomination and Human Resource Committee

BOC - Board Oversight Committee

BRMC - Board Risk Management Committee

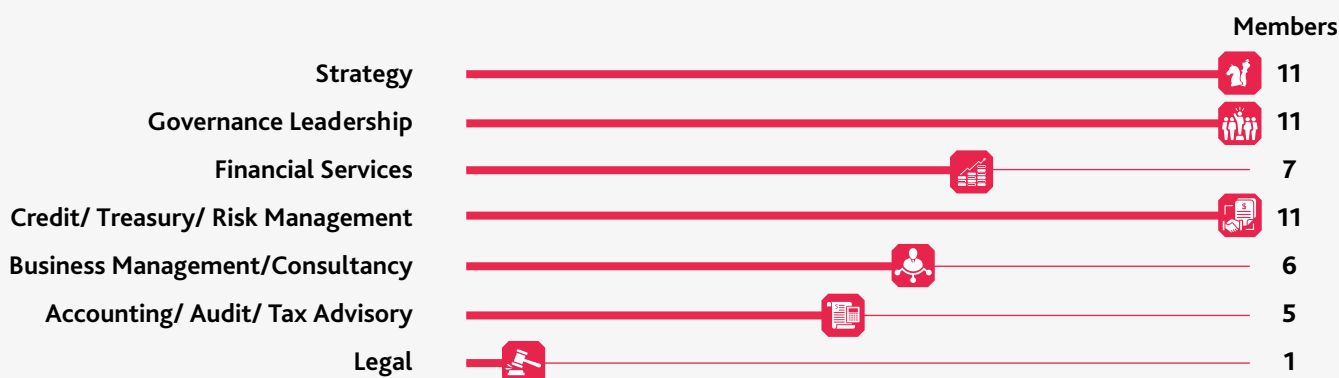
Directors' Appointment

Candidates proposed for appointment to the Board are nominated by the Board Nomination and Human Resource Committee ("BNHRC"), which is chaired by an independent Director. In identifying suitable candidates, the BNHRC follows the formal process laid out in the Board Appointment and Diversity Policy. Following nomination by the BNHRC, suitable candidates are then considered and appointed by the full Board in accordance with the provisions of the Articles of Association and taking into account their experience, availability and fitness. Appointments are however subject to a letter of no objection having been received from the CBK. Such newly appointed Directors are then required to retire at the immediate next Annual General Meeting ("AGM") following their appointment and, being eligible, to offer themselves for re-election by the shareholders thus ensuring shareholder contribution in all appointments. Since the last AGM, the Board has appointed Sagheer Mufti on the Board as a Non- executive Director.

Directors Skills, Experience and Diversity

The Board currently comprises of 11 members, including two female Directors. Each Director is expected to be aligned to the Group's vision, mission and values as well as bring to the Board their own unique strengths. Directors are appointed on the basis of integrity, leadership qualities and sound judgement. In addition, the Group seeks to have a Board that brings a right mix of individuals with a variety of appropriate skills, knowledge and experience and who jointly have the overall collective competence to deal with the current and emerging issues and effectively guide management in ensuring the optimal Group performance. We also recognise that diversity is not limited to gender or any other personal attributes.

The aggregate mix of skills and experience of the Directors seeks to challenge management, ensure robust and constructive debate and challenge the strategic thinking of the executives thereby adding value to the Group. The Directors regularly review the skills, knowledge and experience represented on the Board against the skills and experience needed to deliver the Group strategy. The current skills represented on the Board are as follows:



Statement of Compliance with Corporate Governance (Continued)

Board Committees:

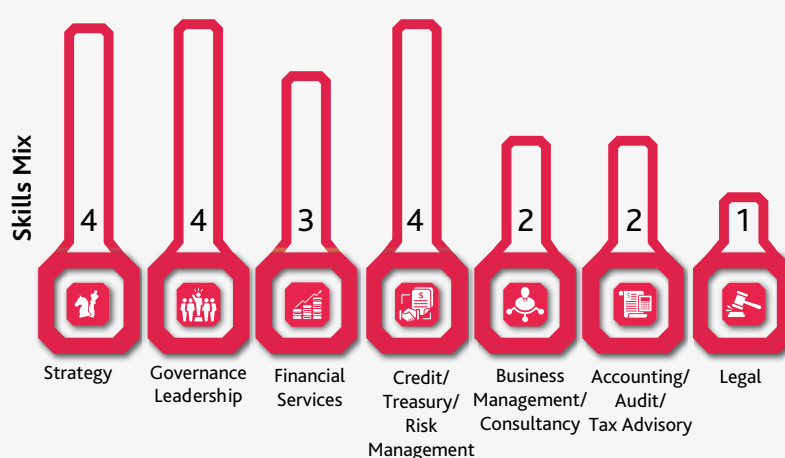
The Board has constituted six committees to supplement its functions. It also reserves the right to establish ad-hoc Committees as and when required. The Committees review matters on behalf of the Board in accordance with their Board approved terms of reference. Following such review, the Committees may thereafter either refer matters to the Board for decision, with a recommendation from the concerned Committee, or determine matters within the authority delegated to them by the Board. The membership of the Committees are designed to spread responsibility and make use of the diverse skill sets within the Board. The membership, as well as the terms of reference of each Committee, is reviewed by the Board on an annual basis.

The constitution and summary of the role of each of the Committees are set out hereunder:

Board Audit and Compliance Committee (BACC)



Chaired by Ismail Mawji



Members

- Pamella Ager
- Guedi Ainache
- Irfan Keshavjee

The BACC comprises of four non-executive Directors, all of whom are independent. It is mandated to raise the standards of corporate governance by continuously improving the quality of financial reporting, strengthening the control environment and the effectiveness of the internal and external auditing functions. In addition to advising the Board on best practice, the BACC also monitors management's compliance with relevant local legislation, regulations and guidelines issued by regulatory bodies, as well as the Bank's laid-down policies and procedures.

The BACC assists the Board in fulfilling its statutory, regulatory and fiduciary responsibilities. It provides an objective and independent review of the effectiveness of:

- (a) The external reporting of financial information including correct application of accounting requirements.
- (b) Internal control environment of the Bank including governance of financial and accounting risks
- (c) The internal audit and external audit functions, including an assessment of the independence adequacy and effectiveness of those functions.
- (d) The compliance management framework.

Between them, the members of the BACC have extensive financial and accounting expertise and a sufficient understanding of the Bank and the industry and environment in which it operates to be able to effectively discharge the BACC's mandate. Furthermore, the Chairman of the BACC is an independent and non- executive director and a member of the Institute of Certified Public Accountants of Kenya in good standing. The internal auditor and head of risk and compliance are invited to all the meetings of the BACC. The external auditor also holds at least two closed- door meetings, to the exclusion of management, with the BACC every year. Whereas the Directors are responsible for preparing the financial statements and for presenting a balanced and fair view of the financial position of the Bank, the external auditor examines and gives their opinion on the reasonableness of the financial statements. The external auditor reports independently and directly to the Board at the year-end Board meetings. The shareholders appoint/ reappoint the external auditor at each AGM of the Bank.

Statement of Compliance with Corporate Governance (Continued)

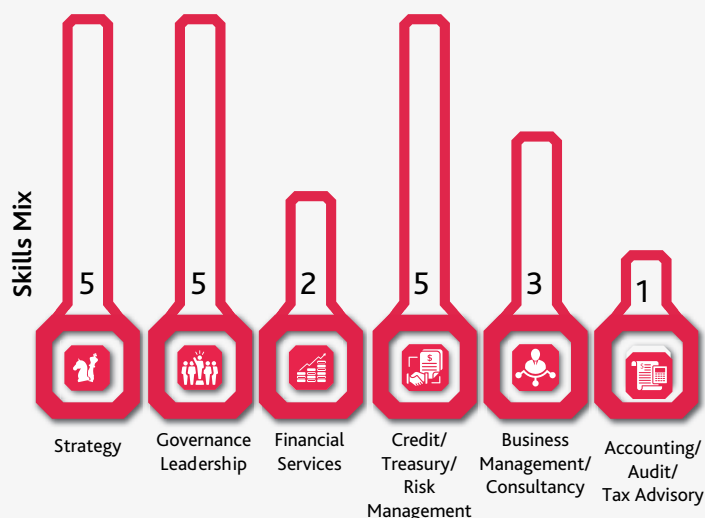
Board Credit Committee (BCC)



Chaired by Jamaludin Shamji

Members

- Pamella Ager
- Irfan Keshavjee
- Shaffiq Dharamshi
- Ismail Mawji



The BCC comprises of five non-executive Directors, three of whom are independent. Its primary purpose is to oversee and monitor the credit function and the credit risk management framework of the Bank. The BCC also ensures that the overall credit framework is robust, professionally and effectively managed for business growth and in compliance with internal policy and external and statutory regulations. It formally meets at least once every quarter.

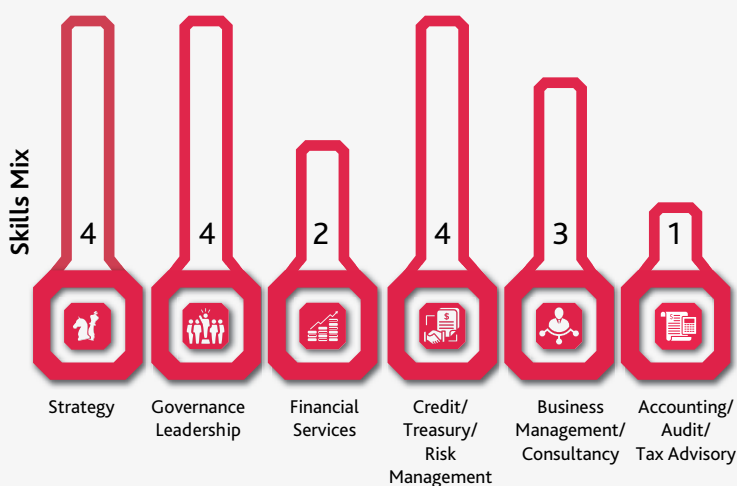
Board Information Technology Committee (BITC)



Chaired by Moez Jamal

Members

- Guedi Ainache
- Irfan Keshavjee
- Jamaludin Shamji



The BITC comprises of four non-executive Directors, two of whom are independent. Its responsibilities include ensuring quality, integrity, effectiveness and reliability of the Bank's ICT risk management framework.

Statement of Compliance with Corporate Governance (Continued)

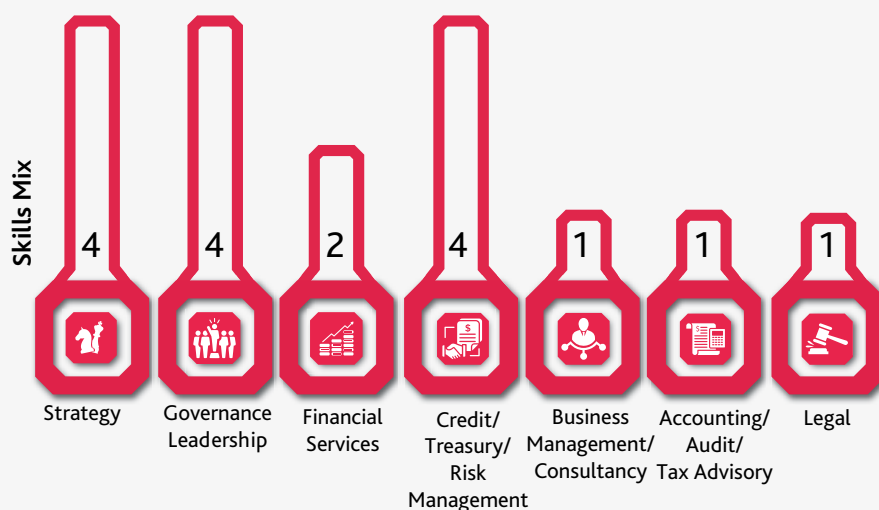
Board Nomination and Human Resource Committee (BNHRC)



Chaired by Pamela Ager

Members

- Shaffiq Dharamshi
- Ismail Mawji
- Jamaludin Shamji



The BNHRC is responsible for proposing new nominees for consideration for appointment as Directors, assessing the performance and effectiveness of Directors and ensuring, through annual reviews, that the Board composition reflects an appropriate mix of skills and expertise required. The BNHRC is also mandated to oversee all human resources matters on behalf of the Board and recommend to the full Board the remuneration and incentives for the executive Directors and senior management.

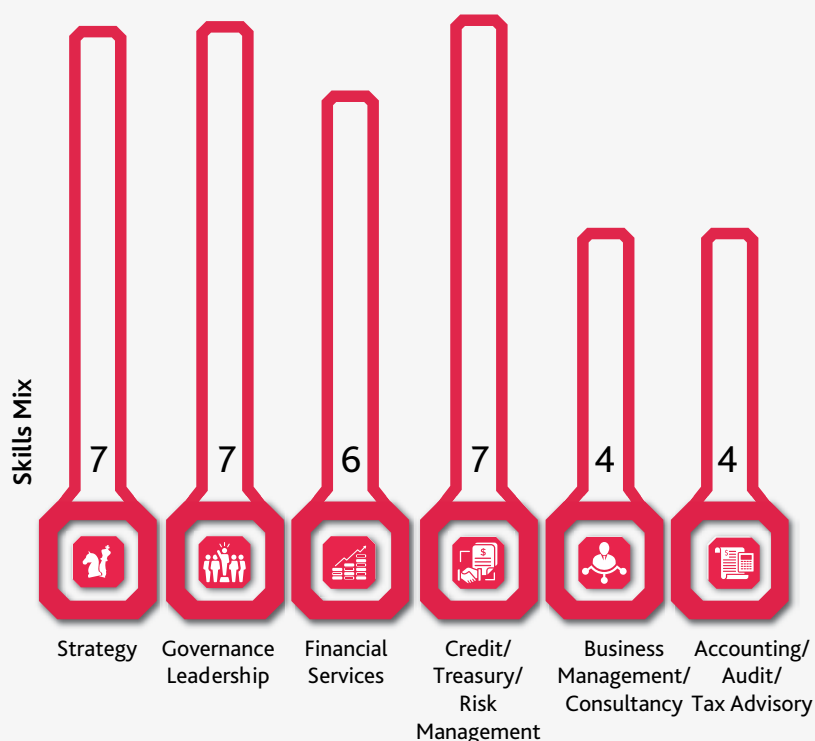
Board Oversight Committee (BOC)



Chaired by: Shaffiq Dharamshi

Members

- Ismail Mawji
- Guedi Ainache
- Moez Jamal
- Jamaludin Shamji
- Nasim Devji
- Alkarim Jiwa



The BOC comprises seven Directors, five of whom are non- executive. Its responsibilities include providing oversight for the steps required to be taken by management and the Bank to enhance and improve the Bank's capabilities, systems and processes to better prevent money laundering and ensure effective surveillance of transactions and related customer activities and to ensure the Bank's Anti- Money Laundering, Combating Financing of Terrorism and Sanctions framework and practices are enhanced so that these comply with applicable local laws and regulations as well as best practices.

Statement of Compliance with Corporate Governance (Continued)

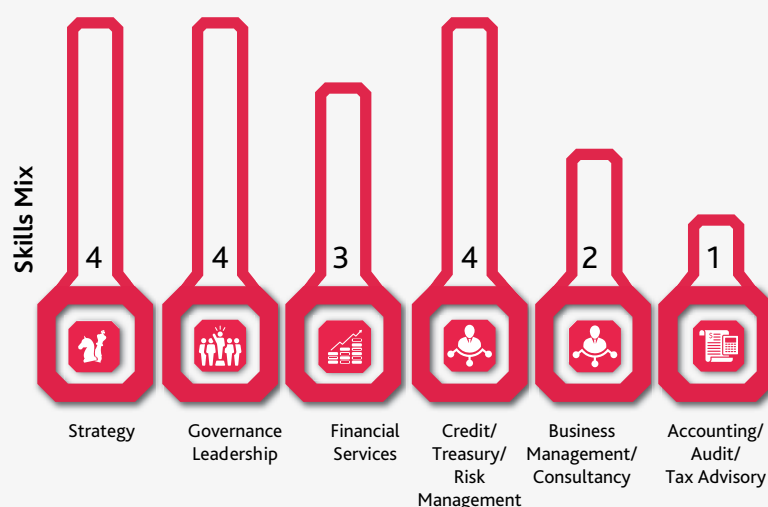
Board Risk Management Committee (BRMC)



Chaired by Guedi Ainache

Members

- Moez Jamal
- Shaffiq Dharamshi
- Jamaludin Shamji



The BRMC comprises four non-executive Directors, one of whom is independent. Its responsibilities include ensuring quality, integrity, effectiveness and reliability of the Bank's risk management framework except for credit risk management which is reviewed by the BCC. It is also charged with setting out the nature, role, responsibility and authority of the risk management function of the Bank and defines the scope of the risk management work and ensures that there are adequate risk policies and strategies in place to effectively identify, measure, monitor and appropriately mitigate the various risks which the Bank is exposed to from time to time.

Directors Retirement by Rotation and Re-election

At every AGM, at least one-third of the non-executive Directors retire from the Board as provided for in the Articles of Association. Directors appointed to fill casual vacancies or as additional non-executive Directors are also expected to submit themselves to election by shareholders at the immediate next AGM following their appointment.

Board Tenure

The Board Appointment and Diversity Policy provides that a non-executive Director shall be appointed for a term of three years ("Term") and may thereafter serve for a maximum of three additional Terms. In addition, non-executive Directors are required to retire at the immediate next AGM after such member attains the age of 70 years. The shareholders may however, at such AGM, vote to retain the member in office until such time as the member attains the age of 72 years, in the event such member will have offered him/herself for re-election.

Statement of Compliance with Corporate Governance (Continued)

Meetings of the Board

The Board has in place an annual work plan that sets out the Board activities for the year. The Board meets at least once every quarter, and additionally when necessary, and has a formal schedule of matters reserved for it. The Chairman, Managing Director, Finance Director and the Company Secretary jointly set the agenda for the meetings. The Directors are given appropriate and timely information to enable them to maintain full and effective control over strategic, financial, operational and compliance matters as well as succession planning. The notice, agenda and detailed board papers are circulated in advance of the meetings. Directors are further entitled to request additional information where they consider further information is necessary to support informed decision-making.

#	Board Member	Designation	Meetings Attendance Record (1 January 2019 to 31 December 2019)								
			AGM	BACC	BCC	BEC	BITC	BNHRC	BOC	BRMC	Board
1	Linus Gitahi Last elected in May 2017	Chairman (Independent)	1/1	1/2	1/2	2/2	2/2	-	-	-	4/4
2	Shaffiq Dharamshi Last elected in May 2018	Vice Chairman	1/1	-	2/2	-	2/2	2/2	4/4	4/4	4/4
3	Nasim Devji (Mrs.)	Managing Director	1/1	-	-	-	-	-	-	4/4	4/4
4	Alkarim Jiwa	Finance Director	1/1	-	-	-	-	-	-	4/4	4/4
5	Pamella Ager (Mrs.) Last re-elected in May 2018	Non- Executive Director (Independent)	1/1	4/4	4/4	2/2	-	4/4	-	-	4/4
6	Guedi Ainache Last re-elected in May 2017	Non- Executive Director (Independent)	1/1	4/4	-	2/2	4/4	-	4/4	4/4	4/4
7	Moez Jamal Last re-elected in May 2019	Non- Executive Director	1/1	-	-	-	4/4	-	4/4	4/4	4/4
8	Irfan Keshavjee Last re-elected in May 2018	Non- Executive Director (Independent)	1/1	4/4	4/4	2/2	4/4	-	-	-	4/4
9	Ismail Mawji Last re-elected in May 2017	Non- Executive Director (Independent)	1/1	4/4	4/4	2/2	-	4/4	-	4/4	4/4
10	Sagheer Mufti*	Non- Executive Director	-	-	-	-	-	-	-	-	-
11	Jamaludin Shamji Last re-elected in May 2019	Non- Executive Director	1/1	-	4/4	2/2	4/4	4/4	4/4	-	4/4
12	Abdul Samji	Retired at AGM of 23 May 2019	1/1	-	2/2	2/2	-	2/2	-	-	2/2
13	Rizwan Hyder	Retired at AGM of 23 May 2019	0/1	-	-	-	-	-	-	0/2	0/2

* Appointed in January 2020

Access to Information

There is a clear flow of information between the management of the Bank and the Board in order to facilitate both quantitative and qualitative evaluation and appraisal of the Bank's performance. The Board is further entitled to seek any information it requires from any employee of the Bank or from any other source. Procedures are in place, through the Chairman of the Board, Chairs of the Committees and the Company Secretary, enabling members of the Board to have access, at reasonable times, to all relevant information and to Senior Management, to assist them in the discharge of their duties and responsibilities and to enable them to take informed decisions.

Independent Advice

The Directors are entitled to obtain independent professional advice, at the Bank's expense, as they may require in order to better perform their duties as Directors. Directors are expected to strictly observe the provisions of the statutes applicable to the use and confidentiality of information.

Statement of Compliance with Corporate Governance (Continued)

Induction and Continuous Professional Development

Each new Director is provided with a letter of appointment and participates in a formal induction in accordance with the Bank's Board Induction Policy. This is intended to familiarise them with the Bank's operations, senior management, the business environment in which the Bank operates and to enhance their effectiveness in the Board. New Board members are also introduced to their fiduciary duties and responsibilities as part of the aforementioned induction.

In order to help serving Directors acquire, maintain and deepen their knowledge and skills and to fulfill their responsibilities, the Board continuously ensures that members have access to programmes of tailored training and continuous professional development on relevant issues. In addition, the Chairman regularly reviews the professional development needs of each member of the Board as part of the annual performance evaluation process. The programme of continuous education ensures that the members of the Board are kept up to date with developments in the industry both locally and globally.

Annual Performance Evaluation

The Chairman is charged with the responsibility of ensuring the Bank has an effective Board of Directors. The Board undertook an annual evaluation of its own performance, the performance of the Chairman, the Committees, individual Directors, the executive Directors and the Company Secretary. This was undertaken in accordance with the Bank's Annual Evaluation Policy. The Board's performance is evaluated based on:

- Group strategic objectives
- Risk governance
- Board constitution and skills
- Executive management and succession
- Board interaction and support

The annual evaluation for the year 2019 was facilitated by an external party, the Institute of Directors (Kenya). The results of the evaluation were reviewed and discussed by the full Board and the overall finding was that the Board had the right mix of skills and experience and was well positioned to achieve the Bank's objectives and address any emerging challenges. The results of the evaluation are submitted to the CBK in the first quarter of the year in line with the regulatory requirement.

Board Remuneration

The Board has in place a Board Remuneration Policy. The said Policy provides that each non- executive Director shall receive a fixed monthly fee as a member of the Board and sitting allowance for every meeting attended. They shall not be covered by the Bank's incentive programmes and shall not receive any performance-based remuneration. The fees and sitting allowances are determined by the Board and approved by the shareholders at the AGM of the Bank on a pre- or post- facto basis. The remuneration of all Directors is subject to regular monitoring to ensure the levels of remuneration and compensation are appropriate. Details of the fees for the non-executive Directors and remuneration of the executive Directors, paid in 2019, are set out in the Directors Remuneration Report on [pages 97 - 98](#).

Internal Control Systems

The Bank has well defined written policies and procedures to ensure that best practices are followed in conducting the day-to-day operations, financial reporting and implementing strategic action plans approved by the Board. A well-structured organisation chart ensures that there is adequate segregation of duties. Structures and systems have been defined in the Bank's policies and procedures to facilitate complete, accurate and timely execution of transactions, operations and commitments and the safeguarding of assets. The Bank's business performance trends, forecasts and actual performance against budgets and prior periods are closely monitored and regularly reported to the Board and Senior Management. Financial information is prepared using appropriate accounting policies, which are applied consistently. To assist management in fulfilling its mandate and to ensure compliance with the laid-down policies and procedures, various committees have been established. The roles, responsibilities and composition of some of the key management committees are given below:

Executive Committee (EXCO)

Reports to the Board and assists with strategy planning, implementation, monitoring and reporting, capital allocations proposals on material ventures, strategic projects and any other new business lines. EXCO also reports to BRMC on the material strategic risks facing the bank.

Product Development and Innovation Committee (PDIC)

PDIC assists management in the determination and implementation of new products from conceptualisation to go to market. PDIC meets once every six weeks.

Asset Liability Committee (ALCO)

The ALCO Chair has oversight on the overall management and monitoring of the Bank's balance sheet development and capital adequacy. The committee derives the strategy in terms of mix of assets and liabilities given its expectation of the future and potential consequences of interest-rate movements, liquidity constraints, foreign exchanges and capital adequacy. The committee ensures that all strategies conform to the Bank's risk appetite and levels of exposure as determined by the Board. ALCO meets once every month.

Outsourcing Committee

The Outsourcing Committee meets once every quarter. The Outsourcing Committee reviews the outsourcing business case, operational risks associated with outsourcing arrangements, evaluating the materiality of all existing and prospective outsourcing based on the framework approved by the Board and ensuring that effective risk management policies and practices are in place to manage the risk in outsourcing activities.

Human Resource Management Committee (HRMC)

The principal objective of HRMC is the review and recommendation of appropriate policies regarding staff incentives, remuneration, compensation & benefits, promotions, recruitment, training & development, succession planning, staff appraisal and any other strategic functions. The HRMC meets once every quarter.

Management Credit Committee (MCC)

The MCC assists in the oversight of the Credit Risk Management Framework, review and approval of credit applications, credit strategy, Policies, Procedures, Monitoring, Reporting and that the lending operations are in line with the Board approved limits and regulatory requirements. The MCC meets once every month.

Business Development Management Committee (BDMC)

BDMC provides a forum for the development and implementation of key business development strategies that the Bank needs to undertake to ensure business targets are achieved and maintained in line with dynamic market trends, the Bank's vision, mission and values, as well as prevailing regulatory frameworks. The BDMC meets at least quarterly.

Statement of Compliance with Corporate Governance (Continued)

Risk Management Compliance Committee (RMCC)

Reports to the BRMC and assists the Board in its oversight role by implementing the risk management framework with a view to ensuring operational and financial resilience. RMCC supports the Board in policy formulation and setting of limits. RMCC, on behalf of the Board, provides oversight of the effectiveness of the risk management and compliance policies, procedures, systems, controls and assurance arrangements designed to identify, assess, manage, monitor, prevent and/or detect financial crime. Oversight of the consolidated supervision framework covering the subsidiaries (DTBU, DTBT and DTBB) risk management frameworks. RMCC meets once every six weeks.

IT & Cyber Security Sub-Committee

The IT & Cyber Security Sub-Committee has oversight of the IT and Cyber Security Risk Management Framework, policies, procedures, processes and change management processes. The committee reviews the adequacy of the IT and cyber security programs including practices and methodologies used to identify, assess and mitigate IT & Cyber risk across the Bank. The Sub-Committee meets once a month.

Customer Sub-Committee

The Customer Sub-Committee has oversight on the customer acceptance process; Know Your Customer (KYC), Customer Due Diligence (CDD) and Enhanced Due Diligence (EDD) processes; Customer data, record keeping and customer data retrieval process. The Sub-Committee has oversight of the on-going Customer Due Diligence in line with the Board approved policy. The Sub-Committee also reviews customer complaints to identify the root causes so as to ensure the matters are adequately attended from a Bank and not only customer perspective. The Sub-Committee also monitors and reports on customer due diligence internal and external audit / review reports. The Sub-Committee meets once a month.

Operational Risk Sub-Committee (ORCO)

The Operational Risk Sub-Committee has oversight of the Operational Risk Management Framework, Policy and the implementation of the related procedures and process flows. The Sub-Committee monitors and reports on the implementation and closure of operational exceptions raised on internal and external audit/ review reports. The Sub-Committee meets once every month.

AML & CFT Sub-Committee

Assists the BRMC and the RMCC in fulfilling their respective oversight responsibilities with regard to combating financial crime, including money laundering, terrorist financing, sanctions and bribery and corruption. The Sub-Committee meets once every month.

Fraud and Security Sub-Committee

The Fraud & Security Sub-Committee has oversight of the Fraud Risk Management Framework, policies and implementation of internal controls to deter fraud. The Sub-Committee has oversight of the Fraud risk assessment, identification and understanding of the potential impact of fraud and misconduct risks on the Bank. The Sub-Committee assists in the evaluation of the design and operational effectiveness of the anti-fraud programs and controls to prevent, detect, respond and deter fraud and misconduct. The Sub-Committee meets once a month.

Statement of Compliance with Corporate Governance (Continued)

Relations with Shareholders

The Board recognises and respects the rights of the Bank's shareholders. It further ensures that all the shareholders are treated equitably. The Board recognises the importance of good communication and the equitable provision of information to all shareholders. Investor briefings, the AGM as well as shareholders' circulars and the detailed integrated reports and financial statements are used to communicate with the shareholders. The Bank always gives its shareholders due notice of the AGM as defined in its Articles of Association and in compliance with the Companies Act, 2015. In addition, the Board communicates with the shareholders and investors electronically through the Bank's website. The shareholders are accordingly encouraged to visit the Bank's website for information on the Bank and to be able to view integrated reports and financial statements of the Bank. They are also encouraged to attend and participate in the scheduled AGMs of the Bank. The Company Secretary, supported by the Shares Registrar, is responsible for managing communication with the shareholders and they are always accessible to the shareholders either through correspondence or at the Bank's registered office.

Shareholders' Responsibilities

The Shareholders role includes inter alia the appointment of the Board of Directors and the external auditor. They are also expected to hold the Board accountable and responsible for efficient and effective corporate governance.

Directors' Shareholding

At the end of year 2019, none of the Directors, held shares in their individual capacity that were more than 1% of the Bank's total equity. The details of the Directors' shareholding in the Bank are disclosed in the Directors' report on [page 96](#).

The Company Secretary

The Board is assisted by a suitably qualified Company Secretary who is a member, in good standing, of the Institute of Certified Public Secretaries of Kenya. The Company Secretary plays an important role in supporting the Board. Each Director has direct access to the Company Secretary. The Company Secretary also facilitates effective communication between the Bank and the shareholders.

Conflict of Interest

Conflict of interest refers to any situation that has the potential to undermine the impartiality of a person because of the possibility of a clash between the person's self- interest, professional interest or public interest. In this context, all Directors, senior management and all employees must avoid any situation which might give rise to a conflict, real or perceived, between their personal interest and that of the Bank. Any of the Directors, Senior Management or employees who consider that they may have a conflict of interest, or a material personal interest, in any matter concerning the Bank is immediately required to declare the potential conflict of interest for review, as per the terms of the Bank's Code of Ethics and Conduct. Any of the Directors, Senior Management or employees with a material personal interest in any matter being considered during any Board or Committee meeting will not, as the case may be, vote on the matter or be present when the matter is being discussed and considered.

Business transactions with the Directors or their related parties are disclosed on [page 225 - 226](#).

Statement of Compliance with Corporate Governance (Continued)

Shares Registry

All shareholder applications, registration, queries, transfers, immobilisation and dividend payouts are handled by the Bank.

Shareholding Structure

The distribution of issued share capital of the Bank as at 31 December 2019 was as follows:

Range (shares)	No. of shareholders	No. of shares held	% shareholding
Up to 500	3,397	621,306	0.22
501-5,000	3,955	7,954,912	2.85
5,001- 10,000	1,566	10,224,151	3.66
10,001- 100,000	1,959	46,587,540	16.66
100,001- 1,000,000	189	45,573,642	16.30
Over 1,000,000	21	168,640,669	60.31
Total	11,087	279,602,220	100.00

Shareholders' Profile

Criteria	No. of shareholders	No. of shares held	% shareholding
Local Individuals	5,353	30,576,430	10.94
Local Institutions	818	91,020,896	32.55
Foreign Individuals	2,247	25,094,486	8.98
Foreign Institutional	30	117,149,549	41.90
East African Individuals	2,589	12,697,902	4.54
East African Institutions	50	3,062,957	1.09
Total	11,087	279,602,220	100.00

Top 10 largest shareholders of the Bank and their respective holdings as at 31 December 2019 were as follows:

Name	No. of shares	% Shareholding
Aga Khan Fund for Economic Development S.A.	46,130,236	16.50
Habib Bank Limited	45,159,849	16.15
The Jubilee Insurance Company of Kenya Limited	27,809,139	9.95
Stanbic Nominees Ltd A/C NR1873738	8,075,039	2.89
Acacia Partners, L.P.	7,369,920	2.64
Standard Chartered Nominees A/C KE002382	6,577,700	2.35
The Diamond Jubilee Investment Trust (U) Limited	3,838,436	1.37
Tropical Veterinary Services Limited	2,807,200	1.00
Mr. Amin Nanji Juma	2,458,272	0.88
Kenya Inland Ports Enterprises Limited	1,871,612	0.67
Total	152,097,403	54.40

Statement of Compliance with Corporate Governance (Continued)

Statement on Governance Audit

The Board subjected the Bank to an annual governance audit for the year 2019. The governance audit was conducted by a competent and recognised professional accredited for that purpose by the Institute of Certified Public Secretaries of Kenya (ICPSK) and the primary purpose was to check on the level of the Bank's compliance with sound governance practices. In summary, the audit finding was that the overall performance of the Bank, from an aggregate perspective, indicated that the adequacy and effectiveness of its policies, systems, practices and processes was within the legal and regulatory framework and in line with the best practices on corporate governance.

Going Concern Statement

The Board has reviewed the facts and assumptions on which it has relied upon and based upon this information, continues to view the Bank as a going concern for the foreseeable future.

Statement on Compliance with the CMA Code

The Directors are satisfied that the Bank complies with the corporate governance principles and spirit of the CMA Code. In this regard, an extract of the Capital Markets Authority's Corporate Governance Reporting Template setting out the status of compliance with CMA Code has been included in this report on pages 41 to 48 and has been published on the Bank's website www.dtbafrica.com, as part of its commitment to transparency and accountability.

Statement of Compliance with Corporate Governance (Continued)

CMA code of corporate Governance Reporting Template

No.	Mandatory or 'apply or explain'	Part No.	Question	Kenya Code Reference	Application	Application or Explanation	Source of Information
		A	INTRODUCTION				
1	M	A.1	Has the Company developed and published a Board Charter which is periodically reviewed and which sets out the Board responsibility for internal control?	1.1.2, 2.6.2, 6.3.2	Fully Applied	Yes. The Board Charter is in place and the same is reviewed at least annually by the Board. It has also been published on the Company's website.	Board Charter
2	M	A.2	Does the Board Charter or Company documents distinguish the responsibilities of the Board from management in line with Code requirements?	1.1.2, 2.3.1, 2.3.2, 2.6.2	Fully Applied	Yes. The Board Charter and Corporate Governance Policy which has also been published on the Company's website.	Board Charter; Corporate Governance Policy.
3	A or E	A.3	Is there a statement indicating the responsibility of Board members for the application of corporate governance policies and procedures of the Company?	1.1.6	Fully Applied	Yes. The Corporate Governance Policy and Board Charter provide that the Board is responsible for the governance of the Company and that it is committed to ensuring that its business and operations are conducted with integrity and in compliance with the law, internationally accepted principles and best practices of corporate governance and business ethics.	Board Charter; Corporate Governance Policy.
4	M	A.4	How has the Board ensured all Directors, CEOs and management are fully aware of the requirements of this Code?	1.1.6	Fully Applied	A check list on the Company's status of compliance with the requirements of the Code was prepared by management for review and implementation by the Board. This was then tracked on a quarterly basis to review the status of compliance and ensure full implementation of the requirements of the Code. During implementation, the Internal Audit Department and Company Secretary ensured that the status of such implementation was reported to the Board Audit and Compliance Committee ("BACC"), the Board Nomination and Human Resource Committee ("BNHRC") and the Board. The Board also ensures a governance audit is carried out at least annually to confirm the company is operating on sound governance practices.	2018 corporate governance audit report.
5	M	A.5	Do Company documents indicate the role of the Board in developing and monitoring the Company strategy?	Part II - Overview, 2.3	Fully Applied	Yes.	Board Charter; Corporate Governance Policy.
6	A or E	A.6	Does the Company strategy promote sustainability of the Company?	2.3.6	Fully Applied	Yes.	The Company's 2020-2024 Business Strategy and Operating Budget; The Company's Vision 2020.
7	M	A.7	Are all Board committees governed by a written charter/terms of reference, disclosing its mandate, authority, duties, composition, leadership and working processes?	2.2.2	Fully Applied	Yes	Terms of Reference of the BACC, Board Credit Committee ("BOC"), Board Oversight Committee ("BEC"), Board Information Technology Committee ("BITC"), BNHRC and Board Risk Management Committee ("BRMC").

Statement of Compliance with Corporate Governance (Continued)

CMA code of corporate Governance Reporting Template (Conitnued)

No.	Mandatory or 'apply or explain'	Part No.	Question	Kenya Code Reference	Application	Application or Explanation	Source of Information
		B	BOARD OPERATIONS and CONTROL				
8	M	B.1	Has the Board established a Nomination Committee comprised mainly of independent and non-executive Board members?	2.1.2, 2.2.2	Fully Applied	BNHRC in place. Three of the current four members thereof are independent and non-executive. The fourth member is also a non- executive director.	BNHRC Terms of Reference ("ToR").
9	M	B.2	Is the Chairperson of the Nomination Committee an independent director?	2.2.3	Fully Applied	Yes.	BNHRC ToR; This has been disclosed in the Governance Report within the Integrated Report.
10	M	B.3	Has the Board adopted and published procedures for nomination and appointment of new Board members?	2.1.1, 2.1.7	Fully Applied	Yes.	BNHRC ToR; Board Appointment and Diversity Policy.
11	M	B.4	Is the Board size adequate for the exercise of the company business?	2.1.4	Fully Applied	Yes. There are currently eleven directors who are within the limits prescribed by the Company's Articles of Association, Board Charter and the Appointment and Diversity Policy.	Articles of Association; Board Charter; Board Appointment and Diversity Policy.
12	A or E	B.5	Has the Board adopted a policy to ensure the achievement of diversity including age, race and gender in its composition?	2.1.2, 2.1.3, 2.1.5, 2.5.1	Fully Applied	Yes.	Board Appointment and Diversity Policy.
13	M	B.6	Do the Board members represent a mix of skills, experience, business knowledge and independence to enable the discharge of their duties?	2.2.1	Fully Applied	Yes.	This has been disclosed in the Director Profiles within the Integrated Report on pages 10 - 11 and page 27.
14	M	B.7	Has the Board adopted and applied a policy limiting the number of Board positions each Board member may hold at any one time?	2.1.6	Fully Applied	Yes.	Board Charter; Corporate Governance Policy.
15	M	B.8	Have any Alternate Board members been appointed? If so, have the Alternate Director/s been appointed according to regulation and Code requirements?	2.1.6, 2.1.7	Fully Applied	There are no alternate Directors appointed.	Annual Returns as filed at the Companies Registry
16	M	B.9	Are independent Directors at least one-third of the total number of Board members?	1.1.2, 2.1.3, 2.4.1	Fully Applied	Yes. Five of the eleven directors are independent and non-executive directors.	This has been disclosed in the Governance Report within the Integrated Report on page 27.
17	A or E	B.10	Does the Board have policies and procedures to annually assess the independence of independent Board members?	2.4.1	Fully Applied	Yes. This is contained in the Board Appointment and Diversity Policy and is evaluated annually by the BNHRC and the findings then tabled to the Board.	Board Appointment and Diversity Policy; Board Charter.
18	M	B.11	Do all independent Board members have a tenure of less than 9 years?	2.4.2	Fully Applied	Yes. This is contained in the Board Appointment and Diversity Policy and is evaluated annually.	Board Appointment and Diversity Policy; Board Charter
19	M	B.12	Is the Board comprised of a majority of non-executive board members?	2.1.3	Fully Applied	Yes. nine of the eleven directors are Non-Executive Directors.	This has been disclosed in the Governance Report within the Integrated Report on page 27.
20	M	B.13	How does the Board ensure a smooth transition of Board members?	2.1.8	Fully Applied	By ensuring an adequate composition of the Board and that no more than one-third of the Board members shall retire at the same time at the Annual General Meeting.	Articles of Association; Board Appointment and Diversity Policy; Board Charter; Corporate Governance Policy.

Statement of Compliance with Corporate Governance (Continued)

CMA code of corporate Governance Reporting Template (Conitnued)

No.	Mandatory or 'apply or explain'	Part No.	Question	Kenya Code Reference	Application	Application or Explanation	Source of Information
21	M	B.14	Has the Board established an effective Audit Committee according to Code requirements?	2.2.4, 6.5.1, 2.1.7	Fully Applied	Yes.	BACC ToR; This has been disclosed in the Governance Report within the Integrated Report on page 30 .
22	M	B.15	Are the functions of the Chairperson and the Chief Executive Officer exercised by different individuals?	2.3.3	Fully Applied	Yes.	Corporate Governance Policy; Board Charter; This has been disclosed in the Governance Report within the Integrated Report on page 27 .
23	M	B.16	Is the Chairman of the Board a non-executive Board member?	2.3.4	Fully Applied	Yes.	This has been disclosed in the Governance Report within the Integrated Report on page 34 .
24	A or E	B.17	Has the Board established procedures to allow its members access to relevant, accurate and complete information and professional advice?	2.3.5	Fully Applied	Yes.	Corporate Governance Policy; Board Charter; This has been disclosed in the Governance Report within the Integrated Report on page 34 .
25	M	B.18	Has the Board adopted a policy on managing conflict of interest?	2.3.8	Fully Applied	Yes.	Code of Ethics and Conduct; Policy for dealing with Related Party Transactions; Conflicts Register; This has been disclosed in the Governance Report within the Integrated Report on page 38 .
26	M	B.19	Has the Board adopted a policy on related party transactions to protect the interests of the Company and all its shareholders and which meets the requirements of the Code?	2.3.7	Fully Applied	Yes.	Policy for Dealing with Related Party Transactions.
27	M	B.20	Has the Company appointed a qualified and competent company secretary who is a member in good standing of ICPSK?	2.3.9	Fully Applied	Yes.	Corporate Governance Policy; This has been disclosed in the Governance Report within the Integrated Report on page 38 .
28	A or E	B.21	Has the Board adopted policies and processes to ensure oversight of sustainability, environmental and social risks and issues?	2.3.2, 2.3.6	Fully Applied	Yes.	Corporate Citizenship Policy; Corporate Social Responsibility Policy; Social and Environmental Management Policy; This has also been disclosed in the Sustainability Review within the Integrated Report on pages 65 - 74 .
29	A or E	B.22	Has the Board developed an annual work-plan to guide its activities?	2.6.3	Fully Applied	Yes.	Board Work Plan and Board Calendar.

Statement of Compliance with Corporate Governance (Continued)

CMA code of corporate Governance Reporting Template (Conitnued))

No.	Mandatory or 'apply or explain'	Part No.	Question	Kenya Code Reference	Application	Application or Explanation	Source of Information
30	M	B.23	Has the Board determined, agreed on its annual evaluation process and undertaken the evaluation or the performance of the Board, the Board Committees, the CEO and the Company Secretary?	2.6.4, 2.8	Fully Applied	Yes. An evaluation of the Board, CEO and the Company Secretary was undertaken by an external consultant for year 2019.	Annual Evaluation Policy; Board Evaluation undertaken by Institute of Directors (Kenya).
31	A or E	B.24	Has the Board established and applied a formal induction program for in-coming members?	2.7.1	Fully Applied	Yes.	Induction Policy. There is a formal induction for all New Directors.
32	A or E	B.25	Do Board members participate in on-going corporate governance training to the extent of 12 hours per year?	2.7.3	Fully Applied	Yes.	There are records confirming the same.
33	A or E	B.26	Has the Board set up an independent Remuneration Committee or assigned to another Board committee the responsibility for determination of remuneration of Directors?	2.9.2	Fully Applied	Yes.	Board Remuneration Policy. BNHRC ToR as this function has been assigned to the BNHRC.
34	M	B.27	Has the Board established and approved formal and transparent remuneration policies and procedures that attract and retain Board members?	2.9.1	Fully Applied	Yes.	Board Remuneration Policy.
35	M	B.28	How does the Board ensure compliance with all applicable laws, regulations and standards, including the Constitution and internal policies?	2.10, 2.10.1, 2.10.2	Fully Applied	Through the Internal Audit and Compliance Departments both of whom report to the BACC	BACC ToR. There are also records in place confirming the same e.g. BACC Minutes and Board Papers
36	M	B.29	In the past year, has the Board organised a legal and compliance audit to be carried out on a periodic basis?	2.10.3	Fully Applied	Yes.	An external legal and compliance audit was carried out in 2018 as recommended by the Code.
37	A or E	B.30	Has the Board subjected the Company to an annual governance audit?	2.11.1	Fully Applied	Yes.	There are records confirming the Governance Audit has been undertaken and a formal report submitted to the Company by a duly accredited governance auditor.
C			RIGHTS of SHAREHOLDERS				
38	M	C.1	Does the governance framework recognise the need to equitably treat all shareholders, including the minority and foreign shareholders?	3.0, 3.2.1	Fully Applied	Yes.	Articles of Association; Code of Ethics and Conduct; Corporate Governance Policy.
39	M	C.2	Other than at the AGM, how does the Board facilitate the effective exercise of shareholders' rights?	3.1.1	Fully Applied	By ensuring that information is disseminated adequately, timely and equitably using a variety of channels and availing a whistle blowing platform where malfeasance can be reported.	Communication via the media and the Company's website.

Statement of Compliance with Corporate Governance (Continued)

CMA code of corporate Governance Reporting Template (Conitnued)

No.	Mandatory or 'apply or explain'	Part No.	Question	Kenya Code Reference	Application	Application or Explanation	Source of Information
40	M	C.3	How does the Board facilitate shareholders participation at the AGM?	3.1.1	Fully Applied	By communicating the Agenda for the AGM in advance as set out in the Articles of Association, ensuring the AGM is conducted at a convenient venue and allowing shareholders to raise questions and seek clarifications on issues in the Notice of the AGM.	Articles of Association; Corporate Governance Policy.
41	A or E	C.4	Are minority and foreign shareholders holding the same class of shares treated equitably?	3.2.1	Fully Applied	Yes.	Articles of Association; Corporate Governance Policy.
42	A or E	C.5	Is there evidence that the Board proactively provides information to shareholders and the media, (and in a timely basis) on corporate affairs and corporate governance?	3.1.1, 3.4.1	Fully Applied	Yes.	Integrated Reports, shareholder circulars, media publications, the Company's website and social media platforms, and the Nairobi Securities Exchange website.
D			STAKEHOLDER RELATIONS				
43	A or E	D.1	Does the Board have a stakeholder-inclusive approach in its practice of corporate governance and which identifies its various stakeholders?	4.1.1	Fully Applied	Yes.	Board Charter; Corporate Citizenship Policy; Corporate Governance Policy; Corporate Social Responsibility Policy;
44	A or E	D.2	Has the Board developed policies, procedures and strategies to manage relations with different/key stakeholder groups?	4.1.2, 4.1.3, 4.1.5, 4.2.1	Fully Applied	Yes.	Communication Policy; Social Media Policy; Stakeholder Management Policy.
45	A or E	D.3	How does the Board take into account the interests of key stakeholder groups prior to making decisions?	4.1.4	Fully Applied	By incorporating stakeholder feedback received by the Company following communication on major proposed decisions through public notices, shareholder circulars and, when required by law, in general meetings.	There are records confirming the same.
46	M	D.4	How does the Board ensure effective communications with stakeholders?	4.2, 4.2.1	Fully Applied	By complying with requirements of legislation, regulation and Company's Articles of Association on public notices to and communications with stakeholders.	Integrated Reports, shareholder circulars, media publications, the Company's website and social media platforms, and the Nairobi Securities Exchange website.
47	M	D.5	Has the Board established a formal dispute resolution process to address internal and external disputes?	4.3.1	Fully Applied	Yes.	There are formal internal dispute resolution processes and complaints channels. This is also covered in the contracts with external professionals.

Statement of Compliance with Corporate Governance (Continued)

CMA code of corporate Governance Reporting Template (Conitnued)

No.	Mandatory or 'apply or explain'	Part No.	Question	Kenya Code Reference	Application	Application or Explanation	Source of Information
		E	ETHICS AND SOCIAL RESPONSIBILITY				
48	A or E	E.1	Does the Board ensure that all deliberations, decisions and actions are founded on the core values (responsibility, accountability, fairness and transparency) underpinning good governance and sustainability?	5.1.1	Fully Applied	Yes.	Anti- Bribery and Anti- Corruption Policy; Corporate Governance Policy; Code of Conduct and Ethics; Policy on Related Party Transactions.
49	M	E.2	Has the Board developed a Code of Ethics and Conduct (which includes sustainability) and has it worked to ensure its application by all Directors, management and employees?	2.6.1, 5.2.2, 5.2.3, 5.2.4	Fully Applied	Yes.	Code of Ethics and Conduct applicable to all Directors, management and employees.
50	A or E	E.3	How does the Board ensure that compliance with the Code of Ethics and Conduct is integrated into company operations?	5.2.3	Fully Applied	The Code of Ethics and Conduct is availed to all new Directors on induction and to all staff on the intranet. All new Directors and staff are required to undertake to comply with <i>inter alia</i> the Code of Ethics and Conduct as part of their on-boarding.	Code of Ethics and Conduct; Corporate Governance Policy
51	A or E	E.4	Does the Board incorporate ethical and sustainability risks and opportunities in the risk management process?	5.2.1	Fully Applied	Yes.	Code of Ethics and Conduct; Enterprise Risk Management Framework, Social and Environmental Management Plan.
52	A or E	E.5	How is the Company performance on ethics assessed, monitored and disclosed to internal and external stakeholders?	5.2.4, 5.2.5	Fully Applied	Through an annual Governance Audit by a competent, recognised professional accredited for that purpose by the ICPSK.	Governance Audit Report; This is disclosed in the Integrated Report on page 40 .
53	A or E	E.6	Has the Company established and implemented a whistle blowing policy?	5.2.5	Fully Applied	Yes.	Whistle Blowing Policy.
54	A or E	E.7	Has the Board/or management developed policies on corporate citizenship and sustainability and strategies for company use?	5.3.1, 5.4	Fully Applied	Yes.	Corporate Citizenship Policy; Corporate Social Responsibility Policy; and Social and Environmental Management Policy.
55	M	E.8	Does the Board consider not only the financial performance but also the impact of the Company's operations on society and the environment?	5.3.2, 5.3.3	Fully Applied	Yes.	Corporate Citizenship Policy; Corporate Social Responsibility Policy; and Social and Environmental Management Policy.
56	A or E	E.9	Does the Board monitor and report activities leading to good corporate citizenship and sustainability to demonstrate they are well coordinated?	5.4.1	Fully Applied	Yes.	Corporate Citizenship Policy; Social and Environmental Management Policy This has also been disclosed in the Integrated Report on pages 65 - 74 under the Sustainability Review.
		F	ACCOUNTABILITY, RISK MANAGEMENT AND INTERNAL CONTROL				
57	M	F.1	Does the Audit Committee and the Board consider and review the financial statements for integrity of the process and for truthful and factual presentation?	6.1, 6.1.1a	Fully Applied	Yes.	BACC ToR; There are records confirming the same.
58	M	F.2	Does the Annual Report contain a statement from the Board explaining its responsibility for preparing the accounts and is there a statement by the external auditor about his/her reporting responsibilities?	6.1.2	Fully Applied	Yes.	This is disclosed in the Integrated Report on page 99 and pages 102 - 103 .

Statement of Compliance with Corporate Governance (Continued)

CMA code of corporate Governance Reporting Template (Conitnued)

No.	Mandatory or 'apply or explain'	Part No.	Question	Kenya Code Reference	Application	Application or Explanation	Source of Information
59	A or E	F.3	Does the Board or Audit Committee have a process in place to ensure the independence and competence of the Company's external auditors?	6.1.1b	Fully Applied	Yes.	The process is outlined in the BACC ToR and the Procurement Procedures. In addition, the external auditor's independence is confirmed in the Post-audit report on an annual basis. The external auditors also have at least two meetings a year with the BACC to the exclusion of management.
60	M	F.4	Do the shareholders formally appoint the external auditor at the AGM through a formal and transparent process?	6.1.3	Fully Applied	Yes.	Notification of the proposed appointment is contained in the AGM Notice circulated to shareholders at least 21 days prior to the AGM. The proposal is then deliberated upon at the general meeting and put to a vote in accordance with the Company's Articles of Association.
61	A or E	F.5	Is the Company working towards the introduction of integrated reporting (incorporating financial and non-financial information) or is the company's Annual Report prepared on an integrated basis using a framework available from the Integrated Reporting Council, The Global Reporting Initiative, G4 Sustainability Guidelines and/or Sustainability Accounting Standards Board standards?	6.1.5	Fully Applied	Yes.	The Integrated Report is prepared on an integrated basis as disclosed on page 1 .
62	A or E	F.6	Has the Board established an effective risk management framework which is inclusive of key risks as well as foreseeable risks, environmental and social risks and issues?	6.2.1	Fully Applied	Yes.	This is comprised within the Enterprise Risk Management Framework as summarised on pages 83-91 in the Integrated Report.
63	M	F.7	Has the Board established and reviewed on a regular basis the adequacy, integrity and management of internal control systems and information systems (including for compliance with all applicable laws, regulations, rules and guidelines)?	6.3.1, 6.3.2, 6.3.3	Fully Applied	Yes.	This is contained in the Board and Board Committee mandates and management further reports thereon on a quarterly basis. This is also reviewed by BACC as per the BACC ToR and Internal Audit Department as per its Charter.
64	M	F.8	Does the Board annually conduct a review on the effectiveness of the company's risk management practices and internal control systems and report this to shareholders?	6.4.1	Fully Applied	Yes.	Enterprise Risk Management Framework and internal control is reviewed annually by the Internal Audit Department which then reports to the BACC. This is as per the Internal Audit Department's Charter. The external auditor also reviews the internal control environment and reports thereon to the BACC. Disclosure is also made to shareholders through the Integrated Report on pages 83-91 .
65	M	F.9	Has the Board established an effective internal audit function according to Code requirements and which reports directly to the Audit Committee?	6.5.2	Fully Applied	Yes	This is provided for in the BACC ToR, Corporate Governance Policy and Internal Audit Department's Charter.
66	A or E	F.10	Does the Board disclose details of Audit Committee activities ?	6.5.2	Fully Applied	Yes.	This is disclosed in the Integrated Report on page 30 .

Statement of Compliance with Corporate Governance (Continued)

CMA code of corporate Governance Reporting Template (Conitnued)

No.	Mandatory or 'apply or explain'	Part No.	Question	Kenya Code Reference	Application	Application or Explanation	Source of Information
		G	TRANSPARENCY and DISCLOSURE				
67	M	G.1	Does the company have policies and processes to ensure timely and balanced disclosure of all material information as required by all laws, regulations and standards and this Code.	7.0, 7.1.1	Fully Applied	Yes.	This is covered by <i>Inter alia</i> the Legal and Company Secretarial Manual and Shares Procedure that mandates the Company Secretary to make the necessary disclosures in line with legislation and regulations governing the affairs of the Company.
68	A or E	G.2	Does the Annual Report cover, as a minimum, disclosures as prescribed in 7.1.1 relating to the company's governance, the Board and the Audit Committee?	7.1.1	Fully Applied	Yes.	This is disclosed in the Integrated Report on pages 25 - 48.
69	A or E	G.3	Does the Annual Report cover, as a minimum, disclosures as prescribed in 7.1.1 relating to the company's mission, vision and strategic objectives?	7.1.1	Fully Applied	Yes.	This is disclosed in the Integrated Report on page 2.
70	A or E	G.4	Does the Annual Report cover, as a minimum, disclosures as prescribed in 7.1.1 relating to remuneration and whistleblowing?	7.1.1	Fully Applied	Yes.	This is disclosed in the Integrated Report on page 83-91 and pages 97 - 98.
71	A or E	G.5	As a minimum, does the Company website disclose current information on all areas prescribed in 7.1.1 (Board Charter, Whistleblowing Policy, Code of Ethics and information on resignation of directors)?	7.1.1	Fully Applied	Yes.	The necessary disclosures are made on the Website
72	A or E	G.6	Does the Board disclose the management discussion and analysis as required in 7.1.1?	7.1.1	Fully Applied	Yes.	This is disclosed in the Integrated Report
73	A or E	G.7	Has the Board provided disclosures as required in 7.1.1 on compliance with laws, regulations and standards; ethical leadership, conflict of interest, corporate social responsibility and citizenship?	7.1.1	Fully Applied	Yes.	This is disclosed in the Integrated Report
74	A or E	G.8	Has the Board made all required disclosures, including confirming requirements of 7.1.1 which include that a governance audit was carried out and that there are no known insider dealings?	7.1.1	Fully Applied	Yes.	This is disclosed in the Integrated Report
75	A or E	G.9	Has the Board disclosed the company's risk management policy, company procurement policy, policy on information technology as per 7.1.1?	7.1.1	Fully Applied	Yes.	This is covered for all commercial banking subsidiaries.
76	M	G.10	Has the Board disclosed information on shareholders, including the key shareholders, including shareholding by directors and senior management and the extent of their shareholdings as required in 7.1.1 and on stakeholder who influence company performance and sustainability?	7.1.1	Fully Applied	Yes.	Disclosed in the Integrated Report, Annual Returns, monthly reporting to CMA and NSE as well as on the Company's website.
77	M	G.11	Has the Board disclosed all related-party transactions?	7.1.1	Fully Applied	Yes.	This is disclosed in the Integrated Report on pages 224 - 226.
78	M	G.12	Does the Board include in its Annual Report a statement of policy on good governance and the status of the application of this Code?	1.1.3, 7.1.1r	Fully Applied	Yes.	This is disclosed in the Integrated Report on pages 41 - 48.

Walking the Journey with Our Customers

Customer centricity is not limited to customer service only. It is about putting the customer, DTB's *raison d'être*, at the heart of all that we do. Indeed, three of our five values- **Customer Focus**, **Integrity** and **Excellence**- are hinged on our customer. Our business strategy- *Vision 2020*- is also centered on the customer. DTB has been at the forefront of inculcating an organisation-wide culture of Service Excellence. This is anchored on:

Customer focused leadership – exceptional service is rooted in the core of all DTB staff, ranging from our Managing Director all through to customer-facing and back office staff. DTB has established a dedicated department, headed by a direct report to the CEO, whose sole focus is to co-ordinate service excellence across the Bank. As a testimony to the high premium DTB attaches to providing sustained service excellence, the Bank has been **recognised for two years** (2016 and 2018) by the Institute of Customer Experience Kenya for **Leadership Engagement in Customer Service**.

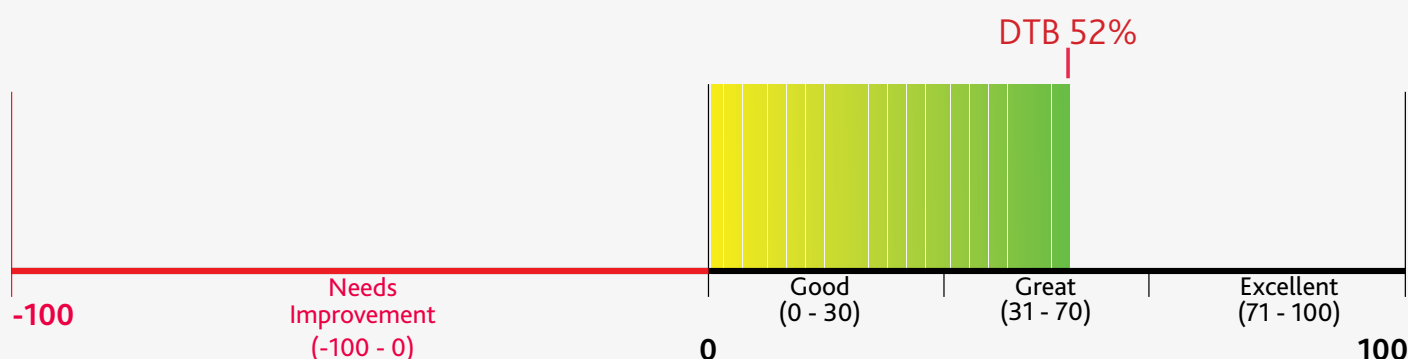
Giving the customer a platform to be heard- a 24/7/365 Contact Centre that is a one stop shop for queries, complaints and compliments. Customer engagement is also extended to social media channels and the website through the customer feedback form. Bringing it home, dedicated relationship management staff based at both Head Office and branches are **always willing to lend an ear and provide excellent service delivery** through face to face engagement.

Designing the experience – Involving the customer in the co-creation of products, a practice which is embedded in the Bank's Product Development Policy as well as in the Bank's recent innovation journeys. This gives our customer an opportunity to provide feedback which is actively incorporated in enriching existing as well as new products and service features and operating processes.

Being at the front line with the customer – We **proactively engage with our customers** from time to time to get insights on their expectations and pain points through continuous feedback in a bid to provide solutions and convenience to them.

Metrics that matter - a key metric used in the industry was reviewed in the feedback forms i.e. **Net promoter score which gauges the loyalty of customers** to a product/service.

Net Promoter Score (NPS)



Walking the Journey with Our Customers (Continued)

Enriching Customer Experience at DTB

In 2019, we enriched our customers experiences and interactions with DTB through the following digital initiatives:

- DTB's online banking platform was revamped and rebranded as **i4**, with a more user-friendly look and feel, allowing the subscribed customers to be in full control of their accounts.
- The Bank's mobile banking app, **m4** was upgraded with exciting and unique new features giving our customers the ability to conveniently settle DTB credit card payments from their accounts, transfer of funds from their M-PESA wallets to their account, get ready access to forex rates and viewing of their fixed deposits held with the Bank.
- Revamped website which is more interactive and user friendly, with add-ons such as quick inquiry on our products and services and geo-tagging our branches for ease of location.
- Digital customer feedback form on our website (www.dtbafrica.com) acting as an additional outreach platform for all customers to share their sentiments without stepping foot at the branch.

Customer Engagement

At DTB, our values are centred around customer engagement to provide service as well as suited solutions to any queries or complaints that the customer may have. Many organisations are moving towards creating multiple channels for customer support with DTB being no exception.

For us **customer engagement is a two-way street**. Our customers engage us on various platforms- 24/7/365 contact centre, social media, relationship managers, branches as well as our website (www.dtbafrica.com). We also visit customers to interact and better understand their needs. This is reflected in the informal customer cocktails that are hosted to strengthen our relationship and commitment towards their needs.



Walking the Journey with Our Customers (Continued)

#CSWeek2019 #BehindTheSmile

In 2019, DTB celebrated Customer Service Week (#CSWeek2019) for the fourth year in a row, with the theme “#FeelTheDTBMagic”. Aside from the fun experience with our customers over the previous years, this year all efforts were channeled towards **giving back to the society and connecting with the customer** while being #BehindTheSmile.

It was through these efforts that we managed to bag the “**Excellence in Presentation**” award at the International Customer Experience award ceremony. This recognition showcased DTB's active engagement during #CSWeek2019.

CX across the Group

Kenya

In October 2019, we scooped the “**Excellence in Presentation**” at the International Customer Experience (ICX) award ceremony. #CSWeek2019



As part of ensuring the well-being of our clients, we offered **free breast cancer screening** and provided encouragement to cancer patients in various institutions.



Walking the Journey with Our Customers (Continued)

Tanzania



Uhuru Branch manager Ms. Zaituni Ally (second right – in red scarf) leads a customer in cutting a cake at the branch to officially kick-off the #CSWeek2019.



Dar es Salaam Main branch celebrated Customer Service Week by creating an exceptional ambience – décor, dress code and handy gift; sweets and roses were given to customers who visited the branch over the week.



Dar es Salaam Main branch staff carrying placards and drawings with customer service week related messages that were displayed in the branch during #CSWeek2019.

Walking the Journey with Our Customers (Continued)

Uganda

DTB Uganda CEO, Varghese Thambi led the team in their #CSWeek2019 activities by spreading breast cancer awareness across all their branches to both staff and customers.



Driving the Digital Experience

Digital

~~Diamond Trust Bank~~ - Embedding ourselves in the lives of our customers

The digitisation of banking - underpinned by rapidly evolving customer needs and behaviours - has led to adapting to disruption through continuous innovation to be top-of-mind for banks. At DTB, we embrace digital innovation by going the extra mile in creating smart, seamless and memorable customer experiences. Simply put, **we make banking convenient** by letting our customers continue to live their lives as we take care of the details.



DTB Duo



@DTBduo



@dtb_duo

Experience DTB's social media- from Kisumu to New York

We use our handles on Facebook, Twitter and Instagram to interact with our customers and prospective customers, as well as letting them know about our exciting promotional campaigns. For instance, from September to December 2019, we ran the **'Who Would You Take'** DTB card campaign across Kenya. The winners were awarded a trip to the jewel of Kenya's wildlife viewing area, the Maasai Mara and the soft white sands and clear warm waters of Diani Beach. As if that was not enough, we awarded the grand prize winner a trip to see the famous skyline of skyscrapers which defines the Big Apple - **New York**.



Convenience at your fingertips- **m24/7**

Taking customer centricity to heart, **we listened to our customers** and enriched our mobile banking app, **m24/7**, with a host of exciting new features. Through integrated solutions built within our app, our customers now have the convenience of moving money from their M-pesa wallets to their bank accounts, settling their DTB credit card bills, viewing their fixed deposits and even viewing the Kenya Shilling rate against various major currencies.

Trust is our middle name, your security is our priority.

To reduce risks of fraudulent transactions, our customers can now access and authenticate transactions on m24/7 through biometric features such as fingerprint and facial recognition on smartphones that support these features. These security features also enable our customers to make their payments on-the-go in a hassle-free way.



Driving the Digital Experience (Continued)

Redesigning the checkout experience *i24/7*

Our online banking platform brings home to our customers an intuitive experience that makes banking convenient. Dubbed "*i24/7*", the revamped channel is now packed with more functionality against the backdrop of a new look and feel. Both corporate and retail customers conveniently transact on this channel which acts as a **one-stop shop for day-to-day transactions**.



Fostering financial inclusion through ecosystem partnerships


DTB collaborated with three other Kenyan commercial banks in 2019 to roll out a mobile lending solution, *Stawi*. Through this app, *Stawi* is **providing access to unsecured credit to the underserved MSME segment**. The loan repayment period extends up to 12 months, making *Stawi* stand out amongst other peer mobile lending offerings in the market.



24/7 Digital Lobbies

We continue to leverage off our 13 digital lobbies across the region. These lobbies are equipped with **intelligent ATMs**, providing real-time 24/7/365 cash withdrawal and cheque deposit services. The *24/7* lobbies, along with our network of stand-alone ATMs - all aggregating to 160 units across East Africa - supplement our branches which remain focused on sales and service through face to face engagement with our customers.



A close-up photograph of a lit candle with a bright, steady flame. A hand is shown lighting a second candle, with the flame of the first candle touching the wick of the second. The background is dark, and the overall mood is serene and contemplative. In the top right corner, there is a dark red circular graphic containing a quote.

"Thousands of candles can be
lighted from a single candle and the
life of the candle will not be
shortened. Happiness never
decreases by being shared."

Buddha

DTB Vision 2020

Our business strategy, *DTB Vision 2020*, envisions DTB as a 'one- bank, one customer' omnichannel regional bank – a bank that provides seamless and consistent customer experience, across borders, through a multiplicity of channels – traditional (branches, agency banking, etc.) and also digital channels (enriched mobiles banking and enhanced on-line banking platforms, cards, cash management solutions, digital branches, social media channels, etc.)



Omnichannel	Omnichannel bank that is centered on providing a seamless banking experience to its customers. Through this omnichannel banking proposition, DTB aims to enable its customers to interact with the Bank anytime, anywhere and anyhow through a multiplicity of channels, all working together at the same high standard.
Driven by People	Emphasis is given towards preparing people for the behaviour and skills of omnichannel banking and promoting a culture of customer service excellence. This is achieved through the use of e-learning platforms to impart knowledge, developing a group-wide coaching and mentorship programme and, re-skilling DTB's staff to operate and serve customers in a digital banking environment. DTB is committed to properly training and developing its people to enable them to grow and succeed throughout their careers. DTB's intent is to create effective leaders who embody its business principles.
Powered by Innovation	Technology has become a part and parcel of our lives. As DTB continues to focus on developing and offering innovative solutions to its customers, as underpinned by <i>DTB Vision 2020</i> , the Bank will not only adapt to its customers dynamically changing needs, but also excel as an agile and responsive player, taking advantage of the emerging opportunities ahead. Importantly, it also enables DTB to make an impact on financial inclusion as it engages across the spectrum of its diverse (and new) customer segments. Ultimately, it enables DTB to meaningfully contribute to the quality of life of its customers and the broader communities in which it operates.
Supported by Technology	DTB has invested in IT governance, people capacity and capabilities, and core infrastructure over the years. In 2015/16, DTB invested in an in-house electronic switch augmenting its capability to shorten the 'time-to-market' period for products and services and enabling DTB to control the ecosystem around various products and channels. DTB sees technology as an essential core competency and a key differentiator to drive future growth.
Funded to Grow	The leveraging of the bank's widespread footprint of branches, growing agency banking network and continuing expansion of digital channels well positions DTB to acquire higher business volumes, specifically relating to transactional banking services and attracting sustainable deposits.

Aligning our Strategy to Value Creation through our Capitals

Our business strategy seeks to create value for various stakeholders in a **sustainable** way. Our business model involves extending our offerings through multiple channels, to be truly an omnichannel bank for our customers. This involves a high investment in inputs, such as technology, which together with our traditional branch distribution network and, increasingly, our digital channels, form a key component of our manufactured capital. Apart from building a strong technology foundation, our business model also requires us to invest in and develop our human capital, as well as intellectual capital, to continuously innovate our offerings and improve our process efficiencies to add to our ability to be responsive and timely. Furthermore, energy, paper and water use have the most significant impact on the environment, and DTB has made the management thereof the focus of its environmental stewardship initiatives.

Human Capital (Strategic link: Driven by People)

Our human capital goes beyond our staff complement; it also covers their health and well-being, expertise, experience, innovative capacity, as well as their engagement. Our key priority is to future-proof our people by equipping them with the necessary skills and tools so that they can stay ahead of the curve in this rapidly disruptive era of digital adoption and transformation. People are at the heart of our operations. We provide an enabling workplace environment to attract, retain and grow young and fresh minds, as well as develop a highly skilled workforce that leads to creation of value. Over the years, their passion, dedication and commitment have empowered us to reach new heights, propelling our institution to become the leading bank in the region. Our people define our success.

- Group Headcount: 2,269, of which 2,200 permanent
- 83% of the complement are young professionals (≤40 years)
- 78% of staff are University graduates
- Heavy investments in training, 150 training sessions held in 2019
- Over KShs 150 million invested in health insurance for the Group

Manufactured Capital (Strategic link: Innovation, Omnichannel & Powered by Technology)

Manufactured capital includes our investments in brick and mortar branch locations, agency banking network, digital platforms, the servers and other IT hardware infrastructure we rely on for our IT delivery capability, equipment and supplies we use in our office premises combined with human and intellectual capital enable us to create long-term value.

- 137 Branches in East Africa
- 13 Digital Lobbies
- 160 ATMs in East Africa
- Tier III Data Centre in Kenya
- Continued growth in revenue streams through revamped digital products and platforms
- Best in class IT SOC Centre.
- Over 237,000 customers subscribed to mobile banking across the Group
- IT hardware and software investments of KShs 559 million in Kenya
- 1,972 POS merchants of which 1,041 onboarded in 2019

Social and Relationship Capital (Strategic link: Centred on Customer)

Our journey is one built upon the relationships we have created and nurtured with our stakeholders – our Customers, our Employees, our Regulators, our Shareholders, our Community and our Environment. We co-operate with all our stakeholders in order to create sustainable value, and to help achieve objectives in a mutually beneficial way. These relationships, through which we hope to create a better tomorrow, for ourselves and all our stakeholders, make up our social and relationship capital.

- 598,232 customers in East Africa
- 4% increase in shareholder dividend from 2018
- 24% amount increase in payment to suppliers from 2018
- 10% amount increase in staff remuneration from 2018
- Equity investment by DTB Kenya in the Kenya Mortgage Refinancing Company (KMRC) to provide affordable housing to the society.

Financial Capital (Strategic link: Funded to Grow)

Our journey is one built upon the relationships we have created and nurtured with our stakeholders – our Customers, our Employees, our Regulators, our Shareholders, our Community and our Environment. We co-operate with all our stakeholders in order to create sustainable value, and to help achieve objectives in a mutually beneficial way. These relationships, through which we hope to create a better tomorrow, for ourselves and all our stakeholders, make up our social and relationship capital.

- Core (Tier I) Capital of KShs 59 Billion
- Customer Deposits: 280 Billion
- Subordinated debt of KShs 6 Billion
- Long term senior loans of KShs 5 Billion

Natural Capital

Our indirect impact on natural resources through our financing activities and, more directly, the utilities we require to operate. Through our environmental initiatives, we aim to reduce the impacts of our operations on the ecosystem and pave the way towards a more sustainable way of doing business.

- Strategic partnership with Agence Française de Développement (AFD) to finance energy efficient and renewable energy projects under the SUNREF facility at concessional interest rates
- Application of Social and Environmental Management Systems (SEMS) for funding activities
- Launched used paper recycling initiative in Nairobi, Kenya

Aligning our Strategy to Value Creation through our Capitals (Continued)

Our various activities generate outcomes which, in turn, create value and impact for our stakeholders. In the process, we ensure our business activities are aligned with our core values and guided by our governance framework, and also that our strategies and risk mitigation efforts are in line with, and responsive to, pressure from the external environment and market forces.

Inputs

- 260 new employees (11% of total staff) hired across the Group
- Staff force comprising of 83% below the age of 40 years

Outputs

- 24 million mobile banking transactions done on the mobile banking platform
- 54% of transaction done outside the branch, continued growth in revenue streams through revamped digital products and platforms
- 99.58% IT networks uptime
- Tier III data centre with dual-powered servers, storage, network links and other IT components

Outcomes

- Career growth linked to our values, strategy and growth with one in four (586 staff) promoted across the Group.
- Average Length of Service: 5 Years
- 48% Female staff across the Group
- 32% of senior leadership positions in Kenya held by women

- Convenient access to banking services provided to customers
- 24/7/365 service availability through our digital channels
- Expanded reach, leading to customer acquisition
- Stability of IT networks and systems

- Recognised by Kenya Revenue Authority (Large Taxpayers Office) for being one of the top, compliant taxpayers in the country
- Sponsored "Beyond Zero" Marathon in 2019 launched by Kenya's First Lady, whose goals are to improve maternal and child health in Kenya, and to reduce new HIV infections among children
- Transparency in pricing of products and services through public disclosures in line with Kenya Banking Sector Charter principles
- Meaningful contribution to the socio-economic well-being of East African communities. (Refer to How We Distribute Value on [page 63](#) for more details)
- Over 500 East African MSME customers underwent financial literacy training programmes in 2019 in Kenya and Tanzania

- Growth in net loans and advances by 3% from KShs 193 billion to KShs 199 billion
- Equity growth by KShs 6 billion sourced through 2019 retained earnings

- Growth in Capital Adequacy Ratio
- Core capital/ Total risk weighted assets- 19.7% (Dec 2019) vs 19.7% (Dec 2018)
- Total capital/ Total risk weighted assets- 21.6% (Dec 2019) vs 22.3% (Dec 2018)

- Financing of 16 projects under the AFD SUNREF green financing lines in Kenya and Uganda
- 9% reduction of paper reams used in 2019
- Over one tonne of paper recycled only from DTB Kenya's Head Office

- Continued commitment to environmental conservation
- Cost reduction in materials and energy usage
- Influencing our borrowers to be more sustainable in their operation through the adoption of Social and Environmental Management Systems (SEMS)

How We Create Value for our Stakeholders- Our Business Model



Customers

We engage with our customers to better understand their needs so that we can propose the right financial solutions for them.



Employees

We communicate with our employees using multiple channels to ensure they are aligned with our strategic priorities. This also allows us to be up to date with their suggestions and concerns.

How Did We Engage?

- Multiple channels: analogue (branches, agency banking etc) and digital: [m24/7](#), [i24/7](#) and [e24/7](#) (Refer to [pages 54 - 55 on Driving the Digital Experience](#))
- Various social media channels (Facebook, Twitter and Instagram) as well as e-mails and a contact centre.
- One-on-one interactions with the CEO, senior leadership, relationship managers and branch teams.
- Regular customer engagement. (Highlighted on [pages 49 - 53](#)).
- Co-creation of products with customers.
- Customer empowerment trainings on financial literacy.

How Did We Engage?

What are their expectations?

- Multiple, reliable, simple and convenient channels for banking.
- Consistent, excellent customer service.
- Innovative digital products and services.
- Fair and transparent pricing, providing value for money.
- Responsible and ethical business practices as a trusted financial partner.

What are their expectations?

How we achieve them?

- Respond to customer feedback by refining our products and processes.
- Various customer service excellence initiatives. (Refer to [pages 49 - 53](#)).
- Digital initiatives highlighted on [pages 54 - 55](#).
- Disclosure of pricing on all transactions before transactions are executed.
- Ethical business practice highlighted under sustainability reporting in the Sustainability Review on [pages 65 - 74](#).

How we achieve them?

- Regular check-in sessions by senior management and team leads to engage their teams on business plans, performance goals and other areas of interest.
- Bank-wide trainings on various subjects.
- Use of intranet for communication.

- Career development and growth opportunities.
- Empowerment with the changing skill-set required in the digital era.
- A safe, healthy and engaging workplace.
- Talent recognition informed by meritorious work and achievement.
- Competitive remuneration and rewards system.

- Talent attraction and retention through exposure to various growth and new skills learning initiatives.
- Capacity building trainings, individual development plans, participation in Bank projects and initiatives and promotions across the Group. Refer to [page 67](#).
- Transparent and simple performance achievement framework fully implemented in 2019.
- Operating an open-door policy where staff are able to engage with any member of the senior leadership team starting with the CEO.
- Providing and empowering, dynamic and enabling environment that embraces diversity and inclusivity.

How We Create Value for our Stakeholders- Our Business Model (Continued)



Regulators

We strive to be a good corporate citizen and long-term participant in our markets by providing input to and implementing the regulatory framework. More broadly, we seek to embed an ethic of compliance excellence across all our engagements and operations.



Shareholders

We provide investors with relevant information to make informed investment decisions about DTB as well as seek their perspectives on our financial performance and strategy.

How Did We Engage?

- Active participation and contribution in meetings and working groups involving bankers' associations, regulators and other governmental bodies.
- Periodic submission of regulatory reports.
- A responsible tax payer in all jurisdictions where we operate.
- Operating as a key intermediary partner for the revenue authorities in the collection of taxes across the Group.

How Did We Engage?

- Engagement by Board and Senior Management at Annual General Meetings (AGMs).
- Ongoing engagement by the Company Secretary and in-house Shares Registrar throughout the year.
- Participation of executive management through regular one-on-one investor meetings and conferences.
- Periodic publication of financial and non-financial information to inform our shareholders and the public at large about our key activities.

What are their expectations?

- Compliance with all legal, tax and regulatory requirements.
- Conducting responsible and ethical business practices, strive to always meet best practice standards in the way that we operate.
- Investment in robust and secure IT systems to provide stable and resilient connectivity across channels.
- Proactive response to cybersecurity threats and protection of customer information.
- Participation in industry surveys and meetings with regulatory work groups.
- Adherence to the Kenya Banking Sector Charter by DTB Kenya.

What are their expectations?

- Responsible and sound Board governance framework and practices.
- Knowledgeable and experienced management.
- Ambitious, achievable, sustainable and impactful growth-led strategy, amidst a disruptive, fast-evolving digital environment.
- Sustainable and resilient financial performance.
- Strong compliance culture embedded in ethical values and principles.
- Transparent reporting and disclosure.
- Embedding sustainable and best practices into business practices.

How we achieve them?

- Zero tolerance policy to any form of regulatory non-compliance.
- Co-operation and collaboration with all regulators in East Africa.
- Contributing meaningfully to national development through payment of taxes as a responsible corporate citizen- KShs 4.5 billion tax contribution by the Group. Refer to [page 63](#).
- Embracing sustainable banking practices, upholding best practice standards and regulatory compliance that enable a safe and stable banking system and a thriving society.
- Embarked on two significant transformation journeys to benchmark key risk management frameworks- credit risk and financial crime risk- to best practice standards.
- Heavy investments in IT and Cybersecurity at over KShs. 559 million in 2019.
- Achievement of target milestones in the Kenya Banking Sector Charter implementation.

How we achieve them?

- Strong corporate governance framework. (highlighted in the Statement of Compliance with Corporate Governance on [pages 25 - 48](#)).
- Highly skilled Board and executive leadership.
- An ambitious business strategy, *DTB Vision 2020* (Refer to [page 57](#)) underpinned by various digital initiatives. (Refer to [page 54 - 55](#)).
- Continue to embed sustainability in our business model and expand disclosures in our annual Integrated Reports (Refer to [pages 65 - 74](#)).



Community

For us, the community represents citizens, civil society and suppliers of the countries in which we operate and the environment in which these citizens depend for their wellbeing. We engage the community to better understand the role we can play to improve the quality of their lives.

How Did We Engage?

- Embraced sustainable banking practices and regulatory compliance, enabling a safe and stable banking system and a thriving society.
- Participated meaningfully as a procurer of goods and services with a bias towards East African-based vendors.
- Engaged in Corporate Social Responsibility (CSR) initiatives positively impacting the community at large.
- Providing financial crime awareness and advice through social media.

What are their expectations?

- With the changing demographics and startup culture in East Africa, the community wants suitable financial intermediary solutions, including training in financial literacy, digital banking etc.
- Responsible and ethical business practices that engender trust and build solid, mutually beneficial relationships.
- Use of DTB's resources to promote socio-economic development and environmental conservation to build a thriving society.

How we achieve them?

- Embracing the UN SDGs and implementing a number of significant initiatives as highlighted in the Sustainability Review on [pages 65 - 74](#).
- Sponsorships towards worthy causes e.g. heart and cancer runs, blood donations, palliative care association, financial literacy, communities' associations and peace walks.
- Playing a role in the local economies as a procurer of various goods and services. Out of KShs 6 billion spent on procurements, 74% was sourced from East African suppliers.




Our business model is simple and direct outlining our key leverage points to build competitive advantage. We have in place strong and robust governance, ethical, risk management, credit underwriting amongst other frameworks to guide us in our day to day operations. We are focused not only towards growth, but sustainable value creation for our stakeholders.

How We Distribute Value



All figures in Kshs. Million



"Too often we underestimate the power of a touch, a smile, a kind word, a listening ear, an honest compliment, or the smallest act of caring, all of which have the potential to turn a life around"

Leo Buscaglia

Sustainability Review

Overview

Our ethos at DTB has been about driving the development agenda and having a **meaningful impact on the quality of lives of the communities** in which we operate. Inspired by our key shareholders' aspirations, we have, over the years, tailored our channels, products and services to drive economic development in all markets in which DTB is present.

At DTB, we have taken a long-term view of development, driven by the need to go beyond making a profit to having purpose and working with the people to create a better future for all of us.

This section of the Integrated Report covers our approach to sustainability.

We have made a concerted effort to progressively incorporate a sustainability culture within our business processes. We believe responsible businesses must be about establishing and nurturing the foundation of growth for future generations.

We aim to have an ethical culture cascaded across all levels at DTB, ensuring that there is a **commitment to best practice**, underpinned by policies that are known and understood by everyone within the Bank. We also aim to have every member of our staff understand the importance of balancing environmental and social issues for better and continued long-term growth of the business.

Our Approach to Sustainability

Our approach to sustainability is anchored on the Sustainable Development Goals (SDGs) set by the United Nations to end poverty, protect the planet and ensure that all people enjoy peace and prosperity as part of the 2030 Agenda for Sustainable Development.

Building on our Vision to enable people to advance with confidence and success, the Group identified goals that are closest to our strategy, and we then measure our contribution to them. These are goals that the Group believes can, and will continue to, have an immense impact in the near future.

The Bank tracks progress in eight of the 17 United Nations Sustainable Development Goals.





Financial Inclusion

DTB is committed to coming up with inclusive financial products and services which we believe are crucial to achieving economic and societal progress. We strive to improve access to **affordable** financial services for individuals, SMEs, micro-entrepreneurs and other underserved segments of the market by offering innovative, convenient, low-cost, digitally-anchored channels, products and services. We appreciate that financial inclusion is a key catalyst in the eradication of inequality and the empowerment of both the financially served as well as the underserved by providing choices, convenience and access to financial products and services. In the past 10 years, we have seen our customers become more digitally empowered, allowing them to take advantage of our digital channels. Consequently, apart from leveraging our traditional channels such as branch banking, we have continued to invest in technology so as to extend our reach through our digital channels to the fast-evolving digital ecosystem embraced by East Africans. Various innovative banking initiatives aimed at bringing banking services – both physically and digitally – to the currently served, as well as the underserved communities across the region, allows us to provide access and drive down costs and pass on resultant convenience and savings respectively to our customers.



Stawi

We are committed to **increasing access to affordable credit** targeted towards MSMEs. In this regard, DTB was one of the pioneer four banks that set aside a combined total of KShs.10 billion into *Stawi*, a mobile loan product targeted at the lower end of the spectrum of the SME segment in Kenya. *Stawi* provides loans of between KShs 30,000 and KShs 250,000 to traders operating licensed businesses based on their business requirements and capacity. The pilot phase was launched in May 2019 in Gikomba market in Nairobi, with another rollout in Kondele market in Kisumu. The product was launched by President Uhuru Kenyatta at the inaugural "Inua Biashara Day" held at Safari Park Hotel in Nairobi in November 2019.



Gender Equality

Gender balance at all levels of a company is a key component of corporates' gender equality performance. Companies with a more diverse staff complement have greater returns and lower risk profiles, according to research. Increased participation of women at all levels in the workplace also leads to better and more balanced business decisions for companies and higher growth for the communities in which companies operate.

DTB has made great strides in being an equal opportunity employer. The Group's employee gender balance exemplifies this, with the current ratio of female to male staff sitting at 48:52, with DTB Uganda leading the way at **53:47** and DTB Tanzania at **50:50**. In DTB Kenya, **32%** of the Senior Management team comprises of women, which is 10 points above the local industry average of **22%** and 17 points above the global industry average of **15%**. Indeed, of the four East African countries DTB operates in, the businesses in Kenya and Burundi are steered by women CEOs. The journey to increasing women representation at the Bank began in 2013 and we are pleased to report that the measures we took over the last seven years resulted in an upward trajectory of the overall gender ratio from 32% to 48%. Furthermore, in Tanzania, **33.3%** of our Branch Managers are women.

Achieving 50:50 gender parity is an important sustainable goal for DTB and the Bank aims to achieve this threshold by 2022. DTB also subscribes to the Women Empowerment Principles (WEPs) developed by UN Women. WEPs are a set of principles that guide businesses on how to empower women in the workplace, and in the community.

8 DECENT WORK AND ECONOMIC GROWTH



Employee Development

At Group level, we have seen substantial institutional growth in a short period. This resulted in an increase of skilled and **experienced professionals who excel in customer-centric service delivery**, branch and alternate channels operations, credit origination and risk management, innovation and information security.

We continue to focus on the recruitment of young, trained professionals who have, over the years, augmented our skills pool and gender balance. We are committed to not only providing equal employment opportunities to the growing pool of professionals entering the job market every year, but also enhancing our human capital through **best-in-class training and development**. We actively run a Graduate Management Trainee programme with an intake of some 14-16 university graduates every year. Middle management capacity is also continuously being bolstered to ensure that there is a broad array of skill sets across the Group, as well as appropriate talent which can be promoted to Senior Management as part of succession planning. The senior and mid-level leadership teams continue to be exposed to quality strategic leadership training programmes.

We have teams of fire marshals and Occupational Health and Safety (OHS) officers at all DTB workplaces, charged with the responsibility of overseeing the implementation of OHS matters. These staff who take on the responsibility of ensuring the safety of their colleagues at the workplace are trained annually to effectively discharge their mandate.



In Kenya and Tanzania, **leadership development** training programmes were imparted to middle and senior managers, specifically tailored to equip them drive the business strategy, build leadership capacity and promote career development. The leadership development programme in Tanzania was first introduced in 2006. Since inception, **over 300** staff have undertaken the programme, with 49 directly benefiting from it through promotions and other career development initiatives.



Empowering Micro, Small and Medium Enterprises.

To cater to our customers who may be persons with physical disabilities, we have ensured that as far as possible, our head office and branches have access ramps, lifts and low counters with seats to enable them to be served in a comfortable manner.

DTB has, over the years, gained recognition as the **SME bank of choice**. Over the last one year, focus has turned towards the development of an ecosystem for SMEs. The strategy is to create different channels so that the Bank can become a haven where SMEs can get not only banking services, but information on non-financial services. In this regard, in 2019, DTB Kenya undertook a seven- module financial training curriculum, in partnership with Kenya Bankers Association (KBA), for both in-house training of its staff as well as capacity building training for targeted (existing and prospective) micro, small and medium enterprise (MSME) operators covering MSMEs drawn from Nairobi, Mombasa, Kisumu, Nakuru, Kericho, Kakamega and Eldoret, a total of **400 entrepreneurs** were taken through this capacity development programme.

The financial literacy initiatives are aimed at: -

- Providing training on entrepreneurship, financial and human resource management, business and strategic planning, operations and value chain management, marketing and business communication and the socio-economic roles of MSMEs.
- Educating on the various financial products and financial services offerings of the Bank to ensure optimal use of the available banking services and products offered by the Bank.

The Bank will continue its financial literacy programme which will be held at least once annually.



"Before the training, I would supply my customers on credit until I almost went out of business until one of my customers, who is also a DTB customer referred me to DTB who I then began to bank with. Though I considered my business to be very small, DTB supported me with a loan, which elevated my business."
– Gladys Njeri, Business owner, Nairobi.





DTB Tanzania undertook similar workshops in 2018 and 2019 covering over **400 SME businesses** across Dar-es-salaam, Dodoma, Tanga, Morogoro, Mbeya and Zanzibar. Contents of the training covered the essentials of establishing new business, day-to-day business management, review of the 2018 Tanzanian Finance Act and updates on tax, business regulatory compliance and labour laws in Tanzania.



Responsible Consumption and Production

We are cognisant of the fact that our activities, as well as those of the entities that we finance, could have a social and environmental impact. Accordingly, we have made a conscious effort to ensure effective **social and environmental management practices** in all our activities, products and services. As part of our initiative to align key business operations with our sustainability objective, we have adopted a comprehensive social and environmental management policy. The key components of the said policy are:

- Financing projects only when they are expected to be designed, built, operated and maintained in a manner consistent with the applicable legislation and regulations.
- Making best efforts to ensure that all projects are operated in compliance with the applicable legislation and regulations on an ongoing basis.
- Ensuring that our customers understand the policy commitments made in this area.

It further provides guidelines on how we assess the social and environmental risks before the lending due diligence process to ensure the activities do not negatively impact on the surrounding communities and environment.

The Bank has been arranging training sessions on Social and Environmental Management Systems (SEMS) for its relationship managers through in-house training and attending workshops. The Bank's officials also conduct site visits to sensitise customers on the need for SEMS compliance. DTB also goes out of its way to ensure customers understand the requirements of the policy and to ensure that clients sign SEMS forms before any disbursement of a facility can be processed. Sustainability review of all projects that the Bank has financed is done to ensure they have the required environmental clearances before commencement. Our customers however face challenges in SEMS integration arising from low levels of literacy and awareness of the regulatory requirements for projects that need environmental clearances. As is often the case in other sectors, our customers often go through a lengthy and expensive process to obtain the necessary environmental clearances.

In October 2019, as part of a #CSWeek2019 initiative, DTB launched a paper recycling initiative targeting the used paper that it generates from its operations in Kenya. In the first three months of the programme, the Bank collected **one tonne of used paper** which has since been **recycled**. This initiative is expected to ramp up in the ensuing years with at least five tonnes of used paper being targeted for recycling annually.





Environment

DTB has been pursuing initiatives that cater to the environment directly, such as the planting of trees and greening spaces and others that have an indirect impact, such as recycling paper and using less paper by **opting for digital alternatives** as mentioned. We pursue efforts to improve human welfare through the protection and restoration of nature, ensuring the needs of the people are met without compromising the needs of generations in the future.

We have a strong commitment to environmental conservation. At DTB, we believe in making an impact that matters. Our operations and employees continuously work to create positive environmental change and enabling individuals and institutions to invest in environmental sustainability. For example, we have planted trees under the Much More Than Trees (#MMTT) initiative and we intend to continue with this project in 2020 and beyond.

The Bank promotes a green environment by procuring **energy efficient** lighting with motion sensors, technology that increasingly allows paperless transactions and, as mentioned above, recycling of used paper.

This has led to a culture of frugal use of paper, with the quantity of paper use declining continuously over the last three years, with **8,500** reams as the goal for 2020 from 10,000 reams in 2019.

We have also partnered with Agence Française de Développement (AFD) in Kenya and Uganda to **finance green energy projects** for customers in the two countries. The credit line enables us to promote our sustainable development agenda by providing eligible customers with access to credit at concessionary rates; equally important it provides our eligible borrowers the opportunity to benefit from SUNREF's (AFD's green credit line) technical evaluation and **concessional financing** of their projects. Thus far, 16 eligible projects have been financed by DTB Kenya and DTB Uganda, promoting the adoption of efficient energy and renewable energy solutions by DTB's customers.





Ethics, Integrity and Confidentiality

Through continuing investments in information security, we take a proactive approach towards maintaining data privacy. This is in recognition of the increasing risk of customer information breaches brought about by cyber-attacks and other malicious activities and the provisions of the recently promulgated Data Protection Act in Kenya.

We have **zero-tolerance** to any form of financial crime including bribery, corruption and collusion. Our business relies heavily on trust and confidence from our investors and the public. To this end, the Bank continues to invest in initiatives that improve its financial crime governance and control framework. In 2019, DTB embarked on a Financial Crime Risk Management Framework transformation journey whose key objective was to enhance the Bank's risk management framework in this critical area so that it benchmarks to **best practice** whilst taking cognisance of the requirements of the prudential guidelines issued by the Group's various regulators and the Proceeds of Crime and Anti-Money Laundering Act. This epic transformation journey, which was undertaken with the support of an external consultant, has resulted in the Bank enhancing its policies, people capabilities and capacities and risk assessment, monitoring and reporting systems and tools to best practice standards. Enhanced, comprehensive Combating Financial Crime and Know Your Customer (KYC) policies and procedures and other financial crime risk management artefacts are in place. A series of financial crime awareness trainings have been undertaken across the Bank, from Board level to the entire staff headcount. The Bank has also invested in a state-of-the-art financial crime system which enables the risk assessment and profiling of customers and the monitoring, detection and reporting of suspicious customer transaction activity from both Anti Money Laundering (AML) and KYC standpoints.



Promoting an ethical culture

We align with the UN Global Compact principles of human rights, labour, anti-corruption and environment. Our Procurement team engages with vendors ethically, with integrity and with respect, following the guidelines of the Code of Conduct and Conflict of Interest Policies, which are signed annually by all DTB employees.

Our procurement procedures and practices are aimed at **supporting local business partners** whilst observing the highest levels of business ethics, conduct and transparency. We endeavor to use local vendors as much as possible so as to subsidise and help grow our economic environment. Oversight of the procurement function is provided by the Outsourcing Committee and a tender committee, governed by the CBK's prudential guidelines and our internal policies and procedures. These policies and procedures subscribes to principles of **openness, integrity** and **fairness** in implementing the Group's procurement practices. This is achieved through:

- providing equal opportunity to all
- transparency in the procurement process
- procurement that matches the businesses standards and image
- ensuring accountability on all transactions
- upholding the anti-bribery and anti-corruption laws and regulations
- alignment to the Group's strategic plans hence ensuring prudent allocation of resources to enhance stakeholder value.



17 PARTNERSHIPS
FOR THE GOALS



Strengthen the means of implementation and revitalise the global partnership for sustainable development.

Technology

Technology is a key pillar of the Bank's strategy, and the Information Technology (IT) Department supports the strategy by focusing on four key principles: availability, security, performance and scalability. At DTB, we continue investing to ensure secure and reliable systems are available around the clock. In 2019, the IT networks uptime stood at **99.58%**. Quarterly and annual reviews are conducted on the capacity, bandwidth and storage to ensure the Bank can handle the growing volumes of customer transactions.

The investments in technology that DTB has made over the years have resulted in a solid foundation for driving **innovation**. On this front, the Bank launched a number of new and revamped channels and automation capabilities. These included: the enhancement of the Bank's mobile banking platform- **m24/7** online banking platform- **i24/7**, enhanced (integrated) e-statements **e24/7**, business process automation and major upgrades to the Bank's Anti-Money Laundering (AML) system.



In 2019, we saw tremendous growth in alternative banking channels, so much so that we now consider them the primary source of banking. Currently, **54%** of all transactions are done outside the banking hall, mainly through alternate digital channels. We expect that this number will increase in the coming year because of customers' growing appetite for digital and convenient banking options and our ability to meet them.

One of the speed bumps that come with digital evolution is the risk of cybercrime. We have enabled all our customers who have access to smartphones to utilise biometrics when approving payments on **m24/7** through fingerprints and facial recognition capabilities. These measures have not only resulted in convenience to our customers, but also a reduction in the risk of cyber attacks.

We also follow a layered approach to cybersecurity to ensure readiness to address evolving challenges that may arise through continuous proactive, vulnerability assessments, penetration testing of systems, training and awareness of the staff. We also have **in-house certified ethical hackers** whose mandate is to test the resilience of our cybersecurity infrastructure as well as undertake and monitor attempted cyber attacks.

Sustainability Case in Point

Bio Food: A case study in green energy financing

Green energy financing is quickly gaining traction in Africa with countries such as Kenya having their robust financial sector taking lead. In Kenya, DTB has taken a strategic step to consciously fund green energy projects as is the case with Bio Food Products Limited.



Bio Food Products Limited is a renowned Kenyan company that produces high quality dairy and fine foods products. The company ensures it meets stringent quality standards and goes the extra mile to work directly with farmers so as to get the best quality of milk for which it pays a premium. Bio Food Products Limited believes in being a **force for good**; operating in a sustainable manner that is in the long term **beneficial to the environment and the communities therein**.

As part of its sustainability agenda, the company, through consulting with an Engineering Procurement and Commissioning contractor, Orb Energy, began looking at solar as an alternative source of energy to power their processing plant. This led to Bio Food Products Limited being admitted to the SUNREF (Sustainable Use of

Natural Resources and Energy Finance) programme which was developed by the Agence Française de Développement (AFD) to support green energy finance initiatives.

DTB is one of the local banks that has partnered with SUNREF to extend financial support for green energy finance projects. The Bank initially started off with \$5 million for onward lending to green energy projects but so far, \$1.7 million has been lent out. For Bio Food Product Limited, this financing facilitated the installation of two types of solar panels; one for heating water that goes into the boilers, reducing the amount of power needed to fire them and another for supplementing the power from the mains. So far, solar represents 15% of total energy used in the plant. Plans are already underway to add more panels that will further boost the company's reliance on green energy.

The net effect of this installation at Bio Food Products Limited is outright cost reduction in power bills by at least 12%. This means that the company could utilise the cost saving to complete loan repayments within a 5-year period. Reduction in carbon footprints is also a gain that positions Bio Food Products Limited on the path to achieving a certified B corporation status (Certified B Corporations are business that balances purpose and profit. They consider the impact of their decisions on their community, and the environment).



Sustainability Case in Point

Rosslyn Academy

Conversations about sustainable finance have gained traction locally with financial institutions being tasked to implement principles of sustainable finance at the heart of their operations. DTB, a key player in the banking industry, is a good example of an institution which is implementing sustainable finance in partnership with its customers. One such instance is the implementation of a roof mounted solar power plant at Rosslyn Academy.



With the rising student enrollment numbers and having an eye for sustainability and cost control, Rosslyn Academy began relooking at their cost of power. The question became whether or not there was a more efficient way to provide power and lower the institutions carbon footprint.



Rosslyn Academy initiated discussions with an Engineering Procurement Commissioning Contractor (EPC) by the name of Astonfield Solesa Solar Kenya Limited. The EPC, which is under the panel of SUNREF (Sustainable Use of Natural Resources and Energy Finance) approved contractors, had been in talks with the Bank about bringing in such contracts under the SUNREF programme that DTB had signed up for. DTB undertook to finance the project based on the school's ability to repay the loan over a period of 10 years and the technical eligibility certification provided by the SUNREF's technical expertise team from Europe.

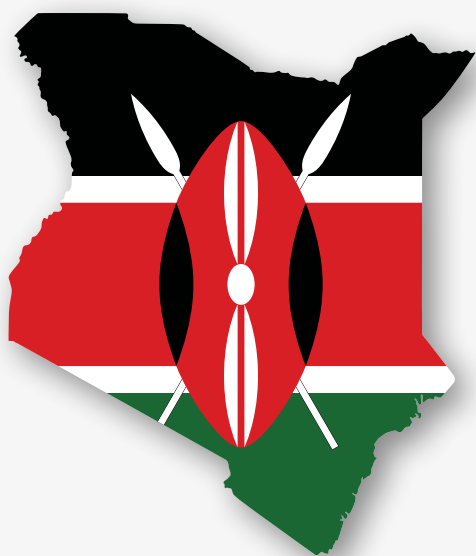
This installation enabled Rosslyn Academy to change its energy model by reducing its peak daily load from being purchased from the grid to generating that load from a sustainable green energy source. This grid-tied system was cheaper to implement since there were no batteries required to store energy.

Currently, the system generates a maximum 130 Kw, with about 20 Kw going to the staff quarters, reducing electricity cost from the grid as well as being used in the school's water purification plant. On average, the school uses **40% less electricity** from Kenya Power.

Operating Environment

Diamond Trust Bank Kenya Limited

Board of Directors



Performance in 2019 (Kshs. million)

Total Revenue: 27,641

Total Deposits: 199,089

Total Assets: 287,251

PBT: 9,279

Other Information

Customers: 233,973

Staff: 1,040

Branches: 69

ATMs: 67

Refer to **pages 10 to 11** for DTB Kenya's Board of Directors.

Key Highlights of Kenya Banking Sector in 2019

The Kenya banking sector has remained relatively stable and resilient over the period. The sector witnessed a host of events that shaped the banking environment; most notably was the repealing of the interest rate capping law in November 2019. This saw the change in loan pricing dynamics where banks are expected to price their credit products based on their risk appetite. However, loans advanced prior to the repeal of the capping were shielded from the new regulation. Similarly, banks were mandated to adopt a credit risk-based pricing model which supports the interest rates they intend to charge on their loan facilities.

The sector also witnessed one of the major consolidations in recent years with the merging of NIC Bank and Commercial Bank of Africa (CBA) into a new entity, NCBA, the third largest bank after KCB and Equity Bank. The sector also saw the acquisition of National Bank of Kenya by Kenya Commercial Bank which was finalised in October 2019. The year also saw a significant interest in local banks by major foreign based banks most notably the intention of Access Bank of Nigeria to acquire 100% of Transnational Bank of Kenya. The Commercial International Bank (CIB), an Egyptian private sector lender announced plans to acquire a stake in Mayfair Bank Limited in Kenya. In April 2019, Equity Group Holding announced an intention to acquire Atlas Mara. If it goes through, the deal will lead to the lender acquiring 62% share of Banque Populaire du Rwanda Limited and 100% of African Banking Corporation (ABC) in Zambia, Tanzania and Mozambique when completed. On the regulatory front, the Monetary Policy Committee cut its benchmark interest rate by 50 bps to 8.5% during its November 2019 meeting after having previously maintained the rate at 9% for over a year. This was further revised downwards by 25 basis point to 8.25% in January 2020 in a bid to boost the economic growth. Similarly, the year also saw the introduction of the Kenya Banking Charter which was unanimously adopted across the industry. Key objectives contained in the Charter included:

- i) To increase access to affordable and appropriate banking services to the unbanked and under-served population in Kenya.
- ii) To develop a more resilient, competitive and dynamic financial system based on the four central pillars of the banking sector's vision.
- iii) To ensure that institutions proactively engage their customers in financial literacy and consumer education drives, to enhance customers' financial knowledge and skills for them to make informed financial decisions.
- iv) To ensure institutions develop and submit a time bound plan approved by the institution's Board in compliance with the Charter for CBK's monitoring purposes.
- v) To promote efficiency in lending and acquisition of loanable funds.

Diamond Trust Bank Tanzania Limited



Performance in 2019 (Kshs. million)

Total Revenue: 5,581

Total Deposits: 43,401

Total Assets: 55,074

PBT: 1,159

Other Information

Customers: 207,506

Staff: 543

Branches: 28

ATMs: 38

Key Highlights of Tanzania Banking Sector in 2019

Tanzania's commercial banking sector has started to stabilise after many of banks had to make heavy impairment losses on bad loans. Poor lending policies and over-exposure to a faltering real estate sector have seen Tanzania's banks experience an uncomfortable past few years. However, the banks responded by cutting costs, lowered NPLs and embraced technology to an impressive effect which has engineered the turnaround. Tanzania's central bank (Bank of Tanzania) also cut the proportion of deposits banks must maintain as reserves to 7% from 8% with effect from July 2019 in order to boost lending. It is worth noting that Bank of Tanzania does not set interest rates using a benchmark rate. Instead, imposes a statutory minimum reserve requirement to influence private sector credit growth.

Board of Directors



Karim Wissanji
Chairman



Shaffiq Dharamshi
Vice-Chairman



FAYaz Bhojani
Director



Nasim Devji
Director



Zulobia Dhalla
Director



Xavier Lucas
Director



Zahir Jivani
Director



Viju Cherian
CEO

Diamond Trust Bank Uganda Limited



Performance in 2019 (Kshs. million)

Total Revenue: **4,722**

Total Deposits: **36,484**

Total Assets: **47,396**

PBT: **583**

Other Information

Customers: **154,121**

Staff: **639**

Branches: **36**

ATMs: **55**

Board of Directors



Azim Kassam
Chairman



Shaffiq Dharamshi
Vice-Chairman



Nasim Devji
Director



Jane Kabbale
Director



Kenneth Kitariko
Director



Varghese Thambi
Managing Director



Dalal Murtuzaali
Director



Maina Kariuki
Executive Director

Key Highlights of Uganda Banking Sector in 2019

The Bank of Uganda held its benchmark lending rate at 9% at its February 2020 meeting, citing balanced risks to inflation and the need to maintain an accommodative monetary stance to support growth. The sector has remained relatively stable over the period from strong performances recorded in the recent years. In the period, Bank of Uganda (BoU) concluded on the statutory liquidation of International Credit Bank Limited which was placed under statutory management in September 1998 under the provisions of the Financial Institutions Statute, 1993 and immediately put it under statutory liquidation. Bank of Uganda (BoU) also concluded on the statutory liquidation having revoked the banking license of Global Trust Bank Limited on 2014 under the provisions of the Financial Institutions Act.

Diamond Trust Bank Burundi Limited



Performance in 2019 (Kshs. million)

Total Revenue: **341**

Total Deposits: **1,364**

Total Assets: **3,500**

PBT: **143**

Other Information

Customers: **2,632**

Staff: **47**

Branches: **4**

Board of Directors



Shafiq Jiwani
Chairman



Nasim Devji
Vice-Chairman



Ida Marie Mabushi
Managing Director



Alkarim Jiwa
Director



Xavier Lucas
Director



Jamaludin Samji
Director

Key Highlights of Burundi Banking Sector in 2019

The central bank (BRB) has initiated significant regulatory reforms in exchange rate policy, which could relieve pressure on the country's foreign reserves. The banking sector is the main component of the financial sector, which also comprises insurance companies, microfinance and social welfare institutions. The banking sector in Burundi is composed of 10 banks but the market is dominated by three banks of systemic importance, which share 63.7% of sector assets, 60.7% of the credit portfolio and 66.2% of deposits according to reports from BRB. In 2018, a law was passed aimed at laying the groundwork for the integration of the financial sector within the East African Community (EAC) and enhancing the efficiency and resource mobilisation capacity of the financial sector. The Bank will support the Government in setting up this secondary capital market.

Material Matters

Our material matters are evident in the key risks and opportunities and represent the issues that have the most impact on our ability to create value. These change over time as new trends and developments shape the macro environment and our stakeholders' needs evolve. We determine our material matters through the following process:

Identify

We identify matters that may impact the execution of our strategy. This is a group-wide effort taking into account input from all business and support units, and incorporating feedback from stakeholders.

Prioritise

From the list of identified matters, we prioritise those that most significantly impact our ability to successfully execute our strategy and deliver long-term value to our stakeholders.

Integrate

Apply the material matters lens to inform our long-term business strategies and targets as well as short-to-medium term business plans. This is done primarily through the execution of our strategy.

Monitor

Assess the material matters continuously to ensure that our strategy remains relevant. Important matters are managed as part of our business and operational processes.

Banking Act 2016 (Amendment):

The amendment, enacted in November 2019, repealed the interest rate capping framework that had been in place since September 2016.

Impact: Whilst the banking sector's credit portfolios as at the repeal date will continue to be subject to the rate caps, banks are now able to price new credit facilities reflecting the level of risk acquired.

Response: The Bank strongly believes on the need to act responsibly in the pricing of new credit in the post interest rate capping era. It has adopted a risk-based credit pricing model in 2020, which enables the loan interest rates to reflect the varying risk profiles of individual borrowers.

Digital Disruption

Like many other industries, banks are being affected by digital disruption. Banks need to adapt to digital disruption by re-skilling their workforce, acquiring new talent, overhauling their way of working and investing in new technologies, all in a bid to transform as agile and nimble players in a fast-evolving digital environment.

Impact: Failure to respond to this, banks risk losing competitiveness and market positioning due to the emergence of fast evolving and agile bank and non-bank competitors.

Response: DTB is on course to embrace a new "digital at the core" strategy, embedded into its corporate business strategy. In the interim, the Bank launched a number of digital initiatives in 2019 including revamped mobile banking and online banking platforms which offered enriched value propositions to its customers.

IFRS 16:

IFRS 16 eliminates the previous dual accounting model for lessees, which distinguishes between on-balance sheet finance leases and off-balance sheet operating leases. The effective date for implementation was 1 January 2019.

Impact: The adoption of IFRS 16 has resulted in the recognition of right-of-use assets and lease liabilities with the cumulative effect being recognised as an adjustment to the opening balance of retained earnings in the period of application i.e. 1 January 2019 ("Day 1 adjustment"). The Group now recognises a finance charge on the lease liability and a depreciation charge on the right-of-use assets, whereas previously the Group included lease rentals within operating expenses.

Response: DTB has absorbed the impact of the new Standard from 1 January 2019 and has applied it during the year. The impact on the Group's 2019 after tax earnings was KShs 86 million and the "Day 1 adjustment" on 1 January was a net charge to retained earnings of KShs 493 million.

Material Matters (Continued)

Data Governance

In 2019, Kenya passed the Data Protection Act which introduced elaborate obligations to persons who collect and process data whose infringement would lead to stiff penalties. The Act outlines the principles of data protection which are modelled on the principles set out in the EU General Data Protection Regulation (GDPR). It further stipulates the rights of persons whose data is collected, including the right to be informed of the use to which their personal data is to be put; access their personal data in custody of a data controller or data processor; to correction of false or misleading data; and to deletion of false or misleading data about them.

Impact: Demonstrating accountability in policies, procedures and practices and documents (contracts with customers and suppliers) which are drafted, implemented, monitored and maintained in compliance with the Act. Failure to do so exposes the institutions to stiff penalties.

Response: Implementation of the Data governance framework that outlines the data culture, through training and awareness creation, the implementation of risk management practices around acquiring, identification and classification of personal data sets, data security and data risk exposure aspects. This involves the enhancement of the incident reporting mechanisms and most importantly ensuring the rights of data subjects, including rights to access, rectify and transfer their information.

Compliance Excellence Culture and Commitment to Best Practice

Informed by its key stakeholders' vision, DTB pursues a vigorous compliance culture across the organisation. The Group is committed to making continuing investments in its people, policies & procedures and systems so that it remains positioned to embrace and uphold not just local regulatory requirements but also best practice standards across all levels of its business and operations.

Impact: Lack of adherence to the statutory and regulatory regulations would lead to regulatory sanctions and reputational risk. Compliance with these regulations and to best practice standards augments DTB's long term resilience.

Response: DTB embarked on two transformational journeys in 2019;

- Combatting Financial Crime (CFC) Journey to Best Practice- which entailed a detailed review and enhancement of the Bank's CFC risk strategy, governance framework, policies & procedures, recruitment & training, AML/CFT related data & systems
- Credit Risk Management Framework Review Transformation Journey- which covered enhancement of policies, procedures, end-to-end credit underwriting processes, validation of credit scoring models which in turn positioned DTB to adopt a credit risk-based pricing framework and model.

Kenya Banking Sector Charter

Following a circular by the CBK in February 2019, the Kenya Banking Sector Charter (BSC) was issued for immediate adoption by all commercial banks, micro-finance banks and mortgage finance companies. The Charter is a response to public concerns on the high cost of credit and poor customer service. Additionally, the Charter aims at aligning with the Government & CBK initiatives that have been introduced with the aim of lowering cost of credit.

Impact: The Charter is based on four central pillars:

- Adoption of customer-centric business models
- Risk- based credit pricing
- Enhanced transparency and information disclosures
- Entrenching an ethical culture in banks - "doing the right thing"

The Charter further requires quarterly submissions to the CBK of the status of the implementation.

Response: In order to be compliant with the BSC requirements, DTB Kenya submitted to CBK a time-bound action plan which was approved by the Board of Directors in May 2019 and quarterly reports thereafter. The Bank embarked on various initiatives: financial literacy programmes targeting MSMEs, a new mobile lending product for MSMEs (*Stawi*), adopted risk-based credit pricing, enhanced transparency in pricing and charges of services and continues to entrench an ethical culture in its employees, etc.

Cybercrime, Fraud and Theft

The fourth industrial revolution has accelerated advances in technology and widened the digital landscape. Consequently, cybercrime remains a growing threat for financial fraud and unauthorised access to customer information. While there are numerous threats aimed at bank systems and their customers, one of the biggest threats, and, often one of the hardest to detect, is that originated by, or done in collaboration with, malicious and compromised staff.

Impact: Cybersecurity has become a paramount concern for the banking sector, leading to increased investments in counter measures including technology and processes on how banks operate.

Response: Continuous heavy investments in cybersecurity infrastructure, people skills and training to identify and neutralise threats, prevent data breaches and other forms of cyber-attacks. The Bank carries out enhanced penetration tests on its systems using in-house ethical hackers and externally sourced skilled experts.

"Cherish your visions and your dreams as they are the children of your soul, the blueprints of your ultimate achievements"

Napoleon Hill



5 Year Financial Review

	2019 SHS'000	2018 SHS'000	2017 SHS'000	2016 SHS'000	2015 SHS'000
Net interest income	20,078,388	21,009,651	20,640,399	20,455,051	15,927,331
Non-fund-based income	5,471,881	5,160,877	5,125,330	4,996,542	4,697,929
Gross operating income	25,550,269	26,170,528	25,765,729	25,451,593	20,625,260
Net operating profit before provisions	12,287,508	13,708,775	14,248,933	15,193,038	11,715,470
Charge for impairment of loans	(1,024,594)	(2,708,503)	(4,150,698)	(4,197,342)	(2,150,278)
Profit before income tax	11,262,914	11,000,272	10,098,235	10,995,696	9,565,192
Profit after tax and non-controlling interest	6,785,603	6,686,612	6,449,811	7,173,939	5,912,082
Total assets	386,230,186	377,719,314	363,303,400	328,044,501	271,608,597
Advances to customers (net)	199,089,371	193,074,357	196,048,155	186,303,191	177,544,871
Total deposits (customers and banks)	302,640,812	300,003,210	286,750,847	255,679,442	202,458,255
Shareholders' funds	58,850,841	53,657,050	48,369,795	41,029,312	34,134,437
Dividends for the year	754,926	726,966	726,966	692,435	605,275
Performance ratios					
Earnings per share - basic	Kshs. 24.27	KShs 23.91	KShs 23.73	KShs 26.64	KShs 24.42
Earnings per share - diluted	Kshs. 24.27	KShs 23.91	KShs 23.73	KShs 25.66	KShs 21.14
Dividend per share - basic	Kshs. 2.70	KShs. 2.60	KShs. 2.60	KShs. 2.60	KShs. 2.50
Dividend per share - diluted	Kshs. 2.70	KShs. 2.60	KShs. 2.60	KShs. 2.48	KShs. 2.16
Net loans to deposits	65.78%	64.36%	68.37%	72.87%	87.69%
Non-performing loans to total loans (before provisions)	6.59%	6.04%	6.30%	3.10%	2.30%
Return on average assets	1.90%	1.91%	2.00%	2.60%	2.70%
Return on average shareholders' funds	12.06%	13.11%	14.43%	19.10%	18.70%
Non-fund-based income to total income	21.42%	19.72%	19.89%	19.60%	22.80%
Number of branches	137	137	137	126	117
Number of employees	2,269	2,252	2,156	2,197	2,075
Expenditure on property and equipment	1,452,491	1,056,731	1,365,838	1,829,901	1,467,494
Other indicators (Bank only)					
Core capital to customer deposits	22.29%	19.38%	18.56%	17.50%	20.10%
Core capital to total risk weighted assets	19.05%	18.70%	17.30%	16.20%	14.80%
Total capital to total risk weighted assets	20.91%	21.10%	19.00%	18.50%	17.70%

The extracts from the consolidated financial statements are stated in thousands of Kenya Shillings (Shs. 000) except where otherwise indicated.

Risk Management Framework

In 2019, the Group continued to operate in a dynamic risk environment driven by increased regulatory scrutiny, enactment of new legislation, such as the Data Protection Act in Kenya as well as the demonetisation process and repeal of the interest rate regime in Kenya, the evolving digital landscape and increasing trade frictions globally. This led to rising geopolitical tensions and more stringent sanctions regime. To effectively manage the existing and emerging risks the Board and Management put in place measures aimed at ensuring operational and financial resilience. In this respect, the existing and emerging risks were identified and assessed both for impact and mitigating control measures in place. Focus was placed on ensuring Senior Management accountability through **strengthening of the three lines of defence framework** by firmly embedding the risk ownership and management responsibilities to the front line.

DTB's enterprise-wide risk management framework has continued to evolve to minimise potential adverse effects arising from such risks on the operational and financial performance of the Group. The risk management strategy is aligned to the Group's business strategy and is the basis upon which the risk appetite statement of DTB has been formulated. The Bank has clearly articulated policies across all the key risk areas and compliance by staff is mandatory and enforced through training and annual refresh on the code of conduct.

In line with the evolving risk landscape, DTB has enhanced its enterprise risk management framework by strengthening the Corporate Governance Structure through the establishment of the Risk Management & Compliance Committee (RMCC) and other senior management sub-committees that would more adequately support the Risk Management and Compliance Committee and the Board Risk Management Committee in the execution of their roles and responsibilities. The sub-committees comprise of the subject matter experts and are tasked with the timely identification, quantification, management, monitoring and reporting of risks owned with a view to ensure that the Bank has an optimal-risk reward profile.

The Group has during year 2019 enhanced the Combating Financial Crime (CFC) Risk Management Framework which involved enhancements to the CFC Risk Appetite Statement, policies and procedures. The Group approach to risk management has been **benchmarked to the regulatory and best practice governance standards** and processes which rely on the three lines of defence to protect the Group against the risks that could adversely affect it.

1. Risk Governance Framework

a) Board of Directors

The Board of Directors has instituted a culture of compliance and risk management which is articulated through the Group's code of conduct, values, policies, procedures, training and the risk appetite statement. The Board provides oversight on the management of risks and approves the strategies, policies and appetite statements that govern the Bank operations. The Board draws its powers, roles and responsibilities from the Board Charter. The role of the Board and Board Committees are further detailed in the respective Board- approved Terms of Reference (TORs) as detailed from **Pages 30 - 33**.

b) Board Risk Management Committee (BRMC)

The responsibility to ensure quality, integrity and reliability of the Bank's risk management has been delegated to the Board Risk Management Committee (BRMC). BRMC has been mandated by the Board to assist it in the discharge of its duties relating to the corporate accountability and associated risks in terms of management, assurance and reporting. The Committee ensures oversight of the risk management framework to ensure quality, integrity, effectiveness and reliability. The Committee sets out the nature, role, responsibility, and authority of the risk management function of the Bank and defines the scope of the risk management work.

c) Board Information Technology Committee (BITC)

The Group considers Information Technology (IT) as a strategic pillar in its overall business strategy. As a bank, technology is indeed driving the new generation of banking business. Given the Group's commitment to ensuring that the Bank has a robust IT Platform and the need to comply with the IT and Cybersecurity guidelines issued by the Central Bank of Kenya (CBK), a dedicated Board Information Technology Committee (BITC) chaired by a non-executive Director under the overall supervision of the Board has been established. In accordance with CBK guidelines, the Board is responsible for IT governance. IT governance supports effective and efficient management of IT resources to facilitate the achievement of the Bank's strategic objectives. The BITC provides guidance to the Board and management in discharging their respective duties.

d) Board Audit & Compliance Committee (BACC)

The BACC monitors management's compliance with relevant local legislation, regulations and guidelines issued by regulatory bodies, as well as the Bank's laid down policies and procedures. The Committee is mandated to raise the standards of corporate governance by continuously improving the quality of the control environment and the effectiveness of the compliance function.

e) Board Oversight Committee (BOC)

The BOC provides oversight of the steps required to be taken by management and the Bank to enhance and improve the Bank's capabilities, systems and processes to better prevent money laundering and ensure effective surveillance of transactions and related customer activities and to ensure the Bank's Combating Financial Crime and Sanctions framework and practices are enhanced so that they comply with applicable local laws and regulations as well as best practices.

f) Board Credit Committee (BCC)

The Board Credit Committee (BCC) is constituted with the primary purpose of overseeing and monitoring the Credit Risk Management framework of the Bank and ensuring the integrity of the risk control systems in compliance with the applicable laws and regulations, Board approved policies, strategy, risk appetite and underwriting guidelines. The BCC assists the Board in monitoring the quality of the credit portfolio, ensures the quality and reliability of the Bank's overall credit risk management and reporting. BCC also assists the Board in ensuring that the Bank has systems and methodologies to adequately credit score, approve, measure, monitor and manage the Bank's credit risk.

Governance Structure at Management Level

a) Risk Management & Compliance Committee (RMCC)

To effectively manage and monitor risk, the Board oversees the Risk Management Framework with the assistance of the RMCC at Senior Management level. RMCC is responsible for assisting the BRMC, BACC and BOC in its oversight role by reviewing the Bank's risk and compliance management framework implementation.

The RMCC has oversight over all policies, procedures, process flows, systems, structures, resources and tools used to identify, measure, evaluate, monitor, report and control or mitigate both internal and external sources of material risk. The RMCC reviews the Risk Management Framework annually and when emerging risks arise from the changing business environment. The RMCC is governed by its Board- approved TOR. RMCC supports the Board in policy formulation and setting of risk appetite limits.

The RMCC is assisted in its role of managing the various risk categories by the five management level sub-committees as detailed on [page 37](#).

b) Executive Committee

The Executive Committee (EXCO) is the link between the Board and management and is responsible for implementation of strategic plans, annual budgeting and periodic reviews of operations, identification and management of key risks and opportunities.

The Terms of Reference of the Executive Committee, provide guidance to the members of the Committee as mandated by the Board of Directors in discharging their respective duties.

The Executive Committee is constituted to assist the Managing Director to achieve the objectives of the Bank, by assisting in providing guidance on the overall implementation of the business strategy of the Bank.

The EXCO is assisted in its role of managing the various risks by the six management level committees as detailed on [page 36](#).

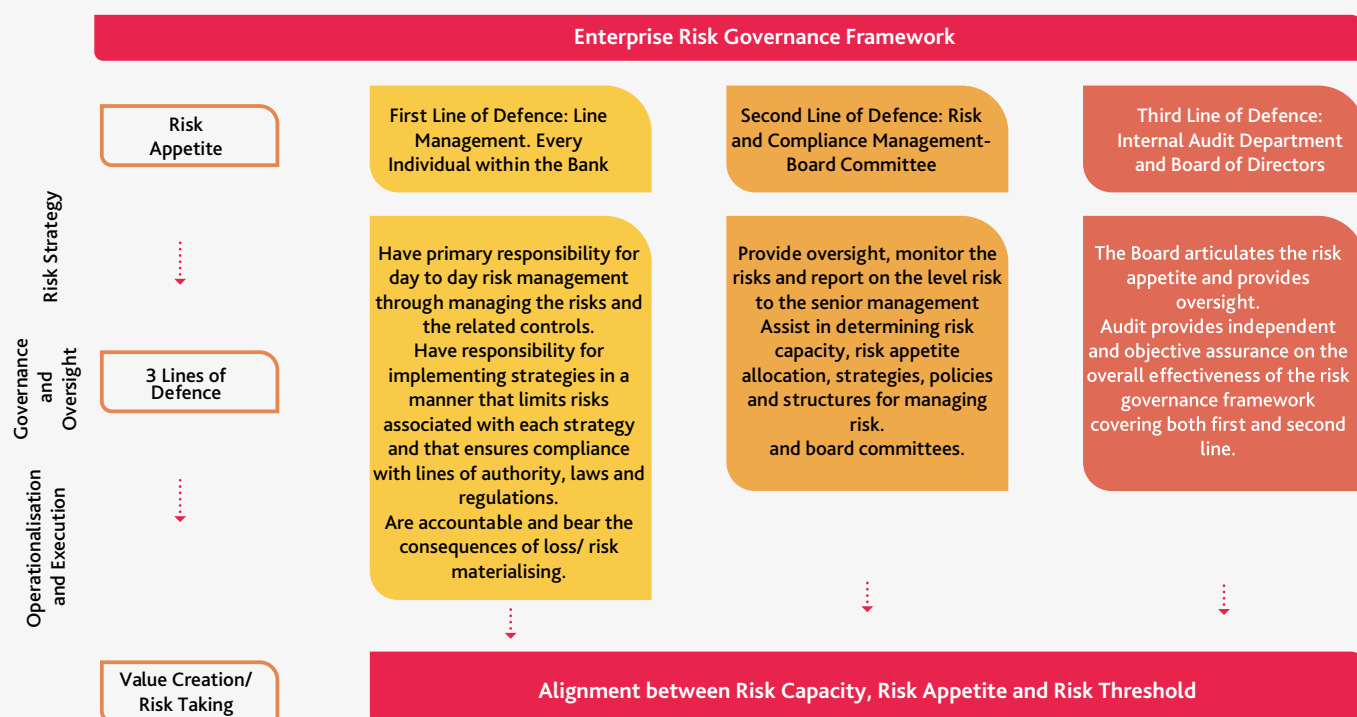
Risk Management Framework (Continued)

2. Risk Organisation: Three Lines of Defence

The Group's risk management practices are organised according to the principles of the three lines of defence model. The three lines of defence segregate duties between:

- i. First line- risk owners
- ii. Second line- risk oversight and control
- iii. Third line- Internal audit (risk assurance).

An illustration of the same is as shown below:



3. Enterprise Risk Appetite Statement (ERAS)

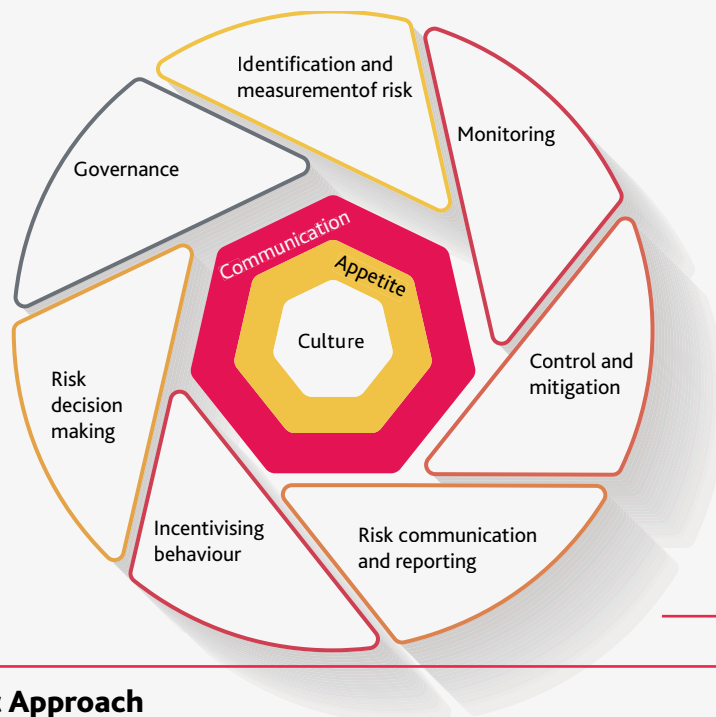
The ERAS is an articulation of the extent of DTB's willingness to take risk and is derived from the Bank's objectives, strategy and business plans. The ERAS is the overall approach, including policies, controls and systems, through which risk appetite is established, communicated and monitored. The ERAS demonstrates the implicit link between risk and strategy. In doing so, it defines the risk limits and tolerances around those limits. The ERAS also clarifies the action required in the event of a breach of risk limits and risk tolerance. Finally, it specifies the roles and responsibilities of the officers that are responsible for the implementation of the ERAS and forms a fundamental component of the Enterprise Risk Management Framework.

4. Consolidated Supervision and Combined Assurance

The combined assurance model is used by the DTB Kenya when undertaking reviews across its subsidiary banks. Compliance with Group's standards is supported by a programme of annual reviews undertaken by both the Internal Audit and the Risk & Compliance Departments. The results of the audit are discussed with the management of the subsidiary to which they relate, with summaries submitted to the Board and Senior Management committee of the Group. The oversight and compliance covers DTB Kenya and its subsidiaries: Diamond Trust Bank Uganda (DTBU); Diamond Trust Bank Tanzania (DTBT) and Diamond Trust Bank Burundi (DTBB). Collaboration between Risk, Compliance and Internal Audit has been entrenched in the coordination of their consolidated supervision annual work plans approved by the Board.

5. Risk Management Process

The Risk Management Framework encompasses the components as illustrated below, which are incorporated as part and parcel of the risk management process, activities and tools used in the evaluation of the existing or potential risk exposures; the Bank could face, for current and future mitigation strategies.



6. Risk Management Approach

As part of the risk inventory of the Group in 2019, the following risk categories were considered material. Additionally, the Bank has stipulated the specific risk management process taken for each category:

i. Credit Risk Management

Credit risk is the risk that a borrower or debtor may default on obligations under a credit agreement. The Board Credit Committee (BCC) has oversight of credit through the Management Credit Committee (MCC). The MCC continuously reviews the credit strategy, credit policies and procedures, monitors credit risk, credit risk appetite, write offs, debt recovery, provisions, stress tests and changes in the operating environment. The MCC reports on any exceptions identified, insider lending, credit portfolio, all facilities approved during the period under review. Financial governance is applied through pricing and provisioning models, regulatory reporting and the Internal Capital Adequacy Assessment Process (ICAAP). Integrated risk management is applied across all stages of the credit life cycle.

Enhancement of the Credit Risk Framework

The Bank undertook a qualitative review of its credit strategy, framework, policies and the risk scoring methodology which was benchmarked against best practice frameworks such as Basel, CBK guidelines, IFRS guidance and general banking trends. The qualitative review was validated by an external consultant and covered the following components:



Risk Management Framework (Continued)

Credit Scoring

One of the main aspects of the review entailed credit scoring mechanism to include the following components: involved undertaking a conceptual soundness, credit risk score output and documentation completeness assessment:

1. Conceptual Soundness: The credit risk score development framework was assessed based on model design, model parameters and data quality for conceptual soundness and was found to be adequate.
2. Scorecard Output: The credit risk score parameters were assessed and found fit for purpose.
3. Documentation Completeness: As part of Qualitative Review, an assessment criteria based on model documentation completeness was developed.

All credit applications are subjected to a scoring engine which is embedded into the Bank's credit appraisal and approval system, Credit Quest (CQ), and are subjected to review against specific scoring metrics which in turn provide individualised grades.

ii. Market and Liquidity Risk

Market Risk is the risk of loss arising from potential adverse changes in the value of assets and liabilities due to fluctuations in market risk factors including but not limited to interest and foreign exchange rates.

Liquidity Risk is the risk that the Bank is unable to meet its contractual or contingent obligations or may not have the appropriate amount, tenor and composition of funding and liquidity to support its assets.

The Board has clearly articulated the Market and Liquidity Risk Appetite which is further detailed below:

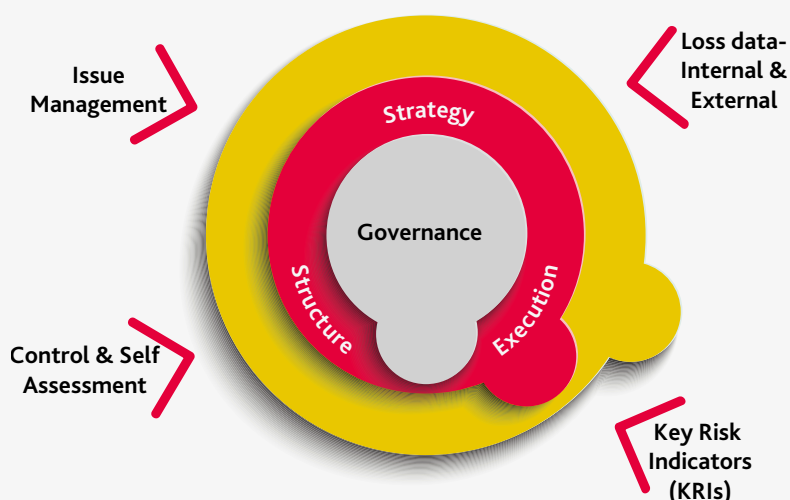
Risk Category	Risk Appetite Articulation for Market Risk
Investment products	<ul style="list-style-type: none">• Bank investments are mainly in Government-issued debt instruments (T-Bill and T-Bonds) which have zero or low credit risk.• Forex.• Money Market.
Dealer Trading Limits	<ul style="list-style-type: none">• Board approved policies that detail the risk appetite with respect to investments, trading limits and dealer limits.• Separation of Treasury Front Office (report to Head of Treasury) and Back Office (Report to Head of Operations) Operations.• Daily monitoring dashboard by the Treasury Middle Office (TMO) which reports to Head of Risk & Compliance covering FX risk, Merchant deals, Trading limits (portfolio, dealer and counter party limits), liquidity risk, investments in debt securities, Regulatory reporting review and submission, settlement discrepancies (interbank, Money Markets and spot deals).• Monthly ALCO meeting.• Quarterly reporting to the Board Risk Management Committee.• Internal Audit Department independently reviews and validates the Treasury operations (front, middle and back office) as part of its annual risk based audits.

Risk Management Framework (Continued)

iii. Operational Risk Management

The Group's operational risk framework seeks to identify why a loss happened and at a broader level includes the break down based on four categories of causes: people, processes (including policies and procedures), systems and external factors. The Bank recognises that operational risk is inherent in all its banking products, systems, activities and processes. The primary responsibility for the development and implementation of controls to address operational risk is assigned to Senior Management within each business unit.

Risk identification and assessment are fundamental characteristics of the Bank's operational risk management process. The assessments allow the Bank to better understand its risk profile and target risk management resources and strategies most effectively as demonstrated below:



The operational risk management process aims at:

- i. Putting in place an effective programme to plan and monitor capital;
- ii. Ensuring that the risk exposure and corresponding capital needs are monitored on an ongoing basis; and
- iii. Ensuring steps are taken to mitigate the risk exposure.

During the period 2019 and in subsequent periods, the Bank will focus on two main aspects of operational risk as below:

a) Outsourcing Risk

The Bank continued to review its third-party risk (outsourcing framework) to ensure that it only engages with parties that can and continue to demonstrate operational resilience capability. The Bank undertakes an annual assessment of all material outsourced services with a view to ensure their continued viability specifically their capabilities to continue providing the service and also vulnerabilities of the operating environment.

b) IT Risk -Data Protection

With the enactment of the Data Protection Act, the Bank is also working to enhance the Data Protection Management Frameworks already in place so as to improve the overall accountability through standardisation of processes and aggregation of data in line with the regulation which shall be supported by data governance and data ethics standards.

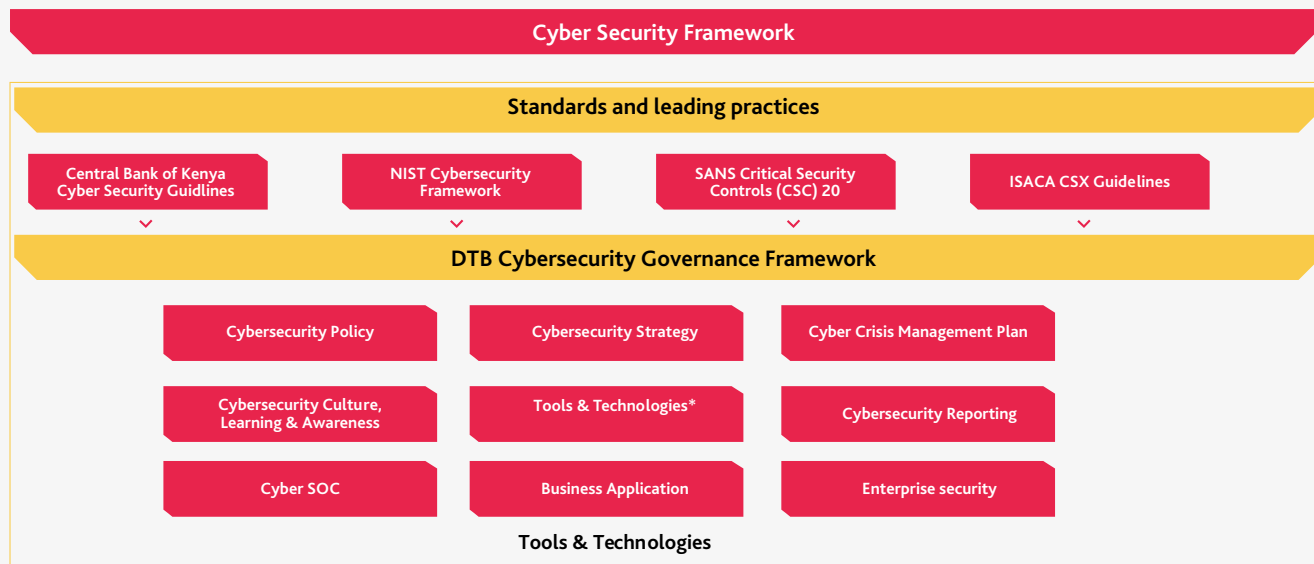
iv. Fraud Risk Management

The Bank continues to develop proactive ways of fighting fraud that includes reviewing control processes/ procedures, reviewing existing and new products for fraud risk. The Bank identifies and articulates controls that mitigate risk with focus being on automated controls. Based on the incidents investigated and the wider fraud understanding, the Bank continues to develop relevant training materials that would assist the business in the fight against fraud. Fraud management is a collaborative effort and all functions within the Bank must work together to enable that Bank achieve its overall business strategy of zero tolerance to fraud. The Bank issues periodic fraud alerts and updates relevant stakeholders on areas potential to fraud threat. The Bank has documented and communicated the Fraud Policy, Anti-Bribery and Anti-Corruption policies which clearly detail the Bank's zero tolerance to fraud and corruption.

Risk Management Framework (Continued)

v. Cyber Crime Risk

The Central Bank of Kenya (CBK) rolled out guidelines on cyber security for banks in Kenya. The objective of the guideline was to create a safer and more secure cyberspace environment that underpins information system security priorities and promotes stability of the Kenyan banking sector whilst establishing a coordinated approach to the prevention and combating of cybercrime. The DTB Cyber Security Framework is illustrated below:

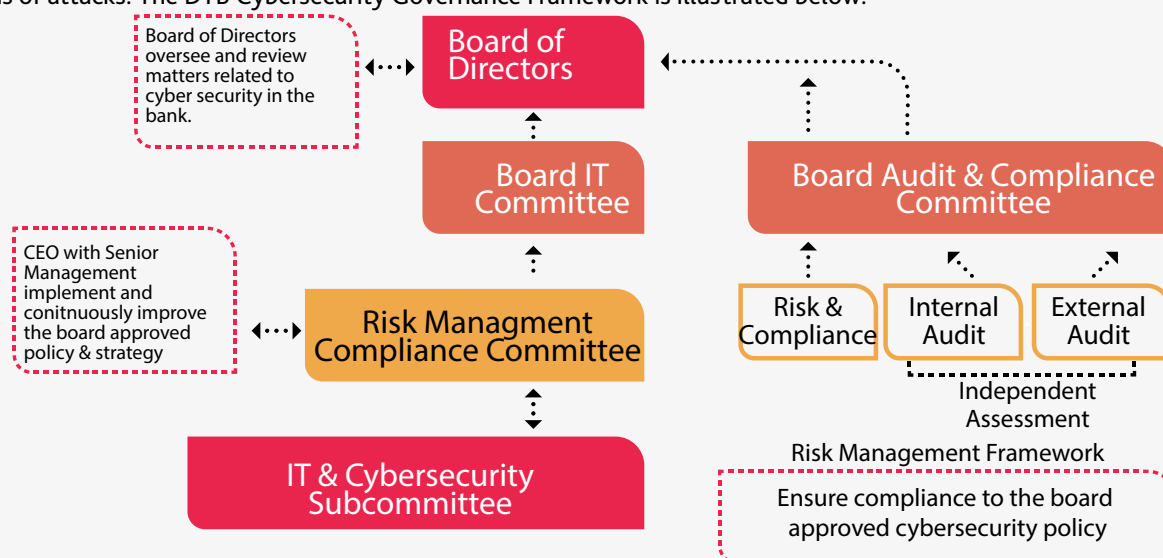


DTB considers Information Technology (IT) as a strategic pillar in its overall business strategy. As a bank, technology is indeed driving the new generation of banking business. Over the years, DTB has continuously invested in IT & cybersecurity to mitigate against internal and external threats. To ensure that it is able to provide continuous services to its clients, DTB has initiated enterprise wide IT & cybersecurity programmes. DTB has formulated IT and cybersecurity policies in alignment with CBK guidelines and leading industry practices.

Cyberspace is a global network wherein the users interact, share information, exchange ideas, conduct business among many other activities through communication over computer networks. This space is vulnerable to a wide variety of incidents, whether intentional or accidental, man-made or natural, and the data exchanged in the cyberspace can be exploited for various purposes by cyber attackers. Some of the examples of cyber threats to individuals, businesses and government are identity theft, phishing, social engineering, cyber terrorism, compound threats targeting mobile devices and smart phones, compromised digital certificates, advanced persistent threats, denial of service, bot nets and data leakage.

Cybersecurity Governance Framework

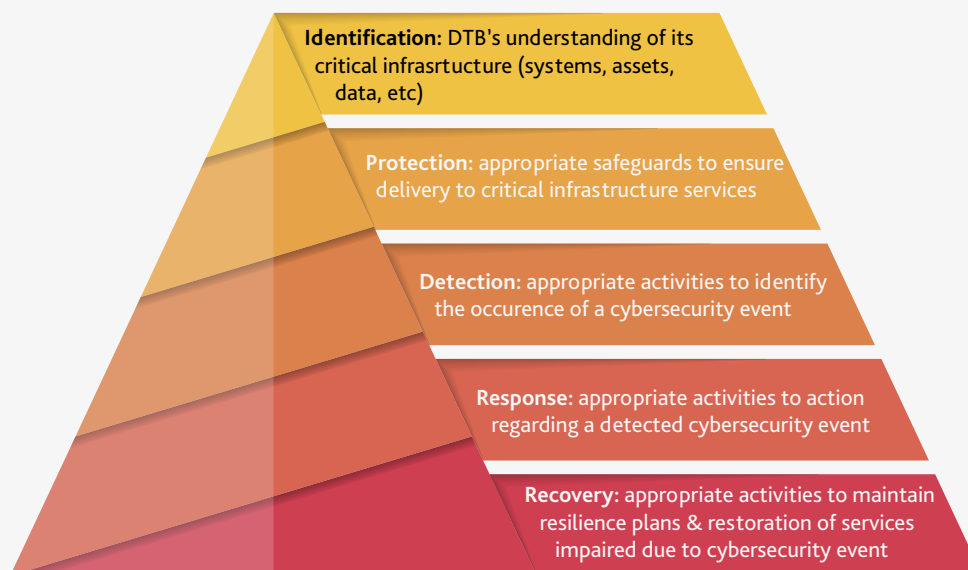
The Board sets "the right tone from the top" in fostering a robust cyber risk management culture. DTB board members, senior management & staff are all made aware of cybersecurity and cybersecurity related policies. All IT staff (including Cyber Security Operations Centre (SOC) team) are continuously trained on new processes, tools & technologies. Staff are made aware on a continuous basis on how to recognise social engineering, phishing and other forms of attacks. The DTB Cybersecurity Governance Framework is illustrated below:



Risk Management Framework (Continued)

Cybersecurity Control Framework

The Cybersecurity Control Framework is illustrated below:



The Cyber Security Operations Centre (SOC) primarily focuses on:

- 1) Prevention of cybersecurity incidents through proactive threat analysis.
- 2) Monitoring, detection, and analysis of potential cybersecurity intrusions in real time and historical trending using dashboards and Security Information and Event Management (SIEM) tools.
- 3) Response to confirmed cybersecurity incidents, by coordinating resources and directing use of timely and appropriate countermeasures.
- 4) Providing situational awareness and reporting on cybersecurity status, incidents, and trends in adversary behavior.

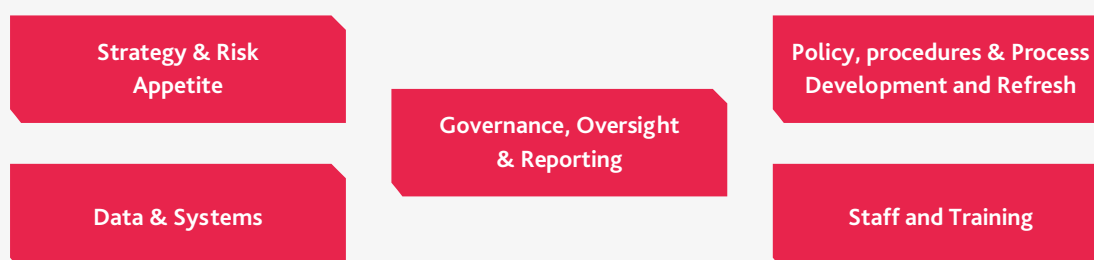
vi. Combating Financial Crime (Anti-Money Laundering / Combating Terrorism Financing)

The Group embarked on the Combating Financial Crime (CFC) Transformation Journey to best practices in year 2018 through to 2019, with support from a South African- based consulting firm, and has continued to work towards strengthening its CFC capabilities through enhanced policy, procedures, processes, technology, resourcing and training. Increasing focus has been placed on the monitoring, management, controls, documentation and reporting on financial crime across all the functions of the Bank. Every employee has an obligation to monitor and escalate potential suspicious transactions to the MLRO under the regulations. During year 2019, all employees (100%) were trained on AML/ CFT. The Board of Directors was also trained on AML/CFT in December 2019.

Every year, the Bank undertakes an AML/CFT Risk Assessment (CFC Risk Assessment) that provides a top-down view of the ML/TF residual risk profiles for DTB and the entities within the DTB Group which covers:

- 1) The Inherent Risk Rating
- 2) Controls Assessment

As part of the Combating Financial Crime (CFC) Transformation Journey undertaken with support from the above mentioned consulting firm in 2019, the Group selected a new AML/CFT system to replace the incumbent system which had been in use since 2011. Based on the joint review with the consultant subject matter experts, the SafeWatch Compliance Suite from EastNets was selected to replace the AMLOCK system across DTB Group. The Bank also worked with the consultant to review and align the Bank's CFC practices not only to the domestic regulations but also to best practices specifically with respect to:

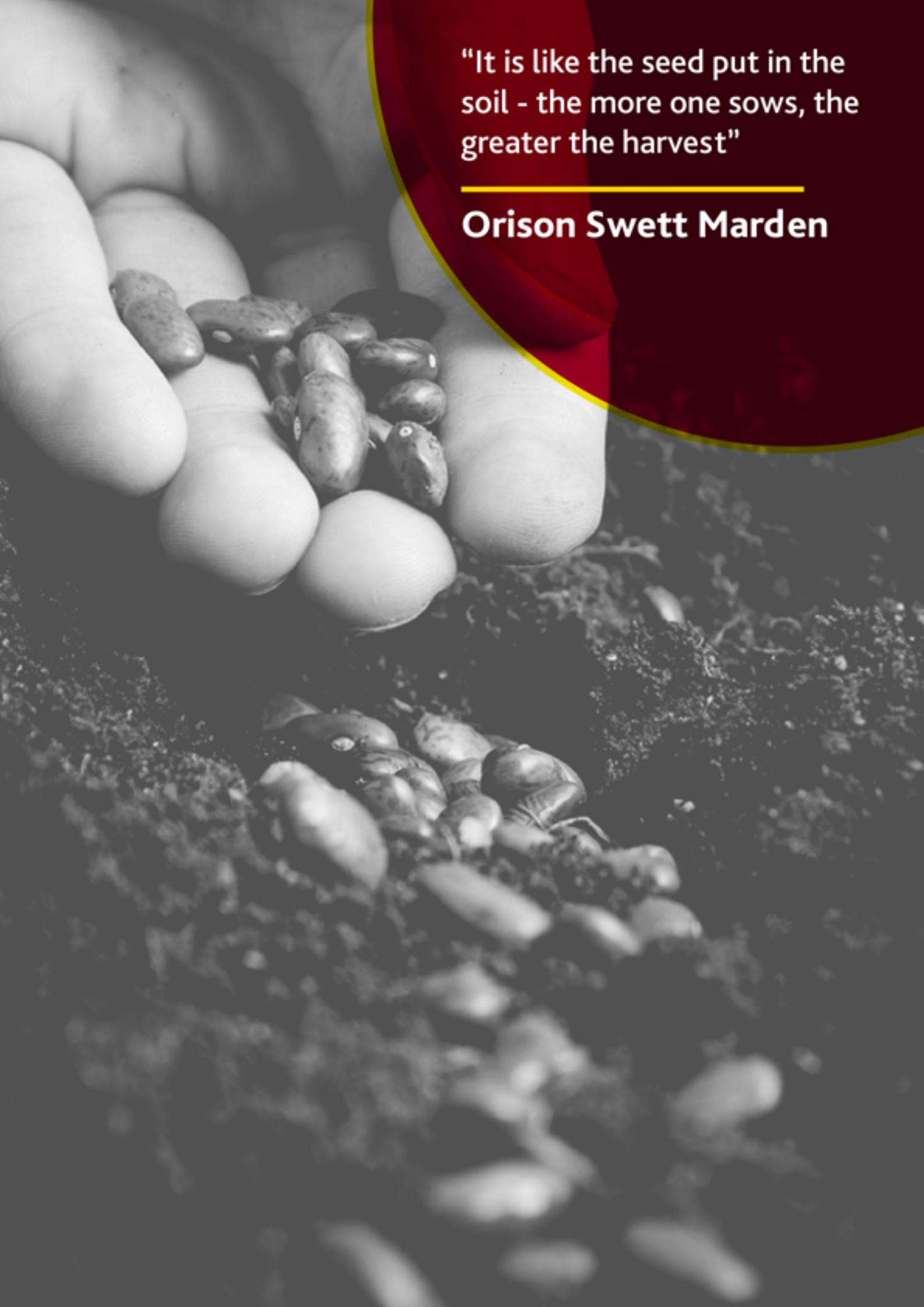


- a) Governance, Oversight & Reporting
 - a. Developed Risk Indicators.
 - b. Refreshed the existing three lines of defence structures, mandates, scope and Terms of Reference for all relevant stakeholders.
 - c. Enhanced CFC Compliance Monitoring Plan to ensure it is fit-for-purpose.
 - d. Enhanced the Internal Audit methodology and policy relating to CFC.
 - e. Optimisation exercise to reduce false positives, including review of rules, thresholds and typologies, for the new transaction monitoring system Safewatch Profiling from Eastnets which was implemented effective mid-December 2019.
- b) Strategy, Risk and Appetite
 - a. Enhanced the Financial Crime Risk Appetite Statement.
 - b. Refreshed the Combating Financial Crime (CFC) Policy to ensure it is fit-for-purpose .
 - c. Reviewed and aligned the CFC processes and procedures.
 - d. Aligned and implemented the Risk Appetite Statement and metrics.
 - e. Refreshed the CFC Risk Assessment.
 - f. Refreshed the Product Risk Assessment.
- c) Policy, Procedures & Process Development and Refresh
 - a. Benchmarked the CFC (AML / CFT) Policy to the regulatory universe and best practice.
 - b. Developed a PEP risk rating model.
 - c. Enhanced trade finance screening practices.
 - d. Enhanced the customer risk scoring algorithm/matrix.
 - e. Enhanced the Enhanced Due Diligence (EDD) best practice template.
 - f. Mapped and operationalised the CFC Policy to the procedures and process flows.
- d) Staff & Training
 - a. Developed and facilitated the CFC training curriculum.
 - b. Developed and implemented the "train the trainer" CFC training programme.
 - c. Identified and benchmarked the CFC staff skills and qualifications to best practice.
- e) Data & Systems
 - a. Developed the CFC customer data set.
 - b. Developed the KYC remediation approach and strategy.
 - c. Implemented a new transaction monitoring system, "Safewatch Profiling" from EastNets across DTB Group.

Future Outlook

The Group shall continue to enhance its enterprise risk management framework during year 2020. Focus shall continue towards integrating social and environmental risk management into business processes with a view to ensure that the potential social and environmental risks are taken into consideration across all business lines. DTB shall continue to review its governance frameworks and test its processes/ technologies under simulated stress conditions where applicable so as to determine the effectiveness of its contingency plans.

DTB shall continue to emphasise on conduct risk management by ensuring continued training on the Bank's Code of Conduct, identification, management and avoidance of conflict of interest, ensuring that all roles have clear responsibilities and accountability for poor conduct / failure to comply with expected standards.



"It is like the seed put in the
soil - the more one sows, the
greater the harvest"

Orison Swett Marden

Directors and Statutory Information

DIRECTORS

Linus Gitahi	Chairman
Shaffiq Dharamshi	Vice Chairman
Nasim Devji	Group Chief Executive Officer and Managing Director
Pamella Ager	
Guedi Ainache*	
Moez Jamal**	
Alkarim Jiwa	Finance Director
Irfan Keshavjee	
Ismail Mawji	
Sagheer Mufti***	Appointed on 28 January 2020
Jamaludin Samji	
Abdul Samji	Retired on 23 May 2019
Rizwan Hyder***	Retired on 23 May 2019

*French **Swiss ***Pakistani

COMPANY SECRETARY

Stephen Kodumbe

REGISTERED OFFICE

DTB Centre
Mombasa Road
P.O. Box 61711 - 00200
NAIROBI

AUDITOR

KPMG Kenya
Certified Public Accountants
8th Floor, ABC Towers
Waiyaki Way
P.O. Box 40612-00100
NAIROBI

Directors' Report

The Directors submit their report together with the audited financial statements for the year ended 31 December 2019 in accordance with Section 22 of the Banking Act and the Kenyan Companies Act, 2015 which discloses the state of affairs of Diamond Trust Bank Kenya Limited and its subsidiaries (the "Group") and of Diamond Trust Bank Kenya Limited (the "Bank" or "Company").

Incorporation and registered office

The Bank is incorporated in Kenya under the Kenyan Companies Act, 2015 and is domiciled in Kenya. The address of its registered office is as disclosed on [page 93](#).

Principal activities

The Group is engaged in the business of providing banking, insurance agency and other related services to the general public.

Results and dividend

The results of the Group and Company for the year are set out on [page 104](#) and summarised below.

	Group		Bank	
	2019	2018	2019	2018
	Shs'000	Shs'000	Shs'000	Shs'000
Profit before income tax	11,262,914	11,000,272	9,279,305	9,264,774
Income tax expense	(3,994,322)	(3,918,157)	(3,564,314)	(3,477,858)
Profit for the year	7,268,592	7,082,115	5,714,991	5,786,916
Non controlling interests	(482,989)	(395,503)	-	-
Profit attributable to owners of the Bank	6,785,603	6,686,612	5,714,991	5,786,916
Dividends	(754,926)	(726,966)	(754,926)	(726,966)
Retained profit for the year	6,030,677	5,959,646	4,960,065	5,059,950

The directors recommend the approval of a final dividend of Shs 754,925,994 (2018: Shs 726,965,772).

Equity and reserves

The authorised issued share capital and reserves of the Group and Company at 31 December 2019 and matters relating thereto are set out in Note 32 to 33 to the financial statements. No additional shares were issued in the year. Full details of the Group and Company reserves and movements therein during the year are shown on pages 107 to 110 and [pages 216 to 217](#).

Property, plant and equipment

Details of the movements in property, plant and equipment are shown on Note 22 to the financial statements.

Directors

The present membership of the Board is listed on [page 93](#). Mr. Sagheer Mufti was appointed as a Director on the Board on 28 January 2020.

In accordance with Article No. 101 of the Bank's Articles of Association, Messrs Ismail Mawji, Linus Gitahi and Guedi Ainache retire by rotation and, being eligible, offer themselves for re-election.

In accordance with Article No. 102 of the Bank's Articles of Association, Mr. Sagheer Mufti retires by rotation in accordance with Article 102 of the Company's Articles of Association, this being his first Annual General Meeting following his appointment as an additional Director, and, being eligible, offers himself for re-election.

Directors' Report (Continued)

Business Review

The subdued business climate in 2019 in the region continued to be a challenge for the banking industry. This, together with the interest rate capping law, which was subsequently repealed in November 2019, stifled private sector credit growth for a large part of 2019.

The year 2019 saw IFRS 16 come into effect. The Group now recognises a finance charge on the lease liability and a depreciation charge on the right-of-use assets, whereas previously the Group included lease rentals within operating expenses. DTB has absorbed the impact of the new standard from 1 January 2019 and has applied it during the year. The impact on the Group's 2019 after tax earnings was Shs. 86 million and the "Day 1 adjustment" on 1 January 2019 was a net charge to retained earnings of Shs. 493 million.

The Group leveraged its wide branch network in the region, strong brand equity and technology to reach new customers and serve existing ones better to overcome some of the operating headwinds experienced during the year to register a favourable performance. In 2019, DTB's Group profit before tax registered a 2.4% increase to Shs 11.3 billion compared to Shs 11.0 billion registered in 2018. The Group's asset base went up by 2.3% to stand at Shs 386.2 billion up from Shs 377.7 billion in the previous year with the investment in Government securities expanding by 13.4% from Shs 115.5 billion in 2018 to Shs 130.9 billion in 2019. DTB Group's loan book rose by 3.1%, from Shs 193.0 billion in 2018 to Shs 199.0 billion at the end of 2019.

Future outlook

Diamond Trust Bank Limited (DTB) has embarked on the development of its new business strategy - *DTB Strategy 2030* – which will leverage on the strong foundation already built by the bank.

DTB Strategy 2030, once finalised and adopted will seek to position the Bank as a premier, digitally- driven SME Bank in East Africa.

DTB Strategy 2030 will seek to reinforce the Bank's core values to transform the lives of communities it operates in, through innovation and financial inclusion. It will seek to expand the Bank's digital, analytics and innovation capabilities by offering enhanced customer experiences through traditional / analogue channels as well as digital ecosystems. This will be targeted to its core client segments – SMEs and local corporates – as well as the middle class and affluent retail customer base. To drive the Bank's financial inclusion mandate, *DTB Strategy 2030* will also consider setting up ecosystems which serve new SME communities and micro - enterprises through digital micro-lending and other banking services. The strategy also considers the setting up of partnerships through which youth and student customers could be acquired to grow Bank's presence in the mass market segment.

Principal risks and uncertainties

The Bank's activities expose it to a variety of financial risks including credit, liquidity, and market risks. The Bank's overall risk management policies are set out by the Board and implemented by management. These policies involve analysis, evaluation, acceptance and management of some degree of risk or a combination of risks. These risk management objectives and policies are outlined in detail in Note 4, from [pages 146 to 188](#).

As the Bank continues to scale up its operations, it ensures that the resultant commercial and operational risks are mitigated through the enforcement of appropriate policies and procedures governing various aspects of its commercial activities and operations.

Corporate social responsibility initiatives

As a corporate citizen, Diamond Trust Bank Kenya Limited (DTB) seeks to undertake initiatives which benefit the communities and environment it operates in. The Sustainability Review under [pages 65 to 74](#) details the activities the Group has undertaken in the year.

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 are 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.

Directors' Report (Continued)

Substantial shareholding

The Directors are aware of the following interests which amount to 5% or more of the issued share capital of the Company:

	Shareholding %	
	2019	2018
Aga Khan Fund For Economic Development S.A.	16.50%	16.50%
Habib Bank Limited	16.15%	16.15%
The Jubilee Insurance Company of Kenya Limited	9.95%	9.95%
	42.60%	42.60%

Directors' interests

Directors' interest in the shares of the company were as follows;

Director	2019		2018	
	No of shares	Shareholding %	No of shares	Shareholding %
Nasim Devji	263,022	0.1%	263,022	0.1%
Irfan Keshavjee	1,143	0.0%	1,143	0.0%
Alkarim Jiwa	60	0.0%	60	0.0%

TERMS OF APPOINTMENT OF THE AUDITOR

The Bank's auditor, KPMG Kenya express their willingness to continue in office in accordance with the Kenyan Companies Act, 2015 and the Banking Act.

The Directors monitor the effectiveness, objectivity and independence of the auditor. This responsibility includes the approval of the audit engagement contract and the associated fees on behalf of the shareholders.

Approval of the financial statements

The financial statements were approved and authorised for issue by the Board of Directors on 18 March 2020

By order of the Board



Stephen Kodumbe

Company Secretary

18 March 2020

Nairobi

Directors' Remuneration Report

This Directors' remuneration report sets out the remuneration arrangements for Diamond Trust Bank Kenya Limited Directors for the year ended 31 December 2019.

Details of Directors

The remuneration report details the remuneration arrangements for Directors who served during the year. The executive and non-executive Directors listed below are collectively referred to as Directors.

Name	Position
Linus Gitahi	Chairman, Non-executive Director
Shaffiq Dharamshi	Vice Chairman , Non-executive Director
Nasim Devji	Group CEO & Managing Director
Pamella Ager	Non-executive Director
Guedi Ainache	Non-executive Director
Moez Jamal	Non-executive Director
Alkarim Jiwa	Finance Director
Irfan Keshavjee	Non-executive Director
Ismail Mawji	Non-executive Director
Sagheer Mufti**	Non-executive Director
Jamaludin Shamji	Non-executive Director
Abdul Samji*	Non-executive Director
Rizwan Hyder*	Non-executive Director

*Retired at AGM of 23 May 2019

** Appointed on 28 January 2020

Remuneration Policy for the Non-Executive Chairman and Non-Executive Directors

The remuneration of the Non-executive Chairman and Non-executive Directors is approved by the Shareholders at the Annual General Meeting. These Board members receive annual fees and allowances for attending meetings. Non-executive Directors are not entitled to any performance related pay or pension.

The Non-executive Chairman and Non-executive Directors do not have service contracts. The initial appointments and any subsequent reappointments by rotation are subject to annual election and re-election by shareholders.

Fees are paid in cash, net of applicable income tax. The amount of fees reflects the attached responsibility and time commitment. Additional fees are paid for further responsibilities such as chairing committees and sitting on appointed board committees.

Executive Directors Remuneration Policy

The remuneration of Executive Directors including, but not limited to, the related contract terms and monthly pay are set by the Board Nomination and Human Resource Committee. The salary for the Executive Directors is set at a level which is considered appropriate to attract individuals with the necessary experience and ability to oversee the business. The salary is paid in cash, net of applicable income tax and other statutory deductions. This is subject to annual review. Judgement is used but consideration is given to a number of internal and external factors including responsibilities, market positioning, inflation and company performance. Other benefits provided include medical cover and other non-cash benefits such as motor vehicle and telephone benefits. Travel and other reasonable expenses incurred in the course of performing their duties are reimbursed. These ensure the package is competitive.

Directors' Remuneration Report (Continued)

Changes to remuneration for Non - Executive Directors

There were no changes relating to the Directors remuneration from the fees and allowances revised from April 2018. The Finance Director's emoluments in 2018 relate only to the period served on the Board.

Directors' remuneration paid during the year

Non-Executive Directors

Name	2019			2018		
	Fees Shs '000	Sitting Allowance Shs '000	Total Shs '000	Fees Shs '000	Sitting Allowance Shs '000	Total Shs '000
Linus Gitahi	1,928	810	2,738	945	1,030	1,975
Shaffiq Dharamshi	Waived	Waived	Waived	Waived	Waived	Waived
Pamella Ager	1,200	1,120	2,320	945	1,050	1,995
Guedi Ainache	1,200	1,240	2,440	945	1,020	1,965
Moez Jamal	1,210	890	2,100	962	600	1,562
Irfan Keshavjee	1,200	1,100	2,300	945	800	1,745
Ismail Mawji	1,200	1,260	2,460	945	1,130	2,075
Jamaludin Shamji	1,200	1,310	2,510	945	1,270	2,215
Sagheer Mufti*	-	-	-	-	-	-
Abdul Samji**	3,013	866	3,879	2,873	2,332	5,205
Rizwan Hyder***	476	-	476	945	300	1,245
	12,627	8,596	21,223	10,450	9,532	19,982

* Appointed in January 2020.

**The amounts include remuneration from the Bank and its subsidiaries in Tanzania and Uganda. Abdul Samji retired from the Board at the 2019 AGM held on 23 May 2019.

*** Rizwan Hyder retired from the Board at the 2019 AGM held on 23 May 2019.

Contract of Service – Executive Directors

	Gross Pay Shs' 000	Bonus Shs' 000	Retirement benefits Shs' 000	Non Cash Benefits Shs' 000	Total Shs' 000
2019					
Nasim Devji	61,109	-	2	1,862	62,973
Alkarim Jiwa	42,023	-	3,570	1,691	47,284
	103,132	-	3,572	3,553	110,257
2018					
Nasim Devji	60,873	-	-	1,861	62,734
Alkarim Jiwa (disclosure relates to period served on the Board)	12,686	-	-	12	12,698
	73,559	-	-	1,873	75,432

Approval of the Directors' remuneration report

The Directors confirm that this report has been prepared in accordance with the Kenyan Companies Act, 2015, Capital Markets Authority (CMA) Code and listing rules and reflects the disclosure requirements under the IFRSs.

Statement of Director's Responsibilities

The Directors are responsible for the preparation and presentation of the Group and Bank financial statements of Diamond Trust Bank Kenya Limited (the Bank) and its subsidiaries (together, the Group) set out on pages 104 to 226, which comprise the consolidated statement of financial position at 31 December 2019 and the consolidated statement of profit or loss, consolidated statement of other comprehensive income, consolidated statement of changes in equity and consolidated statements of cash flows for the year then ended, together with the separate statement of financial position of the Bank at 31 December 2019 and the statement of profit or loss, statement of other comprehensive income, statement of changes in equity and statement of cash flows of the Bank for the year then ended, and the notes to the financial statements, including 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 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 year which give a true and fair view of the state of affairs of the Group and of the Bank as at the end of the financial year and of the operating results of the Group and Bank for that year. It also requires the Directors to ensure the Bank and its subsidiaries keep proper accounting records which disclose with reasonable accuracy the financial position of the Group and the Bank.

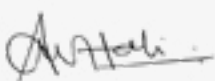
The Directors accept responsibility for the annual consolidated and separate financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgements and estimates, in conformity with International Financial Reporting Standards and in the manner required by the Kenyan Companies Act, 2015. The Directors are of the opinion that the financial statements give a true and fair view of the state of the financial position of the Group and the Bank and of the Group's and Bank's 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 and its subsidiaries' ability to continue as a going concern and have no reason to believe the Bank and its subsidiaries will not be a going concern for at least the next twelve months from the date of this statement.

Approval of the financial statements

The financial statements, as indicated above, were approved and authorised for issue by the Board of Directors on 18 March 2020.



Linus Gitahi
Chairman



Nasim Devji
Managing Director

Independent Auditor's Report to the Members of Diamond Trust Bank Limited



Report on the Audit of the Consolidated and Separate Financial Statements

Opinion

We have audited the consolidated and separate financial statements of Diamond Trust Bank Kenya Limited (the Group and Bank) set out on pages 104 to 226 which comprise the Group and Bank statements of financial position as at 31 December 2019, and the Group and Bank statements of profit or loss, Group and Bank statements of other comprehensive income, the Group and Bank statement of changes in equity and the Group and Bank statements 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 consolidated and separate financial statements give a true and fair view of the consolidated and separate financial position of Diamond Trust Bank Kenya Limited as at 31 December 2019, and of its consolidated and separate financial performance and consolidated and separate cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs) and in 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 Consolidated and Separate Financial Statements* section of our report. We are independent of the Group and 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, and 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.

Key Audit matters

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

Impairment allowances on loans and advances at amortised cost including off balance sheet elements of the allowance in the consolidated and separate financial statements

The disclosure associated with credit risk is set out in the financial statements in the following notes:

- Note 2 (i) – Expected credit losses on financial assets (page 128 - 132)
- Note 4 – Credit risk (page 147 - 178)
- Note 18 – Provisions for impairment losses on loans and advances (page 195 -197)

The key audit matter

The estimation of expected credit losses ("ECL") on financial instruments, involves significant judgement and estimates. The key areas where we identified greater levels of management judgement in the Group's and Bank's financial statements and therefore increased levels of audit focus in the estimation of ECLs are:

- Forward looking Information – IFRS 9 requires the Group and the Bank to measure ECLs on a forward-looking basis reflecting a range of future economic conditions. Significant management judgement is applied in determining the macro economic information used and the probability weightings applied.

How the matter was addressed

Our procedures in this area included among others:

- Performing process walk-throughs to identify the key systems, applications and controls used in the ECL processes. We tested the relevant general IT and applications controls over key systems used in the ECL process. This included testing the design and operating effectiveness of the key controls over the staging criteria and completeness and accuracy of the key inputs and assumptions into the IFRS 9 impairment models;
- Evaluating key aspects of the ECL model by:
 - Selecting a sample from the Group's and Bank's loan book and carrying out tests to establish whether significant facilities are correctly staged/classified and valued based on IFRS as well as regulatory considerations;

Independent Auditor's Report to the Members of Diamond Trust Bank Limited (Continued)



Report on the Audit of the Consolidated and Separate Financial Statements (Continued)

Key Audit matters (Continued)

Impairment allowances on loans and advances at amortised cost including off balance sheet elements of the allowance in the consolidated and separate financial statements (Continued)

The key audit matter	How the matter was addressed
<ul style="list-style-type: none"> — Significant increase in credit risk ("SICR") – for the retail and corporate portfolios, the criteria selected to identify a significant increase in credit risk is a key area of judgement within the Group's and Bank's ECL calculation as these criteria determine whether a 12 month or lifetime provision is recorded. — Model estimations – inherently judgemental modelling is used to estimate ECL which involves determining probabilities of default ("PD"), loss given default ("LGD"), and exposures at default ("EAD"). The PD models used in the retail and corporate portfolios are the key drivers of the group's and bank's ECL results and are therefore the most significant judgemental aspect of the group's and bank's ECL modelling approach. <p>The effect of these matters is that, as part of our risk assessment, we determined that the impairment of loans and advances to customers to be a key audit matter due to the high degree of estimation uncertainty and significant judgement applied by management in determination of ECL.</p>	<ul style="list-style-type: none"> • Testing of a sample of key data inputs and assumptions impacting ECL calculations to assess the reasonableness of economic forecasts and PD assumptions applied; • Evaluating the appropriateness of the Group's and Bank's assessment of SICR criteria used; • Testing the impairment calculations to check if the correct parameters on Probability of Default (PDs), Loss Given Default (LGDs), and Exposure at Default (EADs) were determined; and • Evaluating management's basis for establishing Stage 3 impairment amounts. This includes challenging reasonability of management assumptions through among others performing retrospective review of prior year assumptions. <ul style="list-style-type: none"> — Involving our internal financial risk modelling specialists to: <ul style="list-style-type: none"> • Assess the appropriateness of the Group's and Bank's methodology for determining the macro-economic scenarios used and the probability weightings applied to them. • Assess the key economic variables used, including agreeing samples of economic variables to external sources, as well as the overall reasonableness of the economic forecasts by comparing the group's and bank's forecasts to our own modelled forecasts with a focus on the retail and corporate portfolios.

Information control systems and controls over financial reporting in the consolidated and separate financial statements

The key audit matter	How the matter was addressed
<p>The Group and Bank's financial accounting and reporting systems are heavily dependent on complex systems. Significant reliance on IT systems presents a significant risk to the Group and Bank as the core banking system is considered complex due to the multiple significant functionalities and interdependencies with other systems. We spent significant audit effort in the audit of these systems as part of the audit process, as it is critical for the control environment of the Group and the Bank, and therefore we determined it to be a key audit matter.</p> <p>The calculations, recording and financial reporting of transactions and balances recorded in the financial statements is highly dependent on IT automated system and processes. Gaps in the IT control environment could result in the financial accounting and reporting records being materially misstated.</p>	<p>Our audit procedures in this area included, among others the use of our IT auditors/specialists in:</p> <ul style="list-style-type: none"> — Testing the governance and controls operating over the information technology environment across the Group and Bank, including system access and system change management, program development and computer operations. — Testing the design and operating effectiveness of automated controls critical to financial reporting. — With the support of our IT specialists assessing the appropriateness of the access rights granted to applications relevant to financial accounting and reporting systems and the operating effectiveness of controls over granting, removal and appropriateness of access rights. — Where we identify the need to perform additional procedures, placing reliance on manual compensating controls, such as reconciliations between systems and other information sources or performing additional testing such as extending the size of our sample to obtain sufficient appropriate audit evidence over balances impacted.

Report on the Audit of the Consolidated and Separate Financial Statements (Continued)

Other information

The directors are responsible for the other information. The other information comprises the information included in the 2019 *Integrated Report and Financial Statements*, but does not include the consolidated and separate financial statements and our auditor's report thereon.

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

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

Directors' responsibilities for the consolidated and separate financial statements

As stated on page 99, the directors are responsible for the preparation of the consolidated and separate 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 consolidated and separate financial statements, the directors are responsible for assessing the Group's and Bank's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group and/or the Bank or to cease operations, or have no realistic alternative but to do so. The directors are responsible for overseeing the Group's and Bank's financial reporting process.

Auditor's responsibilities for the audit of the consolidated and separate financial statements

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

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

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

Independent Auditor's Report to the Members of Diamond Trust Bank Limited (Continued)



Report on the Audit of the Consolidated and Separate Financial Statements (Continued)

Auditor's responsibilities for the audit of the consolidated and separate financial statements (Continued)

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

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

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

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

Report on other legal and regulatory requirements

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

- In our opinion, the information in the report of the directors on pages 94 to 96 is consistent with the consolidated and separate financial statements;
- The auditable part of the directors' remuneration report on pages 97 and 98 has been properly prepared in accordance with the Kenyan Companies Act, 2015; and
- We have issued an unqualified audit report on the financial statements.

The Signing Partner responsible for the audit resulting in this independent auditor's report is CPA Joseph Kariuki - P/2102.

KPMG Kenya
Certified Public Accountants
PO Box 40612 – 00100
NAIROBI, KENYA

18 March 2020

Group and Bank Statement of Profit or Loss for the Year Ended 31 December 2019

	Note	Group		Bank	
		2019 Shs'000	2018 Shs'000	2019 Shs'000	2018 Shs'000
Interest income	5	32,851,113	35,268,503	24,455,264	27,041,985
Interest expense	6	(12,772,725)	(14,258,852)	(10,674,906)	(12,070,881)
Net interest income		20,078,388	21,009,651	13,780,358	14,971,104
Net fee and commission income	7	3,244,166	3,240,860	1,723,010	1,775,805
Foreign exchange income		1,830,399	1,570,669	1,139,278	1,005,450
Other operating income	8	397,316	349,348	323,637	250,857
Operating income		25,550,269	26,170,528	16,966,283	18,003,216
Operating expenses	9	(11,901,874)	(11,503,099)	(6,697,462)	(6,440,528)
Net impairment charge (loss)/ credit on loans and advances	18	(1,024,594)	(2,708,503)	42,257	(1,554,317)
Profit from operations		12,623,801	11,958,926	10,311,078	10,008,371
Share of results of associate after tax	27	6,530	29,483	-	-
Finance costs	31(e)	(1,367,417)	(988,137)	(1,031,773)	(743,597)
Profit before income tax		11,262,914	11,000,272	9,279,305	9,264,774
Income tax expense	11	(3,994,322)	(3,918,157)	(3,564,314)	(3,477,858)
Profit for the year		7,268,592	7,082,115	5,714,991	5,786,916
Profit attributable to:					
Owners of the Bank		6,785,603	6,686,612	5,714,991	5,786,916
Non controlling interests		482,989	395,503	-	-
		7,268,592	7,082,115	5,714,991	5,786,916
Earnings per share (Shs per share)					
Basic and diluted	12	24.27	23.91	20.44	20.70

The notes on pages 112 to 226 are an integral part of these financial statements.

Group and Bank Statement of Other Comprehensive Income for the Year Ended 31 December 2019

		Group		Bank	
	Note	2019	2018	2019	2018
		Shs'000	Shs'000	Shs'000	Shs'000
Profit for the year		7,268,592	7,082,115	5,714,991	5,786,916
Other comprehensive income					
<i>Items that may be subsequently reclassified to profit or loss</i>					
Exchange differences on translating foreign operations		(96,995)	(579,625)	-	-
Net loss from changes in fair value of Treasury bills		(4,368)	(19,314)	-	-
<i>Items that will not be reclassified to profit or loss</i>					
Net loss from changes in fair value of equity investments	26	(334,569)	-	(334,569)	-
Income tax relating to these items	25	1,313	6,756	-	-
Other comprehensive income for the year, net of tax		(434,619)	(592,183)	(334,569)	-
Total comprehensive income for the year		6,833,973	6,489,932	5,380,422	5,786,916
Total comprehensive income attributable to:					
Owners of the Bank		6,369,472	6,283,470	5,380,422	5,786,916
Non controlling interests		464,501	206,462	-	-
		6,833,973	6,489,932	5,380,422	5,786,916

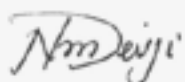
The notes on pages 112 to 226 are an integral part of these financial statements


Group and Bank Statement of Financial Position as at 31 December 2019

		Group		Bank	
	Note	2019	2018	2019	2018
		Shs'000	Shs'000	Shs'000	Shs'000
Assets					
Cash and balances with Central Banks	15	27,218,903	37,716,947	18,238,378	27,363,599
Government securities	16	130,925,571	115,489,352	98,180,149	86,311,885
Deposits and balances due from banking institutions	17	8,320,531	14,162,442	1,557,300	2,685,708
Loans and advances to customers	18	199,089,371	193,074,357	149,501,314	146,781,681
Corporate bond - at amortised cost	19	18,029	43,359	-	-
Other assets	20	2,439,622	2,707,333	1,433,481	1,784,571
Intangible assets - software costs	21	1,421,566	1,230,071	1,114,729	982,437
Property and equipment	22	6,030,321	6,410,674	4,602,783	4,759,643
Intangible assets - goodwill	23	173,372	173,372	-	-
Right of use asset	24	3,430,300	-	1,919,046	-
Current income tax	11(c)	851,554	1,470,570	140,488	922,872
Deferred income tax	25	4,726,025	3,379,287	3,297,177	2,372,988
Equity investments- at fair value through OCI	26	1,518,389	1,797,617	1,513,048	1,797,617
Investments in subsidiaries and associates	27	66,632	63,933	5,752,702	5,752,702
Total assets		386,230,186	377,719,314	287,250,595	281,515,703
Liabilities					
Customer deposits	28	280,186,953	282,860,003	199,489,226	206,059,510
Deposits and balances due to banking institutions	29	22,453,859	17,143,207	21,549,148	14,724,330
Other liabilities	30	3,479,417	4,082,861	1,893,221	2,577,719
Borrowings	31	11,356,847	14,693,994	9,741,233	10,441,306
Lease liabilities	24	4,237,765	-	2,576,389	-
Total liabilities		321,714,841	318,780,065	235,249,217	233,802,865
Shareholders' equity					
Share capital	32	1,118,409	1,118,409	1,118,409	1,118,409
Share premium	32	9,006,569	9,006,569	9,006,569	9,006,569
Retained earnings	33 (c)	47,483,370	42,070,633	40,156,523	35,532,486
Statutory loan loss reserve	33 (d)	1,062,649	890,768	-	-
Other reserves	33	(575,081)	(156,295)	964,951	1,328,408
Proposed dividend	13	754,926	726,966	754,926	726,966
Equity attributable to owners of the Bank		58,850,842	53,657,050	52,001,378	47,712,838
Non controlling interests	27	5,664,503	5,282,199	-	-
Total equity		64,515,345	58,939,249	52,001,378	47,712,838
Total liabilities and equity		386,230,186	377,719,314	287,250,595	281,515,703

The financial statements on pages 104 to 226 approved and authorised for issue by the Board of Directors on 18 March 2020 and signed on its behalf by:

 Linus Gitahi
Chairman

 Nasim Devji
Managing Director

 Ismail Mawji
Director

 Stephen Kodumbe
Company Secretary

The notes on pages 112 to 226 are an integral part of these financial statements

Group Statement of Changes in Equity for the Year Ended 31 December 2019

	Note	Share capital Shs'000	Share premium Shs'000	Statutory loan loss reserve Shs'000	Other reserves Shs'000	Retained earnings Shs'000	Proposed dividend Shs'000	Attributable to equity holders of the Bank Shs'000	Non controlling Interests Shs'000	Total Shs'000
At start of year		1,118,409	9,006,569	890,768	(156,295)	42,070,633	726,966	53,657,050	5,282,199	58,939,249
Adjustment on initial application of IFRS 16, net of tax	2(a)(iv)	-	-	-	-	(448,714)	-	(448,714)	(43,903)	(492,617)
Restated balance at 1 January 2019		1,118,409	9,006,569	890,768	(156,295)	41,621,919	726,966	53,208,336	5,238,296	58,446,632
Profit for the year		-	-	-	-	6,785,603	-	6,785,603	482,989	7,268,592
Other comprehensive income		-	-	-	(416,131)	-	-	(416,131)	(18,488)	(434,619)
Transfer of excess depreciation		-	-	-	(33,019)	33,019	-	-	-	-
Deferred tax on transfer of excess depreciation		-	-	-	2,303	(2,303)	-	-	-	-
Statutory loan loss reserve		-	-	171,881	-	(171,881)	-	-	-	-
Legal and public investment reserve		-	-	-	28,061	(28,061)	-	-	-	-
Total comprehensive income		-	-	171,881	(418,786)	6,616,377	-	6,369,472	464,501	6,833,973
Transactions with owners in their capacity as owners:										
Dividends:										
- Final for 2018 paid	13	-	-	-	-	-	(726,966)	(726,966)	(38,294)	(765,260)
- Proposed for 2019	13	-	-	-	-	(754,926)	754,926	-	-	-
Total transactions with owners, recognised directly in equity		-	-	-	-	(754,926)	27,960	(726,966)	(38,294)	(765,260)
At end of year		1,118,409	9,006,569	1,062,649	(575,081)	47,483,370	754,926	58,850,842	5,664,503	64,515,345

The notes on pages 112 to 226 are an integral part of these financial statements.

Group Statement of Changes in Equity for the Year Ended 31 December 2018

Note	Share capital Shs'000	Share premium Shs'000	Statutory loan loss reserve Shs'000	Other reserves Shs'000	Retained earnings Shs'000	Proposed dividend Shs'000	Attributable to equity holders of the Bank Shs'000	Non controlling Interests Shs'000	Total Shs'000
At 1 January 2018	1,118,409	9,006,569	1,357,750	249,934	35,626,590	726,966	48,086,218	5,281,926	53,368,144
Profit for the year	-	-	-	-	6,686,612	-	6,686,612	395,503	7,082,115
Other comprehensive income	-	-	-	(403,142)	-	-	(403,142)	(189,041)	(592,183)
Transfer of excess depreciation	-	-	-	(32,381)	32,381	-	-	-	-
Deferred tax on transfer of excess depreciation	-	-	-	1,520	(1,520)	-	-	-	-
Statutory loan loss reserve	-	-	(466,982)	-	466,982	-	-	-	-
Legal reserve and public investment reserve	-	-	-	13,446	(13,446)	-	-	-	-
Total comprehensive income	-	-	(466,982)	(420,557)	7,171,009	-	6,283,470	206,462	6,489,932
Transactions with owners in their capacity as owners:									
Acquisition of interests from non controlling interests in Diamond Trust Bank Burundi S.A.	34	-	-	14,328	-	-	14,328	(166,624)	(152,296)
Dividends:									
- Final for 2017 paid		-	-	-	-	(726,966)	(726,966)	(39,565)	(766,531)
- Proposed for 2018	13	-	-	-	(726,966)	726,966	-	-	-
Total transactions with owners, recognised directly in equity		-	-	14,328	(726,966)	-	(712,638)	(206,189)	(918,827)
At end of year	1,118,409	9,006,569	890,768	(156,295)	42,070,633	726,966	53,657,050	5,282,199	58,939,249

The notes on pages 112 to 226 are an integral part of these financial statements.

Bank Statement of Changes in Equity for the Year Ended 31 December 2019

	Note	Share capital Shs'000	Share premium Shs'000	Other reserves Shs'000	Retained earnings Shs'000	Proposed dividend Shs'000	Total Shs'000
At start of year		1,118,409	9,006,569	1,328,408	35,532,486	726,966	47,712,838
Adjustment on initial application of IFRS 16, net of tax	2(a)(iv)	-	-	-	(364,916)	-	(364,916)
Restated balance at 1 January 2019		1,118,409	9,006,569	1,328,408	35,167,570	726,966	47,347,922
Profit for the year		-	-	-	5,714,991	-	5,714,991
Other comprehensive income	26	-	-	(334,569)	-	-	(334,569)
Transfer of excess depreciation		-	-	(30,408)	30,408	-	-
Deferred tax on transfer of excess depreciation		-	-	1,520	(1,520)	-	-
Total comprehensive income		-	-	(363,457)	5,743,879	-	5,380,422
Transactions with owners in their capacity as owners:							
Dividends:							
- Final for 2018 paid	13	-	-	-	-	(726,966)	(726,966)
- Proposed for 2019	13	-	-	-	(754,926)	754,926	-
Total transactions with owners, recognised directly in equity		-	-	-	(754,926)	27,960	(726,966)
At end of year		1,118,409	9,006,569	964,951	40,156,523	754,926	52,001,378

The notes on pages 112 to 226 are an integral part of these financial statements

Bank Statement of Changes in Equity for the Year Ended 31 December 2018

	Note	Share capital Shs'000	Share premium Shs'000	Other reserves Shs'000	Retained earnings Shs'000	Proposed dividend Shs'000	Total Shs'000
At 1 January 2018		1,118,409	9,006,569	1,357,296	30,443,648	726,966	42,652,888
Profit for the year and other comprehensive income		-	-	-	5,786,916	-	5,786,916
Transfer of excess depreciation		-	-	(30,408)	30,408	-	-
Deferred tax on transfer of excess depreciation		-	-	1,520	(1,520)	-	-
Total comprehensive income		-	-	(28,888)	5,815,804	-	5,786,916
Transactions with owners in their capacity as owners:							
Dividends:							
- Final for 2017 paid		-	-	-	-	(726,966)	(726,966)
- Proposed for 2018	13	-	-	-	(726,966)	726,966	-
Total transactions with owners, recognised directly in equity		-	-	-	(726,966)	-	(726,966)
At end of year		1,118,409	9,006,569	1,328,408	35,532,486	726,966	47,712,838

The notes on pages 112 to 226 are an integral part of these financial statements

Group and Bank Statement of Cash Flows for the Year Ended 31 December 2019

	Note	Group		Bank	
		2019 Shs'000	2018 Shs'000	2019 Shs'000	2018 Shs'000
Cash flows (used in)/ generated from operating activities					
Interest receipts		31,954,019	35,271,077	23,504,634	26,881,830
Interest payments		(12,713,528)	(14,277,385)	(10,594,906)	(11,986,952)
Net fee and commission receipts		3,716,696	3,242,470	1,723,010	1,775,805
Other income received		1,756,810	1,981,652	1,395,893	1,240,382
Recoveries from loans previously written off	18	298,416	273,758	29,911	2,312
Payments to employees and suppliers		(9,512,514)	(9,835,856)	(5,501,385)	(5,603,533)
Income tax paid	11 (c)	(4,521,364)	(4,085,348)	(3,549,727)	(3,076,638)
Cash flows from operating activities before changes in operating assets and liabilities		10,978,535	12,570,368	7,007,430	9,233,206
Changes in operating assets and liabilities:					
- cash reserve requirement		540,986	(1,002,330)	344,803	(815,365)
- Government securities		(17,117,326)	(652,644)	(11,392,439)	(760,626)
- loans and advances to customers		(6,786,109)	(640,983)	(2,232,482)	(793,809)
- customer deposits		(2,646,570)	16,643,699	(6,650,284)	15,507,011
- other assets		267,711	(249,104)	366,946	(221,601)
- other liabilities		(603,444)	(1,675,003)	(684,498)	(1,683,322)
Net cash (used in)/generated from operating activities		(15,366,217)	24,994,003	(13,240,524)	20,465,494
Cash flows used in investing activities					
Purchase of property and equipment	22	(770,316)	(904,838)	(395,243)	(365,762)
Purchase of intangible assets - software costs	21	(682,175)	(151,893)	(627,769)	(125,761)
Purchase of shares (equity investments)		(55,341)	-	(50,000)	(152,296)
Proceeds from sale of investment in Government securities		39,425	32,229	14,274	32,229
Proceeds from sale of property and equipment		7,189	19,873	3,977	18,170
Dividend received		-	-	65,806	65,475
Net cash used in investing activities		(1,461,218)	(1,004,629)	(988,955)	(527,945)
Cash flows used in financing activities					
Proceeds from borrowings		1,744,109	4,045,780	2,033,300	3,058,500
Repayment of borrowings		(5,133,493)	(6,543,623)	(2,761,797)	(6,200,876)
Payments for principal and interest portions of the lease liability	24 (ii)	(819,392)	-	(340,915)	-
Finance costs		(958,750)	(926,574)	(716,333)	(722,183)
Dividends paid to equity holders of the bank	13	(726,966)	(726,966)	(726,966)	(726,966)
Dividends paid to non controlling interests		(38,294)	(39,565)	-	-
Net cash used in financing activities		(5,932,786)	(4,190,948)	(2,512,711)	(4,591,525)
Net (decrease)/increase in cash and cash equivalents		(22,760,221)	19,798,426	(16,742,190)	15,346,024
Cash and cash equivalents at start of year		21,375,217	2,789,926	4,688,592	(10,657,432)
Translation difference		(536,613)	(1,213,135)	-	-
		20,838,604	1,576,791	4,688,592	(10,657,432)
Cash and cash equivalents at end of year	38	(1,921,617)	21,375,217	(12,053,598)	4,688,592

The notes on pages 112 to 226 are an integral part of these financial statements.

1. General information

Diamond Trust Bank Kenya Limited (the "Company"/"Bank") and its subsidiaries (together the "Group") provide banking, insurance agency and other related services to the general public. The Company is incorporated in Kenya under the Companies Act, 2015 and is domiciled in Kenya. The address of its registered office is as disclosed on page 93. The shares of the Company are listed on the Nairobi Securities Exchange. Diamond Trust Bank Kenya Limited and its subsidiaries operate in Kenya, Tanzania, Uganda and Burundi through the subsidiaries Diamond Trust Insurance Agency, Diamond Trust Bank Tanzania Limited, Diamond Trust Bank Uganda Limited and Diamond Trust Bank Burundi S.A. respectively.

2. Summary of significant accounting policies

The principal accounting policies adopted in the preparation of these financial statements are set out below. These policies have been consistently applied to all periods presented, unless otherwise stated. For Kenyan Companies Act, 2015 reporting purposes, the balance sheet is represented by the statement of financial position, and the profit and loss by the statement of profit or loss in these financial statements.

(a) Basis of preparation

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and IFRS Interpretations Committee (IFRIC) applicable to companies reporting under IFRS. The financial statements are presented in Kenya Shillings (Shs), rounded to the nearest thousand.

Basis of measurement

The measurement basis applied 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 Group 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 Group 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 Group and Bank at the end of the reporting period during which the change occurred.

Use of estimates

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

2. Summary of significant accounting policies (Continued)

(a) Basis of preparation (Continued)

Changes in accounting policy and disclosures

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

The Group 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 Group being 1 January 2019. The nature and effects of the changes are as explained here in.

New standard or amendments	Effective for annual periods beginning on or after
IFRS 16 Leases	1 January 2019
IFRIC 23 Uncertainty over Income Tax Treatments	1 January 2019
Amendments to IAS 19 Employee Benefits Plan Amendment, Curtailment or Settlement	1 January 2019
Amendments to IAS 28 Long-term Interests in Associates and Joint Ventures	1 January 2019
Amendments to IFRS 9 Prepayment Features with Negative Compensation	1 January 2019
Annual improvement cycle (2015 – 2017) – various standards	1 January 2019

IFRS 16 Leases

The Group applied IFRS 16 using the modified retrospective approach, under which the cumulative effect of initial application is recognised in retained earnings at 1 January 2019. Accordingly, 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.

i) Definition of a lease

Previously, the Group determined at contract inception whether an arrangement is or contains a lease under IFRIC 4 *Determining whether an Arrangement contains a Lease*. The Group now assesses whether a contract is or contains a lease based on the definition of a lease, as explained in Note 2(j).

On transition to IFRS 16, the Group 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.

ii) As a lessee

As a lessee, the Group leases some branch and office premises and equipment. The Group 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 Group. Under IFRS 16, the Group recognises right-of-use assets and lease liabilities for leases of branch and office premises – i.e. these leases are on-balance sheet.

2. Summary of significant accounting policies (Continued)**(a) Basis of preparation (Continued)****Changes in accounting policy and disclosures (Continued)****IFRS 16 Leases (Continued)***i. New standards, amendments and interpretations effective and adopted during the year (Continued)***ii) As a lessee (Continued)**

At commencement or on modification of a contract that contains a lease component, the Group 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 Group has elected not to separate non-lease components and account for the lease and associated non-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 Group's incremental borrowing rate as at 1 January 2019 (see Note 24(ii)). 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 Group used a number of practical expedients when applying IFRS 16 to leases previously classified as operating leases under IAS 17. In particular, the Group:

- 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.

iii) As a lessor

The Group leases out certain properties. The Group had classified these leases as lease of properties and recognised rental income under Note 8.

The Group is not required to make any adjustments on transition to IFRS 16 for leases in which it acts as a lessor. The Group has applied IFRS 15 *Revenue from Contracts with Customers* to allocate consideration in the contract to each lease and non-lease component.

iv) Impact on financial statements

On transition to IFRS 16, the Group recognised additional right-of-use assets and additional lease liabilities, recognising the difference in retained earnings. The impact on transition is summarised below.

	Group 1 January 2019 Shs'000	Bank 1 January 2019 Shs'000
Right-of-use assets	3,659,014	1,920,448
Deferred tax asset (Note 25)	189,650	156,392
Lease liabilities	(4,341,281)	(2,441,756)
Retained earnings	(492,617)	(364,916)

2. Summary of significant accounting policies (Continued)

(a) Basis of preparation (Continued)

Changes in accounting policy and disclosures (Continued)

IFRS 16 Leases (Continued)

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

iv. Impact on financial statements (continued)

When measuring lease liabilities for leases that were classified as operating leases, the Group discounted lease payments using its incremental borrowing rate at 1 January 2019. The weighted average rate applied is 12.5%.

	Group 1 January 2019 Shs'000	Bank 1 January 2019 Shs'000
Operating lease commitments at 31 December 2018 as disclosed under IAS 17 in the Group's consolidated financial statements	3,129,133	1,662,216
Discounted using the incremental borrowing rate at 1 January 2019	4,341,281	2,441,756
Recognition exemption for leases of low-value assets	-	-
Recognition exemption for leases with less than 12 months of lease term at transition	21,685	21,044

IFRIC 23 Uncertainty over Income Tax Treatments

The interpretation explains how to recognise and measure deferred and current income tax assets and liabilities where there is uncertainty over a tax treatment. In particular, it discusses:

- how to determine the appropriate unit of account, and that each uncertain tax treatment should be considered separately or together as a group, depending on which approach better predicts the resolution of the uncertainty
- that the entity should assume a tax authority will examine the uncertain tax treatments and have full knowledge of all related information, ie that detection risk should be ignored
- that the impact of the uncertainty should be measured using either the most likely amount or the expected value method, depending on which method better predicts the resolution of the uncertainty, and
- that the judgements and estimates made must be reassessed whenever circumstances have changed or there is new information that affects the judgements

The interpretation is effective for annual periods beginning on or after 1 January 2019. Entities can apply the Interpretation with either full retrospective application or modified retrospective application without restatement of comparatives retrospectively or prospectively.

The adoption of this standard did not have a material impact on the Group's financial statements.

Amendments to IAS 19 Employee Benefits Plan Amendment, Curtailment or Settlement

The amendments to IAS 19 Employee Benefits clarify the accounting for defined benefit plan amendments, curtailments and settlements. They confirm that entities must:

- calculate the current service cost and net interest for the remainder of the reporting period after a plan amendment, curtailment or settlement by using the updated assumptions from the date of the change
- recognise any reduction in a surplus immediately in profit or loss, either as part of past service cost or as a gain or loss on settlement. In other words, a reduction in a surplus must be recognised in profit or loss even if that surplus was not previously recognised because of the impact of the asset ceiling
- separately recognise any changes in the asset ceiling through other comprehensive income.

The amendments are applied prospectively. They apply only to plan amendments, curtailments or settlements that occur on or after the beginning of the annual period in which the amendments to IAS 19 are first applied. The amendments to IAS 19 must be applied to annual periods beginning on or after 1 January 2019, but they can be applied earlier if an entity elects to do so. The adoption of this standard did not have a material impact on the Group's financial statements.

2. Summary of significant accounting policies (Continued)

(a) Basis of preparation (Continued)

Changes in accounting policy and disclosures (Continued)

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

Amendments to IAS 28 Long-term Interests in Associates and Joint Ventures

The amendments clarify the accounting for long-term interests in an associate or joint venture, which in substance form part of the net investment in the associate or joint venture, but to which equity accounting is not applied. Entities must account for such interests under IFRS 9 *Financial Instruments* before applying the loss allocation and impairment requirements in IAS 28 *Investments in associates and Joint Ventures*.

The amendments apply retrospectively to annual reporting periods beginning on or after 1 January 2019. Earlier application is permitted. Specific transition provisions apply depending on whether the first-time application of the amendments coincides with that of IFRS 9.

The adoption of this standard did not have a material impact on the Group's financial statements.

Amendments to IFRS 9 Prepayment Features with Negative Compensation

The narrow-scope amendments made to IFRS 9 *Financial Instruments* in October 2017 enable entities to measure certain prepayable financial assets with negative compensation at amortised cost. These assets, which include some loan and debt securities, would otherwise have to be measured at fair value through profit or loss.

To qualify for amortised cost measurement, the negative compensation must be 'reasonable compensation for early termination of the contract' and the asset must be held within a 'held to collect' business model.

The amendment applies to annual periods beginning on or after 1 January 2019, with earlier application permitted. There are specific transition provisions depending on when the amendments are first applied, relative to the initial application of IFRS 9.

The adoption of this standard did not have a material impact on the Group's financial statements.

Annual improvement cycle (2015 – 2017) – various standards

Standards	Amendments
IAS 12 Income Taxes	Disclosure of Interests in Other Entities – clarified that the income tax consequences of dividends on financial instruments classified as equity should be recognised according to where the past transactions or events that generated distributable profits were recognised. The amendments apply to annual periods beginning on or after 1 January 2019.
IAS 23 Borrowing Costs	The amendments clarify that if any specific borrowing remains outstanding after the related asset is ready for its intended use or sale, that borrowing becomes part of the funds that an entity borrows generally when calculating the capitalisation rate on general borrowings.
IFRS 3 Business Combinations	IFRS 3 <i>Business Combinations</i> – clarified that obtaining control of a business that is a joint operation is a business combination achieved in stages.
IFRS 11 Joint Arrangements	IFRS 11 <i>Joint Arrangements</i> – clarified that the party obtaining joint control of a business that is a joint operation should not remeasure its previously held interest in the joint operation. All the amendments are effective for annual periods beginning on or after 1 January 2019 and generally require prospective application. Earlier application is permitted.

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

2. Summary of significant accounting policies (Continued)**(a) Basis of preparation (Continued)****Changes in accounting policy and disclosures (Continued)***ii. New standards, amendments and interpretations in issue but not yet effective for the year ended 31 December 2019*

A number of new standards and amendments to standards are effective for annual periods beginning after 1 January 2019 and earlier application is permitted; however, the Group has not early adopted them in preparing these consolidated financial statements. These are summarised below;

Standard/ Interpretation	Effective date
Sale or Contribution of Assets between an Investor and its Associate or Company (Amendments to IFRS 10 and IAS 28)	To be determined
Definition of a Business (Amendments to IFRS 3)	1 January 2020
Definition of Material (Amendments IAS 1 and IAS 8)	1 January 2020
Interest rate benchmark reform (Amendments to IFRS 9, IAS 39 and IFRS 7)	1 January 2020
IFRS 17 Insurance Contracts (issued in May 2017)	1 January 2022

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

The amendments to IFRS 10 and IAS 28 deal with situations where there is a sale or contribution of assets between an investor and its associate or joint venture. Specifically, the amendments state that gains or losses resulting from the loss of control of a subsidiary that does not contain a business in a transaction with an associate or a joint venture that is accounted for using the equity method, are recognised in the parent's profit or loss only to the extent of the unrelated investors' interests in that associate or joint venture. Similarly, gains and losses resulting from the remeasurement of investments retained in any former subsidiary (that has become an associate or a joint venture that is accounted for using the equity method) to fair value are recognised in the former parent's profit or loss only to the extent of the unrelated investors' interests in the new associate or joint venture.

The effective date of the amendments has yet to be set by the IASB; however, earlier application of the amendments is permitted.

The Directors of the Group anticipate that the application of these amendments may have an impact on the Group's consolidated financial statements in future periods should such transactions arise.

Definition of a Business (Amendments to IFRS 3)

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

The Directors of the Group do not anticipate that the application of the amendments in the future will have an impact on the Group's consolidated financial statements.

2. Summary of significant accounting policies (Continued)**(a) Basis of preparation (Continued)****Changes in accounting policy and disclosures (Continued)***ii. New standards, amendments and interpretations in issue but not yet effective for the year ended 31 December 2019 (Continued)***Definition of Material (Amendments to IAS 1 and IAS 8)**

The IASB has made amendments to IAS 1 *Presentation of Financial Statements* and IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* which use a consistent definition of materiality throughout International Financial Reporting Standards and the Conceptual Framework for Financial Reporting, clarify when information is material and incorporate some of the guidance in IAS 1 about immaterial information. In particular, the amendments clarify:

- that the reference to obscuring information addresses situations in which the effect is similar to omitting or misstating that information, and that an entity assesses materiality in the context of the financial statements as a whole, and
- the meaning of 'primary users of general purpose financial statements' to whom those financial statements are directed, by defining them as 'existing and potential investors, lenders and other creditors' that must rely on general purpose financial statements for much of the financial information they need.

The Directors of the Group do not anticipate that the application of the amendments in the future will have an impact on the Group's consolidated financial statements.

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

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

The Directors of the Group do not anticipate that the application of the amendments in the future will have an impact on the Group's consolidated financial statements.

IFRS 17 Insurance Contracts

IFRS 17 was issued in May 2017 as replacement for IFRS 4 Insurance Contracts. It requires a current measurement model where estimates are re-measured in each reporting period. Contracts are measured using the building blocks of:

- discounted probability-weighted cash flows
- an explicit risk adjustment, and
- a contractual service margin (CSM) representing the unearned profit of the contract which is recognised as revenue over the coverage period.

The standard allows a choice between recognising changes in discount rates either in the statement of profit or loss or directly in other comprehensive income. The choice is likely to reflect how insurers account for their financial assets under IFRS 9. An optional, simplified premium allocation approach is permitted for the liability for the remaining coverage for short duration contracts, which are often written by non-life insurers. There is a modification of the general measurement model called the 'variable fee approach' for certain contracts written by life insurers where policyholders share in the returns from underlying items. When applying the variable fee approach, the entity's share of the fair value changes of the underlying items is included in the CSM. The results of insurers using this model are therefore likely to be less volatile than under the general model. The new rules will affect the financial statements and key performance indicators of all entities that issue insurance contracts or investment contracts with discretionary participation features.

The Standard is effective for annual reporting periods beginning on or after 1 January 2022, with early application permitted. It is applied retrospectively unless impracticable, in which case the modified retrospective approach or the fair value approach is applied.

The Group does not have significant insurance contracts and the Directors do not anticipate that the application of the Standard in the future will have an impact on the Group's consolidated financial statements.

2. Summary of significant accounting policies (Continued)

(b) Consolidation

Subsidiaries are all entities over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

The consolidated financial statements comprise the financial statements of Diamond Trust Bank Kenya Limited and its subsidiaries, Diamond Trust Bank Tanzania Limited, Diamond Trust Bank Uganda Limited, Diamond Trust Bank Burundi S.A, Diamond Trust Insurance Agency Limited and Premier Savings and Finance Limited, made up to 31 December 2019.

Business combinations

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

Changes in ownership interests in subsidiaries without change of control

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

All inter-company transactions, balances and unrealised surpluses and deficits on transactions between the Group companies are eliminated. The accounting policies for the subsidiaries are consistent with the policies adopted by the Bank.

Investment in associates

Associates are undertakings in which the Group has between 20% and 50% of the voting rights, and over which the Group exercises significant influence, but which it does not control. Provisions are recorded for any impairment in value.

Investments in associates are accounted for using the equity method of accounting and are initially recognised at cost. Equity accounting involves recognising in the statement of profit or loss the Group's share of the associates' profit or loss for the year. The Group's interest in the associates is carried in the statement of financial position at an amount that reflects its share of the net assets of the associates and includes goodwill at acquisition.

Investment in subsidiaries

Investments in the subsidiaries (details of which are disclosed in Note 27) are stated in the Bank's statement of financial position at cost less provision for impairment loss where applicable. Where, in the opinion of the Directors, there has been impairment in the value of an investment, the loss is recognised as an expense in the period in which the impairment is identified.

2. Summary of significant accounting policies (Continued)**(c) Foreign currency translation***i) Functional and presentation currency*

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The consolidated financial statements are presented in Kenya Shillings, which is the Bank's functional and presentation currency.

ii) Transactions and balances

Foreign currency transactions are transactions denominated or that require settlement, in a foreign currency. These are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. At the end of each reporting period, non-monetary items measured at historical cost denominated in a foreign currency are translated with the exchange rate as at the date of initial recognition; non-monetary items in a foreign currency that are measured at fair value are translated using the exchange rates at the date when the fair value was determined.

Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the profit or loss.

iii) Group companies

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

For the purpose of presenting consolidated financial statements, the assets and liabilities of the Group's foreign operations are expressed in Kenya Shillings using exchange rates prevailing at the end of the reporting period. Income and expenses for each statement of profit or loss are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions).

On consolidation, exchange differences arising from the translation of the net investment in foreign entities are reported as 'exchange differences on translation of foreign operations' and are recognised as other comprehensive income and accumulated in the translation reserve in shareholders' equity. When a foreign operation is sold, such exchange differences are recognised in the statement of profit or loss as part of the gain or loss on sale.

(d) 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 Group estimates future cash flows considering all contractual terms of the financial instrument, but not expected credit loss (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 transaction costs and fees and points paid or 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.

2. Summary of significant accounting policies (Continued)

(d) Interest income and expense (Continued)

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.

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.

For information on when financial assets are credit-impaired, see Note 2 (i)

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 Group's trading operations and are presented together with all other changes in the fair value of trading assets and liabilities in net trading income.

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. Summary of significant accounting policies (Continued)**(e) Fees and commission income**

Unless included in the effective interest calculation in (d) above, fees and commissions are generally recognised on an accrual basis when the service has been provided. Loan appraisal fees for loans that have been or are likely to be drawn down are deferred and recognised over the period of the loan using the effective interest method. Fees and commission expense are deferred and recognised on an accrual basis when incurred.

Other fee and commission income – including account servicing fees, sales commission, placement fees and syndication fees – is recognised as the related services are performed.

A contract with a customer that results in a recognised financial instrument in the Group's financial statements may be partially in the scope of IFRS 9 and partially in the scope of IFRS 15. If this is the case, then the Group first applies IFRS 9 to separate and measure the part of the contract that is in the scope of IFRS 9 and then applies IFRS 15 to the residual. Other fee and commission expenses relate mainly to transaction and service fees, which are expensed as the services are received.

(f) Property and equipment

Property and equipment are initially recorded at cost. Leasehold land and buildings are subsequently shown at market value, based on valuations carried out every 3 to 5 years by external independent valuers, less subsequent depreciation and accumulated impairment losses. All other property and equipment are stated at historical cost less depreciation and accumulated impairment losses.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. Repairs and maintenance expenses are charged to the statement of profit or loss in the year in which they are incurred.

Increases in the carrying amount arising on revaluation are credited in other comprehensive income and accumulated in equity in a revaluation reserve. Decreases that offset previous increases of the same asset are charged in other comprehensive income; all other decreases are charged to the statement of profit or loss. Each year the difference between depreciation based on the revalued carrying amount of the asset (the depreciation charged to the statement of profit or loss) and depreciation based on the asset's original cost is transferred from the revaluation reserve to retained earnings. Revaluation surpluses are not distributable.

Depreciation is calculated on a straight line basis by reference to the expected useful lives of the assets concerned. The rates used are as follows:-

Leasehold land and buildings	Period of lease, 20% and 25%
Leasehold improvements	Period of lease
Motor vehicles	25%
Furniture, fittings and equipment	12.5%, 20% and 25%

Property and equipment are periodically reviewed for impairment. Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount. Gains and losses on disposal of property and equipment are determined by reference to their carrying amount and are taken into account in determining operating profit. On disposal of revalued assets, amounts in the revaluation surplus reserve relating to that asset are transferred to retained earnings.

(g) Intangible assets – software costs

Costs associated with maintaining computer software programmes are recognised as an expense as incurred. Costs that are directly associated with the production or procurement of identifiable and unique software products controlled by the Group, and that will probably generate economic benefits exceeding costs beyond one year, are recognised as intangible assets. Direct costs include the software implementation consultancy costs and an appropriate portion of relevant overheads. The costs are amortised on a straight line basis over the expected useful life of four years (at the rate of 25% per year).

2. Summary of significant accounting policies (Continued)

(h) Intangible assets – goodwill

Goodwill is the excess of the cost of an acquisition (including costs directly attributable to the acquisition) over the fair value of the Group's share of net identifiable assets of acquired subsidiaries at the date of acquisition. Goodwill is tested annually for impairment as well as when there are indications of impairment. Goodwill arising on acquisition of subsidiaries is stated at cost less accumulated impairment losses.

Goodwill is allocated to cash-generating units or groups of cash-generating units for the purpose of impairment testing. The allocation is made to those cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose identified in accordance with IFRS 8.

Goodwill is tested annually as well as whenever a trigger event has been observed for impairment by comparing the present value of the expected future cash flows from a cash generating unit with the carrying value of its net assets, including attributable goodwill carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

(i) Financial instruments

Initial recognition and initial measurement of financial assets

The Group recognizes a financial asset in its statement of financial position when it becomes party to the contractual provisions of the instrument. Financial asset (except for certain trade receivables) is measured at initial recognition at its fair value plus, for financial assets not subsequently measured 'at fair value through profit or loss' transaction costs that are directly attributable to the acquisition of the financial asset. The Group's Trade receivables that do not have a significant financing component (determined in accordance with IFRS 15- Revenue from Contracts with Customers) are not initially measured at fair value, rather they are initially measured at their transaction price. The Group initially recognizes 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 recognized on the trade date, which is the date on which the Group becomes a party to the contractual provisions of the instrument.

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

Classification and measurement of financial assets

Subsequent to initial recognition, the Group's financial assets are measured at:

1. amortized cost
2. fair value through other comprehensive income (FVTOCI) or
3. fair value through profit or loss (FVTPL).

Except for the Group's financial assets that are designated at initial recognition as at fair value through profit or loss, the Group's financial asset is classified on the basis of both:

- (a) the Group's business model for managing the financial assets and
- (b) the contractual cash flow characteristics of the financial asset.

Amortized cost

Except for the Group's financial assets that are designated at initial recognition as at fair value through profit or loss the Group's financial asset is measured at amortized cost only if both of the following conditions are met:

- (a) the financial asset of the Group is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows and
- (b) the contractual terms of the Group's financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding

If the Group's financial asset satisfies both of these conditions, the Group measures the financial asset at amortized cost unless it is designated as at fair value through profit or loss (FVTPL) on initial recognition.

2. Summary of significant accounting policies (Continued)

(i) Financial instruments (Continued)

Amortized cost (Continued)

Any of the Group's Financial assets that do not meet the conditions stated above, are required to be subsequently measured at fair value through profit or loss except for investments in equity instruments not held for trading that are elected at initial recognition to be measured at fair value through other comprehensive income. Financial assets of the Group that meets the condition in (b) above but do not meet the condition in (a) above, may meet the criteria to be measured at fair value through other comprehensive income. Because both conditions (the business model test and the contractual cash flows characteristics test) must be met for amortized cost measurement, the order in which the tests are performed is irrelevant for the Group.

The Group classifies its financial assets into the following categories: financial assets at fair value through profit and loss (FVTPL); equity investments designated as at fair value through other comprehensive income (FVTOCI) and financial assets at amortised cost. Management determines the appropriate classification of its investment at initial recognition. The classification of financial instruments can be seen in the table below:

	Class as defined by IFRS 9 and as determined by the group	Subclasses
Financial assets	Financial assets at fair value through profit and loss (FVTPL)	Government securities held for trading
	Investments designated as at fair value through other comprehensive income (FVTOCI)	Equity investments Government securities acquired for both holding and selling
	Financial assets at amortised cost	Loans and advances to customers
		Deposits and balances due from banking institutions
		Government securities held to collect contractual cash flows Cash and balances with Central Banks Corporate bond Other assets
Financial liabilities	Financial liabilities at armortised cost	Customer deposits
		Deposits and balances due to banking institutions
		Other liabilities
		Borrowings
Off balance sheet financial instruments	Off balance sheet financial instruments	Guarantees, acceptances and other financial facilities

Business model assessment for amortized cost measurement

For amortized cost measurement, the Group's financial assets are held within a business model whose objective is to hold financial assets in order to collect the contractual cash flows.

Financial assets of the Group that are held within a business model whose objective is to hold assets in order to collect contractual cash flows are managed to realize cash flows by collecting contractual payments over the life of the instrument. That is, the Group manages the assets held within the portfolio to collect those particular contractual cash flows (instead of managing the overall return on the portfolio by both holding and selling assets).

In determining whether cash flows are going to be realized by collecting the Group's financial assets' contractual cash flows, the Group considers the frequency, value and timing of sales in prior periods, the reasons for those sales and expectations about future sales activity. However sales in themselves do not determine the business model of the Group and therefore cannot be considered in isolation. Instead, information about the Group's past sales and expectations about future sales provide evidence related to how the Group's stated objective for managing the financial assets is achieved and, specifically, how cash flows are realized. The Group considers information about past sales within the context of the reasons for those sales and the conditions that existed at that time as compared to current conditions.

2. Summary of significant accounting policies (Continued)

(i) Financial instruments (Continued)

Fair value through other comprehensive income (FVTOCI)

Except for financial assets of the Group that are designated at initial recognition as at fair value through profit or loss the Group's financial asset is measured at fair value through other comprehensive income (FVTOCI) if both of the following conditions are met:

- (a) the Group's financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- (b) the contractual terms of the Group's financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets of the Group that do not meet the condition in (b) above, are required to be subsequently measured at fair value through profit or loss or in the case of certain investments in equity instruments may be elected at initial recognition to be measured at fair value through other comprehensive income. Financial asset of the Group that meets the condition in (b) above, but does not meet the condition in (a) above, may meet the criteria to be measured at amortized cost.

Designation of equity instruments as at FVTOCI

At initial recognition, the Group may make an irrevocable election to present in other comprehensive income subsequent changes in the fair value of an investment in an equity instrument that is not held for trading nor contingent consideration recognised by an acquirer in a business combination to which IFRS 3- *Business Combinations* applies. The Group's financial asset is held for trading if:

- (a) it is acquired or incurred principally for the purpose of selling or repurchasing it in the near term;
- (b) on initial recognition it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short term profit-taking; or
- (c) it is a derivative (except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument).

The election by the Group to designate an investment in an equity instrument at FVTOCI is made on an instrument-by-instrument (i.e. share-by-share) basis. If the election is made, only dividend income that does not clearly represent a recovery of part of the cost of the investment is recognised in profit or loss, with all other gains and losses (including those relating to foreign exchange) recognized in other comprehensive income. These gains and losses remain permanently in equity and are not subsequently reclassified to profit or loss, even on derecognition. However, the Group may transfer the cumulative gain or loss within equity as a reserve movement.

Business model assessment for FVTOCI measurement

Fair value through other comprehensive income measurement financial assets must be held within the Group's business model whose objective is achieved by both collecting contractual cash flows and selling financial assets.

The Group may hold financial assets in a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets. In this type of business model, the Group's key management personnel have made a decision that both collecting contractual cash flows and selling financial assets are integral to achieving the objective of the business model. There are various objectives that may be consistent with this type of business model.

For example, the objective of the Group's business model may be to manage everyday liquidity needs, to maintain a particular interest yield profile or to match the duration of the financial assets to the duration of the liabilities that those assets are funding. To achieve such an objective, the Group will both collect contractual cash flows and sell financial assets.

Compared to the Group's business model whose objective is to hold financial assets to collect contractual cash flows, this business model will typically involve greater frequency and value of sales. This is because selling financial assets is integral to achieving the business model's objective instead of being only incidental to it. However, there is no threshold for the frequency or value of sales that must occur in this business model because both collecting contractual cash flows and selling the Group's financial assets are integral to achieving its objective.

2. Summary of significant accounting policies (Continued)**(i) Financial instruments (Continued)***Fair value through profit or loss (FVTPL)*

The Group classifies assets that do not qualify for amortized cost measurement or measurement at FVTOCI to be measured subsequently to initial recognition at FVTPL (except if it is an investment in an equity instrument designated at FVTOCI).

The Group may irrevocably elect on initial recognition to designate a financial asset that meets the conditions for amortized cost measurement or FVTOCI as at FVTPL if that designation eliminates or significantly reduces accounting mismatch that would have occurred if the financial asset had been measured at amortized cost or FVTOCI.

Financial assets of the Group classified as at FVTPL are measured at fair value. Gains and losses that arise as a result of changes in fair value are recognized in profit or loss, except for those arising on hedging instruments that are designated in effective cash flow hedges or hedges of a net investment in a foreign operation.

Gains and losses that arise between the end of the last annual reporting period and the date an instrument is derecognised do not constitute a separate 'profit/loss on disposal'. Such gains and losses will have arisen prior to disposal, while the item is still being measured at FVTPL, and should be recognised in profit or loss when they occur.

Business model assessment

The Group 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:

1. 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 realizing cash flows through the sale of the assets;
2. How the performance of the portfolio is evaluated and reported to the Group's management;
3. The risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed;
4. Compensation of business managers – e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected; and
5. 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 Group's stated objective for managing the financial assets is achieved and how cash flows are realised.

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.

Contractual cash flows characteristics test

Financial asset of the Group that are debt instruments to be measured at amortized cost or fair value through comprehensive income, its contractual terms must give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. For the purposes of applying this requirement, principal is the fair value of the financial asset at initial recognition, however that principal amount may change over the life of the financial asset (for example, if there are repayments of principal). Interest consists of consideration for the time value of money, for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs, as well as a profit margin. The assessment as to whether contractual cash flows are solely payments of principal and interest is made in the currency in which the financial asset is denominated.

2. Summary of significant accounting policies (Continued)

(i) Financial instruments (Continued)

Contractual cash flows characteristics test (Continued)

Contractual cash flows that are solely payments of principal and interest on the principal amount outstanding are consistent with a basic lending arrangement. In a basic lending arrangement, consideration for the time value of money and credit risk are typically the most significant elements of interest.

However, in such an arrangement, interest can also include consideration for other basic lending risks (for example, liquidity risk) and costs (for example, administrative costs) associated with holding the financial asset for a particular period of time. In addition, interest can include a profit margin that is consistent with a basic lending arrangement. In extreme economic circumstances, interest can be negative if, for example, the holder of a financial asset either explicitly or implicitly pays for the deposit of its money for a particular period of time (and that fee exceeds the consideration that the holder receives for the time value of money, credit risk and other basic lending risks and costs). However, contractual terms that introduce exposure to risks or volatility in the contractual cash flows that is unrelated to a basic lending arrangement, such as exposure to changes in equity prices or commodity prices, do not give rise to contractual cash flows that are solely payments of principal and interest on the principal amount outstanding. An originated or an acquired or purchased financial asset can be a basic lending arrangement irrespective of whether it is a loan in its legal form.

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

'Principal' is the fair value of the Group's financial asset on initial recognition. 'Interest' is 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 solely payments of principal and interest, the Group considers the contractual terms of the instrument. This includes assessing whether the Group's 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 Group considers:

1. Contingent events that would change the amount and timing of cash flows;
2. Leverage features;
3. Prepayment and extension terms;
4. Terms that limit the Group's claim to cash flows from specified assets (e.g. non-recourse asset arrangements); and
5. Features that modify consideration of the time value of money – e.g. periodical reset of interest rates.

The Group holds a portfolio of fixed rate loans for which the Group 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 Group has determined that the contractual cash flows of these loans are solely payments of principal and interest because the option varies the interest rate in a way that makes it consideration for the time value of money, credit risk, other basic lending risks and costs associated with the principal amount outstanding.

Reclassification of financial assets

The Group reclassifies financial assets when it changes its business model for managing financial assets. Investments in equity instruments that are designated as at FVTOCI at initial recognition are not reclassified.

Reclassifications are expected to be very infrequent. Such changes are determined by the Group's senior management as a result of external or internal changes and must be significant to the Group's operations and demonstrable to external parties. Accordingly, a change in Group's business model will occur only when the Group either begins or ceases to perform an activity that is significant to its operations; for example, when the Group has acquired, disposed of or terminated a business line.

The following are not considered to be changes in the Group's business model:

- a change in intention related to particular financial assets (even in circumstances of significant changes in market conditions);
- a temporary disappearance of a particular market for financial assets; or
- a transfer of financial assets between parts of the Group with different business models.

2. Summary of significant accounting policies (Continued)**(i) Financial instruments (Continued)***Reclassification of financial assets (Continued)*

When the Group's financial asset converts into a different financial asset during the instrument's life, the Group considers whether the original asset should continue to be recognised or whether, on conversion, the old instrument is derecognised and a new one is recognised.

If the Group reclassifies its financial assets, it applies the reclassification prospectively from the reclassification date, defined as the first day of the first reporting period following the change in business model that results in the Group reclassifying financial assets. The reclassification applies prospectively from the reclassification date and therefore previous recognised gains, losses (including impairment gains or losses) or interest are not restated. Changes in the objective of the Group's business model are usually effected before the reclassification date.

Measurement at the date of reclassification

When the Group's financial asset is reclassified from amortized cost to FVTOCI (or vice versa) the measurement of expected credit losses will not change as both classification categories apply the same impairment approach. However, the presentation and disclosure of the impairment allowance will differ. If the Group's financial asset is reclassified out of FVTOCI to amortized cost measurement, for presentation purposes, a loss allowance would be recognised as an adjustment to the gross carrying amount of the financial asset from the reclassification date. If the Group's financial asset is reclassified out of amortized cost to FVTOCI measurement, for presentation purposes, a loss allowance would be derecognized (and thus would no longer be recognized as an adjustment to the gross carrying amount) but instead would be recognized as an accumulated impairment amount (of an equal amount) in other comprehensive income and would be disclosed from the reclassification date.

If the Group reclassifies a financial asset from amortized cost to FVTPL, it discloses as a separate line item in its statement of comprehensive income any gain or loss arising from a difference between the previous carrying amount and its fair value on reclassification. Similarly, if the Group reclassifies a financial asset from FVTOCI to FVTPL, it discloses as a separate line in its statement of comprehensive income any gain or loss arising from reclassifying the previously recognized amount in other comprehensive income to profit or loss.

Impairments of financial asset

The Group's impairment approach, is based on expected credit losses and the Group uses the general approach in determining the impairment of financial assets. Therefore, it is not necessary for a loss event to have occurred before credit losses are recognized; instead, a loss allowance is always recognized for expected credit losses and is re-measured at each reporting date for changes in those expected credit losses. The only exception is for purchased or credit-impaired financial assets where a different impairment approach applies. Determining whether an expected credit loss should be based on 12-month expected credit losses or lifetime expected credit losses depends on whether there has been a significant increase in credit risk of the financial asset since initial recognition.

The Group recognizes loss allowances for Expected Credit Losses (ECL) on the following financial instruments that are not measured at FVTPL:

- Financial assets that are debt instruments;
- Lease receivables;
- Loan and advances to customers
- Other Loans and receivables
- Financial guarantee contracts issued; and
- Loan commitments issued.

No impairment loss is recognized on equity investments.

The Group 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 and other receivables are always measured at an amount equal to lifetime ECL.

The Group considers a debt security to have low credit risk when their credit risk rating is equivalent to the globally understood definition of 'investment grade'. In the case of the Group, debt instruments of AAA, AA, A and BBB grade qualify as low credit risk.

2. Summary of significant accounting policies (Continued)

(i) Financial instruments (Continued)

Impairments of financial asset

12-month ECL are the portion of ECL that result from default events on a financial instrument that are possible within the 12 months after the reporting date.

Measurement of ECL

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

Stage 1: Assets that are performing. If credit risk is low as of the reporting date or the credit risk has not increased significantly since initial recognition, the Group recognize a loss allowance at an amount equal to 12-month expected credit losses. This amount of credit losses is intended to represent lifetime expected credit losses that will result if a default occurs in the 12 months after the reporting date, weighted by the probability of that default occurring.

Stage 2: Assets that have significant increases in credit risk. In instances where credit risk has increased significantly since initial recognition, the Group measures a loss allowance at an amount equal to full lifetime expected credit losses. That is, the expected credit losses that result from all possible default events over the life of the financial instrument. For these debt instruments, interest income recognition will be based on the Effective Interest Rate (EIR) multiplied by the gross carrying amount.

Stage 3: Credit impaired. For debt instruments that have both a significant increase in credit risk plus observable evidence of impairment.

The Group's policy for classification of financial assets into stages 1, 2 and 3 are shown below;

Stage	Description	Criteria (Quantitative)	Criteria (Qualitative)	Criteria (Others)
Stage 1: <i>Performing</i>	12-Month ECL	<ul style="list-style-type: none"> Interest and principal repayment up to date. Repayment of principal and interest is less than 30 days past due on loans and advances. Significantly positive loan to value and solvency ratio. 	<ul style="list-style-type: none"> If credit risk is low as of the reporting date or the credit risk has not increased significantly since initial recognition. 	
Stage 2: <i>Watch Lists</i>	Lifetime ECL – Loans that have witnessed significant increase in credit risk	<ul style="list-style-type: none"> Repayment of principal and interest is past due for more than 30 days, but less than 90 days. Consistent drop in turnover figures for 2 months. Drop in ratings (internal or external) by 2 notches. Significant decline in the value of the collateral, third party guarantees or credit enhancements. Significant changes in internal price, external market indicators (e.g. credit default swaps prices for the borrower), rates or terms of existing financial instrument, credit and affordability scores. Decrease in estimated future cash flows of the instrument/ cash flow difficulty of the customer. 	<ul style="list-style-type: none"> Negative/Bad report from Credit Risk Management System (CRMS) and Credit Bureaus. Failure to submit Audited Financial Statement more than a year after the reporting date. Report of Management Squabbles/trade union dispute/issues of unpaid salaries. Adverse changes in business, financial and economic conditions. Breaches of covenant/ contract. Delay by customer in providing perfection documents. Underperforming instruments. 	<ul style="list-style-type: none"> Evidences of misapplication of loan proceeds by customer. Litigations likely to have material impact. Profit warnings.

2. Summary of significant accounting policies (Continued)

(i) Financial instruments (Continued)

Measurement of ECL (Continued)

Stage	Description	Criteria (Quantitative)	Criteria (Qualitative)	Criteria (Others)
Stage 3: Substandard Doubtful Loss	Lifetime ECL - default	<ul style="list-style-type: none"> • Past due for more than 90 days. • Significant deterioration of loan to value ratio. • Significant financial difficulty of the customer. • Breaches in financial covenants. 	<ul style="list-style-type: none"> • Events such as adverse circumstances of the obligor such as: death, unemployment, bankruptcy. • Restructuring of the facility. Liquidation and rebooking of new loan. • Refusal by customer in providing perfection documents. • Credit-impaired/ Non-performing instruments. 	<ul style="list-style-type: none"> • Evidences of misapplication of loan proceeds by customer. • Adverse changes in business, financial or economic conditions. • Macro-economic forward looking information.

Significant increase in credit risk (SICR)

The Group decision on whether expected credit losses are based on 12-month expected credit losses or lifetime expected credit losses depends on whether there has been a significant increase in credit risk since initial recognition. An assessment of whether credit risk has increased significantly is made at each reporting date. When making the assessment, the Group uses the change in the risk of a default occurring over the expected life of the financial instrument instead of the change in the amount of expected credit losses. This forms the basis of stage 1, 2 and 3 classification and subsequent migration.

The Group applies qualitative and quantitative criteria for stage classification and for its forward and backward migration.

Quantitative criteria

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

The Group considers that financial instruments for which default patterns are not concentrated at a specific point during the expected life of the financial instrument, changes in the risk of a default occurring over the next 12 months may be a reasonable approximation of the changes in the lifetime risk of a default occurring and could be used to determine whether credit risk has increased significantly since initial recognition.

The appropriateness of using changes in the risk of a default occurring over the next 12 months to determine whether lifetime expected credit losses should be recognized depends on the specific facts and circumstances. Risk of default occurring over the next 12 months is not suitable basis for determining whether credit risk has increased on a financial instrument with a maturity of more than 12 months when:

- the financial instruments only have significant payment obligations beyond the next 12 months;
- changes in relevant macroeconomic or other credit-related factors occur that are not adequately reflected in the risk of a default occurring in the next 12 months; or
- changes in credit-related factors only have an impact on the credit risk of the financial instrument (or have a more pronounced effect) beyond 12 months.

2. Summary of significant accounting policies (Continued)

(i) Financial instruments (Continued)

Significant increase in credit risk (SICR) (Continued)

Qualitative Criteria

There are other factors that are considered by the Group policies in the determination of significant increase in credit risk. They include but not limited to the following:

- Significant changes in the terms of the same instrument if it were issued at the reporting date that indicate a change in credit risk since initial recognition, e.g.: increase in credit spread; more stringent covenants; increased amounts of collateral or guarantees; or higher income coverage.
- Significant changes in external market indicators of credit risk for the same financial instrument (or similar instrument of the borrower), e.g.: credit spread; credit default swap prices; length of time or the extent to which the fair value of a financial asset has been less than its amortized cost; other market information related to the borrower, such as changes in the price of a borrower's debt and equity instruments; or external credit rating (actual or expected).
- Changes in the Group's credit management approach in relation to the financial instrument (e.g. based on emerging indicators of changes in the credit risk of the financial instrument, the Group's credit risk management practice is expected to become more active or focused on managing the instrument, including the instrument becoming more closely monitored or controlled, or the Group specifically intervening with the borrower).
- Actual or expected adverse changes in business, financial or economic conditions significantly affecting borrower's ability to meet its debt obligations (e.g. increase in interest rates or unemployment rates); operating results of the borrower e.g. declining revenues or margins, increasing operating risks, working capital deficiencies, decreasing asset quality, increased balance sheet leverage, liquidity, management problems or changes in the scope of business or organizational structure (such as the discontinuance of a segment of the business) that results in a significant change in the borrower's ability to meet its debt obligations; or regulatory, economic, or technological environment of the borrower that results in a significant change in the borrower's ability to meet its debt obligations (e.g. a decline in the demand for the borrower's sales product because of a shift in technology).
- Significant changes in the value of collateral or in the quality of third-party guarantees or credit enhancements, which are expected to reduce the borrower's economic incentive to pay or otherwise effect the probability of default (e.g. if the value of collateral declines because house prices decline, borrowers in some jurisdictions have a greater incentive to default on their mortgages); or quality of a guarantee provided by a shareholder (or an individual's parents) if the shareholder (or parents) have an incentive and financial ability to prevent default by capital or cash infusion.
- Expected changes in the loan documentation (e.g. breach of contract leading to covenant waivers or amendments, interest payment holidays, interest rate step-ups, requiring additional collateral or guarantees).
- Significant changes in the expected performance and behavior of the borrower, including changes in the payment status of borrowers in the group (e.g. increase in delayed contractual payments or number of credit card borrowers expected to approach or exceed their credit limit or who are expected to be paying the minimum monthly amount)

Credit-impaired financial assets

At each reporting date, the Group assesses whether financial assets carried at amortized cost and debt financial assets carried at FVOCI are credit-impaired. 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 the Group's 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 Group on terms that the Group would not consider otherwise;
- It is becoming probable that the borrower will enter bankruptcy or other financial re-organization; or
- The disappearance of an active market for a security because of financial difficulties.

2. Summary of significant accounting policies (Continued)**(i) Financial instruments (Continued)***Credit-impaired financial assets (Continued)*

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 impaired.

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

- The market's assessment of creditworthiness as reflected in the 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.

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

- Financial assets measured at amortized 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 Group cannot identify the ECL on the loan commitment component separately from those on the drawn component: the Group 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 recognized 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 recognized in the fair value reserve.

General approach to collective or individual assessment

The Group's measurement of expected credit losses is based on the weighted average credit loss. As a result, the measurement of the loss allowance should be the same regardless of whether it is measured on an individual basis or a collective basis although measurement on a collective basis is accepted by the Group if more practical for large portfolios of items.

When it comes to the assessment of whether there has been a significant increase in credit risk it may be necessary to perform the assessment of significant increases in credit risk on a collective basis. Where the Group is not be able to identify significant changes in credit risk on individual financial instruments before the financial instrument becomes past due (e.g. there may be little or no information for an individual retail loan until a customer fails to pay).

The Group assesses significant increase in credit risk on a collective basis. This is because loss allowance based only on credit information at an individual financial instrument level would not faithfully represent the changes in credit risk since initial recognition.

When assessing for significant increases in credit risk and recognizing a loss allowance on a collective basis, financial instruments is grouped on the basis of shared credit risk characteristics to enable significant increases in credit risk to be identified on a timely basis. The Group uses the following for segmentation based on shared credit risk characteristics:

- Product type;
- Industry;
- Sectors

2. Summary of significant accounting policies (Continued)

(i) Financial instruments (Continued)

Collateral

The Group obtains collateral where appropriate, from customers to manage their credit risk exposure to the customer. The collateral normally takes the form of a lien over the customer's assets and gives the Group a claim on these assets for both existing and future customer in the event that the customer defaults.

The Group may also use other credit instruments, such as stock borrowing contracts, and derivative contracts in order to reduce their credit risk.

Collateral received in the form of securities is not recorded on the statement of financial position. Collateral received in the form of cash is recorded on the statement of financial position with a corresponding liability. These items are assigned to deposits received from Group or other counterparties.

Financial liabilities and equity

(i) A financial liability is any liability that is:

- a contractual obligation;
- to deliver cash or another financial asset to another entity (e.g. a payable); or
- to exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavorable to the Group (e.g. a financial option written by the Group); or

(ii) A contract that will or may be settled in the Group's own equity instruments and is:

- a non-derivative contract for which the Group is or may be obliged to deliver a variable number of its own equity instruments (e.g. an instrument that is redeemable in own shares to the value of the carrying amount of the instrument); or
- a derivative contract over own equity that will or may be settled other than by the exchange of a fixed amount of cash (or another financial asset) for a fixed number of the Group's own equity instruments (e.g. a net-share settled written call over own shares). For this purpose, rights, options or warrants to acquire a fixed number of the Group's own equity instruments for a fixed amount of any currency are equity instruments if the Group offers the rights, options or warrants pro rata to all of its existing owners of the same class of its own non-derivative equity instruments. Also for these purposes, the Group's own equity instruments do not include puttable financial instruments that are classified as equity instruments, the instruments that impose on the Group an obligation to deliver to another party a pro rata share of the net assets of the Group only on liquidation and are classified as equity instruments in accordance with, or instruments that are contracts for the future receipt or delivery of the Group's own equity instruments.

The Group's equity instrument is any contract that represents a residual interest in the assets of the Group after deducting all of its liabilities.

The Group classifies all financial liabilities at amortized cost with the exception of derivative liabilities which are FVTPL or where fair value option is elected provided specific criteria are met. Where the Group measures any financial liability at FVTPL, fair value gains or losses related to credit risk are presented separately in other comprehensive income while all other fair value gains or losses are presented in profit or loss.

Contractual obligation to deliver cash or another financial asset

The key feature in determining whether a financial instrument of the Group is a liability is the existence of a contractual obligation of one party (the issuer) to deliver cash or another financial asset to another party (the holder), or to exchange financial assets or liabilities under conditions that are potentially unfavorable. In contrast, in the case of an equity instrument (e.g. ordinary shares) the right to receive cash in the form of dividends or other distributions is at the issuer's discretion and, therefore, there is no obligation to deliver cash or another financial asset to the holder of the instrument. There is an exception to this rule for certain puttable instruments and instruments with an obligation to deliver a pro rata share of net assets only at liquidation.

Items such as deferred revenue and warranty obligations require delivery of goods or services rather than an obligation to deliver cash or another financial asset and, therefore, are not financial liabilities.

2. Summary of significant accounting policies (Continued)

(i) Financial instruments (Continued)

Classification of financial liabilities

All financial liabilities of the Group are classified and subsequently measured at amortised cost using the effective interest rate method except for:

- financial liabilities at fair value through profit or loss (FVTPL);
- financial liabilities that arise when a transfer of a financial asset does not qualify for derecognition or when the continuing involvement approach;
- financial guarantee contracts not designated as at FVTPL that are not accounted for under IFRS 4 - Insurance Contracts; and
- Commitments to provide a loan at a below-market interest.

Financial liabilities that are designated as hedged items are subject to the hedge accounting requirements.

(i) Financial liabilities at FVTPL

This category of financial liabilities can further be divided into the following two sub-categories:

- Financial liabilities classified as held for trading; and
- Financial liabilities designated by the Group as at FVTPL.

(ii) Financial liabilities classified as held for trading

Financial liability of the Group is held for trading if it falls into one of the following categories:

- Financial liabilities incurred principally for the purpose of repurchasing them in the near term;
- Financial liabilities that on initial recognition form part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking; and
- derivative liabilities, unless the derivative is a financial guarantee contract or it forms part of a designated and effective hedging relationship.

The fact that a financial liability of the Group is used to provide funding for trading activities does not of itself mean that liability is to be classified as held for trading. Thus, a borrowing that the Group uses to fund its trading portfolio of debt and equity securities is not automatically be classified as held for trading.

The following are examples of liabilities that would be classified as held for trading and thus included in the FVTPL category:

- an interest rate swap that has negative fair value that is not accounted for as a hedging instrument;
- a derivative liability incurred upon writing a foreign exchange option that is not accounted for as a hedging instrument;
- an obligation to deliver financial assets borrowed by a short seller (i.e. an entity that sells financial assets it has borrowed and does not yet own); and
- a quoted debt instrument that the issuer plans to buy back in the near term depending on movements in the debt instrument's fair value, i.e. a financial liability that is incurred with an intention to repurchase it in the near term.

(iii) Financial liabilities designated as at FVTPL

Financial liability of the Group can only be designated as at FVTPL when it meets one of three specified criteria (see below). The designation is irrevocable so that, once it has been made, the liability cannot subsequently be reclassified into another category during its life.

The Group's financial liability may upon initial recognition be designated as at FVTPL only in one of the following circumstances:

- it eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring assets or liabilities or recognizing the gains and losses on them on different bases (commonly referred to as an 'accounting mismatch');

2. Summary of significant accounting policies (Continued)

(i) Financial instruments (Continued)

Financial liabilities and equity (continued)

(iii) Financial liabilities designated as at FVTPL (Continued)

- a group of financial assets, financial liabilities or both is managed and its performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy, and information about the group is provided internally on that basis to the Group's key management personnel.
- in the case of a hybrid financial liability containing one or more embedded derivatives, the Group may designate the entire hybrid (combined) contract as a financial liability as at FVTPL unless:
 - a. the embedded derivative does not significantly modify the cash flows that otherwise would be required by the contract; or
 - b. it is clear with little or no analysis when a similar hybrid instrument is first considered that separation of the embedded derivative is prohibited (e.g. a prepayment option embedded in a loan that permits the holder to prepay the loan for approximately its amortized cost).

Contracts containing one or more embedded derivative

A hybrid contract of the Group containing one or more embedded derivatives can be designated in its entirety as at FVTPL. Designation is done unless the embedded derivative does not significantly modify the cash flows that otherwise would be required by the contract; or it is clear with little or no analysis when a similar hybrid instrument is first considered that separation of the embedded derivative is prohibited.

Financial liabilities arising from continuing involvement accounting and failed derecognition

When the Group transfers a financial asset but neither retains nor transfers substantially all of the risks and rewards of ownership of a financial asset, and retains control of that asset, the Group continues to recognize the asset to the extent of its continuing involvement. A corresponding liability is also recognized in accordance with and measured so that the net carrying amount of the asset and the liability is:

- The amortized cost of the rights and obligations retained, if the asset is measured at amortized cost; or
- The fair value of the rights and obligations retained (if the asset is measured at fair value).

Reclassification of financial liabilities

The Group does not reclassify financial liabilities in and out of the FVTPL category. The following changes in circumstances are not reclassifications:

- a derivative that was previously a designated and effective hedging instrument in a cash flow hedge or net investment hedge no longer qualifies as such; and
- a derivative becomes a designated and effective hedging instrument in a cash flow hedge or net investment hedge.

Classification of financial liabilities acquired in a business combination

When the Group's financial liabilities are assumed in a business combination, those liabilities are classified in the consolidated financial statements of the acquirer into one of the permitted categories. It is entirely possible that the classification of the Group's financial liability for these purposes may differ from its classification in the financial statements of the acquiree. For example, the Group, in its consolidated financial statements may choose to designate a financial liability as at FVTPL at initial recognition even though the acquiree may have classified it otherwise when it first recognized the liability. These differences can arise because 'initial recognition' from the acquirer's perspective is the date of acquisition of the subsidiary and its classification decisions are made at that date.

Dividends

Dividends of the Bank are recognized in profit or loss only when:

- (a) the Bank's right to receive payment of the dividend is established;
- (b) it is probable that the economic benefits associated with the dividend will flow to the Bank; and
- (c) the amount of the dividend can be measured reliably.

However, if the dividend income clearly represents a recovery of part of the cost of investment, the dividend is not recognized in profit or loss.

2. Summary of significant accounting policies (Continued)**(i) Financial instruments (Continued)***Investment equity securities**Model adopted and the rationale*

Investment in equity instruments are usually FVTPL or elected to be designated at FVTOCI at initial recognition. Investments in the subsidiaries are stated at cost less provision for impairment loss where applicable. Where, in the opinion of the directors, there has been impairment in the value of an investment, the loss is recognised as an expense in the period in which the impairment is identified.

Quoted equity

Whenever the Group has investment in quoted equities, these are usually marked to market at each reporting date.

*Other policies**Written loan commitment*

For written loan commitments of the Group that are not measured at FVTPL the impairment requirements form part of a 'higher of' test with regard to the measurement of the instrument. For example, loan commitments below-market interest rates are measured subsequent to initial recognition at the higher of:

- The amount of the loss allowance determined in accordance with IFRS 9 and
- The amount initially recognized less, when appropriate, cumulative amount of income recognized in accordance with the principles of IFRS 15- Revenue from Contracts with Customers.

Financial guarantee contracts

Similar to loan commitments, the impairment requirements are applicable to the subsequent measurement of all written financial guarantee contracts of the Group that are in the scope of IFRS 9 and that are not measured at FVTPL. These are measured at the higher of:

- The amount of the loss allowance determined in accordance with IFRS 9 and
- The amount initially recognized less, when appropriate, cumulative amount of income recognized in accordance with the principles of IFRS 15- Revenue from Contracts with Customers.

*Modification of loans**Modifications leading to derecognition*

Where the renegotiation or modification of the contractual cash flows of a financial asset lead to the derecognition of the existing financial asset in accordance with IFRS 9 the modified asset is considered a 'new' financial asset for the purposes of IFRS 9. Accordingly, the date of the modification should be treated as the date of initial recognition of that financial asset when applying the impairment requirements to the modified financial asset. This typically means measuring the loss allowance at an amount equal to 12-month expected credit losses until the criteria for the recognition of lifetime expected credit losses is met.

However, in some unusual circumstances following a modification that results in derecognition of the original financial asset, there may be evidence that the modified financial asset is credit-impaired at initial recognition, and thus, the financial asset should be recognized as an originated credit-impaired financial asset. This might occur, for example, in a situation in which there was a substantial modification of a distressed asset that resulted in the derecognition of the original financial asset. In such a case, it may be possible for the modification to result in a new financial asset which is credit-impaired at initial recognition.

Modifications not leading to derecognition

If the contractual cash flows on a financial asset have been renegotiated or modified and the financial asset is not derecognized, the Group assesses whether there has been a significant increase in the credit risk of the financial instrument by comparing:

- the risk of a default occurring at the reporting date (based on the modified contractual terms); and
- the risk of a default occurring at initial recognition (based on the original, unmodified contractual terms).

When assessing whether there has been significant increases in credit risk since initial recognition the Group uses all reasonable and supportable information that is available without undue cost or effort. This includes historical and forward-looking information and an assessment of the credit risk over the expected life of the financial asset, which includes information about the circumstances that led to the modification.

2. Summary of significant accounting policies (Continued)

(i) Financial instruments (Continued)

Other policies (continued)

Modification of loans (continued)

Modifications leading to derecognition (continued)

If the contractual cash flows on a financial asset have been renegotiated or otherwise modified, but the financial asset is not derecognised, that financial asset is not automatically considered to have lower credit risk. Evidence that the criteria for the recognition of lifetime expected credit losses are no longer met may include a history of up to date and timely payment performance against the modified contractual terms. Typically a customer would need to demonstrate consistently good payment behavior over a period of time before the credit risk is considered to have decreased. For example, a history of missed or incomplete payments would not typically be erased by simply making one payment on time following a modification of the contractual terms.

30 day rebuttable presumption

The Group assumes a rebuttable presumption that the credit risk on a financial asset has increased significantly since initial recognition when contractual payments are more than 30 days past due. Consequently, when the Group determines that there have been significant increases in credit risk before contractual payments are more than 30 days past due, the rebuttable presumption does not apply.

90 day rebuttable presumption

The Group assumes a rebuttable presumption that a default does not occur later than when a financial asset is 90 days past due unless the Group has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

Cure definition under IFRS 9

The Group's definition of cure, is the extent to which financial assets return to a performing status from a non-performing status. Payment of amounts in arrears constitutes cure.

Deterioration definition

This is the rate at which modified loans that revert to 12 month expected losses on modification then subsequently move to lifetime expected credit losses.

Default definition under IFRS 9

The Group has established its own policy for what it considers a default, and applied a definition consistent with that used for internal credit risk management purposes for the relevant financial instrument. The Group considers qualitative indicators (e.g. financial covenants) when appropriate. The definition of default used for these purposes is applied consistently to all financial instruments unless information becomes available that demonstrates that another default definition is more appropriate for a particular financial instrument. The default point is defined at 90 days.

Recognition of regular way purchases and sales of financial assets

Regular way purchase or/and sale of the Group's financial assets can be recognised (and derecognised) using either trade date or settlement date accounting. The method used is applied consistently for all purchases and sales of financial assets that belong to the same category.

When trade date accounting is applied, the Group recognises the financial asset to be received and the corresponding liability to pay for it at the trade date; on disposal, the financial asset is removed from the statement of financial position on the trade date.

When the settlement approach is applied, the asset is recognised on the date on which it is received by the Group; on disposal, the asset is not derecognised until the asset is delivered to the buyer. When the purchase of an asset is accounted for using settlement date accounting, between the trade date and settlement date, although the asset itself is not yet recognised, the Group accounts for changes in its fair value, applying the same measurement basis that will be used to account for the acquired asset once it is recognised; therefore, changes in fair value are recognised in profit or loss for assets classified or designated as at FVTPL, in other comprehensive income (OCI) for assets designated as at fair value through other comprehensive income, and not recognised for assets measured at amortized cost.

2. Summary of significant accounting policies (Continued)

(i) Financial instruments (Continued)

Other policies (continued)

Valuation techniques:

When the price for an asset or a liability cannot be observed directly, it must be estimated using a valuation technique. When used in the context of fair value measurement, 'valuation technique' is a generic term and its application is not limited to complex fair valuation models. For example, valuing an asset or a liability using quoted prices in an active market for identical assets and liabilities is a valuation technique. In other cases, when prices cannot be observed directly and more judgement is required the Group may use more complex valuation techniques.

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

Observable inputs are defined as inputs that are developed using market data, such as publicly available information about actual events or transactions, and that reflect the assumptions that market participants would use when pricing the asset or liability. Unobservable inputs are defined as inputs for which market data are not available and that are developed using the best information available about the assumptions that market participants would use when pricing the asset or liability.

(a) Market approach

The 'market approach' is defined as a valuation technique that uses prices and other relevant information generated by market transactions involving identical or comparable (i.e. similar) assets, liabilities or a group of assets and liabilities, such as a business. A quoted price for an identical asset or liability in an active market that the Group can access at the measurement date provides the most reliable evidence of fair value. Quoted prices for the identical asset or liability are regarded as Level 1 inputs within the fair value hierarchy. When a quoted price exists for an identical asset or liability, it should be used without adjustment, except in the circumstances below:

- When the Group holds a large number of similar (but not identical) assets or liabilities (e.g. debt securities) that are measured at fair value and a quoted price in an active market is available but not readily accessible for each of those assets or liabilities individually (i.e. given the large number of similar assets or liabilities held by the Group, it would be difficult to obtain pricing information for each individual asset or liability at the measurement date). In such circumstances, as a practical expedient, the Group may measure fair value using an alternative pricing method that does not rely exclusively on quoted prices (e.g. matrix pricing). However, the use of an alternative pricing method results in a fair value measurement categorized within a lower level of the fair value hierarchy.
- When a quoted price in an active market does not represent fair value at the measurement date. That might be the case if, for example, significant events (such as transactions in a principal-to-principal market, trades in a brokered market or announcements) take place after the close of a market but before the measurement date. The Group shall establish and consistently apply a policy for identifying those events that might affect fair value measurements. However, if the quoted price is adjusted for new information, the adjustment results in a fair value measurement categorized within a lower level of the fair value hierarchy.
- When measuring the fair value of a liability or the Group's own equity instrument using the quoted price for the identical item traded as an asset in an active market and that price needs to be adjusted for factors specific to the item or the asset. If no adjustment to the quoted price of the asset is required, the result is a fair value measurement categorised within Level 1 of the fair value hierarchy. However, any adjustment to the quoted price of the asset results in a fair value measurement categorised within a lower level of the fair value hierarchy.

When a quoted price for an asset or a liability exists in multiple active markets, the Group identifies the market and price which represents fair value for the specific facts and circumstances.

Valuation techniques consistent with the market approach often use market multiples derived from a set of comparable assets or liabilities. A range of multiples may be derived, with a different multiple for each comparable asset or liability. The selection of the appropriate multiple within the range requires the exercise of judgement – with appropriate consideration of the qualitative and quantitative factors specific to the measurement.

Valuation techniques consistent with the market approach include matrix pricing. Matrix pricing is a mathematical technique used principally to value some types of financial instruments, such as debt securities, without relying exclusively on quoted prices for the specific securities, but rather relying on the securities' relationship to other benchmark quoted securities.

2. Summary of significant accounting policies (Continued)

(i) Financial instruments (Continued)

Other policies (continued)

Valuation techniques (continued)

(b) Cost/replacement cost approach

The 'cost approach' is defined as a valuation technique that reflects the amount that would be required currently to replace the service capacity of an asset (often referred to as current replacement cost). This method is often used to measure the fair value of tangible assets that are used in combination with other assets or with other assets and liabilities.

(c) Income approach

The 'income approach' is defined as valuation techniques that convert future amounts (e.g. cash flows or income and expenses) to a single current (i.e. discounted) amount.

The fair value measurement is determined on the basis of the value indicated by current market expectations about those future amounts. Income approaches that are used for measuring the fair value of financial instruments include, for example:

- present value techniques and
- option pricing models, such as Black-Scholes-Merton formula or a binomial model (i.e. a lattice model), that incorporate present value techniques and reflect both the time value and the intrinsic value of an option.

This approach describes two types of present value techniques:

- the discount rate adjustment technique and
- the expected cash flow (expected present value) technique does not specifically require that one of these present value techniques be used. The most appropriate present value technique for the measurement of fair value in a particular scenario will depend on the facts and circumstances specific to the asset or liability being measured (e.g. whether prices for comparable assets or liabilities can be observed in the market) and the availability of sufficient data.

Disclosure requirements

The Group groups financial instruments into classes that are appropriate to the nature of the information disclosed and that take into account the characteristics of those financial instruments. The classes reconciled to the line items presented in the statement of financial position.

The classes are determined by the Group and are distinct from the categories of financial instruments. The classes distinguish between those financial instruments that are measured at amortized cost and those that are measured at fair value. Amortized cost financial assets are the financial instrument category that comprise various classes such as term loans, overdraft, unsecured medium-term loans etc.

Categories of financial assets and financial liabilities

The Group discloses the carrying amount for each financial instrument category as defined by IFRS 9 either in the statement of financial position or in the notes to the financial statements. The carrying amounts of each of the following categories are disclosed:

- a. financial assets measured at fair value through profit or loss, showing separately
 - i. those designated as such upon initial recognition or where a credit exposure is subsequently measured at FVTPL and
 - ii. those mandatorily measured at fair value in accordance with IFRS 9
- b. financial liabilities at fair value through profit or loss, showing separately
 - i. those designated as such upon initial recognition or where a credit exposure is subsequently measured at FVTPL and
 - ii. those that meet the definition of held for trading in IFRS 9;
- c. financial assets measured at amortized cost;
- d. financial liabilities measured at amortized cost; and
- e. financial assets measured at fair value through other comprehensive income, showing separately:
 - i. financial assets that are measured at fair value through other comprehensive income in accordance with (e.g. debt instruments that are held within a business model that is collecting contractual cash flows and selling financial assets); and
 - ii. investments in equity instruments designated as such upon initial recognition.

2. Summary of significant accounting policies (Continued)**(i) Financial instruments (Continued)***Disclosure requirements (Continued)**Financial assets at FVTPL*

If the Group designates certain debt instruments (or a group of debt instruments) as at fair value through profit or loss (FVTPL), it provides extensive disclosures.

The Group discloses the following information for financial assets (or groups of financial assets) that have been designated as measured at fair value through profit or loss:

- the maximum exposure to credit risk of the financial asset (or group of financial assets) designated as at fair value through profit or loss, or group of financial assets, at the end of the reporting period;
- the amount by which any related credit derivatives or similar instruments mitigate that maximum exposure to credit risk;
- the amount of change, during the period and cumulatively, in the fair value of the financial asset (or group of financial assets), that is attributable to changes in the credit risk of the financial asset determined either:
 - as the amount of change in its fair value that is not attributable to changes in market conditions that give rise to market risk; or
 - using an alternative method the Group believes more faithfully represents the amount of change in its fair value that is attributable to changes in the credit risk of the asset.
- changes in market conditions that give rise to market risk include changes in an observed (benchmark) interest rate, commodity price, foreign exchange rate or index of prices or rates; and
- the amount of the change in the fair value of any related credit derivatives or similar instruments that has occurred during the period and cumulatively since the financial asset was designated.

In addition, the Group discloses:

- the methods used to comply with the requirements in (c) above; and
- if the Group believes that the disclosure it has given to comply with the requirements in (c) above does not faithfully represent the change in the fair value of the financial asset attributable to changes in its credit risk, the reasons for reaching this conclusion and the factors it believes are relevant.

Financial liabilities at FVTPL

When the Group has designated financial liabilities as at FVTPL, it discloses, in particular the reporting entity's credit worthiness.

The disclosure requirements vary depending on whether all of the fair value gains or losses are recognized in profit or loss or whether only part of the fair value gains or losses are recognised in profit or loss because the effects of changes in the liability's credit risk are recognized in other comprehensive income.

If the Group has designated a financial liability as at FVTPL, it presents the effects of changes in that liability's credit risk in other comprehensive income, it discloses:

- the cumulative change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability;
- the difference between the financial liability's carrying amount and the amount the Group would be contractually required to pay at maturity to the holder of the obligation;
- any transfers of the cumulative gain or loss within equity during the period, including the reason for such transfers;
- if a liability is derecognised during the period, the amount (if any) presented in other comprehensive income that was realised at derecognition.

If the Group designates a financial liability as at FVTPL and is required to present all changes in the fair value of that liability (including the effects of changes in the credit risk of the liability) in profit or loss, it discloses:

- the amount of change, during the period and cumulatively, in the fair value of the financial liability that is attributable to changes in the credit risk of that liability; and
- the difference between the financial liability's carrying amount and the amount the Group would be contractually required to pay at maturity to the holder of the obligation.

2. Summary of significant accounting policies (Continued)

(i) Financial instruments (Continued)

Disclosure requirements (Continued)

Write off

The Group writes off a loan and advance balance (and any related allowance for impairment losses) when Group credit determines that there is no realistic prospect of recovery. This is reached after considering information such as a significant change in the borrower/issuers financial position such that the borrower/issuer can no longer pay the obligation, or that proceeds from collateral will not be sufficient to pay the bank the entire exposure. The Group shall seek to recover amounts it is legally owed in full but which have been partially written off due to reasonable expectation that the amount will not be recovered in full.

Reclassification

When financial assets of the Group are reclassified from amortized cost to FVTPL, or vice versa, as a result of a change in the Group's business model for managing financial assets, the Group discloses:

- the date of reclassification;
- detailed explanation of the change in business model and a qualitative description of its effect on the Group's financial statements; and
- the amount reclassified into and out of each category.

For each reporting period following reclassification until derecognition, when a financial asset of the Group is reclassified from FVTPL to amortized cost, the Group discloses the effective interest rate determined on the date of reclassification and the interest income or expense recognized. If since its last annual reporting date the Group has reclassified financial assets so that they are measured at amortized cost, it discloses:

- the fair value of the financial assets at the end of the reporting period; and
- the fair value gain or loss that would have been recognized in profit or loss during the reporting period if the financial assets had not been reclassified.

(j) Leases

The Group 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.

Policy applicable from 1 January 2019

At inception of a contract, the Group 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 Group uses the definition of a lease in IFRS 16.

This policy is applied to contracts existent (or changed) on or after 1 January 2019.

2. Summary of significant accounting policies (Continued)**(j) Leases (Continued)****Policy applicable from 1 January 2019 (Continued)****(i) Group acting as a lessee**

At commencement or on modification of a contract that contains a lease component, the Group allocates consideration in the contract to each lease component on the basis of its relative standalone price. However, for leases of branches and office premises the Group has elected not to separate non-lease components and accounts for the lease and non-lease components as a single lease component.

The Group 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 Group's incremental borrowing rate. Generally, the Group uses its incremental borrowing rate as the discount rate.

The Group 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 Group is reasonably certain to exercise, lease payments in an optional renewal period if the Group is reasonably certain to exercise an extension option, and penalties for early termination of a lease unless the Group 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 Group's estimate of the amount expected to be payable under a residual value guarantee, if the Group 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 Group has disclosed the lease liability and right-of-use assets separately in the statement of financial position.

Short-term leases and leases of low-value assets

The Group 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 equipment. The Group recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

(ii) Group acting as a lessor

At inception or on modification of a contract that contains a lease component, the Group allocates the consideration in the contract to each lease component on the basis of their relative stand-alone selling prices. When the Group 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 Group 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 Group considers certain indicators such as whether the lease is for the major part of the economic life of the asset.

2. Summary of significant accounting policies(Continued)

(j) Leases (Continued)

Policy applicable before 1 January 2019

For contracts entered into before 1 January 2019, the Group 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.

(a) As a lessee

The Group 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 Group'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.

(b) As a lessor

When the Group 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 Group 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 Group considered certain indicators such as whether the lease was for the major part of the economic life of the asset.

(k) Sale and repurchase agreements

Securities purchased from Central Bank of Kenya under agreements to resell ('repos') are disclosed as Treasury bills as they are held at amortised cost after they are purchased and are not negotiable/discounted during the tenure. 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 sold subject to repurchase agreement (reverse repos) are classified in the financial statements as pledged assets when the transferee has a right by contract to resell the collateral: the counter liability is included in amounts due to other banks, deposits from banks or balances due to Central Bank as appropriate.

(l) Statutory loan loss reserve

Where impairment losses required by the regulators exceed those computed under IFRS, the excess is recognised as a statutory loan loss reserve and is accounted for as an appropriation of retained earnings. The statutory loan loss reserve is not distributable.

(m) Income tax expense

Current income tax is the amount of income tax payable on the profit for the year determined in accordance with the Kenyan Income Tax Act and in accordance with the tax legislation for the respective subsidiaries. The tax expense for the period comprises current and deferred income tax. Tax is recognised in profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity respectively.

Deferred income tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, deferred 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.

2. Summary of significant accounting policies(Continued)**(m) Income tax expense (Continued)**

Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted at 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 profits will be available against which the temporary differences can be utilised.

(n) Share capital and premium

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

(o) Earnings per share

Basic and diluted earnings per share (EPS) data for ordinary shares are presented in the financial statements. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Group by the weighted average number of ordinary shares outstanding during the period. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares, if any.

(p) Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held at call with banks, other short-term highly liquid investments with maturities of three months or less from the date of acquisition, including: cash and balances with the Central Banks and amounts due from other banks. Cash and cash equivalent exclude the cash reserve requirement held with the Central Banks.

(q) Employee benefits***(i) Defined contribution plan***

The Group operates a defined contribution retirement scheme, the assets of which are held in a separate trustee-administered fund. The Group's contributions to the defined contribution scheme are charged to the statement of profit or loss in the year to which they relate. The Group has no further payment obligation once the contributions have been paid. The Group and all its employees also contribute to the National Social Security Fund, operating in the respective countries, which is a defined contribution scheme.

(ii) Other short term employee benefits

Short term employee benefits are expensed as the related service is provided. A liability is recognised for the amount expected to be paid if the Group has present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

(r) Proposed dividends

Dividends on ordinary shares are charged to equity in the period in which they are declared. Proposed dividends are shown as a separate component of equity until approved by the shareholders at the Annual General Meeting.

(s) Forward foreign exchange contracts

Forward foreign exchange contracts are carried at their fair value. Forward foreign exchange contracts are initially recognised at fair value, which is equal to cost on the date the contract is entered into, and are subsequently measured at fair value. The fair value is determined using forward exchange market rates at the balance sheet date. Changes in fair value of forward foreign exchange contracts are recognised immediately in the statement of profit or loss.

(t) Acceptances, guarantees and letters of credit

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

(u) Related party transactions

The Group discloses the nature, volume and amounts outstanding at the end of each financial year from transactions with related parties, which include transactions with the directors, executive officers and Group or related companies. All transactions with related parties are at commercial terms in the normal course of business, and on terms and conditions similar to those applicable to other customers.

2. Summary of significant accounting policies(Continued)

(v) Segment reporting

A segment is a distinguishable component of the Group that is engaged in providing products or services within a particular economic environment which is subject to risks and rewards that are different from those of other segments (Geographic segments). Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker.

The chief operating decision-maker is the person or Group that allocates resources to and assesses the performance of the operating segments of an entity. The Group has determined the Board of Directors as its chief operating decision-maker. All transactions between business segments are conducted on commercial terms basis with intra-segment revenue and costs being eliminated at Group level.

3. Critical accounting estimates and judgements in applying accounting policies

The Group makes estimates and assumptions that affect the reported amounts of assets and liabilities. 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.

(a) Judgements

Information about judgements made in applying accounting policies that have the most significant effects on the amounts recognised in the consolidated financial statements includes the following;

- Classification of financial assets: assessment of the business model within which the assets are held and assessment of whether the contractual terms of the financial asset are SPPI on the principal amount outstanding.
- Impairment of financial assets classified as amortised cost and FVTOCI: The most significant judgements relate to defining what is considered to be a significant increase in credit risk, determining lifetime expected credit losses and in making assumptions and estimates to incorporate relevant information about past events, current conditions and forecasts of economic conditions. A high degree of uncertainty is involved in making assumptions that are highly subjective and sensitive to risk factors.
- Establishing the criteria for determining whether credit risk on the financial asset has increased significantly since initial recognition, determining methodology for incorporating forward-looking information into measurement of ECL and selection and approval of models used to measure ECL.
- Determination of control over investees.

(b) Assumptions and estimation uncertainties

(i) Income taxes

Significant estimates are required in determining the provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. Where the final tax outcome is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

(ii) Impairment of goodwill

The Group tests annually whether goodwill has suffered any impairment, in accordance with the accounting policy stated in Note 2(h). The recoverable amounts from each cash generating unit have been determined based on value in use calculations. These calculations are based on financial budgets approved by the board covering a three year period. The discounts rates applied on the cashflows is based on the local currency lending rates for the respective countries where the subsidiaries are based. The carrying amount of the goodwill and the key assumptions made are set out in Note 23.

(iii) Determination of the incremental borrowing rate

The bank determines the rate of interest that it would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right of use asset in a similar economic environment.

(iv) Lease extension and termination

Extension and termination options are included in a number of property and equipment leases across the Group. In determining the lease term, management considers all facts and circumstances that create an economic incentive to exercise an extension option, or not exercise a termination option. Extension options (or periods after termination options) are only included in the lease term if the lease is reasonably certain to be extended (or not terminated). The assessment is reviewed if a significant event or a significant change in circumstances occurs which affects this assessment and that is within the control of the lessee.

4. Financial risk management

Introduction

Effective risk management is fundamental to the business activities of the Group. Whilst we remain committed to the objective of increasing shareholder value by developing and growing our business in a way that is consistent with our board-determined risk appetite, we are also cognisant of the need to balance this objective with the interests of depositors, debt holders and our regulators. We seek to achieve an appropriate balance between risk and reward in our business, and continue to build and enhance the risk management capabilities that assist in delivering our growth plans in a controlled environment. Risk management is at the core of the operating structures of the Group. The Group seeks to limit adverse variations in earnings and equity by managing the risk exposures and capital within agreed levels of risk appetite.

Managing and controlling risks, minimising undue concentrations of exposure and limiting potential losses from stress events are all essential elements of the Group's risk management and control framework. The risks are managed through a framework, organisational structure, risk management and monitoring processes that are closely aligned with the activities of the Group and in line with the guidelines given by the Central Bank of Kenya (CBK) or the regulators under which it is operating in other countries.

The Group defines risk as an event or events of uncertainty which can be caused by internal or external factors resulting in the possibility of losses (downside risk). However, the Group appreciates that some risk events may result into opportunities (upside risk) and should therefore be actively sought and enhanced.

The Group operates in an environment of numerous risks as shown below that may cause financial and non-financial results to differ significantly from anticipated objectives. The Group has an enterprise-wide approach to the identification, measurement, monitoring and management of risks faced across the organisation.

These risks are classified as follows;

- Credit risk
- Liquidity risk
- Market risks that fall within:
 - Interest rate risk
 - Price risk
 - Foreign exchange risk

The main pillars of the Group's risk management framework are set out below:

(a) Active Board and Senior Management Oversight

The Board and the Senior management bear the responsibility of implementing strategies in a manner that limits risks associated with each strategy. Management is therefore fully involved in the activities of the bank and possess sufficient knowledge of all major business lines to ensure that appropriate policies, procedures, controls and risk monitoring systems are in place and that accountability and lines of authority are clearly delineated.

(b) Adequate Policies, Procedures and Limits

The Group's policies, procedures and limits provide for adequate and timely identification, measurement, monitoring, control and mitigation of the risks posed by its lending, investing, trading, off balance sheet and other significant activities at the business/functional line and bank-wide levels. These clearly delineate accountability and lines of authority across the Bank's various business activities, and ensure there is a clear segregation between business/ functional lines and the risk function as well as escalate and address breaches of limits.

(c) Adequate Risk Monitoring and Management Information Systems

The Group maintains an effective MIS system that facilitates the Bank's risk monitoring practices and avails risk reports that address all of its material risks for both management and board purposes.

(d) Internal Controls

The Group maintains a system of internal controls consistent to the type and level of risks posed by the nature and scope of its business activities. This also includes clearly delineated lines of authority and responsibility for monitoring adherence to policies, procedures, and limits.

4. Financial risk management (Continued)

Risk management principles

The following key principles form part of our approach to risk management.

- The Board of directors provides overall risk & capital management supervision of the bank. The Board, through its comprehensive sub-committee structure, oversees risk management, reviews and approves enterprise-wide risk policies and procedures and sets tolerance limits wherever required. The procedures describe the facility types, aggregate facility exposures and conditions under which the Group is prepared to do business.
- The risk management function is independent of the Group's business and operating units. This function, which is headed by the Head of Risk and Compliance, manages Credit, Market, Reputational, Strategic and Regulatory risks on an integrated basis.
- Various committees at functional level oversee the implementation of risk management policies and procedures. These committees are closely aligned with the structure of the Group's business and operating units.
- Market and liquidity risks are overseen by the Board Risk Management Committee (BRMC) and managed by a well-represented Asset and Liabilities Committee (ALCO). The members of ALCO are the Chief Executive Officer and the heads of Risk, Treasury, Finance and business units.
- The compliance function is independent of the Group's business and operating units, reporting to the Board Audit & Compliance Committee on a quarterly basis. The function, on a pro-active basis, identifies and assesses the compliance and operational risks associated with the Group's business. It helps management accomplish its objectives by addressing the current and prospective risk to earnings or capital arising from violations or on non-conformance with laws, rules, regulations, prescribed practice or ethical standards issued by the Board and the regulator from time to time.
- The Credit and Operational Risk Management committees are responsible for defining and implementation of their respective policies and procedures. The work of these two management committees is overseen by the Board Credit Committee and Board Risk Management Committee respectively.
- Independent review of the effectiveness of the overall risk framework is undertaken by the internal audit function which reports directly to the Board Audit & Compliance Committee. The Internal audit department independently monitors the effectiveness of the risk management programs and internal controls through periodic testing of the design and operations of processes related to identification, measurement or assessment, monitoring, controlling and reporting of risks.
- External audit has a statutory duty to report its independent opinion on the Group's financial statements to shareholders and acts as a third line of defence.

(a) Credit risk management

Credit risk is the risk of loss due to the failure of a borrower to meet its credit obligations in accordance with agreed contract terms. It arises principally from, but is not limited to, commercial loans and advances, commitments from forward foreign exchange contracts, financial guarantees, letters of credit and acceptances, investments in debt securities and other exposures arising from trading and settlement activities with market counterparties.

Credit risk makes up the largest part of the Group's risk exposures. The Group's credit process is governed by centrally established credit policies and procedures, rules and guidelines with an aim to maintain a well-diversified credit portfolio. Credit risk policies and procedures are reviewed by the management and are approved by the Board. The Group has a system of checks and balances in place around the extension of credit that comprise of:

- an independent credit risk management function;
- multiple credit approvers; and
- independent audit, risk review and compliance functions.

The Group's Credit Policy reflects the Groups' tolerance for risk i.e. credit risk appetite. This, as a minimum, reflects the Groups' strategy to grant credit based on various products, economic sectors, client segments, target markets giving due consideration to risks specific to each target market.

Salient features of the Group's risk approval process include:

- Every extension of credit to any counterparty requires approval by various pre-defined levels of approving authorities as defined in the Credit Policy manual.
- All business units must apply consistent standards in arriving at their credit decisions.
- Every material change to a credit facility requires approval at the appropriate/pre-defined level.

4. Financial risk management (Continued)

(a) Credit risk management (Continued)

The disbursement of credit facilities at each Group bank is managed by a centralised Credit Administration Department (CAD), reporting to the respective Risk Management function. CAD is also responsible for collateral/documents management including safe-keeping.

The Group monitors its credit portfolio on a continuing basis. Procedures are in place to identify, at an early stage, credit exposures for which there may be a risk of loss. The objective of an early warning system is to address potential problems while various options may still be available. Early detection of problem loans is a tenet of our credit culture and is intended to ensure that greater attention is paid to such exposure. The Bank has an established Debt Recovery Unit to focus on expediting recoveries of problem credits. The Unit negotiates with problem borrowers and recommends restructuring and rescheduling of stuck up loans to the Management, the Board Credit Committee and the full Board. For cases where the possibilities of economically viable means of recovery are exhausted, legal proceedings are initiated.

Significant increase in credit risk

As explained in Note 2 under the policies, the Group monitors all financial assets that are subject to impairment requirements to assess whether there has been a significant increase in credit risk since initial recognition. If there has been a significant increase in credit risk the Group will measure the loss allowance based on lifetime rather than 12-month ECL.

The Group applies qualitative and quantitative criteria for stage classification and for its forward and backward migration. Significant increase in credit risk may include indications of a financial asset experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation, and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

The Group presumes that the credit risk on a financial asset has increased significantly since initial recognition when contractual payments are more than 30 days past due unless the Group has reasonable and supportable information that demonstrates otherwise. As a backstop, the Group considers that a significant increase in credit risk occurs no later than when an asset is 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. The Group has monitoring procedures in place to make sure that the criteria used to identify significant increases in credit are effective, meaning that significant increase in credit risk is identified before the exposure is defaulted or when the asset becomes 30 days past due.

Definition of default

The Group considers a financial asset to be in default when

- the borrower is unlikely to pay its credit obligations to the Group in full, without recourse by the Group 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 Group.
- 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 Group 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 Group; 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.

Incorporation of forward-looking information

The Group uses forward-looking information that is available without undue cost or effort in its assessment of significant increase of credit risk as well as in its measurement of expected credit loss (ECL). The Group sources macroeconomic information from a reputable data vendor that sources and forecasts using information from World Bank, International Monetary Fund (IMF), Economist Intelligence Unit (EIU), Central Bank of Kenya (CBK), Kenya National Bureau of Statistics (KNBS) among others. These sources have invested in statistical modelling tools and procedures that over the years has made them reputable and reliable. The base case scenario is the single most-likely outcome. The table below summarises the principal macroeconomic indicators included in the economic scenarios used at 31 December 2019 for the years 2020 to 2024, for Kenya which is the country where the parent operates and therefore is the country that has a material impact in ECLs.

Notes (Continued)

4. Financial risk management (Continued)

(a) Credit risk management (Continued)

Significant increase in credit risk

	2020	2021	2022	2023	2024
GDP: Nominal GDP, USD, % y-o-y					
- Base case	0.100	0.069	0.073	0.081	0.080
- Best case	0.107	0.074	0.078	0.087	0.086
- Worst case	0.093	0.064	0.068	0.076	0.075
GDP: GDP per capita, KES, % y-o-y					
- Base case	0.092	0.090	0.089	0.093	0.093
- Best case	0.095	0.094	0.092	0.097	0.097
- Worst case	0.088	0.086	0.085	0.089	0.089
MONEY SUPPLY: M3, % y-o-y					
- Base case	0.090	0.090	0.090	0.090	0.090
- Best case	0.095	0.095	0.095	0.095	0.095
- Worst case	0.085	0.085	0.085	0.085	0.085
FISCAL: Total revenue, KES, % y-o-y					
- Base case	0.079	0.128	0.121	0.121	0.120
- Best case	0.086	0.140	0.132	0.133	0.131
- Worst case	0.072	0.116	0.109	0.110	0.109
FOREIGN RESERVES: Foreign reserves ex gold, USDbn, % y-o-y					
- Base case	0.051	0.073	0.100	0.100	0.100
- Best case	0.060	0.085	0.116	0.117	0.117
- Worst case	0.043	0.061	0.083	0.083	0.083
EXCHANGE RATE: KES/USD, eop % y-o-y					
- Base case	0.044	0.041	0.035	0.032	0.037
- Best case	0.041	0.038	0.032	0.029	0.034
- Worst case	0.047	0.044	0.037	0.034	0.039
INTEREST RATES: Lending rate, %, eop					
- Base case	0.118	0.118	0.118	0.118	0.118
- Best case	0.115	0.115	0.115	0.115	0.115
- Worst case	0.121	0.121	0.121	0.121	0.121
INFLATION: Consumer price inflation, % y-o-y, eop					
- Base case	0.061	0.060	0.065	0.065	0.065
- Best case	0.057	0.056	0.060	0.060	0.060
- Worst case	0.065	0.065	0.070	0.070	0.070

Predicted relationships between the key indicators and default and loss rates on various portfolios of financial assets have been developed based on analysing historical data over the past 8 years.

4. Financial risk management (Continued)

(a) Credit risk management (Continued)

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.

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 probability of default (PD) at the reporting date based on the modified terms; with
- the remaining lifetime probability of default (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 Group renegotiates loans to customers in financial difficulties (referred to as 'forbearance activities') to maximise collection opportunities and minimise the risk of default. Under the Group'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 Group Credit Committee regularly reviews reports on forbearance activities. For financial assets modified as part of the Group's forbearance policy, the estimate of PD reflects whether the modification has improved or restored the Group's ability to collect interest and principal and the Group's previous experience of similar forbearance action. As part of this process, the Group 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 (see Note 2).

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 used for measuring ECL are:

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

As explained above these figures are generally derived from internally developed statistical models and other historical data and they are adjusted to reflect probability-weighted forward-looking information.

PD is an estimate of the likelihood of default over a given time horizon. It is estimated as at a point in time. PD parameter is calculated for each non-defaulted risk group within given risk portfolio. For each risk portfolio separate migration matrix is constructed. The method of PD parameter estimation was based on the migrations of principal balance.

Calculation of transition matrices under transaction approach will be applied to different segments such as trade, manufacturing, tourism, real estate etc. The transaction approach is applied in order to reflect the significant differences in respect of risk profile between particular segments. Therefore, risk parameters are calculated for each risk portfolio (segment) separately.

Under this method, migrations are weighted with principal and thus the quarterly migration matrix presents the probabilities that 1 unit of exposure (e.g. 1 Shs) will migrate to defined statuses over a month or year within a given risk portfolio.

LGD is an estimate of the loss arising on default. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, taking into account cash flows from any collateral. The LGD models for secured assets consider forecasts of future collateral valuation taking into account time to realisation of collateral cost of realisation of collateral and cure rates (i.e. exit from non-performing status). LGD models for unsecured assets consider time of recovery and recovery rates. The calculation is on a discounted cash flow basis, where the cash flows are discounted by the original effective interest rate (EIR) of the loan.

4. Financial risk management (Continued)

(a) Credit risk management (Continued)

Measurement of ECL (Continued)

EAD is an estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date, including repayments of principal and interest, and expected drawdowns on committed facilities. The Group's modelling approach for EAD reflects expected changes in the balance outstanding over the lifetime of the loan exposure that are permitted by the current contractual terms, such as amortisation profiles, early repayment or overpayment, changes in utilisation of undrawn commitments and credit mitigation actions taken before default. The Group uses EAD models that reflect the characteristics of the portfolios.

The Group measures ECL considering the risk of default over the maximum contractual period (including extension options) over which the entity is exposed to credit risk and not a longer period, even if contract extension or renewal is common business practice. However, for financial instruments such as credit cards, revolving credit facilities and overdraft facilities that include both a loan and an undrawn commitment component, the Group's contractual ability to demand repayment and cancel the undrawn commitment does not limit the Group's exposure to credit losses to the contractual notice period.

Credit quality analysis

An analysis of the Group's credit risk exposure per class of financial asset and "stage" without taking into account the effects of any collateral or other credit enhancements is provided in the following table. 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.

Notes (Continued)

4. Financial risk management (Continued)

(a) Credit risk management (Continued)

Credit quality analysis (Continued)

Group

On balance sheet facilities

Loans and advances to customers at amortised cost

Gross carrying amount as at 31 December 2018
and 01 January 2019

Changes in the gross carrying amount

– Transfer to stage 1

– Transfer to stage 2

– Transfer to stage 3

New financial assets originated or purchased

Financial assets that have been derecognised

Write-offs

Other changes

Gross carrying amount as at 31 December 2019

Loss allowance as at 31 December 2019

Net carrying Amount as at 31 December 2019

Stage 1 12-month ECL Shs'000	Stage 2 Lifetime ECL Shs'000	Stage 3 Lifetime ECL Shs'000	POCI Shs'000	Total Shs'000
157,559,137	31,410,786	12,145,324	-	201,115,247
11,491,649	(11,317,093)	(174,556)	-	-
(13,357,958)	13,468,797	(110,839)	-	-
(1,789,340)	(2,801,935)	4,591,275	-	-
69,967,824	15,111,543	156,944	-	85,236,311
(63,172,163)	(12,370,716)	(750,329)	-	(76,293,208)
(153,632)	(208,479)	(1,665,566)	-	(2,027,677)
(672,579)	(434,554)	(586,133)	-	(1,693,266)
159,872,938	32,858,349	13,606,120	-	206,337,407
1,345,418	1,102,647	4,516,876	-	6,964,941
158,527,520	31,755,702	9,089,244	-	199,372,466

Notes (Continued)

4. Financial risk management (Continued)

(a) Credit risk management (Continued)

Credit quality analysis (Continued)

Group

Other financial assets

	Stage 1 12-month ECL Shs'000	Stage 2 Lifetime ECL Shs'000	Stage 3 Lifetime ECL Shs'000	POCI Shs'000	Total Shs'000
Deposits and balances due from banks - at amortised costs:					
- Gross carrying amount	8,342,582	-	-	-	8,342,582
- ECL	(22,051)	-	-	-	(22,051)
Net carrying amount as at 31 December 2019	8,320,531	-	-	-	8,320,531
Government securities					
- Gross and net carrying amount as at 31 December 2019	130,925,571	-	-	-	130,925,571
Corporate bonds					
- Gross and net carrying amount as at 31 December 2019	18,029	-	-	-	18,029

Notes (Continued)

4. Financial risk management (Continued)

(a) Credit risk management (Continued)

Credit quality analysis (Continued)

Group

	Stage 1 12-month ECL Shs'000	Stage 2 Lifetime ECL Shs'000	Stage 3 Lifetime ECL Shs'000	POCI Shs'000	Total Shs'000
Off balance sheet					
Gross carrying amount as at 31 December 2018 and 1 January 2019	33,075,367	2,179,801	410,163	-	35,665,331
Changes in the gross carrying amount					
– Transfer to stage 1	2,313,325	(1,888,158)	(425,167)	-	-
– Transfer to stage 2	(1,392,137)	1,435,162	(43,025)	-	-
– Transfer to stage 3	(128,681)	(72,825)	201,506	-	-
New financial assets originated or purchased	86,766,198	721,973	(409,171)	-	87,079,000
Financial assets that have been derecognised	(33,489,346)	(2,333,217)	(463,123)	-	(36,285,686)
Write-offs	(9,131)	(42,524)	-	-	(51,655)
Other changes	(9,168,939)	2,414,244	729,432	-	(6,025,263)
Gross carrying amount as at 31 December 2019	77,966,656	2,414,456	615	-	80,381,727
Loss allowance as at 31 December 2019	282,066	492	537	-	283,095
Net carrying amount as at 31 December 2019	77,684,590	2,413,964	78	-	80,098,632

Notes (Continued)

4. Financial risk management (Continued)

(a) Credit risk management (Continued)

Credit quality analysis (Continued)

Group

On balance sheet facilities

Loss allowance – Loans and advances to customers at amortised cost

Loss allowance as at 1 January 2019

Changes in the loss allowance

– Transfer to stage 1

– Transfer to stage 2

– Transfer to stage 3

– Write-offs

New financial assets originated or purchased

Financial assets that have been derecognised

Changes in models/risk parameters

Foreign exchange and other movements

Loss allowance as at 31 December 2019

Stage 1 12-month ECL Shs'000	Stage 2 Lifetime ECL Shs'000	Stage 3 Lifetime ECL Shs'000	POCI Shs'000	Total Shs'000
1,054,660	1,347,248	5,417,833	-	7,819,741
305,884	(187,594)	(118,290)	-	-
(96,463)	168,268	(71,805)	-	-
(7,225)	(53,417)	60,642	-	-
(2,484)	(7,500)	(939,222)	-	(949,206)
402,730	391,742	4,711	-	799,183
(609,875)	(573,810)	(1,466,776)	-	(2,650,461)
33,479	58,888	(87,116)	-	5,251
264,712	(41,178)	1,716,899	-	1,940,433
1,345,418	1,102,647	4,516,876	-	6,964,941

Notes (Continued)

4. Financial risk management (Continued)

(a) Credit risk management (Continued)

Credit quality analysis (Continued)

Group

Off balance sheet facilities

Loss allowance-Loans and advances to customers at amortised cost

Loss allowance as at 1 January 2019

Changes in the loss allowance

– Transfer to stage 1

– Transfer to stage 2

– Transfer to stage 3

– Write-offs

– Changes due to modifications that did not result in derecognition

New financial assets originated or purchased

Financial assets that have been derecognised

Changes in models/risk parameters

Foreign exchange and other movements

Loss allowance as at 31 December 2019

Total Loss Allowance

	Stage 1 12-month ECL Shs'000	Stage 2 Lifetime ECL Shs'000	Stage 3 Lifetime ECL Shs'000	POCI Shs'000	Total Shs'000
Loss allowance as at 1 January 2019	198,165	19,505	3,479	-	221,149
Changes in the loss allowance					
– Transfer to stage 1	75,336	(6,930)	(68,406)	-	-
– Transfer to stage 2	(4,886)	26,395	(21,509)	-	-
– Transfer to stage 3	-	-	-	-	-
– Write-offs	(286)	(2,637)	-	-	(2,923)
– Changes due to modifications that did not result in derecognition	-	-	-	-	-
New financial assets originated or purchased	206,086	15,799	(352)	-	221,533
Financial assets that have been derecognised	(227,118)	(20,753)	(273,151)	-	(521,022)
Changes in models/risk parameters	(705)	-	-	-	(705)
Foreign exchange and other movements	35,474	(30,887)	360,476	-	365,063
Loss allowance as at 31 December 2019	282,066	492	537	-	283,095
Total Loss Allowance	1,627,484	1,103,139	4,517,413	-	7,248,036

4. Financial risk management (Continued)

(a) Credit risk management (Continued)

Credit quality analysis (Continued)

Group

On balance sheet facilities

Loans and advances to customers at amortised cost

Gross carrying amount as at 31 December 2017 and as at 1 January 2018

Changes in gross carrying amount

– Transfer to stage 1

– Transfer to stage 2

– Transfer to stage 3

New financial assets originated or purchased

Financial assets that have been derecognised

Write-offs

Other changes

Gross carrying amount as at 31 December 2018

Loss allowance as at 31 December 2018

Net carrying amount as at 31 December 2018

	Stage 1 12-month ECL Shs'000	Stage 2 Lifetime ECL Shs'000	Stage 3 Lifetime ECL Shs'000	POCI Shs'000	Total Shs'000
Gross carrying amount as at 31 December 2017 and as at 1 January 2018	150,028,116	44,024,481	13,050,400	-	207,102,997
Changes in gross carrying amount					
– Transfer to stage 1	8,632,361	(8,600,928)	(31,433)	-	-
– Transfer to stage 2	(5,895,511)	6,171,540	(276,029)	-	-
– Transfer to stage 3	(816,372)	(4,721,864)	5,538,236	-	-
New financial assets originated or purchased	67,592,770	17,048,268	1,345,503	-	85,986,541
Financial assets that have been derecognised	(57,049,806)	(21,829,852)	(898,541)	-	(79,778,199)
Write-offs	(40,253)	(384,328)	(7,253,630)	-	(7,678,211)
Other changes	(4,892,168)	(296,531)	670,818	-	(4,517,881)
Gross carrying amount as at 31 December 2018	157,559,137	31,410,786	12,145,324	-	201,115,247
Loss allowance as at 31 December 2018	1,054,660	1,347,248	5,417,833	-	7,819,741
Net carrying amount as at 31 December 2018	156,504,477	30,063,538	6,727,491	-	193,295,506

Notes (Continued)

4. Financial risk management (Continued)

(a) Credit risk management (Continued)

Credit quality analysis (Continued)

Group

Other financial assets

	Stage 1 12-month ECL Shs'000	Stage 2 Lifetime ECL Shs'000	Stage 3 Lifetime ECL Shs'000	POCI Shs'000	Total Shs'000
Deposits and balances due from banks - at amortised costs:					
- Gross carrying amount	14,201,767	-	-	-	14,201,767
- ECL	(39,325)	-	-	-	(39,325)
Net carrying amount as at 31 December 2018	14,162,442	-	-	-	14,162,442
Government securities					
- Gross and net carrying amount as at 31 December 2018	115,489,352	-	-	-	115,489,352
Corporate bond					
- Gross and net carrying amount as at 31 December 2018	43,359	-	-	-	43,359

Notes (Continued)

4. Financial risk management (Continued)

(a) Credit risk management (Continued)

Credit quality analysis (Continued)

Group

	Stage 1 12-month ECL Shs'000	Stage 2 Lifetime ECL Shs'000	Stage 3 Lifetime ECL Shs'000	POCI Shs'000	Total Shs'000
Off balance sheet					
Gross carrying amount as at 31 December 2017 and 1 January 2018	38,056,543	1,982,284	116,413	-	40,155,240
Changes in gross carrying amount					
– Transfer to stage 1	416,775	(416,775)	-	-	-
– Transfer to stage 2	(764,409)	764,409	-	-	-
– Transfer to stage 3	(533,948)	(1,696)	535,644	-	-
New financial assets originated or purchased	12,408,084	119,070	116,259	-	12,643,413
Financial assets that have been derecognised	(15,906,770)	244,907	(354,808)	-	(16,016,671)
Write-offs	(10,913)	(354)	(24,551)	-	(35,818)
Other changes	(589,995)	(512,044)	21,206	-	(1,080,833)
Gross carrying amount as at 31 December 2018	33,075,367	2,179,801	410,163	-	35,665,331
Loss allowance as at 31 December 2018	198,165	19,504	3,480	-	221,149
Net carrying amount as at 31 December 2018	32,877,202	2,160,297	406,683	-	35,444,182

Notes (Continued)

4. Financial risk management (Continued)

(a) Credit risk management (Continued)

Credit quality analysis (Continued)

Group

On balance sheet facilities

Loss allowance – Loans and advances to customers at amortised cost

Loss allowance as at 1 January 2018

Changes in the loss allowance

– Transfer to stage 1

– Transfer to stage 2

– Transfer to stage 3

– Write-offs

– Changes due to modifications that did not result in derecognition

New financial assets originated or purchased

Financial assets that have been derecognised

Changes in models/risk parameters

Foreign exchange and other movements

Loss allowance as at 31 December 2018

Stage 1 12-month ECL Shs'000	Stage 2 Lifetime ECL Shs'000	Stage 3 Lifetime ECL Shs'000	POCI Shs'000	Total Shs'000
771,112	2,414,904	8,268,833	-	11,454,849
545,513	(529,887)	(15,626)	-	-
(23,851)	60,528	(36,677)	-	-
(9,170)	(113,762)	122,932	-	-
(155)	(13,961)	(5,182,492)	-	(5,196,608)
322,145	(210,127)	61,937	-	173,955
172,020	517,612	221,389	-	911,021
(259,323)	(1,070,880)	(295,034)	-	(1,625,237)
237,267	94,356	259,731	-	591,354
(700,898)	198,465	2,012,840	-	1,510,407
1,054,660	1,347,248	5,417,833	-	7,819,741

Notes (Continued)

4. Financial risk management (Continued)

(a) Credit risk management (Continued)

Credit quality analysis (Continued)

Group

Off balance sheet facilities

Loss allowance – Loans and advances to customers at amortised cost

Loss allowance as at 1 January 2018

Changes in the loss allowance

– Transfer to stage 1

– Transfer to stage 2

– Transfer to stage 3

– Write-offs

New financial assets originated or purchased

Financial assets that have been derecognised

Foreign exchange and other movements

Loss allowance as at 31 December 2018

	Stage 1	Stage 2	Stage 3		
	12-month ECL	Lifetime ECL	Lifetime ECL	POCI	Total
	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000
Loss allowance as at 1 January 2018	43,686	6,748	18,983	-	69,417
Changes in the loss allowance					
– Transfer to stage 1	3,615	(3,615)	-	-	-
– Transfer to stage 2	(3,288)	260	3,028	-	-
– Transfer to stage 3	-	(236)	236	-	-
– Write-offs	-	-	(240)	-	(240)
New financial assets originated or purchased	26,970	2,028	913	-	29,911
Financial assets that have been derecognised	(26,119)	(1,611)	(3,106)	-	(30,836)
Foreign exchange and other movements	153,301	15,931	(16,335)	-	152,897
Loss allowance as at 31 December 2018	198,165	19,505	3,479	-	221,149

Notes (Continued)

4. Financial risk management (Continued)

(a) Credit risk management (Continued)

Credit quality analysis (Continued)

The following table sets out a reconciliation of changes in the net carrying amount of credit impaired loans and advances to customers.

	Group	
	2019	2018
	Shs'000	Shs'000
Credit-impaired loans and advances to customers at 1 January	12,145,324	13,208,517
Classified as credit-impaired during the year	4,826,492	7,032,905
Transferred to not credit-impaired during the year	(654,968)	(138,321)
Net repayments	(887,725)	(1,401,314)
Disposals	(2,004,406)	(7,033,538)
Other movements	180,004	477,075
Credit-impaired loans and advances to customers at 31 December	13,604,721	12,145,324

The contractual amount outstanding on financial assets that were written off during the year ended 31 December 2019 and that are still subject to enforcement activity is Shs. 2 billion (2018- Shs. 7 billion)

Notes (Continued)

4. Financial risk management (Continued)

(a) Credit risk management (Continued)

Credit quality analysis (Continued)

Bank

On balance sheet facilities

Loans and advances to customers at amortised cost

Gross carrying amount as at

31 December 2018 and 1 January 2019

Changes in the gross carrying amount

– Transfer to stage 1

– Transfer to stage 2

– Transfer to stage 3

New financial assets originated or purchased

Financial assets that have been derecognised

Write-offs

Foreign exchange and other movements

Gross carrying amount as at 31 December 2019

Loss allowance as at 31 December 2019

Net carrying Amount as at 31 December 2019

	Stage 1 12-month ECL Shs'000	Stage 2 Lifetime ECL Shs'000	Stage 3 Lifetime ECL Shs'000	POCI Shs'000	Total Shs'000
Gross carrying amount as at 31 December 2018 and 1 January 2019	118,203,570	25,248,764	9,710,643	-	153,162,977
Changes in the gross carrying amount					
– Transfer to stage 1	9,102,845	(9,094,670)	(8,175)	-	-
– Transfer to stage 2	(11,981,325)	11,982,236	(911)	-	-
– Transfer to stage 3	(810,095)	(1,533,772)	2,343,867	-	-
New financial assets originated or purchased	47,420,750	14,722,867	113,386	-	62,257,003
Financial assets that have been derecognised	(50,746,126)	(6,960,578)	75,407	-	(57,631,297)
Write-offs	(64,467)	(117,688)	(440,908)	-	(623,063)
Foreign exchange and other movements	3,595,752	(4,499,625)	(1,041,101)	-	(1,944,974)
Gross carrying amount as at 31 December 2019	114,720,904	29,747,534	10,752,208	-	155,220,646
Loss allowance as at 31 December 2019	908,295	888,596	3,665,927	-	5,462,818
Net carrying Amount as at 31 December 2019	113,812,609	28,858,938	7,086,281	-	149,757,828

Notes (Continued)

4. Financial risk management (Continued)

(a) Credit risk management (Continued)

Credit quality analysis (Continued)

Other financial assets at amortised cost

	Stage 1 12-month ECL Shs'000	Stage 2 Lifetime ECL Shs'000	Stage 3 Lifetime ECL Shs'000	POCI Shs'000	Total Shs'000
Deposits and balances due from banks - at amortised costs:					
- Gross carrying amount	1,560,140	-	-	-	1,560,140
- ECL	(2,840)	-	-	-	(2,840)
Net carrying amount as at 31 December 2019	1,557,300	-	-	-	1,557,300
Government securities					
- Gross and net carrying amount as at 31 December 2019	98,180,149	-	-	-	98,180,149

Notes (Continued)

4. Financial risk management (Continued)

(a) Credit risk management (Continued)

Credit quality analysis (Continued)

Bank

	Stage 1 12-month ECL Shs'000	Stage 2 Lifetime ECL Shs'000	Stage 3 Lifetime ECL Shs'000	POCI Shs'000	Total Shs'000
Off balance sheet facilities					
Gross carrying amount as at 31 December 2018 and 1 January 2019	28,374,866	2,120,805	409,171	-	30,904,842
Changes in the gross carrying amount					
– Transfer to stage 1	1,958,704	(1,537,457)	(421,247)	-	-
– Transfer to stage 2	(899,508)	899,648	(140)	-	-
– Transfer to stage 3	-	-	-	-	-
New financial assets originated or purchased	80,897,495	712,412	(409,171)	-	81,200,736
Financial assets that have been derecognised	(29,936,792)	(1,960,182)	(459,851)	-	(32,356,825)
Write-offs	(9,131)	(42,524)	-	-	(51,655)
Other changes	(9,080,267)	1,982,820	881,238	-	(6,216,209)
Gross carrying amount as at 31 December 2019	71,305,367	2,175,522	-	-	73,480,889
Loss allowance as at 31 December 2019	256,043	471	-	-	256,514
Net carrying Amount as at 31 December 2019	71,049,324	2,175,051	-	-	73,224,375

Notes (Continued)

4. Financial risk management (Continued)

(a) Credit risk management (Continued)

*Credit quality analysis (Continued)***Bank****On balance sheet facilities****Loss allowance – Loans and advances to customers at amortised cost****Loss allowance as at 1 January 2019**

Changes in the loss allowance

– Transfer to stage 1

– Transfer to stage 2

– Transfer to stage 3

– Write-offs

New financial assets originated or purchased

Financial assets that have been derecognised

Changes in models/risk parameters

Foreign exchange and other movements

Loss allowance as at 31 December 2019

	Stage 1 12-month ECL Shs'000	Stage 2 Lifetime ECL Shs'000	Stage 3 Lifetime ECL Shs'000	POCI Shs'000	Total Shs'000
Loss allowance as at 1 January 2019	848,031	1,158,195	4,177,040	-	6,183,266
Changes in the loss allowance					-
– Transfer to stage 1	185,213	(181,945)	(3,268)	-	-
– Transfer to stage 2	(83,845)	84,718	(873)	-	-
– Transfer to stage 3	(1,612)	(37,908)	39,520	-	-
– Write-offs	(1,259)	(6,886)	(378,508)	-	(386,653)
New financial assets originated or purchased	398,711	361,362	49,901	-	809,974
Financial assets that have been derecognised	(377,089)	(493,340)	(1,025,336)	-	(1,895,765)
Changes in models/risk parameters	71,379	90,061	(106,581)	-	54,859
Foreign exchange and other movements	(131,234)	(85,661)	914,032	-	697,137
Loss allowance as at 31 December 2019	908,295	888,596	3,665,927	-	5,462,818

Notes (Continued)

4. Financial risk management (Continued)

(a) Credit risk management (Continued)

Credit quality analysis (Continued)

Bank

	Stage 1 12-month ECL Shs'000	Stage 2 Lifetime ECL Shs'000	Stage 3 Lifetime ECL Shs'000	POCI Shs'000	Total Shs'000
Off balance sheet facilities					
Loss allowance as at 1 January 2019	181,844	13,588	2,598	-	198,030
Changes in the loss allowance					
– Transfer to stage 1	73,376	(6,930)	(66,446)	-	-
– Transfer to stage 2	(4,860)	4,927	(67)	-	-
– Transfer to stage 3	-	-	-	-	-
– Write-offs	(286)	(2,637)	-	-	(2,923)
New financial assets originated or purchased	204,309	199	-	-	204,508
Financial assets that have been derecognised	(255,169)	(20,753)	(248,427)	-	(524,349)
Changes in models/risk parameters	9,358	101	-	-	9,459
Foreign exchange and other movements	47,471	11,976	312,342	-	371,789
Loss allowance as at 31 December 2019	256,043	471	-	-	256,514
Total Loss Allowance	1,164,338	889,067	3,665,927	-	5,719,332

Notes (Continued)

4. Financial risk management (Continued)

(a) Credit risk management (Continued)

Credit quality analysis (Continued)

Bank

On balance sheet facilities

Loans and advances to customers at amortised cost

Gross carrying amount as at 31 December 2017

Changes in the gross carrying amount

– Transfer to stage 1

– Transfer to stage 2

– Transfer to stage 3

New financial assets originated or purchased

Financial assets that have been derecognised

Write-offs

Other changes

Gross carrying amount as at 31 December 2018

Loss allowance as at 31 December 2018

Net carrying Amount as at 31 December 2018

	Stage 1 12-month ECL Shs'000	Stage 2 Lifetime ECL Shs'000	Stage 3 Lifetime ECL Shs'000	POCI Shs'000	Total Shs'000
Gross carrying amount as at 31 December 2017	119,669,185	27,384,499	10,597,748	-	157,651,432
Changes in the gross carrying amount					
– Transfer to stage 1	6,307,474	(6,304,822)	(2,652)	-	-
– Transfer to stage 2	(4,060,205)	4,077,824	(17,619)	-	-
– Transfer to stage 3	(474,705)	(3,559,866)	4,034,571	-	-
New financial assets originated or purchased	53,488,553	15,352,019	959,143	-	69,799,715
Financial assets that have been derecognised	(53,020,467)	(11,832,756)	(524,775)	-	(65,377,998)
Write-offs	(21,827)	(174,094)	(5,817,215)	-	(6,013,136)
Other changes	(3,684,438)	305,960	481,442	-	(2,897,036)
Gross carrying amount as at 31 December 2018	118,203,570	25,248,764	9,710,643	-	153,162,977
Loss allowance as at 31 December 2018	848,031	1,158,195	4,177,040	-	6,183,266
Net carrying Amount as at 31 December 2018	117,355,539	24,090,569	5,533,603	-	146,979,711

Notes (Continued)

4. Financial risk management (Continued)

(a) Credit risk management (Continued)

Credit quality analysis (Continued)

Other financial assets

	Stage 1 12-month ECL Shs'000	Stage 2 Lifetime ECL Shs'000	Stage 3 Lifetime ECL Shs'000	POCI Shs'000	Total Shs'000
Deposits and balances due from banks - at amortised costs:					
- Gross carrying amount	2,697,094	-	-	-	2,697,094
- ECL	(11,386)	-	-	-	(11,386)
Net carrying amount as at 31 December 2018	2,685,708	-	-	-	2,685,708
Government securities					
- Gross and net carrying amount as at 31 December 2018	86,311,885	-	-	-	86,311,885

Notes (Continued)

4. Financial risk management (Continued)

(a) Credit risk management (Continued)

Credit quality analysis (Continued)

Bank

Off balance sheet facilities	Stage 1 12-month ECL Shs'000	Stage 2 Lifetime ECL Shs'000	Stage 3 Lifetime ECL Shs'000	POCI Shs'000	Total Shs'000
Gross carrying amount as at 31 December 2017 and 1 January 2018	33,467,286	1,429,344	111,998	-	35,008,628
Changes in the gross carrying amount					
– Transfer to stage 1	387,842	(387,842)	-	-	-
– Transfer to stage 2	(742,706)	742,706	-	-	-
– Transfer to stage 3	(533,948)	-	533,948	-	-
New financial assets originated or purchased	9,735,964	91,704	117,692	-	9,945,360
Financial assets that have been derecognised	(13,928,659)	245,210	(354,467)	-	(14,037,916)
Write-offs	(10,913)	(317)	-	-	(11,230)
Gross carrying amount as at 31 December 2018	28,374,866	2,120,805	409,171	-	30,904,842
Loss allowance as at 31 December 2018	181,844	13,588	2,598	-	198,030
Net carrying Amount as at 31 December 2018	28,193,022	2,107,217	406,573	-	30,706,812

Notes (Continued)

4. Financial risk management (Continued)

(a) Credit risk management (Continued)

Credit quality analysis (Continued)

Bank

On balance sheet facilities

Loss allowance – Loans and advances to customers

Loss allowance as at 1 January 2018

Changes in the loss allowance

– Transfer to stage 1

– Transfer to stage 2

– Transfer to stage 3

– Write-offs

New financial assets originated or purchased

Financial assets that have been derecognised

Changes in models/risk parameters

Foreign exchange and other movements

Loss allowance as at 31 December 2018

	Stage 1	Stage 2	Stage 3	POCI	Total
	12-month ECL	Lifetime ECL	Lifetime ECL		
	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000
Loss allowance as at 1 January 2018	582,254	2,021,293	7,023,494	-	9,627,041
Changes in the loss allowance					
– Transfer to stage 1	499,350	(496,980)	(2,370)	-	-
– Transfer to stage 2	(19,474)	27,382	(7,908)	-	-
– Transfer to stage 3	(3,514)	(88,971)	92,485	-	-
– Write-offs	(117)	(11,129)	(4,455,805)	-	(4,467,051)
New financial assets originated or purchased	264,095	625,138	278,080	-	1,167,313
Financial assets that have been derecognised	(271,839)	(1,044,530)	(185,721)	-	(1,502,090)
Changes in models/risk parameters	294,624	(8,849)	57,893	-	343,668
Foreign exchange and other movements	(497,348)	134,841	1,376,892	-	1,014,385
Loss allowance as at 31 December 2018	848,031	1,158,195	4,177,040	-	6,183,266

Notes (Continued)

4. Financial risk management (Continued)

(a) Credit risk management (Continued)

Credit quality analysis (Continued)

Bank

Off balance sheet facilities	Stage 1 12-month ECL Shs'000	Stage 2 Lifetime ECL Shs'000	Stage 3 Lifetime ECL Shs'000	POCI Shs'000	Total Shs'000
Loss allowance as at 1 January 2018	30,160	1,611	-	-	31,771
Changes in the loss allowance					
– Transfer to stage 3	(3,028)	-	3,028	-	-
New financial assets originated or purchased	15,845	3,199	1,770	-	20,814
Financial assets that have been derecognised	(22,723)	(1,611)	(3,028)	-	(27,362)
Changes in models/risk parameters	-	-	-	-	-
Foreign exchange and other movements	161,590	10,389	828	-	172,807
Loss allowance as at 31 December 2018	181,844	13,588	2,598	-	198,030
Total Loss Allowance	1,029,875	1,171,783	4,179,638	-	6,381,296

4. Financial risk management (Continued)

(a) Credit risk management (Continued)

Credit quality analysis (Continued)

Credit-impaired financial assets

The following table sets out a reconciliation of changes in the net carrying amount of credit impaired loans and advances to customers.

	Bank	
	2019	2018
	Shs'000	Shs'000
Credit-impaired loans and advances to customers at 1 January	9,710,643	10,597,748
Change in allowance for impairment		
Classified as credit-impaired during the year	2,017,137	4,993,714
Transferred to not credit-impaired during the year	(123,304)	(20,271)
Net repayments	(809,830)	(524,795)
Disposals	(646,384)	(5,817,215)
Other movements	603,946	481,462
Credit-impaired loans and advances to customers at 31 December	10,752,208	9,710,643

The contractual amount outstanding on financial assets that were written off during the year ended 31 December 2019 and that are still subject to enforcement activity is 646 million (2018 -Shs 4.3 billion).

Impaired financial assets

Financial assets that are past due or impaired

	Group		Bank	
	2019	2018	2019	2018
	Shs'000	Shs'000	Shs'000	Shs'000
Loans and advances are summarised as follows:				
Neither past due nor impaired	134,070,994	157,559,137	93,789,725	118,203,570
Past due but not impaired (<i>including advances not past due but in stage 2 using qualitative criteria</i>)	58,661,692	31,410,786	50,678,713	25,248,764
Impaired	13,604,721	12,145,324	10,752,208	9,710,643
Gross	206,337,407	201,115,247	155,220,646	153,162,977
Less: Provision for impairment of loans and advances				
Stage 3 impairment	(4,517,413)	(5,421,312)	(3,665,927)	(4,179,635)
Stage 1 and 2 impairment	(2,730,623)	(2,619,578)	(2,053,405)	(2,201,661)
Net carrying amount	199,089,371	193,074,357	149,501,314	146,781,681

4. Financial risk management (Continued)

(a) Credit risk management (Continued)

*Impaired financial assets (Continued)**Financial assets that are past due or impaired (Continued)*

	Group		Bank	
	2019	2018	2019	2018
	Shs'000	Shs'000	Shs'000	Shs'000
Past due up to 30 days	27,396,075	13,776,250	20,931,178	10,738,431
Past due 31 - 60 days <i>(including advances not past due but in stage 2 using qualitative criteria)</i>	23,120,372	8,232,243	22,059,850	6,686,207
Past due 61 - 90 days	8,145,245	9,402,293	7,687,685	7,824,126
Total	58,661,692	31,410,786	50,678,713	25,248,764

Maximum exposure to credit risk before collateral held

Balances with Central Banks	19,025,103	29,788,551	13,004,770	22,171,419
Government securities	130,925,571	115,489,352	98,180,149	86,311,885
Deposits and balances due from banking institutions	8,320,531	14,162,442	1,557,300	2,685,708
Loans and advances to customers	199,089,371	193,074,357	149,501,314	146,781,681
Corporate bond	18,029	43,359	-	-
Other assets	1,376,772	1,666,262	870,886	1,272,253
Credit risk exposures relating to off-balance sheet items:				
- Acceptances and letters of credit	23,519,780	22,611,416	20,563,478	19,721,291
- Guarantee and performance bonds	30,278,439	19,032,251	26,209,571	16,932,196
	412,553,596	395,867,990	309,887,468	295,876,433

Collateral, other credit enhancements

The Group holds collateral and other enhancements against its credit exposures mainly loans and advances to customer. The collateral is in the form of cash, properties, motor vehicles and corporate and personal guarantees.

	Group		Bank	
	2019	2018	2019	2018
	Shs'000	Shs'000	Shs'000	Shs'000
Fair value of collateral	293,560,507	332,509,063	254,474,289	233,833,175

4. Financial risk management (Continued)

(a) Credit risk management (Continued)

Settlement risk

The Group is exposed to settlement risk in its dealings with market counterparties (predominantly other financial institutions). These risks arise, for example, in foreign exchange transactions when the Group pays away its side of the transaction to another bank or other counterparty before receiving payment from the other side. The risk is that the counter party may not meet its obligation. The risk is mitigated by setting counterparty limits. These limits are set after assessing the financial strength of the concerned counterparties.

(b) Concentrations of risk

A concentration of credit risk exists when a number of counterparties are engaged in similar activities and have similar economic characteristics that would cause their ability to meet contractual obligations to be similarly affected by changes in economic or other conditions. The analysis of credit risk concentrations presented below are based on the economic sector in which they are engaged.

Economic sector risk concentrations within the customer loan and other financial assets portfolios were as tabulated on page 176:

Notes (Continued)

4. Financial risk management (Continued)

(b) Concentrations of risk (Continued)

Group											
	Manufacturing	Wholesale and retail trade	Transport and communications	Business & financial services	Agriculture	Building, construction & real estate	Retail housing	Tourism and hotels	Individuals	Others	Total
	Shs '000	Shs '000	Shs '000	Shs '000	Shs '000	Shs '000	Shs '000	Shs '000	Shs '000	Shs '000	Shs '000
31 December 2019											
On balance sheet											
Equity investment - at fair value through OCI	-	-	1,463,048	55,341	-	-	-	-	-	-	1,518,389
Loans and advances to customers (Gross)	29,373,884	40,039,982	15,111,523	28,620,154	9,392,074	51,371,005	1,272,228	20,597,121	7,330,634	3,228,802	206,337,407
Deposits due from banking institutions	-	-	-	8,320,531	-	-	-	-	-	-	8,320,531
Other assets (excluding prepayments & Statutory receivables)	-	-	-	-	-	-	-	-	-	1,376,772	1,376,772
	29,373,884	40,039,982	16,574,571	36,996,026	9,392,074	51,371,005	1,272,228	20,597,121	7,330,634	4,605,574	217,553,099
Off balance sheet											
Contingent Assets	18,936,382	20,515,724	2,447,644	1,311,736	192,702	7,592,266	-	170,465	607,762	2,089,625	53,864,306
Undrawn credit lines	2,346,710	2,208,400	361,382	393,944	141,314	1,817,795	-	308,891	658,892	140,140	8,377,468
	21,283,092	22,724,124	2,809,026	1,705,680	334,016	9,410,061	-	479,356	1,266,654	2,229,765	62,241,774
31 December 2018											
On balance sheet											
Equity investment - at fair value through OCI	-	-	1,797,617	-	-	-	-	-	-	-	1,797,617
Loans and advances to customers (Gross)	27,394,093	37,874,742	14,131,830	30,996,721	7,171,900	53,275,883	1,186,262	18,673,838	8,306,742	2,103,236	201,115,247
Deposits due from banking institutions	-	-	-	14,162,442	-	-	-	-	-	-	14,162,442
Other assets (excluding prepayments & Statutory receivables)	-	-	-	-	-	-	-	-	-	1,666,262	1,666,262
	27,394,093	37,874,742	15,929,447	45,159,163	7,171,900	53,275,883	1,186,262	18,673,838	8,306,742	3,769,498	218,741,568

Notes (Continued)

4. Financial risk management (Continued)

(b) Concentrations of risk (Continued)

Group (Continued)

31 December 2018	Manufacturing	Wholesale and retail trade	Transport and communications	Business & financial services	Agriculture	Building, construction & real estate	Retail housing	Tourism and hotels	Individuals	Others	Total
Off balance sheet	Shs '000	Shs '000	Shs '000	Shs '000	Shs '000	Shs '000	Shs '000	Shs '000	Shs '000	Shs '000	Shs '000
Contingent Assets	11,884,840	17,128,377	2,315,361	1,400,589	1,239,243	4,480,384	-	121,604	154,018	1,879,895	40,604,311
Undrawn credit lines	1,044,487	3,717,955	874,483	572,984	24,582	177,457	3,440,717	162,183	920,472	524,287	11,459,607
	12,929,327	20,846,332	3,189,844	1,973,573	1,263,825	4,657,841	3,440,717	283,787	1,074,490	2,404,182	52,063,918

Bank

31 December 2019

On balance sheet

Equity investment - at fair value through OCI	-	-	1,463,048	50,000	-	-	-	-	-	-	1,513,048
Loans and advances to customers (Gross)	17,592,769	25,867,079	11,649,686	26,727,705	8,185,657	40,664,892	1,265,569	15,807,199	7,197,600	262,489	155,220,645
Deposits due from banking institutions	-	-	-	1,557,300	-	-	-	-	-	-	1,557,300
Other assets (excluding prepayments & Statutory receivables)	-	-	-	-	-	-	-	-	-	870,886	870,886
	17,592,769	25,867,079	13,112,734	28,335,005	8,185,657	40,664,892	1,265,569	15,807,199	7,197,600	1,133,375	159,161,879

Off balance sheet

Contingent Assets	16,037,345	18,453,811	2,196,733	1,584,844	187,330	6,766,613	-	103,079	607,762	835,533	46,773,050
Undrawn credit lines	623,427	995,417	63,011	230,938	-	1,773,979	-	120,315	354,742	-	4,161,829
	16,660,772	19,449,228	2,259,744	1,815,782	187,330	8,540,592	-	223,394	962,504	835,533	50,934,879

Notes (Continued)

4. Financial risk management (Continued)

(b) Concentrations of risk (Continued)

Bank (Continued)

31 December 2018	Manufacturing	Wholesale and retail trade	Transport and communications	Business and financial services	Agriculture	Building and construction and real estate	Retail housing	Tourism and hotels	Individuals	Others	Total
On balance sheet	Shs '000	Shs '000	Shs '000	Shs '000	Shs '000	Shs '000	Shs '000	Shs '000	Shs '000	Shs '000	Shs '000
Equity investments - at FVTOCI	-	-	1,797,617	-	-	-	-	-	-	-	1,797,617
Loans and advances to customers (Gross)	17,731,475	25,434,707	10,340,396	27,558,567	5,263,143	43,046,141	1,182,767	14,365,432	8,148,024	92,325	153,162,977
Deposits due from banking institutions	-	-	-	2,685,708	-	-	-	-	-	-	2,685,708
Other assets (excluding prepayments & statutory receivables)	-	-	-	-	-	-	-	-	-	1,272,253	1,272,253
	17,731,475	25,434,707	12,138,013	30,244,275	5,263,143	43,046,141	1,182,767	14,365,432	8,148,024	1,364,578	158,918,555
Off balance sheet											
Contingent assets	11,776,188	14,448,666	2,134,554	1,283,082	1,239,243	3,988,757	-	121,422	154,018	1,507,557	36,653,487
Undrawn credit lines	124,494	2,070,587	548,380	1,050	500	94,864	3,440,717	5,270	795,358	69,943	7,151,163
	11,900,682	16,519,253	2,682,934	1,284,132	1,239,743	4,083,621	3,440,717	126,692	949,376	1,577,500	43,804,650

(c) Market Risk Management

It is the risk of loss due to adverse movements in market rates or prices, such as foreign exchange rates, interest rates and equity prices. It emanates from the trading activities mainly carried out by treasury and structural positions housed in the banking books.

Market risk management is undertaken by the Treasury function under the supervision of ALCO, while Risk and Compliance department maintains an overall oversight role. Tolerance limits for market risk are approved by the Board. The limits are further allocated to the banking and trading books that are monitored at pre-defined frequencies. Risk measurement is currently based on sensitivity analysis and stress testing.

(i) Price risk

The Group's exposure to price risk was limited to its investment in Government securities held at fair value through the profit and loss and equity investments at fair value through OCI. A price movement of +/-5% in the price of the securities would not have had any significant impact on profit or equity.

4. Financial risk management (Continued)

(c) Market Risk Management (Continued)

(ii) Interest rate risk

Interest rate risk is the risk that an investment's value will change due to a change in the absolute level of interest rates, i.e. the spread between two rates, in the shape of the yield curve, or in any other interest rate relationship.

A substantial part of the Group's assets and liabilities are subject to floating rates, hence are re-priced simultaneously. However, the Group is exposed to interest rate risk as a result of mismatches on a relatively small portion of its fixed rate assets and liabilities. The major portion related to this risk is reflected in the banking book owing to investments in fixed rate treasury bonds. The overall potential impact of the mismatches on the earnings in short-term and economic value of the portfolio in the long-term is not material and is being managed within the tolerance limits approved by the Board.

The table below summarises the Group's exposure to interest rate risks. Included in the table are the Group's assets and liabilities at carrying amounts, categorised by the earlier of contractual re-pricing or maturity dates. The Group does not bear an interest rate risk on off-balance sheet items.

Group	Upto1 month Shs'000	1-3 months Shs'000	3-12 months Shs'000	1-5 years Shs'000	Over5 years Shs'000	Non- interest sensitive Shs'000	Total Shs'000
At 31 December 2019							
FINANCIAL ASSETS							
Cash and balances with Central Banks	-	-	-	-	-	27,218,903	27,218,903
Government securities	18,986,271	20,690,205	68,964,116	22,284,979	-	-	130,925,571
Deposits and balances due from banking institutions	4,166,033	2,337,234	-	-	-	1,817,264	8,320,531
Loans and advances to customers	31,232,525	157,447,137	512,434	809,971	-	9,087,304	199,089,371
Corporate bond	-	-	18,029	-	-	-	18,029
Equity investment - at fair value through OCI	-	-	-	-	-	1,518,389	1,518,389
Other assets	-	-	-	-	-	1,376,772	1,376,772
Total financial assets	54,384,829	180,474,576	69,494,579	23,094,950	-	41,018,632	368,467,566
FINANCIAL LIABILITIES							
Customer deposits	135,197,207	51,266,507	70,795,724	4,020,346	-	18,907,169	280,186,953
Deposits and balances due to banking institutions	22,149,096	-	283,780	-	-	20,983	22,453,859
Borrowings	-	2,845,855	8,500,209	-	-	10,783	11,356,847
Other liabilities	-	-	-	-	-	2,912,805	2,912,805
Lease liabilities	32,777	65,383	313,955	2,555,543	1,270,107	-	4,237,765
Total financial liabilities	157,379,080	54,177,745	79,893,668	6,575,889	1,270,107	21,851,740	321,148,229
Interest sensitivity gap	(102,994,251)	126,296,831	(10,399,089)	16,519,061	(1,270,107)	19,166,892	47,319,337
At 31 December 2018							
Total financial assets	47,003,435	174,050,617	86,653,083	10,635,047	-	45,608,154	363,950,336
Total financial liabilities	151,493,711	57,320,583	78,491,539	2,277,230	-	28,518,350	318,101,413
Interest sensitivity gap	(104,490,276)	116,730,034	8,161,544	8,357,817	-	17,089,804	45,848,923

Notes (Continued)

4. Financial risk management (Continued)

(c) Market Risk Management (Continued)

(ii) Interest rate risk (Continued)

Bank	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Non- interest sensitive	Total
At 31 December 2019	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000
FINANCIAL ASSETS							
Cash and balances with Central Bank of Kenya	-	-	-	-	-	18,238,378	18,238,378
Government securities	17,800,282	17,076,372	50,931,209	12,372,286	-	-	98,180,149
Deposits and balances due from banking institutions	1,557,300	-	-	-	-	-	1,557,300
Loans and advances to customers	29,124	142,077,979	307,931	-	-	7,086,280	149,501,314
Equity investments - at fair value through OCI	-	-	-	-	-	1,513,048	1,513,048
Other assets	-	-	-	-	-	870,886	870,886
Total financial assets	19,386,706	159,154,351	51,239,140	12,372,286	-	28,043,161	270,195,644
FINANCIAL LIABILITIES							
Customer deposits	101,645,778	46,420,352	51,277,669	145,427	-	-	199,489,226
Deposits and balances due to banking institutions	21,549,148	-	-	-	-	-	21,549,148
Borrowings	-	793,903	8,947,330	-	-	-	9,741,233
Other liabilities	-	-	-	-	-	1,534,720	1,534,720
Lease liabilities	20,641	26,106	149,712	1,109,824	1,270,106	-	2,576,389
Total financial liabilities	123,215,567	47,240,361	60,374,711	1,255,251	1,270,106	1,534,720	234,890,716
Interest sensitivity gap	(103,828,861)	111,913,990	(9,135,571)	11,117,035	(1,270,106)	26,508,441	35,304,928
At 31 December 2018							
Total financial assets	11,781,112	150,205,845	67,071,922	6,720,395	-	30,433,469	266,212,743
Total financial liabilities	124,273,371	48,482,846	58,381,582	87,348	-	2,281,010	233,506,156
Interest sensitivity gap	(112,492,259)	101,722,999	8,690,340	6,633,047	-	28,152,459	32,706,587

Interest rate risk sensitivity analysis

The impact on financial assets, net of financial liabilities, of a 5% increase or decrease in interest rates would be as follows:

	Group		Bank	
	2019	2018	2019	2018
	Shs'million	Shs'million	Shs'million	Shs'million
+ 5% movement	1,332	1,364	974	1,151
- 5% movement	(1,332)	(1,364)	(974)	(1,151)

4. Financial risk management (Continued)

(c) Market Risk Management (Continued)

(iii) Foreign exchange risk

The Group's assets are typically funded in the same currency as the business transacted to eliminate foreign exchange exposure. However, the Group maintains an open position within the tolerance limits prescribed by the Central Banks and approved in the various countries it operates in.

End-of-the-day positions are marked to market daily. The intra-day positions are managed by treasury/dealing room through stop loss/dealers limits.

The table below summarises the Group's and Bank's exposure to foreign currency exchange rate risk at 31 December 2019. Included in the table are the Group's and Bank's financial instruments, categorised by currency.

Group	USD Shs'000	GBP Shs'000	EURO Shs'000	OTHERS Shs'000	TOTAL Shs'000
At 31 December 2019					
FINANCIAL ASSETS					
Cash and balances with Central banks	2,813,604	248,412	683,598	54,680	3,800,294
Deposits and balances due from banking institutions	9,280,838	1,250,887	765,631	295,931	11,593,287
Other assets	21,266,980	4	2,239	-	21,269,223
Loans and advances to customers	78,284,059	25,992	3,351,781	138	81,661,970
Equity investment - at fair value through OCI	1,463,048	-	-	5,341	1,468,389
Total financial assets	113,108,529	1,525,295	4,803,249	356,090	119,793,163
FINANCIAL LIABILITIES					
Customer deposits	72,859,891	5,150,270	3,653,591	277,375	81,941,127
Deposits and balances due to banking institutions	20,504,886	13,211	2,505	96,729	20,617,331
Other liabilities	355,026	-	-	-	355,026
Borrowings	11,346,064	-	-	10,783	11,356,847
Lease liabilities	1,860,064	-	-	-	1,860,064
Total financial liabilities	106,925,931	5,163,481	3,656,096	384,887	116,130,395
Net balance sheet position	6,182,598	(3,638,186)	1,147,153	(28,797)	3,662,768
Net off balance sheet position	(7,225,190)	3,649,390	(1,101,206)	62,235	(4,614,771)
Overall net position	(1,042,592)	11,204	45,947	33,438	(952,003)
At 31 December 2018					
Total financial assets	115,087,091	1,427,634	4,518,709	431,868	121,465,302
Total financial liabilities	110,681,962	5,722,952	4,322,521	469,221	121,196,656
Net balance sheet position	4,405,129	(4,295,318)	196,188	(37,353)	268,646
Net off balance sheet position	(8,559,755)	4,331,290	(170,176)	14,942	(4,383,699)
Overall net position	(4,154,626)	35,972	26,012	(22,411)	(4,115,053)

4. Financial risk management (Continued)

(c) Market Risk Management (Continued)

(iii) Foreign exchange risk (Continued)

Bank	USD Shs'000	GBP Shs'000	EURO Shs'000	OTHERS Shs'000	TOTAL Shs'000
At 31 December 2019					
FINANCIAL ASSETS					
Cash and balances with Central banks	700,540	110,321	447,310	6	1,258,177
Deposits and balances due from banking institutions	353,008	691,427	212,055	271,449	1,527,939
Other assets	5,794	-	-	-	5,794
Loans and advances to customers	67,684,855	25,388	3,304,319	-	71,014,562
Equity investment - at fair value through OCI	1,463,048	-	-	-	1,463,048
Total financial assets	70,207,245	827,136	3,963,684	271,455	75,269,520
FINANCIAL LIABILITIES					
Customer deposits	32,759,730	4,523,266	2,871,253	256,634	40,410,883
Deposits and balances due to banking institutions	17,294,112	13,069	2,399	96,729	17,406,309
Other liabilities	122,040	941	1,151	1,290	125,422
Borrowings	9,741,233	-	-	-	9,741,233
Lease liabilities	401,585	-	-	-	401,585
Total financial liabilities	60,318,700	4,537,276	2,874,803	354,653	68,085,432
Net balance sheet position	9,888,545	(3,710,140)	1,088,881	(83,198)	7,184,088
Net off balance sheet position	(9,548,162)	3,711,326	(1,080,256)	72,005	(6,845,087)
Overall net position	340,383	1,186	8,625	(11,193)	339,001
At 31 December 2018					
Total financial assets	70,821,321	758,360	3,183,547	354,680	75,117,908
Total financial liabilities	60,634,882	5,143,482	2,996,761	434,204	69,209,329
Net balance sheet position	10,186,439	(4,385,122)	186,786	(79,524)	5,908,579
Net off balance sheet position	(9,992,075)	4,392,531	(149,855)	24,753	(5,724,646)
Overall net position	194,364	7,409	36,931	(54,771)	183,933

Currency risk sensitivity analysis

At 31 December 2019, if the local currency in each country the Group operates in, had strengthened or weakened by 5% against the major trading currencies, with all other variables held constant, the impact on the after-tax profit would have been as shown below:

	Group		Bank	
	2019 Shs'million	2018 Shs'million	2019 Shs'million	2018 Shs'million
+ 5% movement	(30.7)	(139.9)	13.0	6.2
- 5% movement	30.7	139.9	(13.0)	(6.2)

4. Financial risk management (Continued)

(d) Liquidity risk management

Liquidity risk is the risk that the Group will be unable to meet cash flow obligations as they become due, because of an inability to liquidate assets, or to obtain adequate funding.

At management level, ALCO has the responsibility for the formulation and management of the overall strategy and oversight of the asset liability management function. At Board level and, through its sub-committee, BRMC reviews the strategy adopted by ALCO and provides direction on a periodic basis.

The Group follows a comprehensive liquidity risk management policy and procedures duly recommended by the ALCO, reviewed by the BRMC and approved by the Board. The policy stipulates maintenance of various ratios, funding preferences, and evaluation of the Group's liquidity under normal and crisis situation (stress testing).

The table below presents the undiscounted cash flows receivable and payable by the Group and Bank under financial assets and liabilities by remaining contractual maturities at the reporting date.

Group	Up to 1 month Shs'000	1-3 months Shs'000	3-12 months Shs'000	1-5 years Shs'000	Over 5 years Shs'000	Total Shs'000
At 31 December 2019						
FINANCIAL ASSETS						
Cash and balances with Central Banks	19,057,929	3,164,849	4,707,689	288,436	-	27,218,903
Government securities	18,521,087	23,040,152	74,208,292	19,364,060	-	135,133,591
Deposits and balances due from banking institutions	8,465,559	2,802,379	417,533	-	-	11,685,471
Loans and advances to customers	15,033,531	29,917,808	38,675,002	70,950,094	75,161,091	229,737,526
Corporate bond - held to maturity	-	-	19,670	-	-	19,670
Equity investment - at fair value through OCI	-	-	-	-	1,518,389	1,518,389
Other assets	1,376,772	-	-	-	-	1,376,772
Total financial assets	62,454,878	58,925,188	118,028,186	90,602,590	76,679,480	406,690,322
FINANCIAL LIABILITIES						
Customer deposits	151,113,046	53,991,047	70,601,980	6,671,279	48,853	282,426,205
Deposits and balances due to banking institutions	22,626,937	1,218,229	293,877	-	-	24,139,043
Borrowings	11,203	1,817,759	3,955,390	6,007,993	2,348,137	14,140,482
Other liabilities	(1,400,903)	1,152,107	27,768	3,133,833	-	2,912,805
Lease liabilities	55,266	97,111	494,309	3,315,194	3,417,508	7,379,388
Total financial liabilities	172,405,549	58,276,253	75,373,324	19,128,299	5,814,498	330,997,923
Net liquidity gap	(109,950,671)	648,935	42,654,862	71,474,291	70,864,982	75,692,399
At 31 December 2018						
Total financial assets	60,619,238	45,413,905	140,906,985	98,993,781	62,288,628	408,222,537
Total financial liabilities	180,996,040	57,514,632	75,868,236	10,953,482	2,786,613	328,119,003
Net liquidity gap	(120,376,802)	(12,100,727)	65,038,749	88,040,299	59,502,015	80,103,534

4. Financial risk management (Continued)

(d) Liquidity risk management (Continued)

Bank	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
At 31 December 2019	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000
FINANCIAL ASSETS						
Cash and balances with Central Bank of Kenya	11,363,127	2,951,639	3,817,030	106,582	-	18,238,378
Government securities	17,860,965	17,370,781	53,769,039	14,195,303	-	103,196,088
Deposits and balances due from banking institutions	1,560,140	-	-	-	-	1,560,140
Loans and advances to customers	10,015,397	20,141,403	21,200,238	49,491,272	71,073,327	171,921,637
Other assets	4,057	839,061	27,768	-	-	870,886
Equity investment - at fair value through OCI	-	-	-	-	1,513,048	1,513,048
Total financial assets	40,803,686	41,302,884	78,814,075	63,793,157	72,586,375	297,300,177
FINANCIAL LIABILITIES						
Customer deposits	101,992,221	47,896,324	51,532,429	3,528,606	-	204,949,580
Deposits and balances due to banking institutions	20,349,316	1,218,229	-	-	-	21,567,545
Borrowings	-	525,481	2,303,626	4,886,279	2,025,847	9,741,233
Lease liabilities	39,072	49,415	283,388	2,100,782	2,404,178	4,876,835
Other liabilities	1,534,720	-	-	-	-	1,534,720
Total financial liabilities	123,915,329	49,689,449	54,119,443	10,515,667	4,430,025	242,669,913
Net liquidity gap	(83,111,643)	(8,386,565)	24,694,632	53,277,490	68,156,350	54,630,264
At 31 December 2018						
Total financial assets	37,190,212	29,794,124	104,366,583	73,614,093	49,669,202	294,634,214
Total financial liabilities	127,845,366	50,095,117	54,978,638	8,997,198	407,375	242,323,694
Net liquidity gap	(90,655,154)	(20,300,993)	49,387,945	64,616,895	49,261,827	52,310,520

4. Financial risk management (Continued)

(e) Operational risk management

Operational risk is the risk that the Group will face direct or indirect loss resulting from inadequate or failed internal processes, people, technology failures and from external events. The Group has in place Board-approved Operations Risk Management Policy and Procedures.

At management level, the Operational Risk Management Committee (ORCO) has the responsibility for assessing the risk associated with the Group's activities, ensuring they are clearly identified, assessed and controlled in line with the Group's Operational Risk Management Policy. ORCO is charged with ensuring that the Group has adequate internal policies and procedures, technology, business continuity, and ensuring that the appropriate knowledge, skills, resources and expertise are available within the Group to enable the staff to meet the risk management and control requirements within each of their respective areas of operation.

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

The primary responsibility for the development and implementation of controls to address operational risk is assigned to senior management within each business unit and coordinated on an overall basis by the Group's Risk and Compliance function.

(f) Fair values of financial assets and liabilities

IFRS 7 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 Group's market assumptions. These two types of inputs have created the following fair value hierarchy:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1).
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2).
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

The following sets out the Group's basis of establishing fair values of financial instruments:

Investment securities with observable market prices including equity securities are fair valued using that information. Investment securities that do not have observable market data are fair valued either using discounted cash flow method or quoted market prices for securities with similar yield characteristics.

Loans and advances to customers are net of allowance for impairment. The estimated fair value of loans and advances represents the discounted amount of future cash flows expected to be received. Expected cash flows are discounted at current market rates to determine fair value. A substantial proportion of loans and advances are on floating rates and re-price within 12 months, hence their fair value approximates their carrying amounts.

The estimated fair value of deposits with no stated maturity is the amount repayable on demand. Estimated fair value of fixed interest bearing deposits without quoted market prices is based on discounting cash flows using the prevailing market rates for debts with a similar maturities and interest rates. A substantial proportion of deposits mature within 12 months and hence the fair value approximates their carrying amounts.

Cash and balances with Central Banks are measured at amortized cost and their fair value approximates their carrying amount.

4. Financial risk management (Continued)

(f) Fair values of financial assets and liabilities (Continued)

The fair values of Group and Bank's financial assets and liabilities are as shown below:

	Carrying value		Fair value	
	2019	2018	2019	2018
	Shs'000	Shs'000	Shs'000	Shs'000
Group				
Financial assets				
Cash and balances with Central Banks	27,218,903	37,716,947	27,218,903	37,716,947
Government securities	130,925,571	115,489,352	130,925,571	115,489,352
Deposits and balances due from banking institutions	8,320,531	14,162,442	8,320,531	14,162,442
Loans and advances to customers	199,089,371	193,074,357	199,089,371	193,074,357
Other assets	2,439,622	2,707,333	2,439,622	2,707,333
Equity investment - at fair value through OCI	1,518,389	1,797,617	1,518,389	1,797,617
Total financial assets	369,512,387	364,948,048	369,512,387	364,948,048
Financial liabilities				
Customer deposits	280,186,953	282,860,003	280,186,953	282,860,003
Deposits and balances due to banking institutions	22,453,859	17,143,207	22,453,859	17,143,207
Borrowings	11,356,847	14,693,994	11,356,847	14,693,994
Lease liabilities	4,237,765	-	4,237,765	-
Other liabilities	3,479,417	4,082,861	3,479,417	4,082,861
Total financial liabilities	321,714,841	318,780,065	321,714,841	318,780,065
Bank				
Financial assets				
Cash and balances with Central Bank of Kenya	18,238,378	27,363,599	18,238,378	27,363,599
Government securities	98,180,149	86,311,885	98,180,149	86,311,885
Deposits and balances due from banking institutions	1,557,300	2,685,708	1,557,300	2,685,708
Loans and advances to customers	149,501,314	146,781,681	149,501,314	146,781,681
Other assets	1,433,481	1,784,571	1,433,481	1,784,571
Equity investment - at fair value through OCI	1,513,048	1,797,617	1,513,048	1,797,617
Total financial assets	270,423,670	266,725,061	270,423,670	266,725,061
Financial liabilities				
Customer deposits	199,489,226	206,059,510	199,489,226	206,059,510
Deposits and balances due to banking institutions	21,549,148	14,724,330	21,549,148	14,724,330
Borrowings	9,741,233	10,441,306	9,741,233	10,441,306
Lease liabilities	2,576,389	-	2,576,389	-
Other liabilities	1,893,221	2,577,719	1,893,221	2,577,719
Total financial liabilities	235,249,217	233,802,865	235,249,217	233,802,865

4. Financial risk management (Continued)

(g) Capital management

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

- to comply with the capital requirements set by the Central Bank of Kenya (CBK);
- to safeguard the Bank 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 risk weighted assets are measured by means of a hierarchy, classified according to the nature and reflecting an estimate, of the credit risk associated with each assets and counter party. A similar treatment is adopted for off balance sheet exposure, with some adjustment to reflect the more contingent nature of the potential losses.

The Group manages its capital to meet the Central Bank requirements. In the case of the bank, the requirements are listed below:

- hold the minimum level or regulatory capital of Shs 1 billion;
- maintain a ratio of total regulatory capital to the risk-weighted assets plus risk-weighted off-balance sheet assets (the 'Basel ratio') at or above the required minimum of 8%;
- maintain core capital of not less than 8% of total deposit liabilities; and
- maintain total capital of not less than 12% of risk-weighted assets plus risk-weighted off-balance sheet items.

Banks in Kenya are also required to maintain a capital conservation buffer of 2.5% over and above the minimum capital requirements. The statutory minimum capital adequacy ratios (CARs) including the buffer are as follows:

• Core capital to Total risk weighted assets (TRWA) ratio	10.50%
• Core capital to deposits ratio	8.00%
• Total capital to TRWA ratio	14.50%

The Bank maintains an internally set and Board- approved Board minimum CAR requirement of 1% and 1.5% over and above the CBK prescribed minimum of Core capital/TRWA ratio of 11.50 % and Total capital to TRWA ratio of 16.0% respectively.

As at 31 December 2019, the Bank's capital ratios are above the enhanced minimum capital requirements.

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

1. Tier 1 capital (core capital): share capital, share premium plus retained earnings.
2. 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 and statutory loan reserve. Qualifying Tier 2 capital is limited to 100% of Tier 1 capital.

During the year, the Group and Bank have complied with requirements of the regulators; Central Bank of Kenya, Bank of Tanzania, Bank of Uganda, Banque de la Republique du Burundi, the Capital Markets Authority as well as the Nairobi Securities Exchange.

4. Financial risk management (Continued)

(g) Capital management (Continued)

The table below summarises the composition of regulatory capital and the ratios of the Group and Bank as at 31 December:

	Group		Bank	
	2019	2018	2019	2018
	Shs'000	Shs'000	Shs'000	Shs'000
Tier I Capital	58,902,870	53,691,094	44,555,022	39,935,899
Tier I + Tier II Capital	64,562,179	60,937,163	48,907,303	45,102,257
Risk-weighted assets				
On-balance sheet	210,775,677	205,989,095	155,760,003	152,113,583
Off-balance sheet	53,016,742	35,326,510	43,559,679	31,142,396
Operational and market risk	34,533,867	31,402,829	34,533,867	30,421,925
Total risk-weighted assets	298,326,286	272,718,434	233,853,549	213,677,904
Basel ratio				
Tier I (CBK minimum - 10.5%)	19.7%	19.7%	19.1%	18.7%
Tier I + Tier II (CBK minimum - 14.5%)	21.6%	22.3%	20.9%	21.1%

The capital adequacy ratios for the subsidiaries are summarised below;

	2019	2018
Tier I		
DTB Tanzania - Bank of Tanzania (BOT) minimum - 12.5%;	19.3%	18.8%
DTB Uganda - Bank of Uganda (BOU) minimum - 10.0%	24.7%	28.2%
DTB Burundi - Banque de la Republique du Burundi minimum - 12.5%	56.2%	49.2%
Tier I + Tier II		
DTB Tanzania (BOT) minimum - 14.5%;	22.2%	23.9%
DTB Uganda - (BOU) minimum -12.0%	25.4%	29.1%
DTB Burundi - Banque de la Republique du Burundi minimum - 14.5%	57.0%	50.8%

	Group		Bank	
	2019	2018	2019	2018
	Shs'000	Shs'000	Shs'000	Shs'000
5. Interest income				
Loans and advances	19,953,866	21,956,985	14,795,260	16,754,047
Government securities	12,498,862	13,010,069	9,500,476	10,188,136
Placements and bank balances	398,385	301,449	159,528	99,802
	32,851,113	35,268,503	24,455,264	27,041,985
6. Interest expense				
Customer deposits	12,136,834	13,463,538	10,073,158	11,327,165
Deposits due to banking institutions	635,891	795,314	601,748	743,716
	12,772,725	14,258,852	10,674,906	12,070,881
7. Net fee and commission income				
Fee and commission income	3,440,657	3,413,397	1,919,501	1,948,342
Inter-bank transaction fees	(196,491)	(172,537)	(196,491)	(172,537)
Net fees and commissions	3,244,166	3,240,860	1,723,010	1,775,805
8. Other operating income				
Rental income	59,383	47,245	58,999	46,913
Commission from insurance business	303,746	326,748	156,646	161,291
Loss on sale of property and equipment	(33,277)	(92,008)	(13,058)	(81,779)
Other	67,464	67,363	121,050	124,432
	397,316	349,348	323,637	250,857
9. Operating expenses				
Operating expenses include:				
Staff costs (Note 10)	4,669,986	4,240,098	2,826,308	2,559,119
Depreciation (Note 22)	997,482	1,002,064	540,169	552,147
Amortisation of software costs (Note 21)	581,177	272,225	474,520	190,224
Depreciation charge on leases (Note 24)	517,610	-	189,934	-
Operating lease rentals	-	886,512	-	449,611
Auditor's remuneration	27,092	23,673	11,062	10,057
Other expenses	5,108,527	5,078,527	2,655,469	2,679,370
	11,901,874	11,503,099	6,697,462	6,440,528

10. Staff costs	Group		Bank	
	2019 Shs'000	2018 Shs'000	2019 Shs'000	2018 Shs'000
Salaries and allowances	3,922,552	3,639,672	2,453,758	2,305,195
Contribution to defined contribution retirement scheme	173,822	137,475	171,972	135,703
National Social Security Fund contribution	130,139	119,253	2,592	2,544
Others including insurance and training expenses	443,473	343,698	197,986	115,677
	4,669,986	4,240,098	2,826,308	2,559,119

The average number of employees for the Group during the year was 2,269 (2018: 2,252).

11. Income tax expense

a) Tax charge				
Current income tax	4,447,468	3,448,301	3,643,011	2,810,559
Under/ (over) provision of income tax in previous year	692,912	(4,089)	689,100	(4,094)
Deferred income tax (Note 25)	(1,061,532)	563,007	(712,824)	783,351
Over provision of deferred tax credit in previous year (Note 25)	(84,526)	(89,062)	(54,973)	(111,958)
	3,994,322	3,918,157	3,564,314	3,477,858

- b) The tax on the profit before income tax differs from the theoretical amount that would arise using the basic tax rate as follows:

	Group		Bank	
	2019 Shs'000	2018 Shs'000	2019 Shs'000	2018 Shs'000
Profit before income tax	11,262,914	11,000,272	9,279,305	9,264,774
Tax calculated at the statutory tax rate of 30%	3,378,875	3,300,082	2,783,792	2,779,432
Tax effect of:				
Income not subject to tax	(533,456)	(344,627)	(319,219)	(189,792)
Expenses not deductible for tax purposes	350,867	1,055,853	309,222	1,004,270
Under/(over) provision of current income tax in previous year	692,912	(4,089)	689,100	(4,094)
Over provision of deferred tax credit in previous year	(84,526)	(89,062)	(54,973)	(111,958)
Effect of IFRS 16	189,650	-	156,392	-
Income tax expense	3,994,322	3,918,157	3,564,314	3,477,858

Notes (Continued)

11. Income tax expense (Continued)

	Group		Bank	
	2019	2018	2019	2018
	Shs'000	Shs'000	Shs'000	Shs'000
c) Tax receivable				
At 1 January	(1,470,570)	(829,434)	(922,872)	(652,699)
Income tax charge	4,447,468	3,448,301	3,643,011	2,810,559
Prior year over - provision	692,912	(4,089)	689,100	(4,094)
Tax paid	(4,521,364)	(4,085,348)	(3,549,727)	(3,076,638)
At 31 December	(851,554)	(1,470,570)	(140,488)	(922,872)

12. Earnings per share

Basic earnings per share are calculated by dividing the profit attributable to the owners of the Bank by the weighted average number of ordinary shares outstanding during the year.

	Group		Bank	
	2019	2018	2019	2018
Profit attributable to shareholders (Shs thousands)	6,785,603	6,686,612	5,714,991	5,786,916
Weighted average number of ordinary shares in issue (thousands)	279,602	279,602	279,602	279,602
Earnings per share (Shs per share) - basic and diluted	24.27	23.91	20.44	20.70

The earnings per share have been calculated on the basis of the number of weighted ordinary shares issued as at 31 December 2019. There were no potentially dilutive shares outstanding at 31 December 2019.

13. Dividends per share

A final dividend in respect of the year ended 31 December 2019 of Shs 2.70 per share amounting to a total of Shs 754,925,994 is proposed.

The total dividend for the year is Shs 2.70 per share (2018: Shs 2.60), amounting to a total of Shs 754,925,994 (2018: Shs 726,965,772).

Payment of dividends is subject to withholding tax at a rate of 5% for shareholders who are citizens of East Africa Partner States and 10% for all other shareholders.

14. Classification of financial assets and liabilities**(a) Group**

The following table provides a reconciliation between line items in the statement of financial position and categories of financial instruments.

31 December 2019	Mandatorily at FVTPL Shs'000	Designated at FVTPL Shs'000	Investment at FVTOCI Shs'000	Amortised cost Shs'000	Total carrying amount Shs'000
Cash and balances with Central Banks	-	-	-	27,218,903	27,218,903
Government securities	-	615,493	11,026,984	119,283,094	130,925,571
Deposits and balances due from banking institutions	-	-	-	8,320,531	8,320,531
Loans and advances to customers	-	-	-	199,089,371	199,089,371
Corporate bond - at amortised cost	-	-	-	18,029	18,029
Equity investment - at fair value through OCI	-	-	1,518,389	-	1,518,389
Other assets	-	-	-	1,376,772	1,376,772
Total financial assets	-	615,493	12,545,373	355,306,700	368,467,566
Customer deposits	-	-	-	280,186,953	280,186,953
Deposits and balances due to banking institutions	-	-	-	22,453,859	22,453,859
Other liabilities	-	-	-	2,912,805	2,912,805
Borrowings	-	-	-	11,356,847	11,356,847
Lease liabilities	-	-	-	4,237,765	4,237,765
Total financial liabilities	-	-	-	321,148,229	321,148,229
31 December 2018					
Cash and balances with Central Banks	-	-	-	37,716,947	37,716,947
Government securities	-	505,173	6,751,201	108,232,978	115,489,352
Deposits and balances due from banking institutions	-	-	-	14,162,442	14,162,442
Loans and advances to customers	-	-	-	193,074,357	193,074,357
Corporate bond - at amortised cost	-	-	-	43,359	43,359
Equity investment - at fair value through OCI	-	-	1,797,617	-	1,797,617
Other assets	-	-	-	1,666,262	1,666,262
Total financial assets	-	505,173	8,548,818	354,896,345	363,950,336
Customer deposits	-	-	-	282,860,003	282,860,003
Deposits and balances due to banking institutions	-	-	-	17,143,207	17,143,207
Other liabilities	-	-	-	3,404,209	3,404,209
Borrowings	-	-	-	14,693,994	14,693,994
Total financial liabilities	-	-	-	318,101,413	318,101,413

14. Classification of financial assets and liabilities (Continued)

(b) Bank

The following table provides a reconciliation between line items in the statement of financial position and categories of financial instruments.

31 December 2019	Mandatorily at FVTPL Shs'000	Designated at FVTPL Shs'000	Investment at FVTOCI Shs'000	Amortised cost Shs'000	Total carrying amount Shs'000
Cash and balances with Central Banks	-	-	-	18,238,378	18,238,378
Government securities	-	615,493	-	97,564,656	98,180,149
Deposits and balances due from banking institutions	-	-	-	1,557,300	1,557,300
Loans and advances to customers	-	-	-	149,501,314	149,501,314
Investment securities- at fair value through OCI	-	-	1,513,048	-	1,513,048
Other assets	-	-	-	870,886	870,886
Total financial assets	-	615,493	1,513,048	267,732,534	269,861,075
Customer deposits	-	-	-	199,489,226	199,489,226
Deposits and balances due to banking institutions	-	-	-	21,549,148	21,549,148
Other liabilities	-	-	-	1,534,720	1,534,720
Borrowings	-	-	-	9,741,233	9,741,233
Lease liabilities	-	-	-	2,576,389	2,576,389
Total financial liabilities	-	-	-	234,890,716	234,890,716
31 December 2018					
Cash and balances with Central Banks	-	-	-	27,363,599	27,363,599
Government securities	-	505,173	-	85,806,712	86,311,885
Deposits and balances due from banking institutions	-	-	-	2,685,708	2,685,708
Loans and advances to customers	-	-	-	146,781,681	146,781,681
Equity investment - at fair value through OCI	-	-	1,797,617	-	1,797,617
Other assets	-	-	-	1,272,253	1,272,253
Total financial assets	-	505,173	1,797,617	263,909,953	266,212,743
Customer deposits	-	-	-	206,059,510	206,059,510
Deposits and balances due to banking institutions	-	-	-	14,724,330	14,724,330
Other liabilities	-	-	-	2,281,010	2,281,010
Borrowings	-	-	-	10,441,306	10,441,306
Total financial liabilities	-	-	-	233,506,156	233,506,156

15. Cash and balances with Central Banks

	Group		Bank	
	2019	2018	2019	2018
	Shs'000	Shs'000	Shs'000	Shs'000
Cash in hand	8,193,800	7,928,396	5,233,608	5,192,180
Balances with Central Banks				
-Unrestricted balances	2,752,965	13,068,906	2,701,802	11,523,648
-Restricted balances (Statutory Minimum Reserve)	16,272,138	16,719,645	10,302,968	10,647,771
	27,218,903	37,716,947	18,238,378	27,363,599

Banks are required to maintain a prescribed minimum cash balance with the Central Banks that is not available to finance the banks' day-to-day activities. In the case of the Bank, the amount is determined as 5.25 % (2018: 5.25%) of the average outstanding customer deposits over a cash reserve cycle period of one month.

16. Government securities

	Group		Bank	
	2019	2018	2019	2018
	Shs'000	Shs'000	Shs'000	Shs'000
-At amortised cost				
Treasury bills	96,928,573	82,498,766	85,807,864	73,917,323
Treasury bonds	22,354,521	25,734,212	11,756,792	11,889,389
	119,283,094	108,232,978	97,564,656	85,806,712
-At fair value through OCI				
Treasury bills	11,026,984	6,751,201	-	-
-At fair value through profit and loss				
Treasury bonds	615,493	505,173	615,493	505,173
Total Government securities	130,925,571	115,489,352	98,180,149	86,311,885

Treasury bills and bonds are debt securities issued by the Republic of Kenya in the case of the Bank, as well as the United Republic of Tanzania, Republic of Uganda and Republique du Burundi in the case of the Group.

The maturity profile of Government securities is as follows:

	Group		Bank	
	2019	2018	2019	2018
	Shs'000	Shs'000	Shs'000	Shs'000
Included in cash and cash equivalents	1,242,895	3,319,355	-	-
Less than 1 year	107,397,697	102,098,849	85,807,863	79,591,490
1-5 years	22,284,979	10,071,148	12,372,286	6,720,395
	130,925,571	115,489,352	98,180,149	86,311,885

17. Deposits and balances due from banking institutions

Due from other banks	8,342,582	14,201,767	1,560,140	2,697,094
Expected credit loss	(22,051)	(39,325)	(2,840)	(11,386)
	8,320,531	14,162,442	1,557,300	2,685,708

All deposits due from banking institutions are due within 91 days.

18. Loans and advances to customers

	Group		Bank	
	2019	2018	2019	2018
	Shs'000	Shs'000	Shs'000	Shs'000
Loans and advances	203,039,980	196,322,117	151,923,219	148,369,847
Finance leases	3,297,427	4,793,130	3,297,427	4,793,130
Gross loans and advances	206,337,407	201,115,247	155,220,646	153,162,977
Less: Provision for impairment				
Stage 3 impairment	(4,517,413)	(5,421,312)	(3,665,927)	(4,179,635)
Stage 1 and 2 impairment	(2,730,623)	(2,619,578)	(2,053,405)	(2,201,661)
Net loans and advances	199,089,371	193,074,357	149,501,314	146,781,681

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

	Group		Bank	
	Stage 3 impairment	Stage 1 and 2 impairment	Stage 3 impairment	Stage 1 and 2 impairment
	Shs'000	Shs'000	Shs'000	Shs'000
Year ended 31 December 2018				
At start of year	8,224,503	3,230,346	7,023,575	2,603,466
Provision for loan impairment	4,279,703	11,748	2,876,217	-
Loans written off during the year as uncollectible	(5,860,896)	-	(4,644,573)	-
Recoveries	(1,174,508)	(595,410)	(1,075,584)	(401,805)
Translation difference	(47,490)	(27,106)	-	-
At end of year	5,421,312	2,619,578	4,179,635	2,201,661

Year ended 31 December 2019

At start of year	5,421,312	2,619,578	4,179,635	2,201,661
Provision for loan impairment	2,289,262	267,133	1,313,037	-
Loans written off during the year as uncollectible	(1,791,495)	-	(626,109)	-
Recoveries	(1,403,838)	(157,335)	(1,200,636)	(148,256)
Translation difference	2,172	1,247	-	-
At end of year	4,517,413	2,730,623	3,665,927	2,053,405

Charge to statement of profit or loss (Group)

Year ended 31 December 2018

Provision for loan impairment	4,279,703	11,748	4,291,451
Recoveries	(1,174,508)	(595,410)	(1,769,918)
Net increase in provision	3,105,195	(583,662)	2,521,533
Amounts recovered previously written off	(273,758)	-	(273,758)
Loans written off through the statement of profit or loss	460,728	-	460,728
Net (credit)/charge to statement of profit or loss	3,292,165	(583,662)	2,708,503

18. Loans and advances to customers (continued)**Charge to statement of profit or loss (Group)(Continued)**

	Stage 3 impairment Shs'000	Stage 1 and 2 impairment Shs'000	Total Shs'000
Year ended 31 December 2019			
Provision for loan impairment	2,289,262	267,133	2,556,395
Recoveries	(1,403,838)	(157,335)	(1,561,173)
Net increase in provision	885,424	109,798	995,222
Amounts recovered previously written off	(298,416)	-	(298,416)
Loans written off through the statement of profit or loss	327,788	-	327,788
Net charge to statement of profit or loss	914,796	109,798	1,024,594

Charge to statement of profit or loss (Bank)**Year ended 31 December 2018**

Provision for loan impairment	2,876,217	-	2,876,217
Recoveries	(1,075,584)	(401,805)	(1,477,389)
Net increase in provision	1,800,633	(401,805)	1,398,828
Amounts recovered previously written off	(2,312)	-	(2,312)
Loans written off through statement of profit or loss	157,801	-	157,801
Net charge/ (credit) to statement of profit or loss	1,956,122	(401,805)	1,554,317

Year ended 31 December 2019

Provision for loan impairment	1,313,037	-	1,313,037
Recoveries	(1,200,636)	(148,256)	(1,348,892)
Net increase in provision	112,401	(148,256)	(35,855)
Amounts recovered previously written off	(29,911)	-	(29,911)
Loans written off through statement of profit or loss	23,509	-	23,509
Net charge/ (credit) to statement of profit or loss	105,999	(148,256)	(42,257)

All non performing loans have been written down to their estimated recoverable amount. The aggregate amount of non-performing loans, net of provision for identified impairment losses, at 31 December 2019, was Group: Shs 9.1 billion, Bank: Shs 7.1 billion (2018 - Group: Shs 6.7 billion, Bank: Shs 5.5 billion).

Notes (Continued)

18. Loans and advances to customers (continued)

Charge to statement of profit or loss (Bank)

Loans and advances to customers include finance leases receivables as follows:

	Group and Bank	
	2019	2018
	Shs'000	Shs'000
Gross investment in finance leases:		
Not later than 1 year	582,488	835,018
Later than 1 year and not later than 5 years	3,211,252	5,039,842
Later than 5 years	-	2,523
	3,793,740	5,877,383
Unearned future finance income on finance leases	(392,251)	(1,084,252)
Net investment in finance leases	3,401,489	4,793,131
The net investment in finance leases may be analysed as follows:		
Not later than 1 year	552,475	564,131
Later than 1 year and not later than 5 years	2,849,014	4,227,765
Later than 5 years	-	1,235
Net investment in finance leases	3,401,489	4,793,131

19. Corporate bond at amortised cost

	Group	
	2019	2018
	Shs'000	Shs'000
Corporate bond Investment in PTA Bank	18,029	43,359

Diamond Trust Bank Tanzania in May 2015 subscribed to a five years (5) unsecured bonds (Corporate Bond) issued by Eastern and Southern Africa Development Bank (PTA Bank). The corporate bond is maturing in May 2020.

20. Other assets

	Group		Bank	
	2019	2018	2019	2018
	Shs'000	Shs'000	Shs'000	Shs'000
Uncleared effects	666,009	992,412	583,859	915,224
Deposits and prepayments	1,062,850	1,041,071	562,595	512,318
Others	710,763	673,850	287,027	357,029
	2,439,622	2,707,333	1,433,481	1,784,571

21. Intangible assets-software costs

	Group		Bank	
	2019 Shs'000	2018 Shs'000	2019 Shs'000	2018 Shs'000
At start of year	1,230,071	1,327,057	982,437	1,072,640
Additions	682,175	151,893	627,769	125,761
Transfer from property and equipment (Note 22)	89,775	58,534	(20,957)	-
Amortisation charge for the year	(581,177)	(272,225)	(474,520)	(190,224)
Write offs/disposal	-	(25,740)	-	(25,740)
Translation difference	722	(9,448)	-	-
At the end of year	1,421,566	1,230,071	1,114,729	982,437
Cost	3,349,837	2,778,362	2,439,390	2,106,978
Accumulated amortisation	(1,928,271)	(1,548,291)	(1,324,661)	(1,124,541)
Net book amount	1,421,566	1,230,071	1,114,729	982,437

NOTES (CONTINUED)

22. Property and equipment

(a) Group

	Leasehold land Shs'000	Buildings Shs'000	Leasehold improvements Shs'000	Motor vehicles Shs'000	Furniture fittings & equipment Shs'000	Work in progress Shs'000	Total Shs'000
Year ended 31 December 2018							
Opening net book amount	1,065,380	2,570,656	820,115	39,782	1,677,745	542,571	6,716,249
Translation difference	(683)	(7,799)	(19,303)	(1,055)	(28,443)	(5,448)	(62,731)
Additions	-	1,701	18,370	24,927	483,219	376,621	904,838
Transfer from work in progress	-	-	33,189	-	245,975	(279,164)	-
Transfer to intangible assets (Note 21)	-	-	-	-	70,330	(128,864)	(58,534)
Disposals - cost	-	-	(30,365)	(1,311)	(86,073)	(67,643)	(185,392)
Disposals - accumulated depreciation	-	-	19,791	1,233	77,284	-	98,308
Depreciation charge	(18,724)	(47,773)	(171,898)	(22,813)	(740,856)	-	(1,002,064)
Closing net book amount	1,045,973	2,516,785	669,899	40,763	1,699,181	438,073	6,410,674
At 31 December 2018							
Cost or valuation	1,083,422	2,612,383	1,799,000	198,191	5,701,742	438,073	11,832,811
Accumulated depreciation	(37,449)	(95,598)	(1,129,101)	(157,428)	(4,002,561)	-	(5,422,137)
Net book amount	1,045,973	2,516,785	669,899	40,763	1,699,181	438,073	6,410,674
At 31 December 2018							
Cost	432,321	2,028,719	1,799,000	198,191	5,701,742	438,073	10,598,046
Revaluation surplus	651,101	583,664	-	-	-	-	1,234,765
Cost or valuation	1,083,422	2,612,383	1,799,000	198,191	5,701,742	438,073	11,832,811

Notes (Continued)

22. Property and equipment (Continued)**(a) Group (Continued)**

	Leasehold land Shs'000	Buildings Shs'000	Leasehold improvements Shs'000	Motor vehicles Shs'000	Furniture fittings & equipment Shs'000	Work in progress Shs'000	Total Shs'000
Year ended 31 December 2019							
Opening net book amount	1,045,973	2,516,785	669,899	40,763	1,699,181	438,073	6,410,674
Translation difference	(1,391)	(3,317)	592	(300)	(1,461)	412	(5,465)
Additions	-	-	14,000	11,343	444,633	300,340	770,316
Transfer from work in progress	-	-	7,067	-	345,581	(352,648)	-
Transfer to intangible assets (Note 21)	-	-	-	-	(1,746)	(88,029)	(89,775)
Write off	-	-	-	-	-	(29,979)	(29,979)
Disposals	-	-	(14,780)	(1,684)	(171,927)	(11,443)	(199,834)
Disposals - accumulated depreciation	-	-	5,597	1,656	164,613	-	171,866
Depreciation charge	(18,724)	(47,647)	(148,032)	(20,237)	(762,842)	-	(997,482)
Closing net book amount	1,025,858	2,465,821	534,343	31,541	1,716,032	256,726	6,030,321
At 31 December 2019							
Cost or revaluation	1,082,030	2,609,066	1,802,026	195,568	6,166,398	256,726	12,111,814
Accumulated depreciation	(56,172)	(143,245)	(1,267,683)	(164,027)	(4,450,366)	-	(6,081,493)
Net book amount	1,025,858	2,465,821	534,343	31,541	1,716,032	256,726	6,030,321
At 31 December 2019							
Cost	430,929	2,025,402	1,802,026	195,568	6,166,398	256,726	10,877,049
Revaluation surplus	651,101	583,664	-	-	-	-	1,234,765
Cost or valuation	1,082,030	2,609,066	1,802,026	195,568	6,166,398	256,726	12,111,814

Notes (Continued)

22. Property and equipment

(b) Bank

	Leasehold land Shs'000	Buildings Shs'000	Leasehold improvements Shs'000	Motor vehicles Shs'000	Furniture fittings & equipment Shs'000	Work in progress Shs'000	Total Shs'000
Year ended 31 December 2018							
Opening net book amount	1,041,475	2,356,205	299,135	10,446	921,888	391,088	5,020,237
Additions	-	300	798	-	194,349	170,315	365,762
Transfers from work in progress	-	-	7,728	-	160,798	(168,526)	-
Disposals - cost	-	-	(636)	-	(63,380)	(67,643)	(131,659)
Disposals - accumulated depreciation	-	-	636	-	56,814	-	57,450
Depreciation charge	(18,724)	(36,346)	(77,881)	(7,437)	(411,759)	-	(552,147)
Closing net book amount	1,022,751	2,320,159	229,780	3,009	858,710	325,234	4,759,643
At 31 December 2018							
Cost or valuation	1,060,199	2,392,820	757,802	100,687	3,330,523	325,234	7,967,265
Accumulated depreciation	(37,448)	(72,661)	(528,022)	(97,678)	(2,471,813)	-	(3,207,622)
Net book amount	1,022,751	2,320,159	229,780	3,009	858,710	325,234	4,759,643
At 31 December 2018							
Cost	430,251	1,914,417	757,802	100,687	3,330,523	325,234	6,858,914
Revaluation surplus	629,948	478,403	-	-	-	-	1,108,351
Cost or valuation	1,060,199	2,392,820	757,802	100,687	3,330,523	325,234	7,967,265

Notes (Continued)

22. Property and equipment (Continued)**(b) Bank (Continued)**

	Leasehold land Shs'000	Buildings Shs'000	Leasehold improvements Shs'000	Motor vehicles Shs'000	Furniture fittings & equipment Shs'000	Work in progress Shs'000	Total Shs'000
Year ended 31 December 2019							
Opening net book amount	1,022,751	2,320,159	229,780	3,009	858,710	325,234	4,759,643
Additions	-	-	836	-	220,964	173,443	395,243
Transfers from work in progress	-	-	-	-	299,206	(299,206)	-
Transfers to intangible assets (Note 21)	-	-	-	-	(1,746)	22,703	20,957
Write off	-	-	-	-	-	(29,979)	(29,979)
Disposals - Cost	-	-	(231)	-	(159,816)	-	(160,047)
Disposals - accumulated depreciation	-	-	231	-	156,904	-	157,135
Depreciation charge	(18,724)	(36,348)	(65,977)	(2,838)	(416,282)	-	(540,169)
Closing net book amount	1,004,027	2,283,811	164,639	171	957,940	192,195	4,602,783
At 31 December 2019							
Cost or valuation	1,060,199	2,392,820	758,407	100,687	3,665,532	192,195	8,169,840
Accumulated depreciation	(56,172)	(109,009)	(593,768)	(100,516)	(2,707,592)	-	(3,567,057)
Net book amount	1,004,027	2,283,811	164,639	171	957,940	192,195	4,602,783
At 31 December 2019							
Cost	430,251	1,914,417	758,407	100,687	3,665,532	192,195	7,061,489
Revaluation surplus	629,948	478,403	-	-	-	-	1,108,351
Cost or valuation	1,060,199	2,392,820	758,407	100,687	3,665,532	192,195	8,169,840

22. Property and equipment(Continued)

Land and buildings for Diamond Trust Bank Kenya Limited, Diamond Trust Bank Tanzania Limited and Diamond Trust Bank Burundi SA were revalued as at 31 December 2016 by independent valuers Redfearn Valuers Limited, Let Consultants Limited and Construction, Aménagement, Réhabilitation et Décoration respectively. The leasehold land and building are valued using level 2 model. The fair values of leasehold buildings have been derived by using depreciated replacement method. Replacement cost has been derived by using observable measures such as market prices and estimates. Valuations were made on the basis of the open market value. The book values of the properties were adjusted to the revaluations and the resultant surplus, was credited to reserves in shareholders' equity. Land and buildings are revalued every 3 - 5 years. If leasehold land and buildings were stated at the historical cost basis, the amounts would be as follows:

	Group		Bank	
	2019	2018	2019	2018
	Shs'000	Shs'000	Shs'000	Shs'000
Cost	2,464,619	2,516,202	2,588,249	2,588,249
Accumulated depreciation	(261,483)	(251,577)	(242,612)	(208,925)
Net book amount	2,203,136	2,264,625	2,345,637	2,379,324

23. Intangible assets - goodwill

	Group	
	2019	2018
	Shs'000	Shs'000
Goodwill on acquisition of control in subsidiaries	173,372	173,372

The above goodwill is attributable to the strong position and profitability of Diamond Trust Bank Tanzania Limited and Diamond Trust Bank Uganda Limited in their respective markets.

Impairment tests for goodwill

Goodwill is allocated to the Group's cash-generating units (CGUs) identified according to subsidiaries.

The recoverable amount of a CGU is determined based on value-in-use calculations. These calculations use cash flow projections based on financial budgets approved by the Board of Directors covering a five-year period and discounted at rates comparable to that earned from risk assets. The discount rate reflects specific risks relating to the relevant subsidiaries and the countries in which they operate.

Based on the above, the Group does not consider the goodwill impaired.

24. Leases**Leases as lessee (IFRS 16)**

The Group leases a number of branch and office premises. The leases typically run for a period of 6 to 10 years, with an option to renew the lease after that date. For some leases, payments are renegotiated every five years to reflect market rentals. Some leases provide for additional rent payments that are based on changes in local price indices.

The Group also leases equipment with contract terms of one to three years. The Group has recognised right-of-use assets and lease liabilities for these leases. Previously, these leases were classified as operating leases under IAS 17.

Notes (Continued)

24. Leases (Continued)

Leases as lessee (IFRS 16) (Continued)

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

i) Right-of-use assets

Right-of-use assets relate to leased branch and office premises and equipment below

Year ended 31 December 2019

Group

	Equipment Shs'000	Building Shs'000	Total Shs'000
Balance on adoption of IFRS 16	117,693	3,541,321	3,659,014
Additions	18,774	270,944	289,718
Depreciation charge for the year	(38,027)	(479,583)	(517,610)
Translation difference	(67)	(755)	(822)
	98,373	3,331,927	3,430,300

Bank

Balance on adoption of IFRS 16	-	1,920,448	1,920,448
Additions	-	188,532	188,532
Depreciation charge for the year	-	(189,934)	(189,934)
	-	1,919,046	1,919,046

ii) Lease liability

	Group		Bank	
	2019 Shs'000	2018 Shs'000	2019 Shs'000	2018 Shs'000
Expected to be settled within 12 months after the year end	442,583	-	367,947	-
Expected to be settled more than 12 months after the year end	3,795,182	-	2,208,442	-
	4,237,765	-	2,576,389	-
The total cash outflow for leases in the year was:				
Payments of principal portion of the lease liability	393,934	-	53,899	-
Interest paid on lease liabilities	425,458	-	287,016	-
	819,392	-	340,915	-

Movement for the year ended 31 December 2019

	Group Shs'000	Bank Shs'000
Balance on adoption of IFRS 16	4,341,281	2,441,756
Additions	289,718	188,532
Interest expense	425,458	287,016
Lease payments	(819,392)	(340,915)
Translation difference	700	-
Total	4,237,765	2,576,389

Notes (Continued)

24. Leases (Continued)

Leases as lessee (IFRS 16) (Continued)

ii) Lease liability (Continued)

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

	Group 2018 Shs'000	Bank 2018 Shs'000
Maturity analysis – Contractual undiscounted cash flows		
Less than one year	791,519	400,631
Between one and five years	1,976,198	1,109,202
More than five years	361,416	152,383
Total undiscounted lease liabilities at 31 December 2018	3,129,133	1,662,216

iii) Amounts recognised in profit or loss

	Group 2019 Shs'000	Bank 2019 Shs'000
2019 – Leases under IFRS 16		
Interest on lease liabilities	(425,458)	(287,016)
Depreciation of right to use asset	(517,610)	(189,934)
Expenses relating to short-term leases	(21,044)	(21,044)
Total	(964,112)	(497,994)

2018 – Operating leases under IAS 17

	2018 Shs'000	2018 Shs'000
Lease expense (Note 9)	886,512	449,611
Contingent rent expense (Note 35)	3,129,133	1,662,216

iv) Extension options

Some leases of office premises contain extension options exercisable by the Group up to one term after the end of the non-cancellable contract period. Where practicable, the Group seeks to include extension options in new leases to provide operational flexibility. The Group assesses at lease commencement date whether it is reasonably certain to exercise the extension options. The Group reassesses whether it is reasonably certain to exercise the options if there is a significant event or significant changes in circumstances within its control.

25. Deferred income tax

Deferred income tax is calculated, in full, on all temporary differences under the liability method using a principal tax rate of 30%. The movement on the deferred tax account is as follows:

Deferred tax asset	Group		Bank	
	2019	2018	2019	2018
	Shs'000	Shs'000	Shs'000	Shs'000
At start of year	3,379,287	3,853,769	2,372,988	3,044,381
Charged through the statement of profit or loss	1,061,532	(563,007)	712,824	(783,351)
Charged through other comprehensive income	1,313	6,756	-	-
Understatement of deferred tax in previous year	84,526	89,062	54,973	111,958
Day 1 Adjustment for IFRS 16	189,650	-	156,392	-
Translation difference	9,717	(7,293)	-	-
At end of the year	4,726,025	3,379,287	3,297,177	2,372,988

Consolidated deferred income tax assets and liabilities, deferred tax charge in the statement of profit or loss and deferred tax charge through other comprehensive income are attributable to the following items:

Group

Year ended 31 December 2018	1.1.2018	Prior year under statement/ translation	Charged through OCI	Charged to profit or loss	31.12.2018
	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000
Deferred income tax liabilities					
Unrealised foreign exchange gain	(3,029)	-	-	6,949	3,920
Revaluation surplus	(66,066)	-	846	41,674	(23,546)
	(69,095)	-	846	48,623	(19,626)
Deferred income tax assets					
Property and equipment	143,997	-	-	183,834	327,831
Provisions for loan impairment	3,396,073	81,769	-	(1,074,764)	2,403,078
Other provisions	104,532	-	-	(19,845)	84,687
Tax losses	293,474	-	-	299,145	592,619
Fair value changes in Government securities	(15,212)	-	5,910	-	(9,302)
	3,922,864	81,769	5,910	(611,630)	3,398,913
Net deferred income tax asset	3,853,769	81,769	6,756	(563,007)	3,379,287

Notes (Continued)

25. Deferred income tax (Continued)

Group (Continued)

Year ended 31 December 2019	1.1.2019	IFRS 16 day 1 adjustment	Prior year under statement/translation	Charged though OCI	Charged to the statement of profit or loss	31.12.2019
	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000
Deferred income tax liabilities						
Unrealised foreign exchange gain	3,920	-	(22)	-	(4,290)	(392)
	3,920	-	(22)	-	(4,290)	(392)
Deferred income tax assets						
Property and equipment	327,831	-	54,995	-	90,143	472,969
Revaluation surplus	(23,546)	-	-	-	(8,440)	(31,986)
Provisions for loan impairment	2,403,078	-	39,345	-	(185,593)	2,256,830
Other provisions	84,687	-	-	-	(83,361)	1,326
Tax losses	592,619	-	-	-	388,245	980,864
Fair value changes in Government securities	(9,302)	-	(75)	1,313	-	(8,064)
IFRS 16	-	189,650	-	-	26,983	216,633
Interest payable	-	-	-	-	837,844	837,844
	3,375,367	189,650	94,265	1,313	1,065,821	4,726,416
Net deferred income tax asset	3,379,287	189,650	94,243	1,313	1,061,531	4,726,024

Bank	1.1.2018	Prior year under statement	Charged though OCI	Charged to profit or loss	31.12.2018
Year ended 31 December 2018	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000
Deferred income tax assets					
Property and equipment	149,054	-	-	198,042	347,096
Revaluation reserve	(34,755)	-	-	-	(34,755)
Provisions for loan impairment	2,829,145	111,958	-	(965,431)	1,975,672
Other provisions	103,966	-	-	(18,991)	84,975
Unrealised foreign exchange gain	(3,029)	-	-	3,029	-
	3,044,381	111,958	-	(783,351)	2,372,988
Net deferred tax asset	3,044,381	111,958	-	(783,351)	2,372,988

25. Deferred income tax (Continued)**Bank (Continued)**

31 December 2019	1.1.2019 Shs'000	IFRS 16 day 1 adjustment Shs'000	Prior year under -statement Shs'000	Charged though OCI Shs'000	Charged to profit or loss Shs'000	31.12.2019 Shs'000
Deferred income tax assets/(liabilities)						
Property and equipment	312,341	-	54,995	-	101,724	469,060
Lease under IFRS 16	-	156,392	-	-	40,811	197,203
Provisions for loan impairment	1,975,672	-	-	-	(181,533)	1,794,139
Interest payable	-	-	-	-	837,844	837,844
Other provisions	84,975	-	-	-	(83,649)	1,326
Unrealised foreign exchange gain	-	-	(22)	-	(2,373)	(2,395)
Net deferred tax asset	2,372,988	156,392	54,973	-	712,824	3,297,177

26. Investments securities- at fair value through OCI

	Group		Bank	
	2019 Shs'000	2018 Shs'000	2019 Shs'000	2018 Shs'000
Kenya Airways	1,463,048	1,797,617	1,463,048	1,797,617
Kenya Mortgage Refinancing Company (KMRC)	50,000	-	50,000	-
BI-Switch S.M- Investment	5,341	-	-	-
The movement of the balance is set out below:	1,518,389	1,797,617	1,513,048	1,797,617

Balance at the beginning of the year	1,797,617	1,797,617	1,797,617	1,797,617
Additions	55,341	-	50,000	-
Fair value loss though OCI	(334,569)	-	(334,569)	-
Balance at year end	1,518,389	1,797,617	1,513,048	1,797,617

The investments relate to: (i) a Kenya Airways loan with an embeded instrument of equity shares, (ii) investment by the Bank in 2019 in KMRC shares and (iii) Diamond Trust Bank Burundi SA investment in a Switch project to support ATM and cards system sponsored by Banque de la Republique du Burundi (BRB).

27. Investments in subsidiaries and associates

	Group	
	2019 Shs'000	2018 Shs'000
Associate - Jubilee Insurance Company of Burundi S.A.		
At start of year	63,933	35,462
Share of results after tax	6,530	29,483
Translation	(3,831)	(1,012)
At end of year	66,632	63,933

27. Investments in subsidiaries and associates (Continued)**Group (Continued)**

The cost of the investment in the subsidiaries and the associates are listed below together with the interests held.

	Beneficial Ownership		Group		Bank	
			2019 Shs'000	2018 Shs'000	2019 Shs'000	2018 Shs'000
Subsidiaries	2019	2018				
Diamond Trust Bank Tanzania Limited	65.68%	65.68%			2,058,576	2,058,576
Diamond Trust Bank Uganda Limited	67.18%	67.18%			3,026,081	3,026,081
Diamond Trust Bank Burundi S.A.	83.67%	83.67%			636,907	636,907
Diamond Trust Insurance Agency Limited	100%	100%			2,000	2,000
Premier Savings and Finance Limited	100%	100%			29,137	29,137
					5,752,701	5,752,701
Associates						
Services and Systems Limited	40%	40%	1	1	1	1
Jubilee Insurance Company of Burundi S.A.	20%	20%	6,079	6,079	-	-
Total investments in subsidiaries and associates			6,080	6,080	5,752,702	5,752,702

Premier Savings and Finance Limited and Services and Systems Limited, which are incorporated in Kenya, are dormant. All subsidiaries undertakings are included in the consolidation.

The total non-controlling interest at 31 December 2019 is Shs 5,664,503,000 (2018: Shs 5,282,199,000), of which Shs. 2,886,240,000 is for Diamond Trust Bank Tanzania Limited, Shs.2,585,402,000 for Diamond Trust Bank Uganda Limited and Shs.192,861,000 is attributable to Diamond Trust Bank Burundi SA. Transactions with non-controlling interests during the year are as detailed under note 34.

Significant restrictions

There are no restrictions on the Group's ability to access or use assets and settle liabilities in the countries the Group operates in.

Notes (Continued)

27. Investments in subsidiaries and associates (Continued)

Summarised financial information on subsidiaries with material non-controlling interests.

Summarised balance sheet

	Diamond Trust Bank Tanzania Limited		Diamond Trust Bank Uganda Limited		Diamond Trust Bank Burundi S.A	
	2019	2018	2019	2018	2019	2018
	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000
Total assets	55,074,445	56,043,563	47,395,502	43,952,562	3,499,801	3,034,581
Liabilities	46,664,653	48,178,688	39,517,259	36,637,784	2,318,781	1,917,103
Shareholders funds	8,409,792	7,864,875	7,878,243	7,314,778	1,181,021	1,117,478
Total liabilities and equity	55,074,445	56,043,563	47,395,502	43,952,562	3,499,802	3,034,581
Summarised statement of profit or loss						
Total operating income	4,543,468	4,292,357	3,635,904	3,487,780	292,617	261,256
Profit before tax	1,159,014	1,029,744	582,501	459,779	143,152	133,996
Income tax expense	(327,873)	(346,841)	(49,353)	(31,641)	(3,667)	(7,669)
Profit for the year	831,141	682,903	533,148	428,138	139,485	126,327
Total profit allocated to non -controlling interests	285,248	234,372	174,963	140,502	22,778	20,629
Dividends paid to non-controlling interests	38,294	39,565	-	-	-	-

27. Investments in subsidiaries and associates (Continued)

Summarised Statement of cash flows	Diamond Trust Bank Tanzania Limited		Diamond Trust Bank Uganda Limited		Diamond Trust Bank Burundi S.A	
	2019 Shs'000	2018 Shs'000	2019 Shs'000	2018 Shs'000	2019 Shs'000	2018 Shs'000
Cash generated from operations	(1,082,317)	804,365	(971,675)	3,573,389	(144,659)	21,079
Net cash used in investing activities	(159,956)	(251,234)	(221,933)	(265,604)	(24,315)	(46,273)
Net cash generated from financing activities	(680,163)	(259,282)	(2,762,007)	587,843	(641)	-
Net increase in cash and cash equivalents	(1,922,436)	293,849	(3,955,615)	3,895,628	(169,615)	(25,194)
Cash and cash equivalents at start of year	6,771,966	6,898,684	10,683,531	7,043,779	(448,969)	(495,105)
Exchange differences in cash and cash equivalents	(210,146)	(420,567)	(546,104)	(603,718)	(89,842)	71,330
Cash and cash equivalents at end of year	4,639,384	6,771,966	6,181,812	10,335,689	(708,426)	(448,969)

28. Customer deposits

	Group		Bank	
	2019	2018	2019	2018
	Shs'000	Shs'000	Shs'000	Shs'000
Current and demand deposits	92,619,590	94,129,131	60,722,505	63,705,291
Savings accounts	35,486,962	33,093,173	18,205,172	18,372,117
Fixed and call deposit accounts	152,080,401	155,637,699	120,561,549	123,982,102
	280,186,953	282,860,003	199,489,226	206,059,510

29. Deposits and balances due to banking institutions

Deposits due to banking institutions	21,372,113	14,765,892	21,031,334	14,468,841
Current account balances due to banking institutions	1,081,746	2,377,315	517,814	255,489
	22,453,859	17,143,207	21,549,148	14,724,330

30. Other liabilities

Due to subsidiary company	-	-	79,560	79,560
Outstanding bankers' cheques	373,170	327,132	346,727	282,510
Accrued expenses	525,205	678,380	121,498	487,385
Revenue collected on behalf of Revenue Authorities	798,653	772,635	-	-
Unearned income on funded and non funded income	392,294	510,844	184,183	128,901
Refundable deposits	174,318	167,808	174,318	167,808
Other payables	1,215,777	1,626,062	986,935	1,431,555
	3,479,417	4,082,861	1,893,221	2,577,719

31. Borrowings**a. Subordinated debt****i. International Finance Corporation (IFC)**

At start of year	4,331,616	5,188,166	3,271,661	4,139,384
Accrued interest	227,722	239,603	211,012	248,276
Paid during the year	(2,064,666)	(1,067,816)	(1,318,912)	(1,064,748)
Translation difference	(35,795)	(28,337)	(14,940)	(51,251)
	2,458,877	4,331,616	2,148,821	3,271,661

31. Borrowings (Continued)

	Group		Bank	
	2019	2018	2019	2018
	Shs'000	Shs'000	Shs'000	Shs'000
ii. Deutsche Investitions- und Entwicklungsgesellschaft (DEG)				
At start of year	1,375,168	1,340,740	-	-
Net movement in interest	40,138	54,249	-	-
Paid during the year	(596,809)	(49,130)	-	-
Translation difference	(39,042)	29,309	-	-
	779,455	1,375,168	-	-
iii. African Development Bank(AfDB)				
At start of year	2,591,356	-	2,591,356	-
Additions during the year	-	2,548,750	-	2,548,750
Net movement in interest	189,233	42,776	189,233	42,776
Paid during the year	(157,374)	-	(157,374)	-
Translation difference	(14,715)	(170)	(14,715)	(170)
	2,608,500	2,591,356	2,608,500	2,591,356
Total - Subordinated debt	5,846,832	8,298,140	4,757,321	5,863,017
b. Senior loan				
i. International Finance Corporation (IFC)				
At start of year	-	79,516	-	79,516
Accrued interest	-	1,252	-	1,252
Paid during the year	-	(79,187)	-	(79,187)
Translation difference	-	(1,581)	-	(1,581)
	-	-	-	-
ii. Deutsche Investitions- und Entwicklungsgesellschaft (DEG)				
At start of year	2,832,471	2,784,355	1,561,771	2,099,510
Additions during the year	1,019,500	1,013,431	1,019,500	-
Accrued interest	77,804	94,660	96,653	88,683
Paid during the year	(1,869,144)	(1,046,730)	(597,256)	(595,092)
Translation difference	5,769	(13,245)	(14,268)	(31,330)
	2,066,400	2,832,471	2,066,400	1,561,771

Notes (Continued))

31. Borrowings (Continued)

b. Senior loan (Continued)

	Group		Bank	
	2019	2018	2019	2018
	Shs'000	Shs'000	Shs'000	Shs'000
iii. African Development Bank (AfDB)				
At start of year	-	-	-	-
Additions during the year	1,019,500	-	1,019,500	-
Accrued interest	41,195	-	41,195	-
Paid during the year	(17,197)	-	(17,197)	-
Translation difference	(6,129)	-	(6,129)	-
	1,037,369	-	1,037,369	-
iv. Societe de Promotion et de Participation pour la Cooperation Economique S.A (PROPARCO)				
At start of year	1,970,154	2,557,954	1,970,154	2,557,954
Accrued interest	94,555	117,834	94,555	117,834
Paid during the year	(662,386)	(666,470)	(662,386)	(666,470)
Translation difference	(5,345)	(39,164)	(5,345)	(39,164)
	1,396,978	1,970,154	1,396,978	1,970,154
V. Agence Francaise Development (AFD)				
At start of year	1,047,856	1,039,955	515,253	520,116
Accrued interest	19,968	22,207	20,801	19,728
Paid during the year	(50,650)	(18,203)	(50,650)	(18,203)
Translation difference	(18,689)	3,897	(2,239)	(6,388)
	998,485	1,047,856	483,165	515,253
Total - Senior loans	5,499,232	5,850,481	4,983,912	4,047,178
c. Trade Finance				
Standard Chartered Bank London				
At start of year	531,111	4,165,788	531,111	4,165,788
Additions during the year	-	509,750	-	509,750
Accrued interest	805	128,783	805	128,783
Paid during the year	(530,457)	(4,200,074)	(530,457)	(4,200,074)
Translation difference	(1,459)	(73,136)	(1,459)	(73,136)
	-	531,111	-	531,111
d. Administered funds				
Bank of Uganda	10,783	14,262	-	-
Total - Borrowings	11,356,847	14,693,994	9,741,233	10,441,306

31. Borrowings (Continued) Description of Borrowings

(i) Subordinated debts

Diamond Trust Bank Kenya Limited

Diamond Trust Bank Kenya Limited has three long-term subordinated debts facilities amounting to US\$ 46 million (2018: US\$ 57 million) raised from the International Finance Corporation (IFC) and the African Development Bank (AfDB).

These facilities comprise of:

- US\$ 20 million unsecured facility issued in July 2013, with a tenure of 7 years. Outstanding balance as at 31 December 2019 was US\$ 4 million.
- US\$ 20 million unsecured facility issued in March 2015, with a tenure of 8 years. Outstanding balance as at 31 December 2019 was US\$ 17 million.
- US\$ 25 million unsecured facility from AfDB issued in October 2018, with a tenure of 8 years. Outstanding balance as at 31 December 2019 was US\$25 million.

Diamond Trust Bank Tanzania Limited

In June 2014, Diamond Trust Bank Tanzania Limited received a subordinated debt facility of US\$ 5 million from IFC for a period of 7 years. The outstanding balance on this facility as at 31 December 2019 was US\$ 3 million. The Bank also received an additional 7 year subordinated debt facility of US\$ 7.5 million from DEG, received in September 2014. No repayments have been made towards the US\$ 7.5 million facility.

Diamond Trust Bank Uganda Limited

In August 2014, Diamond Trust Bank Uganda Limited received a subordinated debt facility of US\$ 5 million from IFC for a period of 7 years, and an additional 10 year subordinated debt facility of US\$ 5 million from DEG, received in September 2014. These notes bore interest at rates referenced to the six months Libor. The subordinated debts were fully repaid in 2019.

(ii) Senior loans

Diamond Trust Bank Kenya Limited

The bank has a 7 year loan from Deutsche Investitions- und Entwicklungsgesellschaft (DEG), a 7 year loan from Proparco, 11 year loan from Agence Française de Développement (AFD) and a further 8 year, US\$ 50 million facility from AfDB of which the Bank drew down US\$ 10 million in April 2019. The total exposure at year end was US\$ 48.4 million (2018 US\$ 39.7 million)

Diamond Trust Bank Uganda Limited

In December 2013, Diamond Trust Bank Uganda Limited received a loan of US\$ 10 million from DEG for a period of 8 years. Further, on 31 July 2018, the Bank received US\$ 10 million from DEG for 8 years. These funds were prepaid in 2019. On 11 May 2017, the Bank received US\$ 5 million from Agence Française de Développement (AFD) for 11.2 years. The outstanding balance as at 31 December 2019 was US\$ 5 million.

The above facilities bear interest at rates referenced to the six months Libor.

(iii) Trade finance

The trade finance borrowing relate to funds sourced to finance trade transactions. These facilities have a tenure of up to one year and matured in January 2019. The interest rates are referenced to the Libor.

(iv) Administered funds

Bank of Uganda (BOU) operates a loan scheme known as Agriculture credit facility. Qualifying customers apply for the facility through their bank. As at December 2019, the outstanding amount from the drawn down was Shs 10.8 million (2018 - Shs 14.3 million). This loan is for a period of 7 years at zero interest rate.

Notes (Continued)

31. Borrowings (Continued)

e. Finance costs	Group		Bank	
	2019	2018	2019	2018
	Shs'000	Shs'000	Shs'000	Shs'000
Interest on lease liability (Note 24)	425,458	-	287,016	-
Subordinated debts	555,521	452,002	440,258	291,053
Senior loans	293,948	311,087	212,009	227,496
Trade finance borrowings	805	163,209	805	163,209
Amortised appraisal fees	91,685	61,839	91,685	61,839
	1,367,417	988,137	1,031,773	743,597

32. Share capital and reserves

Share capital and Share premium

	Number of shares (Thousands)	Share capital Shs'000	Share premium Shs'000	Total Shs'000
1 January and 31 December 2018	279,602	1,118,409	9,006,569	10,124,978
1 January and 31 December 2019	279,602	1,118,409	9,006,569	10,124,978

The total authorised number of ordinary shares is 300,000,000 (2018: 300,000,000) with a par value of Shs 4 per share. The issued shares as at 31 December 2019 are 279,602,220 (2018: 279,602,220) and are fully paid.

33. Other reserves

Group

	Notes	Revaluation surplus	Fair value on government securities	Translation reserve	Other reserves	Total
Year ended 31 December 2018		Shs'000	Shs'000	Shs'000	Shs'000	Shs'000
At start of year		1,452,067	23,846	(795,420)	(430,559)	249,934
Excess depreciation		(32,381)	-	-	-	(32,381)
Deferred tax on transfer of excess depreciation		1,520	-	-	-	1,520
Net loss from changes in fair value of Treasury bills		-	(19,314)	-	-	(19,314)
Income tax relating to OCI		-	6,756	-	-	6,756
Translation adjustment	(i)	-	-	(390,584)	-	(390,584)
Legal and public investment reserve	(ii)	-	-	-	13,446	13,446
Increase in interest in Diamond Trust Bank Burundi Limited	34	-	-	-	14,328	14,328
At end of year		1,421,206	11,288	(1,186,004)	(402,785)	(156,295)

Notes (Continued)

33. Other Reserves (Continued) Group (Continued)

	Notes	Revaluation surplus	Fair value on Government securities and equity Investments	Translation reserve	Other reserves	Total
Year ended 31 December 2019		Shs'000	Shs'000	Shs'000	Shs'000	Shs'000
At start of year		1,421,206	11,288	(1,186,004)	(402,785)	(156,295)
Adjustment on initial application of IFRS 16 net of tax	14	-	-	-	-	-
Excess depreciation		(33,019)	-	-	-	(33,019)
Deferred tax on transfer of excess depreciation		2,303	-	-	-	2,303
Net loss from changes in fair value of Treasury bills		-	(4,368)	-	-	(4,368)
Income tax relating to OCI		-	1,313	-	-	1,313
Translation adjustment	(i)	-	-	(78,507)	-	(78,507)
Legal and public investment reserve	(ii)	-	-	-	28,061	28,061
Net loss from changes in fair value of Equity Investments		-	(334,569)	-	-	(334,569)
At end of year		1,390,490	(326,336)	(1,264,511)	(374,724)	(575,081)

- (i) These differences arise on translation of the financial statements of the foreign subsidiaries at the end of period exchange rates.
- (ii) The prudential guidelines in Burundi require banks to set aside 5% of their previous year's retained earnings in a reserve that is not distributable to shareholders (legal reserve). Further the law requires all Financial Institutions to set aside a reserve equivalent to 30% of the Bank's profit after tax as investment reserve intended to finance the public infrastructure of large scale after ten years.

Bank	Revaluation surplus	Fair value reserve on equity investments	Total
Other reserves	Shs'000	Shs'000	
Year ended 31 December 2018			
At start of year	1,357,296	-	1,357,296
Transfer of excess depreciation	(30,408)	-	(30,408)
Deferred tax on transfer of excess depreciation	1,520	-	1,520
At end of year	1,328,408	-	1,328,408

Year ended 31 December 2019

At start of year	1,328,408	-	1,328,408
Fair value changes on valuation of Equity investments	-	(334,569)	(334,569)
Transfer of excess depreciation	(30,408)	-	(30,408)
Deferred tax on transfer of excess depreciation	1,520	-	1,520
	1,299,520	(334,569)	964,951

33. Other Reserves (Continued)**(a) Revaluation surplus on property**

Revaluation reserve is made up of the periodic adjustments arising from the fair valuation of leasehold land and buildings, net of the related deferred taxation. The reserve is not available for distribution to the shareholders.

(b) Translation reserve

The reserves represent exchange differences arising from translation of the net assets of the Group's foreign operation in Tanzania, Uganda and Burundi from their functional currency to the Group's presentation currency (Kenya Shillings). These differences are recognised directly through other comprehensive income and accumulated in the translation reserve.

(c) Retained earnings

This represents undistributed profits from current and previous years.

(d) Statutory loan loss reserve

Where impairment losses required by prudential guidelines issued by the banking regulators exceed those computed under the International Financial Reporting Standards (IFRS), the excess is recognised as a statutory reserve and accounted for as an appropriation from revenue reserves. The reserve is not available for distribution to the shareholders.

34. Transactions with non-controlling interests**Diamond Trust Bank Burundi Limited**

On 22 June 2018, Diamond Trust Bank Kenya Limited acquired an additional 16.34% stake in Diamond Trust Bank Burundi Limited (DTBB) by purchasing International Finance Corporation's shareholding in the entity at a consideration of Shs 152,296,000. The Group increased its shareholding to 83.67% from 67.33% before the purchase. The carrying amount of the net assets the group acquired was Shs 166,726,000.

The effect of changes in the ownership interest of DTBB in equity attributable to owners of the Bank in 2018 is summarised as follows:

	2019	2018
	Shs'000	Shs'000
Carrying amount of non-controlling interests acquired	-	166,624
Consideration paid for the interests	-	(152,296)
Excess of consideration paid recognised in parent's equity	-	14,328

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

In common with other banks, the Group conducts business involving acceptances, guarantees, performance bonds and letters of credit. The majority of these facilities are offset by corresponding obligations of third parties.

	Group		Bank	
	2019	2018	2019	2018
	Shs'000	Shs'000	Shs'000	Shs'000
Contingent liabilities				
Acceptances and letters of credit	23,519,780	22,611,416	20,563,478	19,721,291
Guarantees and performance bonds	30,278,439	19,032,251	26,209,571	16,932,196
	53,798,219	41,643,667	46,773,049	36,653,487

Nature of contingent liabilities

An acceptance is an undertaking by a Group to pay a bill of exchange drawn on a customer. The Group expects the 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 Group will only be required to meet these obligations in the event of the customers default.

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

Commitments	Group		Bank	
	2019	2018	2019	2018
	Shs'000	Shs'000	Shs'000	Shs'000
Undrawn credit lines and other commitments to lend	8,377,470	11,459,607	4,161,829	7,151,163
Foreign exchange forward contracts	13,527,097	11,673,812	10,992,930	9,829,148
Foreign exchange spot transactions	3,136,843	2,048,210	1,937,652	1,521,497
Operating lease rentals	-	3,129,133	-	1,662,216
Capital commitments	102,077	131,432	14,597	24,560
	25,143,487	28,442,194	17,107,008	20,188,584

Operating lease rentals are analysed as follows:

	Group		Bank	
	2019	2018	2019	2018
	Shs'000	Shs'000	Shs'000	Shs'000
Not later than 1 year	-	791,519	-	400,631
Later than 1 year and not later than 5 years	-	1,976,198	-	1,109,202
Later than 5 years	-	361,416	-	152,383
	-	3,129,133	-	1,662,216

Nature of commitments

Commitments to lend are agreements to lend to customers in future subject to certain conditions. Such commitments are normally made for a fixed period.

Foreign exchange forward contracts are agreements to buy or sell a specified quantity of foreign currency, usually on a specified future date at an agreed rate.

36. Business segments information

A segment is a distinguishable component of the Group that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

IFRS 8 requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the Board of Directors in order to allocate resources to the segment and to assess its performance. Information reported to the Group's Board for the purposes of resource allocation and assessment of segment performance is focused on geographical regions. Although the Burundi segment does not meet the quantitative thresholds required by IFRS 8, management has concluded that this segment should be reported, as it is closely monitored by the Board.

The reportable operating segments derive their revenue primarily from banking services including current, savings and deposits accounts, credit cards, asset finance, money transmission, treasury and commercial lending. The parent Bank also operates a fully owned insurance agency in Kenya. The assets and profit of the agency are not material and make up less than 10% of the combined assets and profit of the Group. The accounting policies of the reportable segments are the same as the Group's accounting policies described in Note 2.

For management and reporting purposes, Diamond Trust Bank is organised into the following business segments;

- Diamond Trust Bank Tanzania Limited, which became a subsidiary company in June 2007, with operations in Tanzania.
- Diamond Trust Bank Uganda Limited, which became a subsidiary company in October 2008, with operations in Uganda. Network Insurance Agency Limited, which is a wholly owned subsidiary of Diamond Trust Bank Uganda Limited, operates in Uganda.
- Diamond Trust Bank Burundi S.A., which was set up as a subsidiary company in November 2008, with operations in Burundi.
- Kenya is the home country of the parent Bank and its fully owned insurance agency, Diamond Trust Insurance Agency Limited. The Group did not have any single customer who represented more than 10% of its revenues. The following is the segment information:

Notes (Continued)

36. Business segments information (Continued)

(a) Financial summary

At 31 December 2019

	Kenya Shs'000	Tanzania Shs'000	Uganda Shs'000	Burundi Shs'000	Total Shs'000	Consolidation adjustments Shs'000	Group Shs'000
Interest income from external customers	24,455,264	4,368,031	3,721,961	305,857	32,851,113		32,851,113
Other income from external customers	3,255,978	1,213,209	967,274	35,420	5,471,881		5,471,881
Total income from external customers	27,711,242	5,581,240	4,689,235	341,277	38,322,994		38,322,994
Share of results of associate after tax	-	-	-	6,530	6,530		6,530
Inter-segment income	41,944	17	33,196	-	75,157	(75,157)	-
Total income	27,753,186	5,581,257	4,722,431	347,807	38,404,681		38,329,524
Interest expense from external customers	(10,599,749)	(1,037,789)	(1,086,527)	(48,660)	(12,772,725)		(12,772,725)
Other expenses – external	(5,695,726)	(2,298,979)	(2,177,601)	(150,909)	(10,323,215)		(10,323,215)
Inter-segment expenses	(75,157)	-	-	-	(75,157)	75,157	-
Finance costs	(1,031,773)	(171,298)	(159,445)	(4,901)	(1,367,417)		(1,367,417)
Depreciation and amortisation	(1,014,791)	(243,119)	(297,249)	(23,500)	(1,578,659)		(1,578,659)
Impairment losses	42,257	(671,058)	(419,108)	23,315	(1,024,594)		(1,024,594)
Total expenses	(18,374,939)	(4,422,243)	(4,139,930)	(204,655)	(27,141,767)		(27,066,610)
Segment profit before tax	9,378,247	1,159,014	582,501	143,152	11,262,914		11,262,914
Income tax expense	(3,613,429)	(327,873)	(49,353)	(3,667)	(3,994,322)		(3,994,322)
Segment profit after tax	5,764,818	831,141	533,148	139,485	7,268,592		7,268,592
Segment assets	287,916,322	55,074,445	47,395,502	3,499,801	393,886,070	(7,655,884)	386,230,186
Segment liabilities	235,290,703	46,664,653	39,517,259	2,318,781	323,791,396	(2,076,555)	321,714,841

36. Business segments information (Continued)

(a) Financial summary (Continued)

At 31 December 2018

	Kenya Shs'000	Tanzania Shs'000	Uganda Shs'000	Burundi Shs'000	Total Shs'000	Consolidation adjustments Shs'000	Group Shs'000
Interest income from external customers	27,041,985	4,407,732	3,528,269	290,517	35,268,503		35,268,503
Other income from external customers	3,121,860	1,141,287	878,294	19,436	5,160,877		5,160,877
Total income from external customers	30,163,845	5,549,019	4,406,563	309,953	40,429,380		40,429,380
Share of results of associate after tax	-	-	-	29,483	29,483		29,483
Inter-segment income	36,171	17	33,248	-	69,436	(69,436)	-
Total income	30,200,016	5,549,036	4,439,811	339,436	40,528,299		40,458,863
Interest expense from external customers	(12,001,445)	(1,256,662)	(952,048)	(48,697)	(14,258,852)		(14,258,852)
Other expenses – external	(5,712,027)	(2,326,031)	(2,054,743)	(136,009)	(10,228,810)		(10,228,810)
Inter-segment expenses	(69,436)	-	-	-	(69,436)	69,436	-
Finance costs	(743,597)	(86,709)	(157,831)	-	(988,137)		(988,137)
Depreciation and amortisation	(742,441)	(245,920)	(264,226)	(21,702)	(1,274,289)		(1,274,289)
Impairment losses	(1,554,317)	(603,953)	(551,201)	968	(2,708,503)		(2,708,503)
Total expenses	(20,823,263)	(4,519,275)	(3,980,049)	(205,440)	(29,528,027)		(29,458,591)
Segment profit before tax	9,376,753	1,029,744	459,779	133,996	11,000,272		11,000,272
Income tax expense	(3,532,006)	(346,841)	(31,641)	(7,669)	(3,918,157)		(3,918,157)
Segment profit after tax	5,844,747	682,903	428,138	126,327	7,082,115		7,082,115
Segment assets	282,083,200	56,043,563	43,952,562	3,034,581	385,113,906	(7,394,592)	377,719,314
Segment liabilities	233,861,753	48,178,688	36,637,784	1,917,103	320,595,328	(1,815,263)	318,780,065

36. Business segments information (Continued)**(b) Additions to non current assets**

	Kenya Shs'000	Tanzania Shs'000	Uganda Shs'000	Burundi Shs'000	Total Shs'000
At 31 December 2019					
Property and equipment	395,243	158,066	199,493	17,260	770,062
Intangible assets- software	627,769	28,615	24,045	1,746	682,175
	1,023,012	186,681	223,538	19,006	1,452,237
At 31 December 2018					
Property and equipment	365,762	244,444	251,662	42,576	904,444
Intangible assets- software	125,761	6,967	14,919	4,246	151,893
	491,523	251,411	266,581	46,822	1,056,337

(c) Revenue by products

An analysis of revenue by product from external customers is presented below:

	Kenya Shs'000	Tanzania Shs'000	Uganda Shs'000	Burundi Shs'000	Total Shs'000
At 31 December 2019					
Interest income					
Loans and advances	14,795,260	3,336,897	1,640,920	180,789	19,953,866
Government securities	9,500,476	927,947	1,945,801	124,638	12,498,862
Placement and bank balances	126,315	103,204	168,436	430	398,385
	24,422,051	4,368,048	3,755,157	305,857	32,851,113
Interest expense					
Customer deposits	10,031,214	1,032,545	1,042,489	30,586	12,136,834
Deposits due to banking institutions	568,535	5,244	44,038	18,074	635,891
	10,599,749	1,037,789	1,086,527	48,660	12,772,725
Net interest income	13,822,302	3,330,259	2,668,630	257,197	20,078,388
Non interest income					
Fee and commission income	1,723,010	744,908	744,174	32,074	3,244,166
Foreign exchange income	1,139,278	466,930	221,274	2,917	1,830,399
Other income	393,690	1,371	1,826	429	397,316
	3,255,978	1,213,209	967,274	35,420	5,471,881

36. Business segments information (Continued)

(c) Revenue by products (Continued)

At 31 December 2018	Kenya	Tanzania	Uganda	Burundi	Total
Interest income	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000
Loans and advances	16,754,047	3,138,065	1,873,931	190,942	21,956,985
Government securities	10,188,136	1,141,836	1,580,684	99,413	13,010,069
Placement and bank balances	66,537	127,831	106,919	162	301,449
	27,008,720	4,407,732	3,561,534	290,517	35,268,503
Interest expense					
Customer deposits	11,290,994	1,253,642	883,292	35,610	13,463,538
Deposits due to banking institutions	710,451	3,020	68,756	13,087	795,314
	12,001,445	1,256,662	952,048	48,697	14,258,852
Net interest income	15,007,275	3,151,070	2,609,486	241,820	21,009,651
Non interest income					
Fee and commission income	1,937,096	767,422	680,157	17,476	3,402,151
Foreign exchange income	1,005,450	367,344	196,806	1,069	1,570,669
Other income	179,314	6,521	1,331	891	188,057
	3,121,860	1,141,287	878,294	19,436	5,160,877

37. Fair values and effective interest rates of financial assets and liabilities

In the opinion of the directors, the fair values of the Group's financial assets and liabilities approximate the respective carrying amounts, due to the generally short periods to contractual repricing or maturity dates as set out in Note 4.

The effective interest rates for the principal financial assets and liabilities at 31 December 2019 and 31 December 2018 were as follows:

	2019			2018		
Assets	In Shs	In US\$	In GBP	In Shs	In US\$	In GBP
Government securities	10.10%	-	-	11.13%	-	-
Deposits with banking institutions	-	4.75%	-	-	4.75%	-
Loans and advances to customers	12.58%	8.06%	8.39%	12.37%	7.14%	7.45%
Liabilities						
Customer deposits	5.93%	1.88%	1.36%	5.91%	3.35%	2.04%
Deposits due to banking institutions	2.13%	3.04%	1.53%	3.98%	3.20%	-
Subordinated debts	-	8.20%	-	-	5.73%	-
Senior loans	-	6.15%	-	-	4.65%	-
Trade finance	-	4.34%	-	-	4.02%	-

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

	Group		Bank	
	2019	2018	2019	2018
	Shs'000	Shs'000	Shs'000	Shs'000
Cash and balances with the Central Banks (Note 15)	27,218,903	37,716,947	18,238,378	27,363,599
Cash reserve requirement	(16,272,138)	(16,719,645)	(10,302,968)	(10,647,771)
Government securities maturing within 91 days at the point of acquisition (Note 16)	1,242,895	3,319,355	-	-
Deposits and balances due from banking institutions (Note 17)	8,342,582	14,201,767	1,560,140	2,697,094
Deposits and balances due to banking institutions (Note 29)	(22,453,859)	(17,143,207)	(21,549,148)	(14,724,330)
	(1,921,617)	21,375,217	(12,053,598)	4,688,592

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

Banks are required to maintain a prescribed minimum cash balance with the Central Banks that is not available to finance the banks' day-to-day activities. In the case of the Bank, the amount is determined as 5.25 % (2018: 5.25%) of the average outstanding customer deposits over a cash reserve cycle period of one month.

39. 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 the financial or operational decisions.

The Group holds deposits from directors, companies associated with directors and employees. Advances to customers include advances and loans to directors, companies associated with directors and employees. Contingent liabilities include guarantees and letters of credit for companies associated with the directors.

All transactions with related parties are at commercial terms in the normal course of business, and on terms and conditions similar to those applicable to other customers.

	Group		Bank	
	2019	2018	2019	2018
	Shs'000	Shs'000	Shs'000	Shs'000
(a) Group Companies				
Amounts due to:				
Other group companies (Included in deposits due to banking institutions and borrowed funds)	-	-	1,974,793	1,709,883
Interest expense paid on amounts due to group Companies	-	-	74,832	68,238
Amounts due from:				
Other group companies (Included in deposits due to banking institutions and borrowed funds)	-	-	3,069	2,341
Interest income earned from amounts due from group Companies	-	-	703	926

39. Related party transactions (Continued)

(b) Directors

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

	Group		Bank	
	2019	2018	2019	2018
	Shs'000	Shs'000	Shs'000	Shs'000
Loans to directors:				
At start of year	26,909	4,756	26,910	4,037
Advanced during the year	3,238	349	964	349
Advances to director appointed during the year	-	24,102	-	24,102
Repaid during the year	(8,824)	(2,270)	(8,739)	(1,578)
Translation adjustment	-	(28)	-	-
At end of year	21,323	26,909	19,135	26,910
Interest income earned from directors loans	1,756	1,960	1,756	1,960

These are loans to executive and non-executive directors. The total amount of loans and advances granted was in ordinary course of business. There were no provisions for doubtful debts related to the amount of outstanding balances and no expense was recognised during the year in respect of bad or doubtful debts due from related parties.

	Group		Bank	
	2019	2018	2019	2018
	Shs'000	Shs'000	Shs'000	Shs'000
Deposits by directors:				
At start of year	1,211,366	930,648	1,072,757	795,002
Net movement during the year	(122,969)	281,645	(23,718)	277,755
Balances relating to directors who resigned/retired	(109,947)	-	(109,947)	-
Translation adjustment	(742)	(927)	-	-
At end of year	977,708	1,211,366	939,092	1,072,757
Interest paid on directors' deposits	78,446	82,301	77,834	82,301

(c) Other disclosures

Advances to other related parties

Advances to companies related through control by a common shareholder, controlled by directors or their families

Advances to employees

Contingent liabilities including letters of credit and guarantees issued for the account of companies related through shareholding, common directorship and companies controlled by directors or their families

Interest income earned from related companies and employees

Group		Bank	
2019	2018	2019	2018
Shs'000	Shs'000	Shs'000	Shs'000
1,211,366	930,648	1,072,757	795,002
(122,969)	281,645	(23,718)	277,755
(109,947)	-	(109,947)	-
(742)	(927)	-	-
977,708	1,211,366	939,092	1,072,757
78,446	82,301	77,834	82,301
2,338,082	2,329,665	1,997,004	2,160,418
1,664,808	1,584,175	1,377,839	1,290,860
299,492	341,271	274,398	290,249
704,474	347,124	280,852	298,262

Notes (Continued)

39. Related party transactions (Continued)

(c) Other disclosures (Continued)

	Group		Bank	
	2019	2018	2019	2018
	Shs'000	Shs'000	Shs'000	Shs'000
Deposits with other related parties				
Deposits by companies related through common shareholding, common directorship and companies controlled by directors or their families	8,459,080	8,111,045	3,544,369	4,037,269
Deposits by employees	384,356	357,848	324,231	321,457
Interest expense incurred on deposits by related companies and employees	386,895	307,861	214,644	114,258

Advances to employees comprise of check-off loans repayable at an average interest rate of 9% per annum and property mortgages.

	Group		Bank	
	2019	2018	2019	2018
	Shs'000	Shs'000	Shs'000	Shs'000
Key management compensation				
Salaries and other short-term employment benefits	962,994	895,582	520,641	520,272
Termination benefits	34,523	34,029	25,147	22,145
	997,517	929,611	545,788	542,417
Director's remuneration				
-fees for services as a director	30,251	29,720	20,329	17,757
-other emoluments (included in key management compensation above)	151,905	115,109	110,257	75,432
	182,156	144,829	130,586	93,189

40. Assets pledged as security

As at 31 December 2019, there were no assets pledged by the Group to secure liabilities and there were no secured Group liabilities (2018: Nil).

"Perfection is not attainable,
but if we chase perfection we
can catch excellence"

Vince Lombardi



2019 Highlights

Kenya

Award-Winning Bank

DTB won six Think Business banking awards in the course of 2019 for product innovation, SME banking and customer centrisism among others. Further to that, the Institute of Human Resource Management (IHRM) also awarded DTB with two awards for the most innovative deployment of HR technology and best talent management strategy.

DTB's 2019 accolades were:

- Best Bank in Product Innovation (Winner) – Think Business Banking Awards
- Best Bank in Retail Banking (Winner) – Think Business Banking Awards
- Best Bank in SME Banking (1st runner up) – Think Business Banking Awards
- Most Customer Centric Bank (1st runner up) – Think Business Banking Awards
- Best Bank in Asset Finance (1st runner up) – Think Business Banking Awards
- Best Bank in Agency Banking (1st runner up) – Think Business Banking Awards
- Most Innovative Deployment of HR Technology (Winner) – IHRM Awards
- Best Talent Management Strategy (2nd runner up) – IHRM Awards



DTB team pose with their award at the Think Business Banking Awards ceremony.



DTB's HR team receive an award from the IHRM.

2019 Highlights (Continued)

Kenya (Continued)

Boosting SMEs With Beba Leo

SMEs will now be able to get vehicles to support their businesses thanks to DTB's newest value addition dubbed 'Beba Leo'. Beba Leo is a Motor Vehicle Financing Scheme 100% financed by the bank to enable SMEs acquire either the Toyota Hilux, Toyota Rush or a Fuso truck. The facility, which is in partnership with Simba Corporation and Toyota Kenya was introduced after assessing the most pressing needs SMEs had.



DTB Head of Asset Finance signs partnership deals with both Simba Corporation and Toyota Kenya.

DTB Stands Out at Inua Biashara Day

Led by the Kenya Banker's Association (KBA), the banking sector convened all stakeholders to showcase the sector's support to SMEs, dubbed 'Inua Biashara Day'. DTB set up a unique display as a kiosk which was a representation of DTB's innovative financial solutions to traders. H.E. President Uhuru Kenyatta took time to visit the DTB kiosk and understand more about an app that will allow traders to stock their shops courtesy of a credit extension from the Bank.



DTB's kiosk display at the Inua Biashara Day.



H.E. President Uhuru Kenyatta visits the DTB Kiosk.

2019 Highlights (Continued)

Kenya (Continued)

Mater Heart Run 2019

DTB has continuously sponsored the annual Mater Heart Run to support children with heart ailments from an economically disadvantaged background. In 2019, DTB donated Kshs.400,000/- to the Mater Misericordiae Hospital toward this cause and sent staff members to participate in the run.



DTB staff at the Mater Heart Run 2019

Beyond Zero Marathon

DTB supported the Beyond Zero initiative which is led by Kenya's First Lady, H.E. Margaret Kenyatta. Its goals are to improve maternal and child health in Kenya, and to reduce new HIV infections among children.



DTB staff presenting a cheque to the H.E. Margaret Kenyatta at State House.

2019 Highlights (Continued)

Tanzania

DTB Tanzania Launch 3 New Products

DTB Tanzania officially launched prepaid cards, merchant point of sales machines and agent banking in March 2019 in a well-attended customer meet in Dar es Salaam. The 3 products launched by the Bank has the potential to enhance financial inclusion, improve customer experience and reduce the cost of banking to DTB-Tanzania customers.



DTB Tanzania Chief Operating Officer, Madhava Murthy (right) conducting a live demonstration on the usage of agency banking services to customers during the launch.

DTB Tanzania Donate Mattresses to Orphanage

DTB Tanzania donated mattresses to Dhi Nureyn Orphanage in Iringa Municipality as part of the Banks' Corporate Social Responsibility activities.



DTB Tanzania Marketing Manager Sylvester Bahati (Left) handing over mattresses to Mr. Nureyn, Faidh Said Abri, the center manager of Dhi Nureyn Orphanage in Iringa.

2019 Highlights (Continued)

Tanzania (Continued)

DTB Tanzania Support Charity Run

DTB Tanzania staff members participated in a charity run, Brazuka Heart Marathon at JK park. The proceeds from the run were directed towards improving health care at Jakaya Kikwete Heart Institute.



DTB Tanzania staff who participated in the run.

DTB Tanzania Provide Scholarships

DTB Tanzania has been supporting five students from Kurasini Children's Home with a scholarship to the Sullivan Provost Secondary School, a boarding school in Kibaha. The Bank started this initiative in 2016, making 2019 the final year. The last tuition funding was handed over to the Matron at the school in May 2019.



DTB's Shahista Adam (Right) handing over a check of 12 million shillings to the head of the Sullivan Provost boys' secondary school Mr. Alex Nicholas Sibuti.

2019 Highlights (Continued)

Uganda

DTB Uganda Voted Best Innovative East African Bank

DTB Uganda was voted as the Best Innovative East African Bank for the year 2019 by the People's Choice Quality Awards.



DTB Uganda Executive Director Mr. Maina Kariuki receives the award from the State Minister for Trade Hon. Michael Werikhe Kafabusa

DTB Uganda Conduct Financial Literacy Training

DTB Uganda partnered with the Ismaili Community Education Forum in Uganda to conduct a financial training literacy training aimed at empowering their customers and dispersing knowledge on banking and financial solutions.



Financial Literacy training session.

DTB Uganda collaborates with the American Chamber of Commerce

DTB Uganda in conjunction with the American Chamber of Commerce (AMCHAM) organized a networking session for Small and Growing Businesses (SGBs) with the aim of sharing business ideas and showcasing the various products that DTB has to support these businesses.



Financial Literacy training session.

2019 Highlights (Continued)

Uganda (Continued)

World Savings Day

The world celebrated the World Savings Day under the theme Save More Achieve More. The Central Bank of Uganda organized a financial expo at the constitutional square where DTB joined to celebrate and give financial clinics to the population.



A happy DTB customer who opened her first digital account at the event.



DTB Uganda CEO Varghese Thambi hands over cash contribution to Robert Kabushenga of Vision Group, the chief mobiliser for the run.

