2018
INTEGRATED REPORT
AND FINANCIAL STATEMENTS

"If you want to go fast, go alone.
If you want to go far, go together."
- African proverb

Together we #AchieveMore.

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ABOUT OUR INTEGRATED REPORT FOR THE YEAR 2018

Diamond Trust Bank (DTB) Group adopted integrated reporting in 2016. Since then, we have used each year's report to demonstrate to stakeholders how we create and sustain value and work towards ensuring the Group's long-term viability through the execution of our business strategy.

Scope, Boundary and Reporting Framework

This Report focuses on the Group's strategy and operating context, material risks and opportunities, financial and operational performance. The Report demonstrates the relationship between our strategy, business model, governance, material risks, stakeholders' interests, performance, remuneration and prospects and how these factors lead to value creation. The report covers the year 1 January 2018 to 31 December 2018 and builds up on the 2017 Integrated Report.

Our Report is guided by the principles and requirements contained in the 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 and the Kenya Companies Act of 2015.

Assurance

DTB Kenya 2018 financial statements were audited by KPMG Kenya, DTB Tanzania by PwC, DTB Uganda and Network Insurance Agency by Deloitte, DTB Burundi by KPMG Rwanda while Diamond Trust Insurance Agency was audited by RSM Eastern Africa.

Target Audience and Materiality

Our Report is primarily intended to provide insight and information to long-term investors, and the community at large. We also cover information about our value creation for other stakeholders such as our staff, customers and regulators. 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 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 DTB Group. This Report, together with the annual financial statements of the Group for the year ended 31 December 2018, were approved by the Board of Directors of DTB Kenya on 20 March 2019 and signed on its behalf by:

Abdul Samji
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 DTB 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.

DTB 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 earning, profits, or consequential loss or damage.

WHO WE ARE

Diamond Trust Bank (DTB) is a commercial bank headquartered in Nairobi, Kenya and listed on the Nairobi Securities Exchange (NSE). 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.

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. Digitalisation 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 get constant feedback from our customers with a view to improving solutions that meet their needs.

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 behaviour as we create value for our various stakeholders. Our values shape the way we operate and serve our customers and communities. 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.

WHAT WE DO

Our core purpose is to promote socio-economic development by contributing meaningfully to the improvement in the quality of lives of our customers and the broader community in which we operate, in addition to those that we are currently serving (through both traditional and digital channels), as well as those that are under-served. This requires us to continuously pursue an aggressive and expansive financial inclusion agenda, targeting a broad spectrum of customer segments: large corporates, SMEs, micro- enterprises, high net worth individuals, white- and blue-collared employees, etc.

This has required DTB to build a strong technology foundation and innovation platform which will transform the Group into a premier digital bank and payments solution provider for an increasingly discerning and technology-driven customer base.

We are using technology to leverage our digital strategy by expanding our reach and improving our operations through digitalisation to create faster, more efficient and reliable solutions for evolving payment needs. In 2018, we were recognised, yet again, as the most product-innovative and customer-centric bank in East Africa.

Our focus is to embed ourselves into the lifestyles of our customers by developing simple yet efficient digital financial solutions. To achieve this, we will build on and leverage digital solutions, as well as embrace data-driven analytics, to effectively respond to evolving customer needs and aspirations.

What differentiates **DTB?**

Since 2015, DTB Group has been able to grow its:

Total assets by
39%

Net advances by
9%

Total customer deposits by
48%

Dividends paid by
20%

Branch network from
117 in 2015 to 137
today across the region.

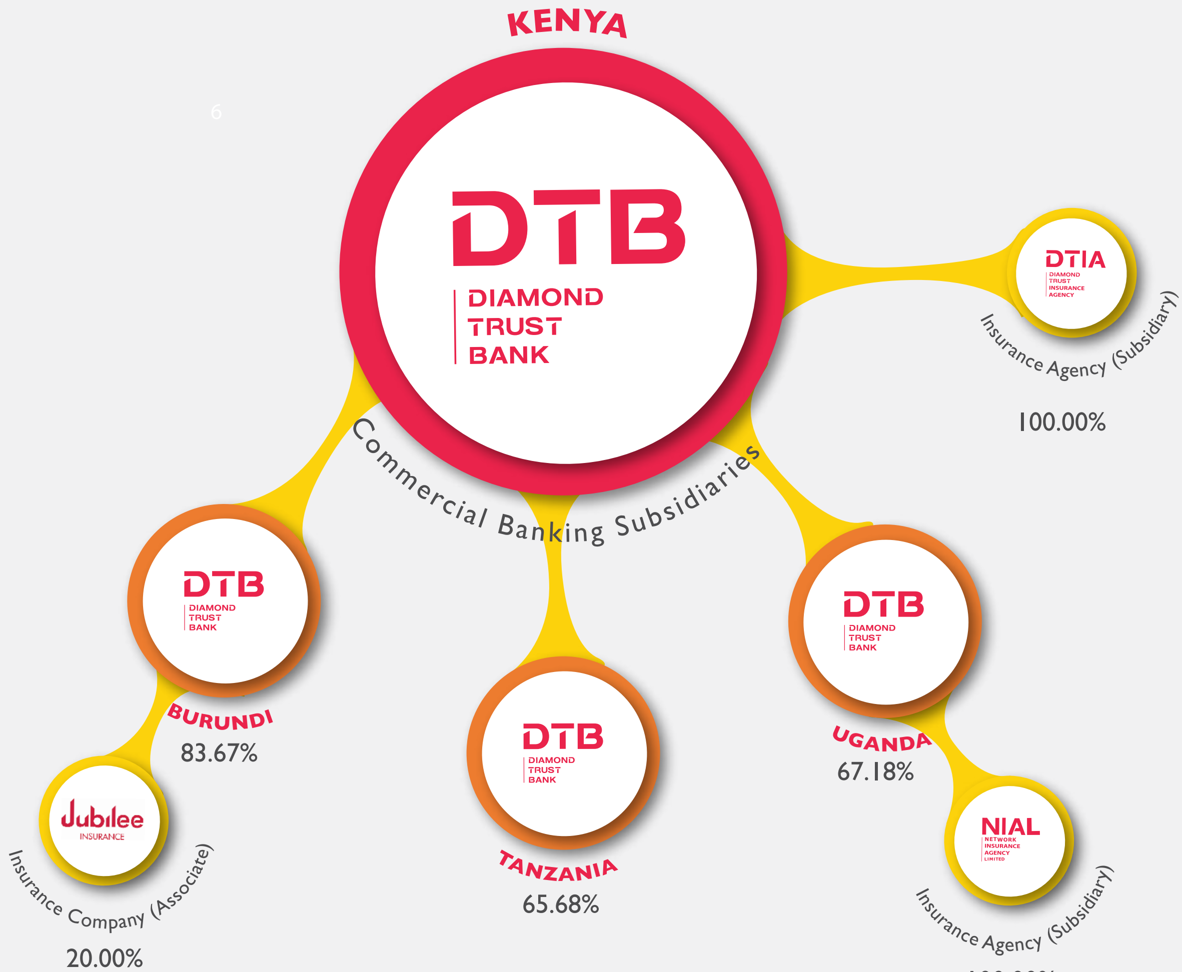
DTB Kenya's market share increased from 4.1% (ranked 8th) in 2012, to 6.7% (ranked 5th) in 2017 by the Central Bank of Kenya (CBK). The Bank was recognised as a Tier1 bank by the CBK in 2015 as a result of this remarkable growth.

DTB's unique **strengths:**

- Solid brand equity built over 70 years.
- Strong capital base, anchored on shareholder resources and standing.
- Established regional network and market knowledge covering the East African Community.
- Strong corporate governance and compliance culture, underpinned by effective internal control systems.
- Reputation for professionalism and integrity.
- Robust IT platform.
- Extensive product range, with growing emphasis on digital products, services and channels.
- Diversified distribution channels and footprint.

WHERE WE ARE

DTB Group Structure



Our footprint in **East Africa** (Dec 2018)

772,679
Customers

161
ATMs

2,252
Staff

137
Branches

Over **12,000**
Agents

REGIONAL BRANCH NETWORK

WHERE WE ARE (CONTINUED)

KENYA

NAIROBI

1. Buru Buru Branch, off Mumias Road
2. Capital Centre Branch, Mombasa Road
3. Courtyard Branch, along General Mathenge Drive
4. Cross Roads Branch, Cross Roads
5. Diamond Plaza, 4th Avenue Parklands
6. DTB Centre Branch, Mombasa Road
7. Eastleigh Branch, 7th Street
8. Funzi Branch, Funzi Road, Industrial Area
9. Garden City Branch, Thika Road Super Highway
10. Industrial Area Branch, Likoni Road
11. JKIA Branch, Airport Trade Centre
12. Karen Hub Branch, Karen
13. Koinange Branch, Koinange Street
14. Lavington Branch, James Gichuru Road
15. Madina Mall Branch, Starehe/Pumwani Road
16. Mwanzi Road Branch, Mwanzi Road Westlands
17. Nation Centre Branch, Kimathi Street
18. 9 West Branch, Ring Road Road, Westlands
19. OTC Branch, Gwasi Lane, off Racecourse Road
20. The Oval Branch, Ring Road Road, Westlands
21. Parklands Branch, 3rd Avenue Parklands
22. Prestige Plaza Branch, Ngong Road
23. Rivaan Centre Branch, off Brookside Grove
24. Riverside Branch, 96 Riverside Drive Westlands
25. Ronald Ngala Street Branch, Uyoma Street
26. South C Branch, Muhoho Road
27. Thika Road Mall Branch, Thika Road Super Highway
28. T-Mall Branch, Langata Road
29. Two Rivers Branch, Limuru Road
30. Upper Hill Branch, Kilimanjaro Road
31. Village Market Branch, Limuru Road
32. Wabera Street Branch, Wabera Street
33. Westgate Branch, Mwanzi Road

COAST REGION

34. Changamwe Branch, Airport Centre Mall, Airport Road
35. Diani Branch, Diani Beach Road
36. Jamhuri Branch, Jamhuri Street Malindi
37. Jomo Kenyatta Branch, Jomo Kenyatta Avenue, Mombasa
38. Kilifi Branch, off Mombasa – Malindi Highway
39. Lamu Branch, Lamu Town, opposite Jetty at the dock
40. Malindi Branch, Lamu Road
41. Mariakani Branch, along Mombasa - Nairobi Road
42. Mombasa Branch, Moi Avenue Road
43. Mtwapa Branch, along Mombasa Malindi Road
44. Nkrumah Road Branch, Nkrumah Road Mombasa
45. Nyali Branch, Links Road, Mombasa
46. Shimanzi Branch, Dar-es-Salaam Road, Mombasa
47. Voi Branch, Biashara Street
48. Watamu Branch, Watamu Town

OTHER TOWNS

49. Bungoma Branch, Moi Avenue
50. Busia Branch, along Busia Main Road
51. Eldoret Branch, Uganda Road
52. Embu Branch, Jomo Kenyatta Avenue
53. Kago Branch, Kago Street Eldoret
54. Kakamega Branch, Canon Awori Road
55. Kericho Branch, Tengecha Road
56. Kisii Branch, Moi Highway
57. Kisumu Branch, Oginga Odinga Street
58. Kitale Branch, Kenyatta Street
59. Kitengela Branch, Kajiado Road
60. Machakos Branch, Mbolu Malu Road
61. Meru Branch, Njuri Ncheke Road
62. Migori Branch, Isibania Road
63. Milele Mall Branch, Ngong
64. Nakuru Branch, Kenyatta Avenue
65. Nakuru – Biashara Branch, Biashara Street
66. Narok Branch, Narok Town
67. Nyeri Branch, Kenyatta Road
68. Thika Branch, Kenyatta Highway
69. West End Mall Branch, Jomo Kenyatta Highway, Kisumu

TANZANIA

DAR-ES-SALAAM

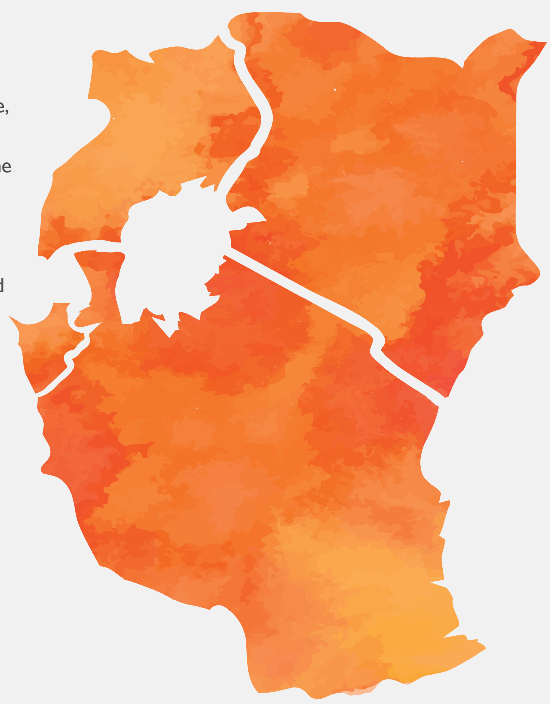
1. CBD Branch, Samora Avenue / Mirambo Street
2. Kariakoo Branch, Msimbazi Street
3. Magomeni Branch, off Morogoro Road
4. Main Branch, Jamat / Mosque Street
5. Masaki Branch, Haile Sellasie Road Junction
6. Mbagala Branch, Kilwa Road
7. Mbezi Branch, Mbezi Beach, Old Bagamoyo Road
8. Mbezi chini Branch, Mwai Kibaki Road
9. Mlimani Citiy Branch, Sam Nujoma Road
10. Morocco Branch, Ali Hasan Mwinyi Road
11. Nelson Mandela Branch, Mandela Road
12. Nyerere Branch, Nyerere Road
13. Uhuru Branch, Uhuru Street
14. Upanga Branch, United Nations Road

ARUSHA

15. Arusha City Branch, Sokoine Road
16. Arusha Main Branch, Moshi Road

OTHER TOWNS

17. Dodoma Branch, 7th Street, near Main Road
18. Iringa Branch, Miyomboni /Jamat Street
19. Kahama Branch, Ngaya/Isaka Road
20. Mbeya Branch, Market Street Junction
21. Morogoro Branch, Lumumba Road
22. Moshi Branch, Old Moshi Road
23. Mtwara Branch, Tanu Road
24. Mwanza Branch, Kenyatta Road
25. Mwanza Main Branch, Nyerere Road
26. Tabora Branch, Ujiji Street
27. Tanga Branch, Taifa Road
28. Zanzibar Branch, Forodhani Area



UGANDA

KAMPALA

1. Bwaise Branch, Tuskys Building, Bombo Road
2. Equatoria Branch, Hotel Equatoria, William Street Kampala
3. Freedom City Branch, Freedom City Mall , Namasuba, Entebbe Road
4. George Street Branch, George Street, Georgina House
5. Industrial Area Branch, Kabiira Road
6. ISBAT Branch, ISBAT University (Lugogo -By-Pass)
7. Kabalagala Branch, Kabalagala, JohnRich Supermarket, Gaba Road
8. Kampala Branch, Kampala Road, DTB Center
9. Kamwokya Branch, Kamwokya, Balaj Building, Kira Road
10. Nakayiza Branch, Nakayiza Market (Haruna Tower, Katwe)
11. Kikuubo Branch, Kikuubo, Sena Arcade, Ben Kiwanuka Street
12. Kitintale Branch, Kitintale , Port Bell Road Luzira
13. Kyengera Branch, Kyengera , Ssendi House, Masaka Road
14. Naalya Branch, Naalya, Metroplex Mall, off Northern ByPass
15. Nakasero Branch, Nakasero , Shopping Complex, Market street
16. Nakivubo Branch, 1st Floor Ham Shopping Grounds, Nakivubo
17. Namanve Branch, Namanve UIA Business & Industial Park
18. Nansana Branch, Nansana, Njovu Complex, Hoima Road
19. Nateete Branch, Nateete , Batuma House, Masaka Road
20. Ndeeba Branch, Ndeeba, Masaka Road
21. Ntinda Branch, Ntinda, Haruna Shopping Center, Kira Road
22. Oasis Mall Branch, Oasis Mall, Yusufu Lule Road
23. Old Kampala Branch, Old Kampala Road, Club House
24. Owino Branch, Owino, Ham shopping Mall
25. Parliament Avenue Branch, Parliament, IPS Building, Parliament Avenue,
26. Wandegeya Branch, Wandegeya, Bombo Road

OTHER TOWNS

27. Arua Branch, Arua town, Avenue Road
28. Busia Branch, URA Busia Customs Center, Customs Road
29. Entebbe Branch, Victoria Mall, Berkeley Road, Entebbe
30. Jinja Branch, Jinja town, Main Street
31. Lira Branch, Lira town, Aputi Road
32. Malaba Branch, Malaba Customs , Kwapa Road
33. Masaka Branch, Masaka town, Kampala Road
34. Mbale Branch, Mbale town, Bishop Wasike Road
35. Mbarara Branch, Mbarara town, Bulemba Road
36. Seeta Branch, Seeta , Block 110 Mukono

BURUNDI

BUJUMBURA

1. Agence du Siege, 14 Chaussee Prince Louis Rwagasore
2. Agence Marche Central de Bujumbura, 3688 Avenue de la Croix Rouge
3. Agence Marche de Ruvumera, Avenue Ntahangwa
4. Agence Quartier Asiatique, 143 Avenue de la Ntahangu

DIGITAL LOBBIES

Nairobi/Mombasa

- Garden City Mall
- The Oval
- The Hub
- Two Rivers Mall
- Diamond Plaza
- Lavington Curve
- Nation Centre
- Nyali

Dar-es-Salaam

- Plot No. 449, Mosque Road

Kampala

- Kikuubo, Sena Arcade, Ben Kiwanuka Street
- Nakasero , Shopping Complex, Market street
- Namanve UIA Business & Industrial Park
- Parliament, IPS Building, Parliament Avenue,
- Seeta Branch, Block 110 Mukono

CORPORATE HISTORY AND SIGNIFICANT MILESTONES

1946:
Incorporated as the Diamond Jubilee Investment Trust (“DJIT”) to commemorate the Diamond Jubilee of the ascension to the Imamat 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 initially operated as a community-based finance house, canvassing savings and extending credit to members of the Ismaili Community.

1965:
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.

1983:
Participation of institutional shareholders, including International Finance Corporation (“IFC”) who took up a 10% equity interest in DTK.

Diamond Trust House, Nairobi 1974

1972:
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.

1986:
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.

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%).

Nation Centre, Nairobi 1992

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.

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.

2012- 2016:
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.

DTB Centre, Nairobi
2013

2009:
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.

2008:
DTB Kenya increased its shareholding in DTB Uganda to 51%, from 27%, after participating in a rights issue by the latter.

DTB Corporate Rebranding, 2007

2007:
DTB Kenya increased its shareholding in DTB Tanzania to 55% from 33% following a rights issue by the latter.

1997:
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.

1999:
DTB Kenya acquired the assets and liabilities of its fully-owned subsidiary, Premier Savings & Finance Limited, which was operating as an NBFI.

BOARD OF DIRECTORS

Mr. Abdul Samji
(Chairman)

Mr. Samji became the Chairman of the DTB Group in May 2010 after having been appointed to the Board in 1997. He is a Certified Public Accountant and Management Consultant by profession and is a former Managing Partner of PKF Kenya, a firm of Certified Public Accountants. He is a B. Com (Hons.) graduate, Fellow of the Association of Chartered Certified Accountants and a Fellow of the Institute of Certified Public Accountants of Kenya. He is also a member of the Institute of Directors (Kenya). Mr. Samji is a past District Governor of Rotary International, District 9200, and is a Trustee for several institutions involved in charitable and service activities. Mr. Samji is also the Chairman of the PDM Group of Companies. Mr. Samji is aged 72 years

Mrs. Nasim Devji
(Group Chief Executive Officer and Managing Director)

Mrs. Devji joined the DTB 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, a Fellow of the Kenya Institute of Bankers, a Fellow of the Institute of Directors (Kenya) and an Associate of the Institute of Taxation (United Kingdom). 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 65 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 68 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 also a Fellow of the Kenya Institute of Bankers and a member of the Institute of Directors (Kenya). Mr. Shamji is a prominent businessman based in Kisii and serves as 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 has also served as a member of the Kisii County Public Private Partnership Committee, Kisii County Budget & Economic Forum Committee and Board of Directors - Kisii Teaching & Referral Hospital. Mr. Shamji is aged 56 years.

BOARD OF DIRECTORS (CONTINUED)

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 Habib Bank Limited, 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 also a member of the Institute of Directors (Kenya). Mr. Jamal is aged 63 years.

Mr. Shaffiq Dharamshi
(Director)

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 director on the boards of DTB Uganda and DTB Tanzania, Habib Bank Limited, Pakistan, Kyrgyz Investment and Credit Bank, Kyrgyzstan, First Microfinance Bank, Tajikistan 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 54 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 Crédit Agricole Corporate and Investment Banking both in Paris. Mr. Ainache is aged 43 years.

Mrs. Pamella 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 48 years.

BOARD OF DIRECTORS (CONTINUED)

Mr. Linus Gitahi, MBS
(Director)

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 Tropikal Brands (Africa) Limited, Chairman of Oxygene Communication Limited and a Trustee of the Management University of Africa. In addition, he is a director of Simba Corp, Outspan Hospital and Medical College as well as Allianz Insurance (K) Limited. 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 56 years.

Mr. Rizwan Hyder
(Director)

Mr. Hyder was appointed to the Board in March 2016. He is a seasoned banker with over thirty years of diverse banking experience, in senior management positions, with local and international banks. He is currently the Chief Risk Officer for Habib Bank Limited (HBL), Pakistan's largest bank. Mr. Hyder also serves on the boards of HBL Asset Management Limited - Pakistan, Habib Finance International Limited - Hong Kong and Habib Financial Services Limited - Pakistan. He has previously served as the Regional General Manager - Far East and Africa regions and Head of International and Market Risks at HBL. Prior to joining HBL, Mr. Hyder was with Crédit Agricole, where he held senior management positions in corporate and investment banking and risk management. He holds a degree in Commerce from the University of Karachi, Pakistan. He is also a member of the Institute of Directors (Kenya).
Mr. Hyder 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 48 years.

Mr. Alkarim Jiwa
(Finance Director)

Mr. Jiwa was appointed to the Board in September 2018. He 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. He is also a director of DTB 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. Mr. Jiwa is aged 49 years.

Mr. Stephen Kodumbe (Company Secretary)

Mr. Kodumbe joined DTB in 2008 as the Manager, Legal Services and was appointed Company Secretary in August 2009. Mr. Kodumbe 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). Mr. Kodumbe is aged 42 years.

PRINCIPAL OFFICERS

Nasim Devji (Group Chief Executive Officer and Managing Director)

Nasim joined the DTB 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, a Fellow of the Kenya Institute of Bankers, a Fellow of the Institute of Directors (Kenya) and an Associate of the Institute of Taxation (United Kingdom). Nasim 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 servedas a member of the Kenya Deposit Insurance Corporation.

Alkarim Jiwa – Finance Director

Alkarim was appointed to the Board in September 2018. He 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. He is also a director of DTB Burundi. Prior to joining the Bank, Alkarim 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.

Stephen Kodumbe Company Secretary and Head of Legal & Debt Recovery

Stephen 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, Stephen is a member of the Law Society of Kenya, the Institute of Certified Public Secretaries of Kenya and the Institute of Directors (Kenya).

Shahzad Karim – Head of Corporate Banking

Shahzad joined the Bank in 1986, thereafter rising to the position of Head of DTB Corporate Banking. She is a holder of a Bachelor of Business Administration Degree with a specialisation in Accounting and Marketing from Simon Fraser University, British Columbia, Canada.

Gopa Kumar – Head of Retail Banking

Gopa joined DTB Kenya in 2002 and was subsequently promoted as Head of Retail Banking. Prior to 2002, he worked for several years in the corporate, trade finance and operations departments of banks in India and Kenya. Gopa is a holder of a Bachelor of Science Degree from Madurai Kamaraj University, India and a Certified Associate of Indian Institute of Bankers.

Kennedy Nyakomitta - Head of Business Development

Kennedy joined the Bank in 2000 and currently serves as the Head of Business Development. He is also responsible for the bank's asset finance function as well as the branches in the western region of Kenya. Prior to joining DTB, Kennedy had acquired several years' experience with various Kenyan banks. He holds a Bachelor of Arts in Economics and a Masters in Business Administration and Leadership and Governance.

PRINCIPAL OFFICERS (CONTINUED)

Shibu Jacob – Head of Coast Region

Shibu joined DTB Kenya as Head of Coast Region in 2012. He has more than 30 years of banking experience with various banks in India and he has exposure to the UAE financial markets as Head of City Exchange LLC, Dubai. Shibu has a Master's degree in English Literature and holds a postgraduate diploma in Financial Management.

Venkatramani Iyer – Head of Treasury

Venkatramani joined DTB Tanzania in 2008 as the Head of Treasury and International Banking and later joined DTB Kenya as the Group Treasurer in 2015. Prior to this, he acquired several years' experience in the same function and in similar positions with banks in India. Venkatramani is a holder of a B. Com Degree (Madras University) and a Certified Associate of Indian Institute of Bankers.

George Otiende – Head of Branches & Alternate Channels

George joined the Bank in 2006. In this role, he is responsible for all aspects of branch and channel operations, service and revenue growth. Prior to joining DTB Kenya, he worked with Standard Chartered Bank Kenya. George graduated with a BBAM (First Class honors) from Egerton University.

Lillian Ngala – Head of Human Resources

Lillian joined DTB Kenya in May 2012 and was subsequently promoted to the Head of Human Resources in 2013. She holds a Bachelors' degree in Human Resource Management, an MBA in Strategic Management from JKUAT and a postgraduate diploma in Human Resource Management from the Institute of Human Resource Management.

Nizar Tundai – Head of Technology

Nizar joined the Bank in 2004 as the Head of Information Technology. He spearheads the Information Technology initiatives and is responsible for developing DTB's cutting edge technology to drive and deliver business growth, supported by technology and innovations. Nizar has a Certificate in Project Management, diploma in Computer Sciences and a diploma in Advanced Management Program from Strathmore Business School, Kenya and IESE Business School, Spain.

Suraj Shah - Head of Centralised Operations

Suraj joined DTB Kenya in 2003 and is currently the Head of Centralised Operations. Prior to joining the Bank, he acquired several years of experience in various positions with other banks in Kenya. Suraj is a Fellow of the Association of Chartered Certified Accountants.

PRINCIPAL OFFICERS (CONTINUED)

Millerangum Jayaraman – Head of Credit

Millerangum joined the Bank in 2000 and was later promoted to the position of Head of Credit. Prior to 2000, he worked for several years in senior positions with banks in Kenya and India. He holds a B.Tech in Aeronautical Engineering and is a Certified Associate of the Indian Institute of Bankers.

Nita Shah – Head of Credit Support

Nita joined DTB Kenya in 2000 as Head of Internal Audit and is currently serving as the Head of Credit Support. Nita has several years of experience in audit and risk working as an auditor with PricewaterhouseCoopers and as an internal auditor of various companies. She is a Fellow of the United Kingdom- based Association of Chartered Certified Accountants and of the Chartered Institute of Secretaries and Administrators and a member of the Institute of Certified Public Secretaries of Kenya.

Farouk Khimji – Head of Products & Marketing

Farouk joined the Bank in 2004 and was promoted to Head of Products and Marketing in 2015. He is currently responsible for the innovation team and digital transformation. Farouk graduated with a BA (Hons) in Economics from the University of Western Ontario and a Hons. Diploma in Banking and Financial Services from Westervelt College, London Ontario, Canada.

Azra Thobani – Head of Service Excellence

Azra joined DTB Kenya in 2009 and was appointed as the Head of Service Excellence in 2016. Prior to this appointment, Azra worked in the Risk and Product Development functions at DTB after completing 3 years in the Bank's Graduate Management Trainee programme. Azra holds a Bachelor of Science in International Business Administration from the United States International University – Africa.

Hilda Gituro – Head of Risk & Compliance

Hilda joined the Bank in 2004 and is currently serving as the Head of Risk and Compliance. She holds a Bachelor of Commerce from the Catholic University of Eastern Africa and a MBA (Finance) from the United States International University - Africa. She is a Certified Compliance Officer, Certified Enterprise Risk Manager, and an Associate member of the Certified Fraud Examiners and Business Continuity Institute.

Peter Kimani – Head of Internal Audit

Peter joined DTB Kenya in 2001 and was promoted to the Head of Internal Audit in 2005. Prior to joining DTB, he worked for several years in different capacities within the internal audit departments of various companies. He holds a Bachelor of Science in Business Administration from the United States International University – Africa, and is also a Certified Public Accountant and a member of the Institute of Certified Public Accountants of Kenya.

Naftali Mwangi – Head of Security, Fraud and Forensic Investigations

Naftali joined the Bank in 2011 and currently serves as the Head of Security, Fraud & Forensic Investigations. He holds a Masters of Arts in Economics and a Bachelors of Arts (First Class honors) specialising in Economics from the University of Nairobi. He is also a CPA (K) finalist and a trained Cadet Inspector of Police from Kenya Police Service.

CHAIRMAN'S STATEMENT

“DTB Group remained resilient in 2018, experiencing another year of prudent business growth and broad- based value creation for all of our stakeholders.”

Operating Environment

2018 was another year of entrenchment for DTB’s business franchise across East Africa. The regional banking sector continued to undergo unprecedented levels of change. Given the fast- evolving competitor landscape both within and outside the banking industry, it is becoming clear that only those players who are agile at adapting to the new realities of digital disruption as well as innovation, whilst excelling in customer service will continue to thrive. In addition, robust risk management and compliance frameworks have become essential foundations for sound financial institutions. The implementation of IFRS 9 in 2018 also impacted the banking sector’s loan book and provisioning levels and subsequent effect on net earnings.

In the face of these changes, DTB Group remained resilient in 2018, experiencing another year of prudent business growth and broad- based value creation for all of our stakeholders. DTB’s market positioning remained strong in each of the four East African countries we are present. Our position as a Tier I bank in our largest market, Kenya, continued to be maintained by the strong and unwavering support we receive from our primary stakeholder: our customers.

Financial Performance

DTB’s performance is reflected in its 2018 results, with the full- year group pre-tax profit rising to a record level of Kshs 11 billion, an increase of 9% compared to the previous year. The Group’s asset base rose to Kshs 378 billion, the main contributor being the continuing expansion of the customer deposit base which went up by 6%, from Kshs 266 billion in 2017 to Kshs 283 billion at the end of 2018. At Kshs 193 billion, DTB Group’s loan book remained at the same level during the year, reflecting the subdued business environment in the region which was not conducive to robust lending activity during the year. DTB’s investment portfolio in Government securities, however, expanded marginally during the year from Kshs 113 billion at the end of 2017 to Kshs 115 billion a year later.

Regional Review

DTB Kenya’s subsidiaries in Tanzania, Uganda and Burundi continue to contribute positively to the Group’s performance. In 2018, the DTB subsidiaries collectively contributed to 25% of the Group’s total assets and 16% of its profitability. Both DTB Tanzania and DTB Uganda continue to build on their market positioning in their respective geographies. DTB Burundi continues to operate in a challenging business environment. Nevertheless, the Group’s franchise in Burundi continues to return profits, whilst managing risks. The subsidiaries’ performance, again, reflects the underlying resilience of the DTB Group as a leading and solid commercial banking franchise in East Africa.

In recognition of the DTB Group’s strong and lasting commitment to East African markets it operates in, your Bank invested an equivalent of US$ 1.5 million in DTB Burundi last year, acquiring the equity interest held in that bank by International Finance Corporation. Consequently, DTB Kenya increased its shareholding in DTB Burundi from 67.33% to 83.67%.

Strategy Execution

In line with the various objectives of Group’s business strategy, *DTB Vision 2020,* which has enabled DTB to anchor as a leading Tier I bank in Kenya, DTB focused on the following in 2018:

- **People:** DTB continues to give emphasis on initiatives that are geared towards future- proofing its employees by equipping them with the behavior, mindsets and skills required to perform effectively in a digitised banking environment as well as inculcate a culture of sustained customer service excellence. A number of talent development initiatives were implemented during the year including the use of e-learning platforms, developing a bank-wide mentorship program and a revamped approach and tool to measuring performance appraisals. The latter was run on a pilot basis in 2018 and will be deployed across DTB Group from 2019. These initiatives will continue - and be built upon - with the objective of re-skilling staff to operate and serve customers where being digital to the core is essential.

- **Technology:** Having built a strong technology foundation in the last five years, including a Tier III- standard Data Centre and best- in- class security operations centre (SOC) based in Nairobi, DTB continues to invest significantly in enhancing its IT capabilities. Given the growing risks associated with electronic channels and rising threat of cyber related attacks (cyber-crime, cyber-fraud, etc.), DTB has, and will continue to, build its cybersecurity processes and systems to strengthen its cybersecurity defence capabilities. Also, DTB will continue to invest in appropriate technologies to enable agile and seamless integrations of various software applications and hardware infrastructure.
- **Innovation:** The Group continued to expand its digital banking capabilities and offerings, having built a strong IT platform. Last year, DTB upgraded its mobile banking application, DTB 24/7. Later this year, the Bank will also deploy a second generation internet banking platform. Both the mobile and internet banking applications come with significantly enhanced value offerings and features, augmenting customer experience on our primary digital channels.
- **Funding:** DTB remains one of the highest capitalised banks in Kenya, with core capital growing to Kshs 40 billion at the end of 2018. To build upon its capital base and secure future asset growth, your Bank partnered with African Development Bank for two long- term facilities: a US$ 25 million subordinated debt facility which the Bank drew down in March 2018 and a US$ 50 million senior loan facility. The Group's growing customer deposit base and access to long term funding has contributed to its strong liquidity position.

DTB Vision 2030 and Beyond

In 2019, DTB also plans to develop its strategic blueprint for the next long- term strategic planning cycle – *DTB Vision 2030 and Beyond*. This new 10+ year Group strategy and transformation will seek to improve the quality of life and access to financial inclusion for the people of East Africa, with a specific emphasis on leveraging digital and data analytics across the business.

Appreciation

Your Bank continues to make progress, in large measure, due to the dedication and commitment of entire Management Team and staff, led by the Group CEO and Managing Director, Mrs. Nasim Devji. On behalf of the Board I would like to express our appreciation to them for a commendable performance in executing the Bank's strategy every day.

I would also like to acknowledge, with much appreciation and gratitude, the invaluable support and wise counsel from my colleagues on the Board, which has helped us steer the Group's business activities and strategies successfully, during the year.

Board Changes

I would now like to address the changes in the composition of your Board. Mr. Rizwan Hyder has chosen not to seek re-election at the forthcoming AGM. On behalf of my colleagues on the Board, I would like to thank him, most sincerely, for the valuable advice and unstinting support that he accorded to the Bank, during his tenure of office.

After having served as a non- executive director of your Bank for 22 years, nine of which as Chairman of DTB Group, it is time for me to hand over the baton. I will therefore be retiring at the forthcoming AGM. I would like to congratulate the new Chairman of the Board, once appointed, and wish him all the success in taking our Bank to greater heights. To my colleagues on the Board, the Management and Staff of the Bank and, indeed, all the Shareholders I would like to express my deep gratitude and sincere appreciation for all the support and co-operation accorded to me during my term of office. I leave the Bank with a sense of deep satisfaction. Your Bank is a strong institution, well poised to become a major player in the banking industry in sub-Saharan Africa.

Conclusion

Finally, I would like to thank you, our Shareholders, for your continued trust, support and confidence in the Institution and to our loyal clients for their valued custom.

Abdul Samji
Chairman
20 March 2019

TAARIFA YA MWENYEKITI

Mazingira ya Kibiashara

Mwaka wa 2018 ulitoa fursa nyingine ya kujiimarisha kibiashara kwa DTB katika eneo lote la Afrika Mashariki. Sekta ya benki katika eneo hili iliendelea kushuhudia viwango vikuu vya mabadiliko. Kutokana na mazingira ya ushindani katika sekta ya benki na sekta nyinginezo, inabainika dhahiri kuwa ni washirika wepesi wa kukumbatia mabadiliko ya kidijitali mbali na kuwa wabunifu, huku wakitia fora katika kutoa huduma bora kwa wateja, na bila shaka wataendelea kunawiri. Zaidi ya hayo, mikakati madhubuti ya kukabiliana na hatari na miongozo ya kufuata kanuni imeondokea kuwa msingi muhimu kwa taasisi thabiti za kifedha. Utekelezaji wa IFRS 9 katika mwaka wa 2019 pia ulikuwa na athari kwa mikopo iliyotolewa na sekta ya benki na viwango vya kufidia madeni pamoja na athari ya ziada kwenye faida kamili.

Huku mabadiliko hayo yakitokea, Shirika la DTB Group lilibakia imara katika mwaka wa 2018, ambapo lilishuhudia mwaka wa ustawi wa biashara yake pamoja na kuwaundia wadau wetu wote thamani pana za huduma. Nafasi ya DTB kwenye soko ilisalia kuwa imara katika mataifa yote manne ya Afrika Mashariki ambako tunahudumu. Nafasi yetu kama Benki ya Hadhi ya daraja katika soko letu kuu ambalo ni Kenya, iliendelea kusimamiwa na uungwaji mkono thabiti kutoka kwa wadau wetu wa kimsingi ambao ni wateja wetu.

Matokeo ya Kifedha

Mafanikio ya DTB yanaonekana katika matokeo yake ya 2018, ambapo faida yake ya shirika zima kwa mwaka iliongezeka hadi Ksh bilioni 11, hili likiwa ongezeko la 9% ikilinganishwa na mwaka uliotangulia. Jumla ya mali ya Shirika iliongezeka hadi Ksh bilioni 378, kichangizi kikuu kikiwa upanuzi wa kiwango cha akiba za wateja ambayo iliongezeka kwa 6%, kutoka Ksh bilioni 266 katika mwaka wa 2017 hadi Ksh bilioni 283 mwishoni mwa mwaka 2018. Jumla ya mikopo ya DTB ilibakia palepale katika mwaka unaochanganuliwa kwani pesa hizo zilisalia kuwa Ksh bilioni 193, hali hii ikiakisi mazingira magumu ya kibiashara katika eneo hili ambayo hayakuwa mazuri kwa shughuli za ukopeshaji mwaka huo. Hata hivyo, kitengo cha uwekezaji cha DTB katika hati za dhamana za Serikali kilikuwa kwa kadri katika mwaka huo kutoka Ksh bilioni 113 mwishoni mwa mwaka 2017 hadi Ksh bilioni 215 katika mwaka uliofuatia.

Tathmini ya Ukanda huu

Tanzu za DTB ya Kenya zilizoko nchini Tanzania, Uganda na Burundi zinaendelea kuchangia vizuri katika matokeo ya Shirika hili. Katika mwaka wa 2018, kwa jumla tanzu za DTB zilichangia 25% ya jumla ya mali ya shirika hili na 16% ya faida yake. Tanzu za DTB nchini Tanzania na Uganda zinaendelea kujiimarisha kutokana na nafasi ya tanzu hizo sokoni hususan katika maeneo yao husika. Utanzu wa DTB Burundi unaendelea kuhudumu katika mazingira yenye changamoto ya kibiashara. Hata hivyo, biashara ya shirika hili nchini Burundi inaendelea kuleta faida japo ikiendelea kukabiliana na hatari. Matokeo ya tanzu hizo, kadhalika yanadhihirisha ustahimilivu wa Shirika la DTB kama shirika nambari moja na thabiti la benki katika ukanda wa Afrika Mashariki.

Katika kutambua juhudi maridhawa na za kudumu za Shirika la DTB kwa masoko yake ya Afrika Mashariki ambako inahudumu, benki hii yako iliwekeza jumla ya Dola za Kimarekani, milioni US$1.5 katika utanzu wa Burundi mwaka jana, ambapo ilinunua hisa zinazoshikiliwa katika benki hiyo na shirika la International Finance Corporation (IFC). Hivyo basi, DTB Kenya iliongeza hisa zake katika utanzu wa Burundi kutoka 67.33% hadi 83.67%.

Utekelezaji wa Mkakati

Kulingana na malengo mbalimbali ya mkakati wa kibiashara wa Shirika hili, *Azimio la DTB la 2020,* ambalo limewezesha DTB kujiweka katika tapo la Hadhi ya daraja la kwanza la benki nchini Kenya, DTB inazingatia yafuatayo katika mwaka wa 2018.

- **Watu:** DTB inaendelea kutia msisitizo wake kwenye juhudi zinazohusu mustakabali wake – ikiwaimarisha wafanyakazi wake kwa kuwafunza mienendo faafu, mawazo na maarifa yanayohitajika ili kuhudumu ifaavyo katika mazingira ya kidijitali ya benki pamoja na kupalilia ndani yao desturi ya huduma bora zaidi kwa wateja. Jitihada kadhaa za uimarishaji wa talanta zilitekelezwa katika mwaka huo, ikiwemo matumizi ya kumbi za kujipa mafunzo kupitia mtandaoni, maarufu kama e-learning, kubuni mpango wa kuwakuza wafanyakazi wote wa benki hii na mbinu na vifaa vipya vya kutathmini utendakazi. Vifaa hivyo vipya vilifanyiwa majaribio katika mwaka wa 2018 na vitasambazwa kote katika shirika la DTB kuanzia mwaka huu wa 2019. Jitihada hizi zitaendelea na hata kuimarishwa kwa lengo la kuwapa wafanyakazi maarifa mapya ili kuhudumu na kuwahudumia wateja pale ambapo matumizi ya dijitali ni muhimu.
- **Teknolojia:** Baada ya kujenga msingi thabiti wa teknolojia katika muda wa miaka mitano iliyopita, ikiwemo kitengo cha Hadhi ya daraja la III – Kituo cha Kisasa cha Data na mfumo bora wa kituo cha usalama (SOC) kilicho Nairobi, DTB inaendelea kuwekeza pakubwa katika kuimarisha uwezo wake wa Teknolojia ya Habari (IT). Kutokana na hatari zinazozidi kutokea za mbinu za kielektroniki pamoja na ongezeko la mavamizi ya kimtandao (Uhalifu na ulaghai wa kimtandao), DTB imeendelea na itaendelea kujenga mifumo na harakati zake za usalama ili kuimarisha kinga zake za kimtandao. Kadhalika, DTB itaendelea kuwekeza katika teknolojia zifaazo ili kufanikisha ushirikishaji thabiti na mwepesi wa programu zake za mtandao pamoja na mifumo yake ya kompyuta.

- **Ubunifu:** Shirika hili linaendelea kupanua uwezo wake wa kulinda mfumo wake wa kidijitali na huduma zake, baada ya kujenga mfumo thabiti wa IT. Mwaka jana DTB iliboresha programu yake ya benki inayotoa huduma za simu ya mkononi, DTB24/7. Baadaye Mwaka huu, benki hii pia itazindua mfumo wa kisasa wa benki kwa kutumia intaneti. Huduma hizo mbili huduma ya benki kwa simu ya mkononi na huduma ya intaneti- zinakuja na thamani ya juu kwenye huduma zake na hivyo kuboresha huduma za wateja ikilinganishwa na ilivyokuwa kabla.
- **Ufadhili:** DTB inasalia kuwa mojawapo ya benki zenye mtaji mkubwa nchini Kenya, ambapo mtaji wake wa kimsingi ulikua hadi Ksh bilioni 40 katika mwaka wa 2018. Ili kukuza mtaji wake na kuweka salama ustawi wa mali zake, benki hii yako ilishirikiana na Benki ya Africa Development Bank katika kupata mikopo miwili ya muda mrefu: mmoja mdogo wa Dola za Marekani US$ milioni 25 milioni ambao benki ilichukua mnamo Machi 2018 na mwingine mkubwa wa Dola za Marekani US$ milioni 50. Ongezeko la akiba za wateja pamoja na ufadhili wa muda mrefu wa milki zake vimechangia katika uwezo wake thabiti wa kifedha.

Azimio la DTB la mwaka 2030 na badae

Katika mwaka wa 2019, DTB inapanga kubuni malengo yake ya kimkakati kwa ajili ya kipindi kirefu cha upangaji mikakati – *Azimio la DTB la 2030* na baadaye. Mkakati huu mpya wa miaka zaidi ya 10 na mageuzi haya ya shirika yatalenga kuimarisha hadhi ya maisha na kuwezesha ujumuishi wa kifedha kwa watu wa Afrika Mashariki, ambapo msisitizo utakuwa kwa kuimarisha matumizi ya changanuzi za kidijitali na data kote kwenye biashara hii.

Shukrani

Benki yako inaendelea kupiga hatua kubwa kutokana na kujitolea na kujizatiti kwa kikosi kizima cha usimamizi na wafanyakazi, wakiongozwa na Afisa Mkuu Mtendaji (CEO) na Mkurugenzi Mkuu msimamizi, Bi Nasim Devji. Kwa niaba ya bodi hii, ningependa kutoa shukrani zangu kwao kwa utendakazi wa kuridhisha katika kutekeleza mkakati wa benki kila siku.
Aidha, ningependa kuwashukuru sana wenzangu kwenye bodi kwa usaidizi na ushauri bora ambao umetusaidia kuendesha shughuli na mikakati ya shirika hili kwa mafanikio katika mwaka huo mzima.

Mabadiliko katika Bodi Kuu

Ningependa sasa kuzungumzia mabadiliko katika bodi kuu. Bw Razwan Hyder ameamua kujiondoa katika shughuli ya kuchaguliwa tena wakati wa Mkutano Mkuu wa Mwaka (AGM) unaokaribia. Kwa niaba ya wenzangu katika bodi, ningependa kumshukuru kwa ushauri wake wa thamani na msaada aliotoa kwa benki hii katika uongozi wake.

Baada ya kuhudumu kama Mkurugenzi Mkuu Mtendaji wa benki yako kwa muda wa miaka 22, miaka 9 miongoni mwake akihudumu kama mwenyekiti, ni fursa nzuri kuachilia wadhifa huo. Kwa hivyo nitastaafu katika mkutano mkuu ujao. Ningependa kumhongera mwenyekiti mpya wa bodi, baada ya kuchaguliwa, na ninamtakia kila heri katika kukuza benki yetu hadi kwenye mafanikio makuu.

Kwa wenzangu walio katika bodi, wasimamizi, na wafanyakazi wa benki pamoja na wenyehisa wote, ningependa kuwapa shukrani zangu kwa msaada na ushirikiano walionipa wakati wa uongozi wangu afisini. Ninaiacha benki hii nikiionea fahari kuu kwa mafanikio hayo. Benki yako hii ni taasisi imara, ikiwa katika nafasi nzuri ya kuibuka kama mdau mkuu katika sekta ya benki katika eneo la Kusini mwa Jangwa la Sahara barani Afrika.

Tamati

Kwa kutamatisha, ningependa kuwashukuru wenye hisa wetu kwa kuendelea kutuamini, kwa msaada na imani yenu kwa taasisi hii, na kwa wateja wetu waaminifu kwa uteja wao wa thamani.

Abdul Samji
Mwenyekiti,
20 March 2019

Taarifa iliyoko hapa juu ni tafsiri ya Mwenyekiti iliyoko ukurasa wa 14- 15. Iwapo patatokea utata wowote katika tafsiri ya maana halisi ya maneno yaliyotumika, basi tafsiri ya kingereza ndiyo itakayotawala.

The text set above is a Swahili translation of the Chairman's Statement, which appears in pages 14- 15. In the event of any dispute in the interpretation of the Swahili version, the English version shall be the authoritative version.

STATEMENT OF COMPLIANCE WITH CORPORATE GOVERNANCE

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.

CORPORATE GOVERNANCE FRAMEWORK

The Bank has adopted a corporate governance framework that includes 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 time 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.

BOARD OF DIRECTORS

The Bank is governed by a duly appointed, 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 issues.
6. Provide oversight of performance against targets and objectives.
7. Provide oversight of reporting of 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.

SEPARATION OF FUNCTIONS OF CHAIRMAN AND CHIEF EXECUTIVE OFFICER

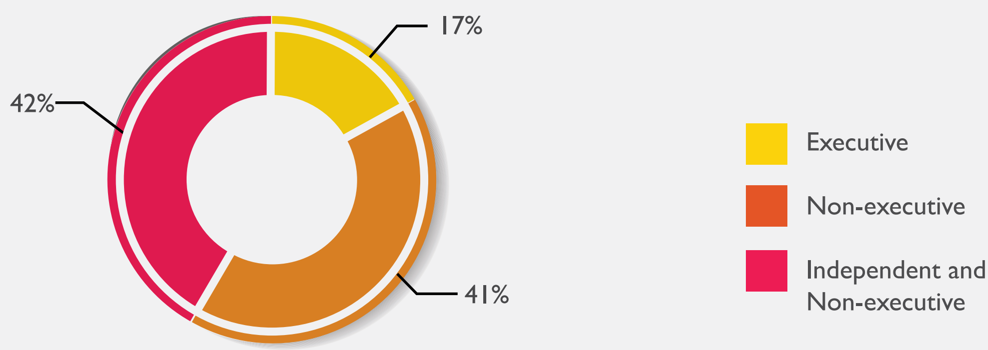
As part of its commitment to good corporate governance, the Board has ensured that the functions of the Chairman and the Chief Executive Officer are not exercised by the same individual. Furthermore, the roles and responsibilities of the Chairman and the Chief Executive Officer of the Bank are separate 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.

STATEMENT OF COMPLIANCE WITH CORPORATE GOVERNANCE (CONTINUED)

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 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.

Independence



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.

AREAS OF FOCUS IN 2018:

Strategy

- Strategy development and execution.
- Global and regional industry trends.
- Macro- economic factors.
- Future of banking in the midst of industry developments and a fast evolving digital landscape.

Financial Performance

- Performance against budget, previous year and industry.
- Group solvency, liquidity and going concern status.
- Financial impact of regulatory changes.

Risk Management and Compliance

- Oversight and monitoring of risk profile against risk appetite.
- Cybersecurity risk and mitigating investments in related technologies and expertise.
- Legislative and regulatory developments.

Governance

- Corporate governance, risk and capital management process and objectives.
- Board composition.
- Succession planning.

Innovation

- Oversight over product development and performance.
- Approval of innovative, mainly digital products and services.

STATEMENT OF COMPLIANCE WITH CORPORATE GOVERNANCE (CONTINUED)

DIRECTORS' APPOINTMENT

Candidates proposed for appointment to the Board are nominated by the Board Nomination and Human Resource Committee ("BNHRC"), which is chaired by a non-executive 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 Alkarim Jiwa on the Board as the Bank's Finance Director.

DIRECTORS SKILLS, EXPERIENCE AND DIVERSITY

Our Board comprises of 12 members, including two female directors. Each Director is expected to be aligned to the DTB 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, DTB 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 DTB 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 DTB Group. The Directors regularly review the skills knowledge and experience represented on the Board against the skills and experience needed to deliver the DTB Group strategy. The current skills and industry experience represented on the Board are as follows:

Name	Strategy	Governance Leadership	Financial Services	Credit/ Treasury/ Risk Management	Business Management/ Consultancy	Accounting/ Audit/ Tax Advisory	Legal Advisory
Abdul Samji	●	●		●	●	●	
Nasim Devji	●	●	●	●	●	●	
Pamella Ager	●	●		●			●
Guedi Ainache	●	●	●	●		●	
Shaffiq Dharamshi	●	●	●	●			
Linus Gitahi	●	●		●	●	●	
Rizwan Hyder	●	●	●	●			
Moez Jamal	●	●	●	●	●		
Alkarim Jiwa	●	●	●	●		●	
Irfan Keshavjee	●	●		●	●		
Ismail Mawji	●	●	●	●	●	●	
Jamaludin Shamji	●	●		●	●		

STATEMENT OF COMPLIANCE WITH CORPORATE GOVERNANCE (CONTINUED)

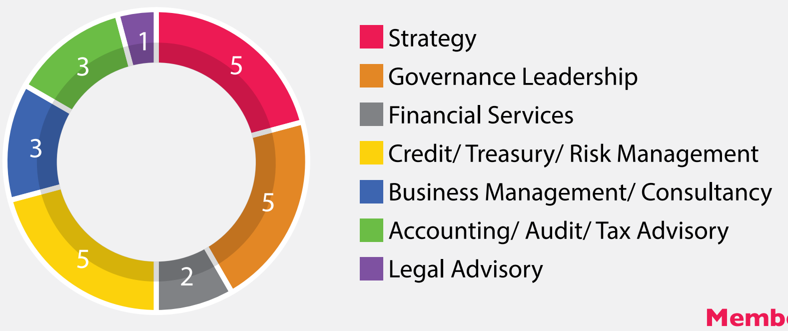
BOARD COMMITTEES

The Board has constituted seven 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 discretion delegated to them by the Board. The membership of the Committees is 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 is set out hereunder.

Board Audit and Compliance Committee (BACC)

Skills



Members:
- Pamella Ager
- Guedi Ainache
- Linus Gitahi
- Irfan Keshavjee

Chaired by Ismail Mawji

Mandate

The BACC comprises of five 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 formally meets at least once every quarter.

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

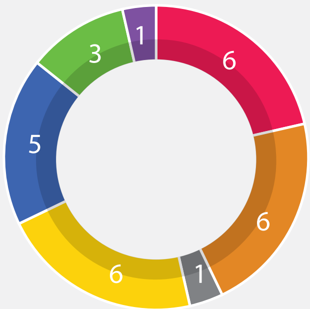
(a) The external reporting of financial information including correct application of accounting requirements.
(b) Internal control environment of the Bank including governance of financial and accounting risks.
(c) The internal audit and external audit functions, including an assessment of the independence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

Skills



- Strategy
- Governance Leadership
- Financial Services
- Credit/ Treasury/ Risk Management
- Business Management/ Consultancy
- Accounting/ Audit/ Tax Advisory
- Legal Advisory

Chaired by
Jamaludin Shamji

Mandate

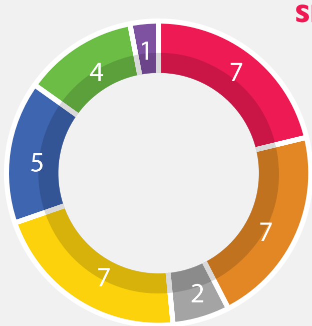
The BCC comprises of six non-executive Directors, four of whom are independent. Its primary purpose is to oversee and monitor the credit function and the credit risk management framework of the Bank. The BCC also ensures that the overall credit framework is robust, professionally and effectively managed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

Members:
- Abdul Samji
- Pamella Ager
- Linus Gitahi
- Irfan Keshavjee
- Ismail Mawji

Board Executive Committee (BEC)

Chaired by
Abdul Samji

Skills



- Strategy
- Governance Leadership
- Financial Services
- Credit/ Treasury/ Risk Management
- Business Management/ Consultancy
- Accounting/ Audit/ Tax Advisory
- Legal Advisory

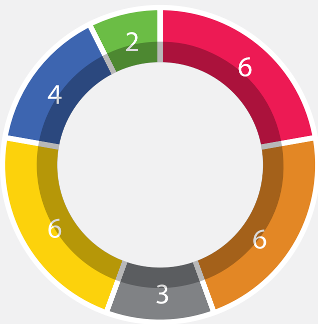
Members:
- Pamella Ager
- Guedi Ainache
- Linus Gitahi
- Irfan Keshavjee
- Ismail Mawji
- Jamaludin Shamji

Mandate

The BEC comprises of the Chairman of the Board and six other independent and non-executive Directors. The BEC is the link between the Board and management and assists the Board in reviewing and overseeing the operational and financial matters of the Bank during the intra-meeting periods, which then assists management discharge its duties and responsibilities for the day-to-day business of the Bank. The BEC meets at least once a quarter.

Board Information Technology Committee (BITC)

Skills



- Strategy
- Governance Leadership
- Financial Services
- Credit/ Treasury/ Risk Management
- Business Management/ Consultancy
- Accounting/ Audit/ Tax Advisory

Chaired by
Moez Jamal

Mandate

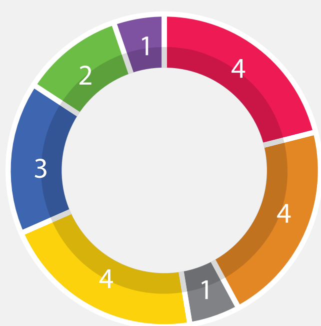
The BITC comprises of six non- executive Directors, three of whom are independent. Its responsibilities include ensuring quality, integrity, effectiveness and reliability of the Bank's ICT risk management framework. The BITC meets at least once every quarter.

Members:
- Guedi Aianche
- Shaffiq Dharamshi
- Linus Gitahi
- Irfan Keshavjee
- Jamaludin Shamji

Board Nomination and Human Resource Committee (BNHRC)

Chaired by
Jamaludin Shamji

Skills



- Strategy
- Governance Leadership
- Financial Services
- Credit/ Treasury/ Risk Management
- Business Management/ Consultancy
- Accounting/ Audit/ Tax Advisory
- Legal Advisory

Members:
- Abdul Samji
- Pamella Ager
- Ismail Mawji

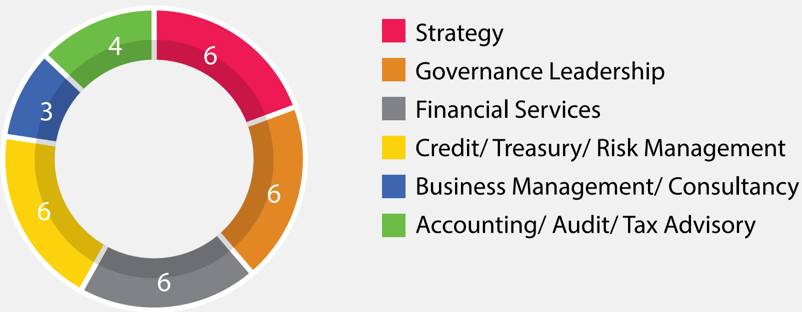
Mandate

The BNHRC comprises of four non-executive Directors, two of whom are independent. The Committee 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. The BNHRC meets at least once every quarter.

STATEMENT OF COMPLIANCE WITH CORPORATE GOVERNANCE (CONTINUED)

Board Oversight Committee (BOC)

Skills



Chaired by
Shaffiq Dharamshi

Mandate

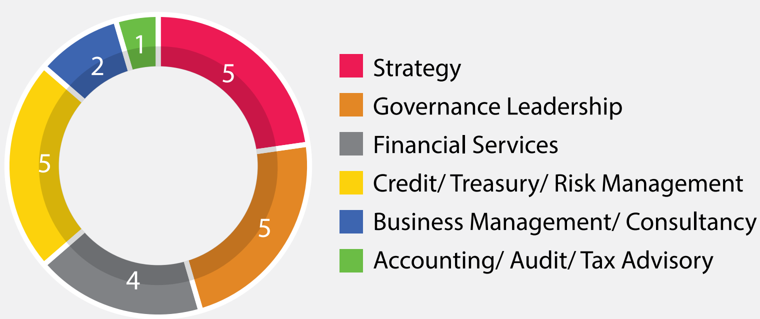
The BOC comprises six Directors, four of whom are non- executive. Its responsibilities include providing oversight for the steps required to be taken by management and the Bank to enhance and improve the Bank's capabilities, systems and processes to better prevent money laundering and ensure effective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

Members:
- Ismail Mawji
- Guedi Ainache
- Moez Jamal
- Nasim Devji
- Alkarim Jiwa

Board Risk Management Committee (BRMC)

Chaired by
Guedi Ainache

Skills



Members:
- Moez Jamal
- Shaffiq Dharamshi
- Rizwan Hyder
- Jamaludin Shamji

Mandate

The BRMC comprises five 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. The BRMC meets atleast once every quarter.

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 2018 to 31 December 2018)								
			AGM	BACC	BCC	BEC	BITC	BNHRC	BOC	BRMC	BOARD
1	**Abdul Samji** Last re-elected in May 2017	Chairman and non- executive Director	1/1	-	5/5	4/4	-	4/4	-	-	4/4
2	**Nasim Devji (Mrs)**	Managing Director and Group Chief Executive Officer	1/1	-	-	-	-	-	1/1	-	4/4
3	**Pamella Ager (Mrs)** Last re-elected in May 2018	Non-executive and independent Director	1/1	4/4	5/5	4/4	-	4/4	-	-	4/4
4	**Guedi Ainache**, Last re-elected in May 2017	Non-executive and independent Director	1/1	4/4	-	4/4	4/4	-	1/1	4/4	4/4
5	**Shaffiq Dharamshi** Last re-elected in May 2018	Non-executive Director	1/1	-	-	-	4/4	-	1/1	4/4	4/4
6	**Linus Gitahi** Last re-elected in May 2017	Non-executive and independent Director	1/1	4/4	5/5	4/4	4/4	-	-	-	4/4
7	**Rizwan Hyder** Last re-elected in May 2016	Non-executive Director	1/1	-	-	-	-	-	-	3/4	3/4
8	**Moez Jamal** Last re-elected in May 2017	Non-executive Director	1/1	-	-	-	4/4	-	1/1	4/4	4/4
9	**Alkarim Jiwa***	Finance Director	-	-	-	-	-	-	1/1	-	2/2
10	**Irfan Keshavjee** Last re-elected in May 2018	Non-executive and independent Director	1/1	3/4	4/5	3/4	3/4	-	-	-	3/4
11	**Ismail Mawji** Last re-elected in May 2017	Non-executive and independent Director	1/1	4/4	5/5	4/4	-	4/4	1/1	-	4/4
12	**Jamaludin Shamji** Last re-elected in May 2017	Non-executive Director	1/1	-	5/5	4/4	-	4/4	-	4/4	4/4

* Appointed in September 2018

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 a member will have offered themselves for re-election.

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.

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 program 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 2018 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 2018, are set out in the Directors Remuneration Report on pages 87- 88.

DIRECTORS' SHAREHOLDING

At the end of year 2018, none of the Directors, held shares in their individual capacity that were more than 1% of the Bank's total equity. The detail of the Directors' shareholding in the Bank are disclosed in the Directors' Report on pages 83- 86.

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 pages 203- 204.

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 versus 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:

Management Committee	Responsibility
Management Credit Committee ("MCC")	In accordance with the Bank's Credit Policy, the MCC, which reports to the BCC, is chaired by the Managing Director and comprises of four other senior management staff. It meets regularly to review and approve the Bank's credit applications, within pre-defined Board-approved limits. Depending on the level of credit limits applied for, credit applications are recommended by the MCC for consideration by the BCC.
Assets and Liability Committee ("ALCO")	The ALCO, which reports to the BRMC, is chaired by the Managing Director and has nine other members drawn from the Bank's senior management staff. The ALCO, which meets at least once a month, is mandated to optimise returns, whilst prudently managing and monitoring the assets and liabilities of the Bank. The ALCO is responsible for controlling and managing the Bank's interest rate risk, currency risk and liquidity risk, in addition to ensuring compliance with the Bank's Investment Policy, as laid down by the Board, and statutory requirements relating to liquidity, foreign exchange exposure and cash ratio requirements.
Operations Risk Committee ("ORCO")	The ORCO reports to the BRMC and is chaired by the Managing Director and has ten other members drawn from the Bank's senior management staff. The ORCO, which meets at least once every two months, is responsible for identifying major areas of business operations prone to operational risks, recommending to the BRMC and implementing suitable policy guidelines for managing and mitigating operational risk and reviewing audit irregularities relating to operations.
Compliance and Audit Coordination Team ("CACT")	The CACT, which reports to the BACC, is chaired by the Head of Risk & Compliance and has three other members drawn from the Bank's risk, compliance internal audit and security & investigations functions. Certain management representatives may be invited to the CACT sessions, as needed. CACT meets once every month in line with its Board approved Terms of Reference. The CACT provides a framework to ensure that the four respective functions are effective in coordinating and complementing their duties and optimising on synergies.
IT Steering Committee ("ITSC")	The ITSC, which reports to the BITC is chaired by the Managing Director and has seven other members drawn from the Bank's senior management staff. The ITSC meets once every quarter and is charged with the responsibility of ensuring that IT is operating in a manner that meets the needs of the business and that the IT Strategy is aligned to the Bank's overall business strategy. The ITSC's main functions also include recommending to the Board, through the BITC, the IT strategy and assigning priorities to IT projects that are to be implemented by the Bank.
Product Committee ("PC")	The PC, which is chaired by the Managing Director, has eight members drawn from the senior management who are stakeholders in business and support functions. The PC's main function is the determination and implementation of new products and regular review of the Bank's product portfolio. The PC meets every six weeks and reports to BITC, BRMC and BEC.
Business Development Management Committee ("BDMC")	The BDMC is a forum for the development and implementation of key business development strategies that the Bank undertakes to ensure business targets are achieved and maintained in line with dynamic market trends, the Bank's vision, mission and values, as well as the prevailing regulatory framework. All the Bank's business unit heads are mandatory members of the BDMC which provides key leadership in driving the business development agenda for the Bank that would efficiently serve to benefit and ensure retention of the Bank's customer relationships. The BDMC meets regularly and reports to the Managing Director.

Management Committee	Responsibility
Human Resources Management Committee ("HRMC")	The principal objective of the HRMC is the review and recommendation of appropriate actions in respect of Human Resource (HR) policies regarding staff incentives, remuneration, compensation and benefits, promotions, recruitment, training and development, staff appraisal and any other strategic HR functions requiring major policy decisions that will ensure overall efficient management of HR functions at the Bank. The HRMC meets at least once a quarter and reports to the Managing Director.
Outsourcing Committee (OC)	The OC is vested with the responsibility of looking after all outsourcing activities. The responsibility of the OC includes determining and approving the activities or services that can be outsourced by the Bank, evaluating the risks and materiality of all existing and prospective outsourcing, based on the framework approved by the Board and reviewing the business case for each proposed outsourcing. The OC meets at least once quarterly and reports to the Managing Director.

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.

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.

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.

SHARES REGISTRY

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

STATEMENT OF COMPLIANCE WITH CORPORATE GOVERNANCE (CONTINUED)

SHAREHOLDING STRUCTURE

The distribution of issued share capital of the Bank as at 31 December 2018 was as follows:

Range (shares)	No. of shareholders	No. of shares held	% Shareholding
Up to 500	3,259	624,856	0.22
501-5,000	3,970	8,032,098	2.88
5,001- 10,000	1,575	10,267,792	3.67
10,001- 100,000	1,968	46,594,133	16.66
100,001- 1,000,000	171	43,312,344	15.49
Over 1,000,000	23	170,770,997	61.08
Total	**10,966**	**279,602,220**	**100.00**

SHAREHOLDERS' PROFILE

Criteria	No. of shareholders	No. of shares held	% Shareholding
Local Individuals	5,168	29,257,988	10.46
Local Institutions	863	91,224,976	32.63
Foreign Individuals	2,247	25,090,113	8.97
Foreign Institutional	28	118,370,250	42.34
East African Individuals	2,608	12,965,335	4.64
East African Institutions	52	2,693,558	0.96
Total	**10,966**	**279,602,220**	**100.00**

TOP 10 SHAREHOLDERS OF THE BANK

The ten largest shareholders of the Bank and their respective holdings as at 31 December 2018 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
Acacia Partners L.P.	7,369,920	2.64
Stanbic Nominees Ltd A/C Nr1873738	5,246,900	1.88
Standard Chartered Nominees A/C Ke18965	4,888,622	1.75
Standard Chartered Nominee A/C Ke18972	4,333,722	1.55
Aunali Fidahussein Rajabali And Sajjad Fidahusse Rajabali	4,000,000	1.43
The Diamond Jubilee Investment Trust (U) Limited	3,838,436	1.37
Mr. Amin Nanji Juma	2,458,172	0.88

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 GOVERNANCE AUDIT

The Board subjected the Bank to an annual governance audit for the year 2018. 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 global best practices on corporate governance.

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 32 - 39 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.	2017 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 2018-2022 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 ("BCC"), Board Executive Committee ("BEC"), Board Information Technology Committee ("BITC"), BNHRC and Board Risk Management Committee ("BRMC").

CMA CODE OF CORPORATE GOVERNANCE REPORTING TEMPLATE (CONTINUED)

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 twelve 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 8- 10 and page 20.
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 twelve directors are independent and non-executive directors.	This has been disclosed in the Governance Report within the Integrated Report on page 19.
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. Ten of the twelve directors are Non-Executive Directors.	This has been disclosed in the Governance Report within the Integrated Report on page 19.
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 (CONTINUED)

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 21.
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 18.
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 25
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 26.
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 27.
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 29.
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 Report within the Integrated Report on pages 53- 56.
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.

CMA CODE OF CORPORATE GOVERNANCE REPORTING TEMPLATE (CONTINUED)

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 2018.	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 organized 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 recognize 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 (CONTINUED)

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.

CMA CODE OF CORPORATE GOVERNANCE REPORTING TEMPLATE (CONTINUED)

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 inter alia 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 31.
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 53- 56 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 89 and pages 92- 93.

STATEMENT OF COMPLIANCE WITH CORPORATE GOVERNANCE (CONTINUED)

CMA CODE OF CORPORATE GOVERNANCE REPORTING TEMPLATE (CONTINUED)

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 75-80 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 75- 80.
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 21.

CMA CODE OF CORPORATE GOVERNANCE REPORTING TEMPLATE (CONTINUED)

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 *inter alia* 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 18 -39.
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 79 and pages 87- 88.
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 203- 204.
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 31- 39.

SUSTAINING A SERVICE EXCELLENCE CULTURE @DTB

Our secret to "WOW" Customer Service:

DTB's business strategy, *DTB Vision 2020*, is centred around the customer. This customer-centric approach is underpinned by two of the Group's values: Excellence and Customer Focus. We always strive to put the satisfaction of our customers first. Customer experience is more emotional than it is rational, and requires a level of engagement that is both proactive and passionate. In this regard, DTB has been at the forefront of inculcating an organisation-wide culture of service excellence. These ideals are anchored in our service excellence pillars, which include:

» **Service vision & communication** - Communicating the overall bank strategy - *DTB Vision 2020* - and service vision to employees ensuring ongoing engagement, continuous initiatives and cross-functional collaboration.

» **Service role modelling** - Appointing service champions from each branch and department tasked with the responsibility of ensuring the delivery of excellent service by their teams.

» **Service process improvement** - Monitoring customer journeys, understanding the customers' expectations, placing importance on root cause analysis for incidents which compromise customer service and developing service standards which govern consistent service levels across the Bank.

» **Service metrics & benchmarking** - Tracking various service metrics: customer and internal feedback to assist in identifying the Bank's strengths and areas requiring improvement in customer service.

DTB Vision 2020 forms the basis of our service excellence culture. Key elements such as leadership engagement, teamwork, alignment, consistency, accountability and empowerment enable us to sustain and embed this culture organisation- wide. This culture is also driven by understanding the evolving needs of our customers and adapting our products and services to meet those needs.

Engaging customers via social media is becoming an increasingly important trend globally and also at DTB.

Social Media Engagement

At DTB, social media engagement is all about providing customers support through various social media channels. Many organisations use social media to augment their physical as well as call-based customer support activities. These include addressing complaints, providing guidance, information and even advice.

Social media has, indeed, become such a staple of current human behavior and habits, that it is hard to imagine a time before the emergence of social media channels such as Facebook, Twitter and Instagram. The growing use of these channels in our geography is evident: studies show that 83% of total social media traffic in Kenya passes through Facebook, Twitter and Instagram.

Our social media presence:

DTB interacts on social media through two major handles:

» **@DTBKenya** - The Bank's corporate handle.

» **@DTBDuo** - Customer interaction is managed on this handle.

SUSTAINING A SERVICE EXCELLENCE CULTURE @DTB (CONTINUED)

Juma & Natasha, dubbed the DTB DUO, give our customers, and other followers, a forum through which they engage, interact and get to know the Bank and our staff, who directly or indirectly serve them. Juma and Natasha not only offer customer support, but also bring together the social media community by engaging in interesting conversations about our products, financial literacy, contemporary issues and trending topics.

Check out @DTBDuo

Juma

Characteristics
Ambitious,
Driven,
Knowledgeable

Hobbies
Plays football, cycling, socialising with his colleagues, likes having dinners, goes clubbing once in a while, enjoys out of town road trips.

Natasha

Characteristics
Bubbly,
Fun,
Helpful

Hobbies
Working out, socialising with her friends, likes having weekend lunches with her girlfriends, is a TGIF kind of girl, enjoys traveling, enjoys catching up with her favourite TV series on Sundays.

Follow the duo:

DTBduo   @DTBduo   @DTB_duo

Enriching Customer Experience (CX) at DTB:

- New DTB 24/7 Mobile Banking App which aims to deliver quick and convenient service to our growing customer base thereby enhancing their digital mobile experience.
- Acting on customer feedback, we introduced seats for customers at our branches.
- A 24/7 contact centre that responds to customer calls, day and night. It serves as a one-stop-shop for queries, complaints, and compliments.
- Digital customer engagement via our social media channels which enables the Bank to engage, listen and attend to customers 24/7.
- Alternate banking channels such as mobile banking, internet banking, and agency banking that offer more convenience to customers. DTB's mobile and internet banking platforms are user-friendly and available at the touch of a button 24/7. Our agency banking network has increased access to basic banking services to our customers.
- Extended banking hours at select branches that operate seven days a week.
- 24/7 digital lobbies at high traffic locations providing round-the-clock teller banking services.

SUSTAINING A SERVICE EXCELLENCE CULTURE @DTB (CONTINUED)

#CSWeek2018

For the 3rd year in a row, DTB participated in the global Customer Service Week celebrations in 2018 - #CSWeek2018. Customer Service Week is an international celebration of the importance of customer service and of the people who serve and support customers daily. In Kenya, the Institute of Customer Experience (ICX Kenya) is the professional body mandated to drive performance and professionalism in the service sector.

Throughout #CSWeek2018, the Group engaged in various initiatives aimed at appreciating customers, staff and the community at large. It was through these initiatives that DTB Kenya managed to bag the "Leadership Engagement" award during #CSWeek2018. This award was in recognition of DTB's leadership that was actively engaged in #CSWeek2018, a reflection of the culture of customer engagement driven from the top leadership of the Bank throughout the year.

CX across DTB Group

Kenya

In March 2018 we hosted the Institute of Customer Experience Kenya & banking industry players for the #ICXIndustryRoundtable. The meetings sought to learn from peer engagement and sharing of experiences across different industries. The topic of discussion focused on Staff Empowerment vs. Bank Regulations.

In October 2018 we scooped the #CSWeek2018 Leadership Engagement Award at the Institute of Customer Experience Kenya #CXInnovationAwards

As we celebrated show your love day during the #CSWeek2018 under the campaign theme dubbed #AllForYou, Our Managing Director & Group CEO Ms. Nasim Devji took time off to personally appreciate staff in various departments and branches as well as customers.

During Customer Service week, free rides to the CBD and refreshing drinks were offered to the general public at the bus stop outside our Head Office. In line with #SustainingCXExcellence, the courtesy bus rides have been ongoing every Thursday since #CSWeek2018.

We were awarded Best Bank in Customer Service in East Africa at the Banker Africa's East Africa Awards 2018, and we were also proud to have been awarded 1st runners up in Customer Centrism at the Think Business Awards 2018.

Tanzania

DTB Tanzania Country Manager & CEO, Mr. Viju Cherian, took time off to call, visit and interact with customers at various branches in Tanzania.

SUSTAINING A SERVICE EXCELLENCE CULTURE @DTB (CONTINUED)

Uganda

Along with selected branch managers, Samuel Muyingo; Head of MTS and Marketing DTB Uganda took the opportunity to appreciate customers for their continued loyalty as well as introduce the first Mastercard Platinum Credit Card among other new digital banking solutions.

Burundi

In a week long campaign filled with pomp and glamour, our Burundi counterparts joined us in marking Customer Service Week by celebrating and appreciating customers for their continued patronage and support over the years.

RIDING THE DIGITAL DISRUPTION WAVE

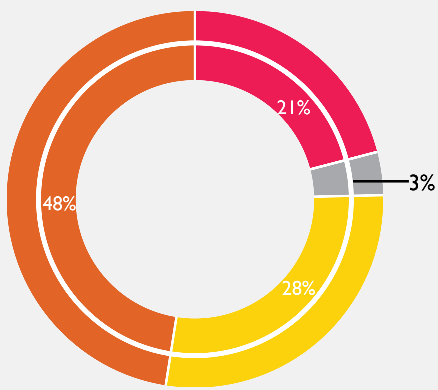
Globally, banks are making strides in navigating through the wave of digital disruption. Studies* show that 86% of Kenyans access the internet using their mobile phones, reinforcing the growing importance of these devices. Consequently, the mobile banking channel has rapidly evolved into both a critical and convenient avenue through which bank customers make their payments, ranging from account to account transfers, paying for flights, utility bills and even paid TV subscriptions.

*(Startcounter Global Statistics 2017-2018)

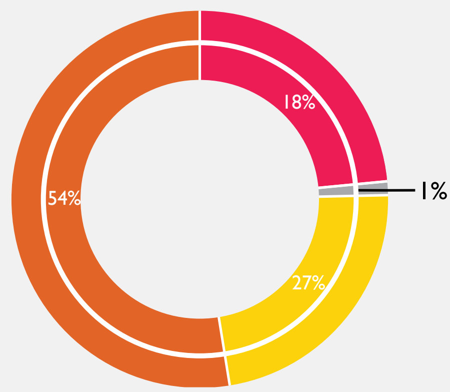
Here's how we measured our contribution to the digital disruption:

» Over **200,000** customers across East Africa subscribed to DTB 24/7 mobile banking service.

52% of transactions done outside the branch in 2018



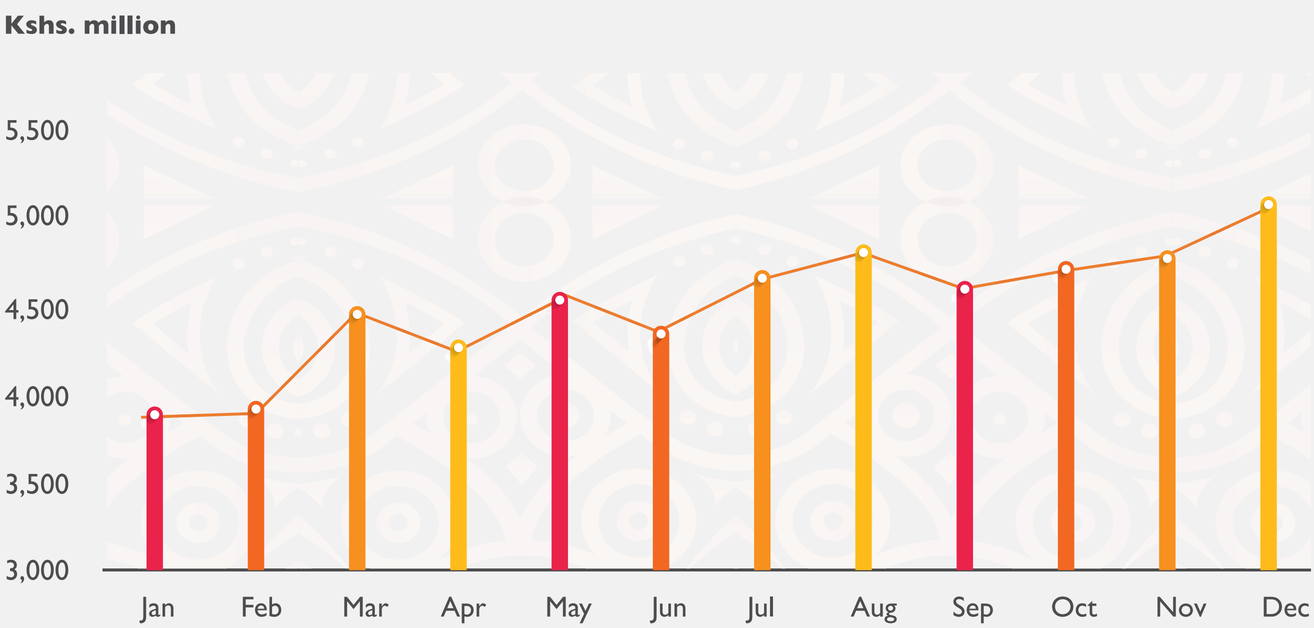
DTB Group 2018



DTB Group 2017

Branch | ATMs | Mobile & Internet | Agency & POS

Steady Growth in the Value of Mobile Banking Transactions in Kenya (2018)



EXCELLENCE

"Excellence is doing ordinary things extraordinarily well"

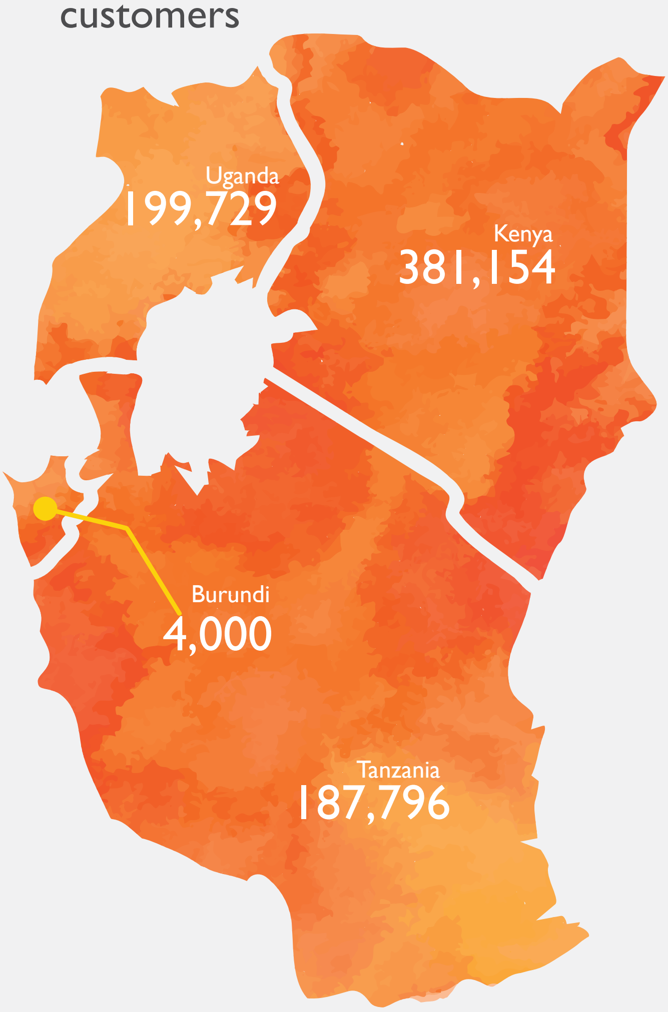
- John W. Gardner

OUR STAKEHOLDERS AND HOW WE ADDRESS THEIR EXPECTATIONS

Our key stakeholders are those who materially impact our strategy or are directly impacted by it. They are our customers, employees, shareholders, regulators and community. We are part of a greater ecosystem and depend on robust relationships with each one of our stakeholders and work to deliver mutual benefits.

CUSTOMERS

A total of
772,679*
customers



Individuals- from children to seniors and from entry-level customers to high-net worth individuals.

Various legal entities- SMEs and Corporates.

*as at 31 December 2018.

How did we **engage** with them?

» Our digital platforms, branches, agency banking network and contact centre.
» Active social media engagement: Twitter, Facebook and Instagram.
» One-on-one, year- round interactions with the CEO, senior leadership team, relationship managers and branch teams.
» #CSWeek2018. (Refer to pages 42- 44)

Their **needs** and **expectations:**

» Multiple, reliable and convenient banking channels (Omnichannel banking) - digital channels, branches, bank agents and contact centre.
» Consistent, excellent customer service.
» Innovative solutions and services, including lending, deposit-taking, transactional and insurance that are tailored to their needs.
» Fair and transparent product pricing, providing value for money.
» Responsible and ethical banking practices as a trusted financial partner.

We created **value** by:

» Revamping the DTB 24/7 mobile banking app with varied additional features, enriching their digital experience.
» Improved social media engagement. (refer to social media engagement on pages 40- 41)
» Invested customer deposits prudently while generating returns for them in the form of interest.
» Continuously sought customer feedback through our 24/7 contact centre as well as customer feedback forms at our branches.
» Provided credit, enabling business growth, income generation, job creation and sustainable economic development.

EMPLOYEES

Employees Headcount:

Group: 2,252*

Kenya: 1,066

Uganda: 613

Tanzania: 527

Burundi: 46

*As at 31 Dec 2018

How did we engage with them?

» Breakfast sessions hosted by the Head of Human Resources for key HR-related communications and staff feedback.
» Periodic check-ins between the senior leadership team (Heads of department) and the head office and branch teams.
» Team-building initiatives across DTB.
» Use of intranet for communication amongst staff.

Their needs and expectations:

» To be empowered with changing skill-sets required in this digital era.
» Career development and growth opportunities, underpinned by an effective and fair performance achievement framework.
» Recognition for meritorious work and achievements.
» Competitive remuneration and rewards system.
» A safe, healthy and engaging workplace.
» Challenging work with opportunities to make a difference.
» Employment at an institution that is recognised as an employer of choice.

We created value by:

» Attracting and retaining talent through various benefits, trainings and growth opportunities.
» Transparent and simple performance achievement framework adopted in 2018.
» Staff training and development- the Group held 180 separate training sessions in 2018.
» Improved health and insurance benefits for staff. The Group spent over Shs 100 million in health insurance premium during the year.
» An empowering, dynamic and enabling environment that embraces diversity and inclusivity.
» Job growth as we grow.
» Exposure to national and regional opportunities.

REGULATORS

Regulators

Kenya: CBK, CMA, NSE, IRA and KRA.
Uganda: BOU, IRA-U and URA.
Tanzania: BOT and TRA.
Burundi: BRB and OBR.

How did we **engage** with them?

» Robust participation and contribution in meetings and working groups involving bankers' associations, regulators etc.
» Regulatory reports and addressing any queries.
» Being a responsible taxpayer in all jurisdictions where we operate.
» Operating as a key intermediary partner for the revenue authorities in the collection of taxes and statutory levies from taxpayers.

Their **needs** and **expectations:**

» Compliance with all legal, tax and other regulatory requirements.
» Conducting our business in a responsible manner by striving for best practice standards in the way we operate.
» Proactive response to cybersecurity threats and protection of customer information.
» Maintaining stable, secure and robust IT systems.
» Support steps to combat financial crime, fraud and anti-money laundering.
» Active participation and contribution to industry and regulatory working groups.
» Agility in responding to the changes in the regulatory framework.

We created **value** by:

» Zero tolerance to any form of regulatory non-compliance.
» Co-operation and collaboration with all regulators across the countries of operation.
» Heavy investment in IT and cybersecurity.
» Embracing sustainable banking practices and regulatory compliance that enable a safe and stable banking system and a thriving society.
» Prompt response to audits and inspections where non-compliance may be identified.
» Contributing meaningfully to national development through payment of taxes, as a responsible corporate citizen.

SHAREHOLDERS

10,966 shareholders of DTB Kenya as at the end of December 2018 of which **79%** (8,691) comprise of local (Kenyan and East African) individuals and institutions.

How did we **engage** with them?

» 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.
» Quarterly announcements of financial results.
» Participation of executive management through regular one-on-one investor meetings and conferences.

Their **needs** and **expectations:**

» Sustainable financial returns and growth in investment value.
» Business growth prospects in the times of digital disruption.
» Endurance through tough economic conditions.
» Ambitious, achievable, sustainable and impactful growth-led strategy.
» Sound and resilient balance sheet to protect against downside risk.
» Knowledgeable and experienced management.
» Transparent reporting and disclosure.
» Responsible and solid Board governance framework and practices.

We created **value** by:

» Strong corporate governance framework and practices.
» A highly skilled Board and executive leadership.
» Sustained increase in investment value and returns.
» Maintained a strong balance sheet to protect against downside risks and enable business continuity and growth over the mid-to-long term.

COMMUNITY

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.

How did we **engage** with them?

» 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 service with a bias towards East African based vendors.
» Making a difference throughout Corporate Social Responsibilty (CSR) activities, positively transforming economies and the broader society through lending and other activities.
» Provide advice on social media, through KBA's "Kaa Chonjo" campaign.

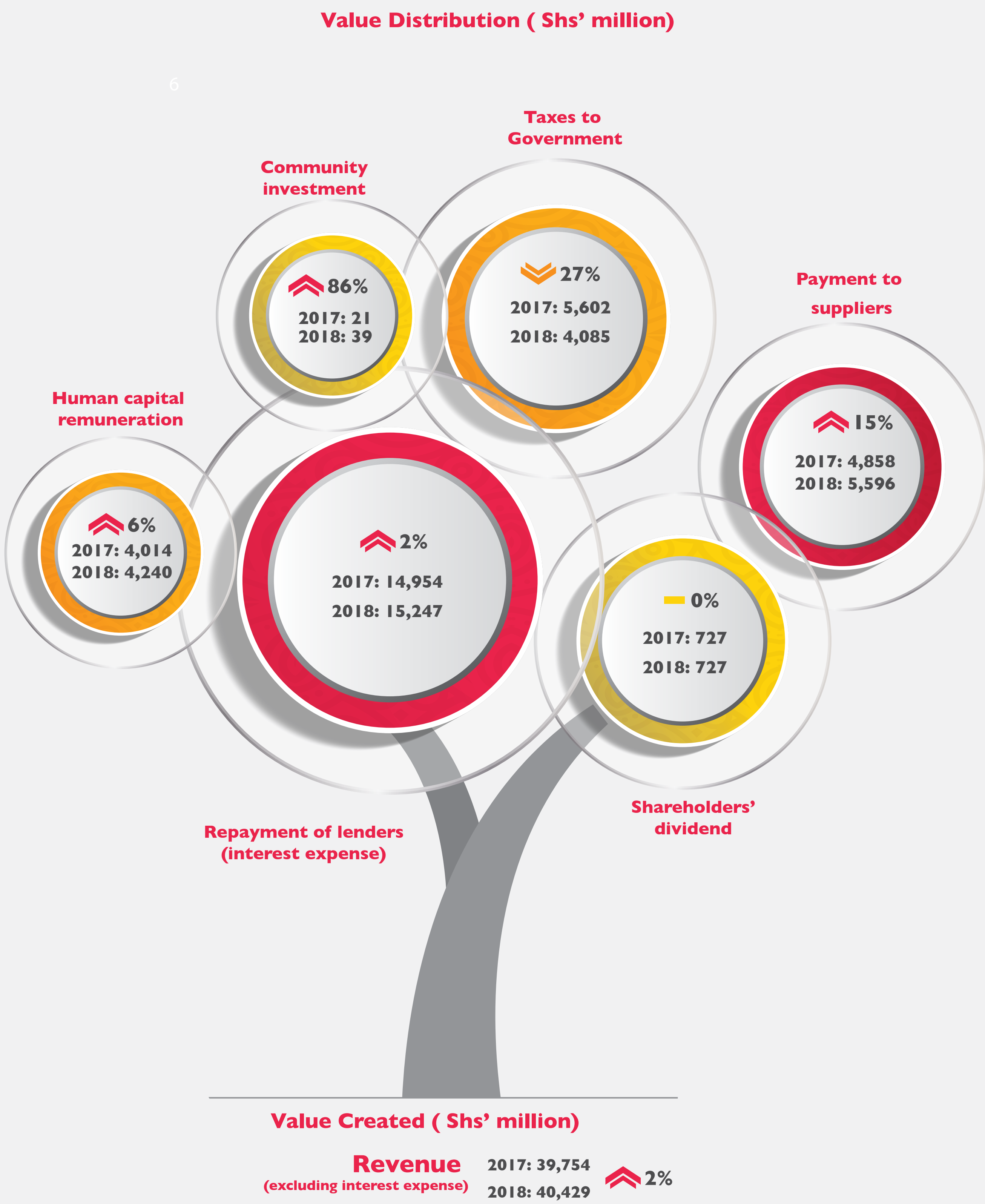
Their **needs** and **expectations:**

» Supporting innovation and investments in technology.
» Providing suitable financial intermediary solutions and services that help solve real world problems and promote the wellbeing of individuals, families and their businesses.
» Responsible and ethical business practices that uphold values, protect nature, engender trust and build sustainable, mutually beneficial relationships.
» Access to employment and supply opportunities.

We created **value** by:

» Employing citizens in the countries we operate in.
» Transforming economies and society positively through our lending and transactional activities.
» Playing a role in the local economies as a procurer of various goods and services.
» Making a difference through our partnerships and CSR activities.
» Procured goods and services worth Shs **5.6 billion** in 2018 thereby supporting the supply chain.
» Giving back to nature through our Much More Than Trees (#MMTT) initiative. (Refer to page 69)

HOW WE DISTRIBUTE VALUE



SUSTAINABILITY REVIEW

We are committed to sustainability and recognise our social responsibilities, when executing our strategy, to strike a balance between creating long- term value and achieving short- term results. This aligns to our mission to make our customers prosper, our staff excel and create value for our stakeholders. Our support for the region's economy is demonstrated by our product and service offering which enables: (i) businesses to get established, trade and grow and (ii) individuals to build and protect their wealth for the future. This is in line with DTB's vision of enabling communities to advance with confidence and success.

Commitment to Sustainability and Social Responsibility:

Our goal is to achieve sustainable growth and create added value for our customers, employees, investors and the local communities surrounding our locations. It is recognised that the more we operate in harmony with society, the greater our success in business. Openness and dialogue, fairness towards business partners, responsibility to employees and our environment, honest and fair partnership with customers are therefore part of the guiding principles underpinning our business activities.

We approach sustainability through the following initiatives:

Responsible Corporate Citizenship:

The primary purpose of our corporate social responsibility philosophy is to make a meaningful and measurable impact in the lives of economically, physically and socially challenged communities in the areas around which we operate by supporting initiatives aimed at creating conditions suitable for sustainable livelihood in these communities. We also promote initiatives that preserve, restore and enhance the environment, ecological balance and natural resources. We are conscious of our economic contributions to the communities around which we operate which we fulfill through paying our fair share of taxes.

Social and Environmental impacts:

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.

Our Approach to Sustainability:

When it comes to sustainability, our approach 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. x(For more information please visit https://www.un.org/sustainabledevelopment/sustainable-development-goals/)

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

SUSTAINABILITY REVIEW (CONTINUED)

To achieve this, we are focused on six key areas:

- **Ethics, integrity and confidentiality**
- **Employee development**
- **Responsible lending**
- **Financial inclusion**
- **Environmental impact**
- **Policy on procurement**

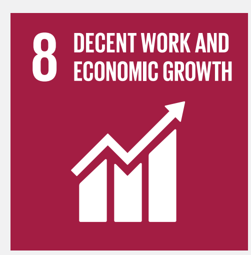
Ethics, Integrity and Confidentiality:

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. 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. Integrity, accountability and transparency are key tenets that the Bank subscribes to. Comprehensive Combating Financial Crime and Know Your Customer (KYC) policies and procedures are in place, which fully incorporate the requirements of the prudential guidelines issued by the Group's various regulators and the Proceeds of Crime and Anti-Money Laundering Act.

These policies and procedures provide guidance to our operations and ensure that all staff:

- Obtain and maintain the right identification of customers wishing to open accounts or make transactions.
- Train on a regular basis in the prevention, detection and control of money laundering and the identification of suspicious transactions in any form.
- Submit to the banking regulators a report of any suspicious transactions or activities that may indicate money laundering or other attempts to conceal the true identity of customers or ownership of assets.
- Establish adequate internal control measures which will assist in the prevention and detection of money laundering activities.
- Are prohibited from opening and maintaining anonymous accounts or accounts that are obviously fictitious.

Employee Development:



At Group level, we have seen substantial institutional growth in a short period. As a result of the growth in scale there has been 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, etc.

We continue to focus on recruitment of young, trained professionals who have, over the years, augmented our skill pool and gender balance. We are committed not only to 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 leadership team continues 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.

Responsible Lending:

We conduct our business in an equitable and responsible manner by offering products that are well suited for the customers in our ecosystem. Our lending decisions are aligned to our sustainability goals. We finance business entities that are aligned with our values and are run professionally. This is all in a bid to ensure the commitment to deliver long term value to our stakeholders is met.

Our approach to responsible lending is underpinned by our vision to transform the economies in which the Group operates through provision financial intermediary services and access to credit. We offer a bouquet of products and services that help our customers transact, borrow, invest and grow, to help them achieve their goals. The business environment has been fraught with challenges experienced by East Africa in recent years for local residents and businesses. Bearing this in mind, we have continuously offered our customers a number of accommodating solutions. Our stance on these solutions are: maintaining our relationships, ensuring our borrowing customers remain sustainable and acquire the capacity to scale up.

In the case of distressed borrowers, as a result of adverse macro-economic, industry/ sectoral or business-specific issues, we often take proactive steps to support them through appropriate debt relief proposals. Our debt relief measures include:

Repayment arrangements – These are specific repayment proposals based on unique customer scenarios and are designed to offer the most equitable and sustainable way for our customers to get themselves back on track.

Debt restructuring – Depending on the nature of the circumstances, we provide the customer with a window to recover in the shortest term possible by extending the tenure of their facilities, after a robust evaluation of their business models and financial projections.

Financial Inclusion:

We are committed to improving access to financial services, particularly for individuals, SMEs, micro-entrepreneurs and other underserved segments of the market by offering innovative, low-cost, digitally-anchored 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. Towards this end, DTB Uganda in partnership with the Aga Khan Foundation and Financial Sector Deepening Trust has established community-based savings groups in Arua and Yumbe districts of West Nile Region . This initiative will strengthen the target communities readiness for and access to financial products and services, using secure mobile platforms. Presently 192 community groups are using this platform and have accumulated savings of UShs. 153 million.

SUSTAINABILITY REVIEW (CONTINUED)

Environmental Impact:

Efficient use of energy is key to ensuring a positive environmental impact. Our energy conservation mantra has led the Bank to embrace the following:

- Use of energy efficient lighting with motion sensors and LED lighting at DTB Centre (DTB's Head office) and in some of its branches.
- Reduction in paper usage
- Adoption of paperless transactions and services (mobile banking, internet banking, e-statements and online electronic forms).
- Use of video-conferencing for meetings.

15 LIFE ON LAND

We have also partnered with Agence Francaise de Developpment (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, 14 eligible projects have been financed by DTB Kenya and DTB Uganda, promoting the adoption of effecient energy and renewable energy solutions by DTB's customers.

Policy on Procurement:

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 support 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.

16 PEACE, JUSTICE AND STRONG INSTITUTIONS

OPERATING ENVIRONMENT

Diamond Trust Bank Kenya Limited

Economic Overview

Kenya's GDP grew by 5.7% in 2018 (2017- 4.9%), thanks to good weather, eased political uncertainties, improved business confidence, and strong private consumption. The country is nevertheless exposed to risks related to external shocks, climate change, and insecurity. Kenya's Big Four (B4) economic plan, introduced in 2017, focuses on manufacturing, affordable housing, universal health coverage, and food and nutrition security. It envisages enhancing structural transformation, addressing social and economic challenges, and accelerating economic growth to at least 7% a year. By implementing the B4 strategy, Kenya hopes to reduce poverty rapidly and create decent jobs.

In 2018, services accounted for 52.5% of the growth, agriculture for 23.7%, and industries for 23.8%. Private consumption was a key growth driver. The public debt–to-GDP ratio has increased considerably over the past five years to 57% at the end of June 2018, half of public debt being external. An October 2018 International Monetary Fund debt sustainability analysis raised the country's risk of debt stress grade to moderate.

Performance in 2018 (Kshs million)	
Total Revenue	30,074
Total Deposits	206,060
Total Assets	281,516
PBT	9,265
Other information	
No. of Customers	381,154
No. Staff	1,066
Branches	69
ATMs	67

A tighter fiscal stance reduced the fiscal deficit to approximately 6.7% of GDP in 2018, with Government spending in GDP shrinking to 23.9% from 28.0% in 2017. To stimulate growth, the Central Bank of Kenya reduced the policy rate (Central Bank Rate) to 9% in July 2018 from 9.5% in May 2018. However, the law capping lending interest rates saw the economy reduce credit access to the private sector (especially small and medium enterprises). The exchange rate was stable in 2018 compared 2017, with the Kenya Shilling outperforming most emerging market currencies across the globe. The current account deficit reduced to an estimated 5.8% of GDP in 2018 from 6.7% in 2017, attributed to an improved trade balance as a result of increased Kenyan manufacturing exports. Kenya's gross official reserves reached $8.1 billion (5.3 months of imports) in January 2019- a 16% increase from a year before.

Banking Sector Overview

The banking industry continues its sluggish recovery from the impact of the 2016 interest capping legislation which led to thinner margins and depressed credit growth. The industry has witnessed even more consolidation in 2018 following the acquisition of HBL Kenya's branches by DTB Kenya in the previous year. Two of the leading banks in the country, Commercial Bank of Africa (CBA) and NIC Bank, announced plans for a merger in December 2018. CBA has also made an offer to acquire Jamii Bora Bank. If it comes to fruition, the CBA-NIC merger will create the second largest bank in the country by assets. There was also acquisition of distressed banks during the year with State Bank of Mauritius (SBM), which had earlier acquired Fidelity Bank, taking over Chase Bank in August 2018. KCB Bank has also made a binding offer to acquire some of Imperial Bank's assets.

Refer to pages 8- 10 for Board of Directors.

Source: AfDB/ BMI

OPERATING ENVIRONMENT (CONTINUED)

Diamond Trust Bank Tanzania Limited

Economic Overview

GDP growth was estimated to be 6.7% in 2018, from 7.1% in 2017. The services sector was the main contributor to GDP (39.3%). The current account deficit increased due to rising imports of transport equipment, building and construction materials, industrial raw materials, and petroleum products for large public investment projects, such as the Standard Gauge Railway. Another key contributor was import of crude oil at higher prices.

The fiscal deficit elevated to 3.9% of GDP in 2018, due to increased spending on infrastructure projects. Public debt increased to 39.3% of GDP in 2018 from 38.2% in 2017. Foreign debt accounted for about 74.9% of total public debt in 2018. The risk of debt distress remains low because public external debt, at 34.5% of GDP, is mostly concessional. A reasonable monetary policy increased domestic liquidity and reduced lending rates, leading to greater private credit supply. Improved food supplies shrunk inflation to 3.5% in 2018.

Performance in 2018 (Kshs million)	
Total Revenue	5,549
Total Deposits	44,511
Total Assets	56,044
PBT	1,030
Other information	
No. of Customers	187,796
No. Staff	527
Branches	28
ATMs	38

Banking Sector Overview

The banking sector in the country continued to be guided by regulatory intervention. Due to deterioration of NPLs in the industry in 2017, the Bank of Tanzania directed banks with high NPLs ratio to formulate and implement strategies to reduce the ratio to maximum of 5%, and introduced mandatory requirement for all banks and financial institutions to make use of credit reports of credit applicants during appraisals. The BoT also introduced the requirement for all banks to hold 2.5% capital conservation buffer in addition to the minimum capital requirement ratios of 10% and 12% for core and total capital, respectively.

The Bank of Tanzania issued a provisional license to one bank to start operations in the country, and revoked licenses of five community banks and placed them under liquidation following failure to meet the minimum capital requirements.

Board of Directors

Abdul Samji
Chairman
Non- Independent
Non – Executive

FAyaz Bhojani
Independent
Non – Executive
Director

Nasim Devji
Non - Independent
Non- Executive
Director

Zulobia Dhalla
Independent
Non – Executive
Director

Shaffiq Dharamshi
Non- Independent
Non - Executive
Director

Zahir Jivani
Independent
Non – Executive
Director

Xavier Lucas
Independent
Non – Executive
Director

Karim Wissanji
Independent
Non – Executive
Director

Viju Cherian
Chief Executive
Officer

Source: AfDB/ BMI

Diamond Trust Bank Uganda Limited

Economic Overview

Performance in 2018 (Kshs million)	
Total Revenue	4,440
Total Deposits	31,509
Total Assets	43,953
PBT	460
Performance in 2018 (Kshs million)	
No. of Customers	199,729
No. Staff	613
Branches	36
ATMs	56

GDP growth was estimated at 6.1% in 2018, up from 5.0% in 2017. On the supply side, industry (9.7% growth) and services (8.2%) contributed considerably, while agriculture showed slower growth (4.5%). Greater investment in public infrastructure was a key contributor to growth, while the current account registered a deficit due to growing imports of capital goods.
The fiscal deficit increased by an estimated 4.7% in 2018, thanks to continuing public infrastructure investments supported by domestic and foreign borrowings. The country's debt-to-GDP ratio was estimated at 40% in 2018, with external debt at 28.1% of GDP. The 2017 debt sustainability assessment indicated that Uganda was at a low risk of debt distress. Inflation reduced to 3.2% in 2018, because of lower food inflation and prudent monetary policy.

Agriculture remains a strategic opportunity for spearheading the government's development objectives. Uganda is abundant in natural resources, including oil, gas, and mineral resources and a natural habitat for diverse wildlife that could support the tourist industry. The country continues to post high economic growth and price stability driven by prudent macroeconomic policies. And its strategic location allows it to be accessible to East and Central African markets, including Common Market for Eastern and Southern Africa (COMESA) members, making it a possible transportation, logistics, and transit hub for regional trade.

Banking Sector Overview

On the regulatory front, the Financial Institutions (Capital Adequacy Requirements) Regulations 2018, which were gazetted in May 2018, increased the minimum core capital ratio to 10.0% from 8.0%, introduced a capital charge on market risk and incorporated the counterparty credit risk in the capital charge for credit risk. These changes came into effect from the quarter ending 30 September 2018.

Excise duty on fees levied by the bank on its customers, excluding loan related fees, was increased from 10% to 15% with effect from 1 July 2018. This was meant to increase revenue collections by the government to cut the budget deficit. It will, however, have an unwanted effect of making banking services more expensive and, therefore, potentially going against the spirit of financial inclusion.
There have been encouraging signs in the industry with improvement in asset quality evidenced by the industry NPLs which stood at 3.4% in December 2018 compared to 5.6% in December 2017. This lowered the risk averseness of banks resulting in the gradual recovery in private sector credit growth which grew by 11.3% in the fourth quarter of 2018 compared to 5.0% in the comparative period in 2017.

Board of Directors

Azim Kassam
Chairman Independent Non – Executive

Varghese Thambi
Managing Director

Maina Kariuki
Executive Director

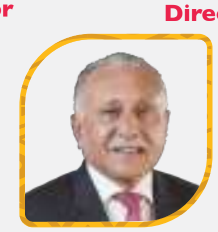
Nasim Devji
Non - Independent Non- Executive Director

Shaffiq Dharamshi
Non - Independent Non- Executive Director

Jane Kabbale
Independent Non- Executive Director

Kenneth Kitariko
Independent Non-Executive Director

Dalal Murtuzaali
Independent Non- Executive Director



Abdul Samji
Non - Independent Non- Executive Director

Source: AfDB/ BMI

Diamond Trust Bank Burundi S.A

Economic Overview

GDP grew to 1.4% in 2018, after a 0.2% contraction in 2017. The slight recovery in GDP was due to resurgence in the services sector (7.4%) following the return of relative calm, and increased production of key export items such as coffee and tea. Manufacturing and agro-processing also contributed to the recovery by a 3.2% growth. The transport and telecommunications sectors weathered the political instability and insecurity better than the construction and hotel and tourism sectors, which depend heavily on foreign financing.

In 2018, the Central Bank continued an expansionary monetary policy that began in 2015. Inflation in 2018 was at 12.7%, mainly due to higher food prices. The official exchange rate was 1,795 Burundian francs per US dollar in October 2018, compared with 1,670 in October 2015— a 3.5% depreciation. The current account deficit fell slightly in 2018 to 10.4% of GDP from 11.6% in 2017.

Performance in 2018 (Kshs million)	
Total Revenue	339
Total Deposits	1,242
Total Assets	3,035
PBT	134
Other information	
No. of Customers	4,000
No. Staff	46
Branches	4

Burundi shows promise through several economic strengths that would impact economic growth and job creation if tapped into, however these prospects are filled with uncertainty particularly as the 2020 elections approach. Agricultural production remains vulnerable to climate shocks, as seen in 2015 when flooding caused by El Niño was followed by drought. Burundi is also subject to international sanctions that reduced foreign aid which would have otherwise escalated development.

There was notable growth in the banking sector during the year, with latest data showing that commercial banks' assets grew by 27% as at August 2018, compared to a similar period in 2017. Customer loans and deposits grew by 12% and 16% respectively over a similar period.

Banking Sector Overview

Banque de la République du Burundi (BRB), Burundi's banking regulator, is making major efforts to improve the regulation and supervision of the financial institutions under its responsibility, but it continues to face significant obstacles. The microfinance sector is facing major challenges, and its supervision reflects the constraints affecting the BRB. In order to put the industry on a sound footing, it is essential to:

(i) update the regulatory framework to facilitate the growth of a sound industry and introduce a specific chart of accounts;
(ii) develop supervision that is capable of preserving the health of the sector, and of deposits in particular; and
(iii) promote the professionalisation of the industry itself, with improved human capacities, appropriate management tools, modern methodologies, and good governance.

Board of Directors

Shafiq Jiwani
Chairman
Non- Independent
Non- Executive

Ida Marie Mabushi
Managing Director

Nasim Devji
Non - Independent
Non- Executive
Director

Alkarim Jiwa
Non - Independent
Non- Executive
Director

Xavier Lucas
Independent
Non- Executive
Director

Jamaludin Shamji
Independent
Non- Executive
Director

Source: AfDB/ BRB

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.

Digital Disruption

Like many other industries, banks are being affected by digital disruption. Banks need to adapt to digital disruption by reskillling 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: In 2019, the Bank is embracing a new digital strategy, embedded into its corporate business strategy, whose implementation will transform how DTB operates and competes in the new digital era.

Compliance requirements:

Kenya has come under increasing pressure to implement Anti-Money Laundering (AML) laws in the face of rising crime posed by the drug traffickers, international terrorists, and illicit arms traders operating in the country. This is governed by Proceeds of Crime and Ant-Money Laundering Act (POCAMLA) and the Financial Reporting Centre (FRC)

Impact: Apart from reputation risks associated with non-compliance, banks are also exposed to financial penalties.

Response: DTB is further augmenting its AML framework in 2019 to ensure that it conforms not only to local regulatory requirements, but also benchmarks against global best practice.

Cybercrime, Fraud and Theft:

Cybercrime is a globally growing threat, not just for financial fraud but also 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 malicious, careless 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: Increased investments in cybersecurity infrastructure, people skills and training to identify and neutralise threats, prevent data breaches and other forms cyber-attacks.

IFRS 16:

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

Impact: The adoption of IFRS 16 will result in the recognition of right-of-use assets and lease liabilities of approximately 1% of the current Group assets, in respect of leased properties previously accounted for as operating leases; there will be no impact on shareholders' equity. As permitted by the transition options under IFRS 16, comparative figures for the prior year will not be restated. Going forward, the Group will recognise 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: More strategic acquisition of our right-of-use assets to improve the balance sheet and maximise their return.

IFRS 9:

IFRS 9 requires credit impairments to be recognised on an expected loss basis which differs from the incurred loss basis by its predecessor model, IAS39.

Impact: IFRS 9's net effect will be a reduction on the Group's reserve of Shs. 252 Million on day 1 i.e. 1 January 2018.

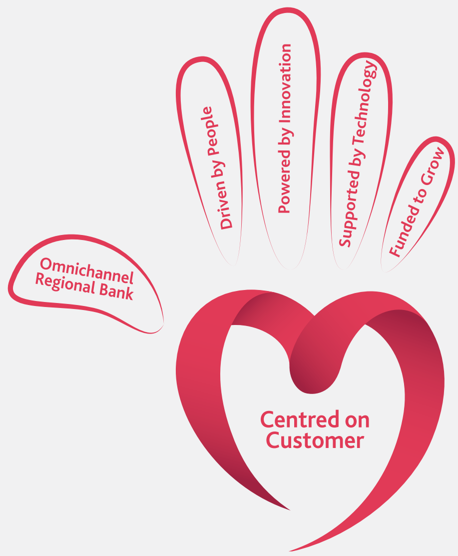
Response: DTB has absorbed the impact of the new standard from 1 January 2018 and has applied it during the year.

INTEGRITY

"Real integrity is doing the right thing, knowing that nobody is going to know whether you did it or not."

- Oprah Winfrey

DTB VISION 2020



DTB Vision
2020
DTB DIAMOND TRUST BANK

Our business strategy, *DTB Vision 2020*, envisions DTB as a 'one- bank, one customer' omnichannel regional Bank – a Bank that provides seamless and consistent consumer 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 program 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 *DTB Vision 2020,* 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.

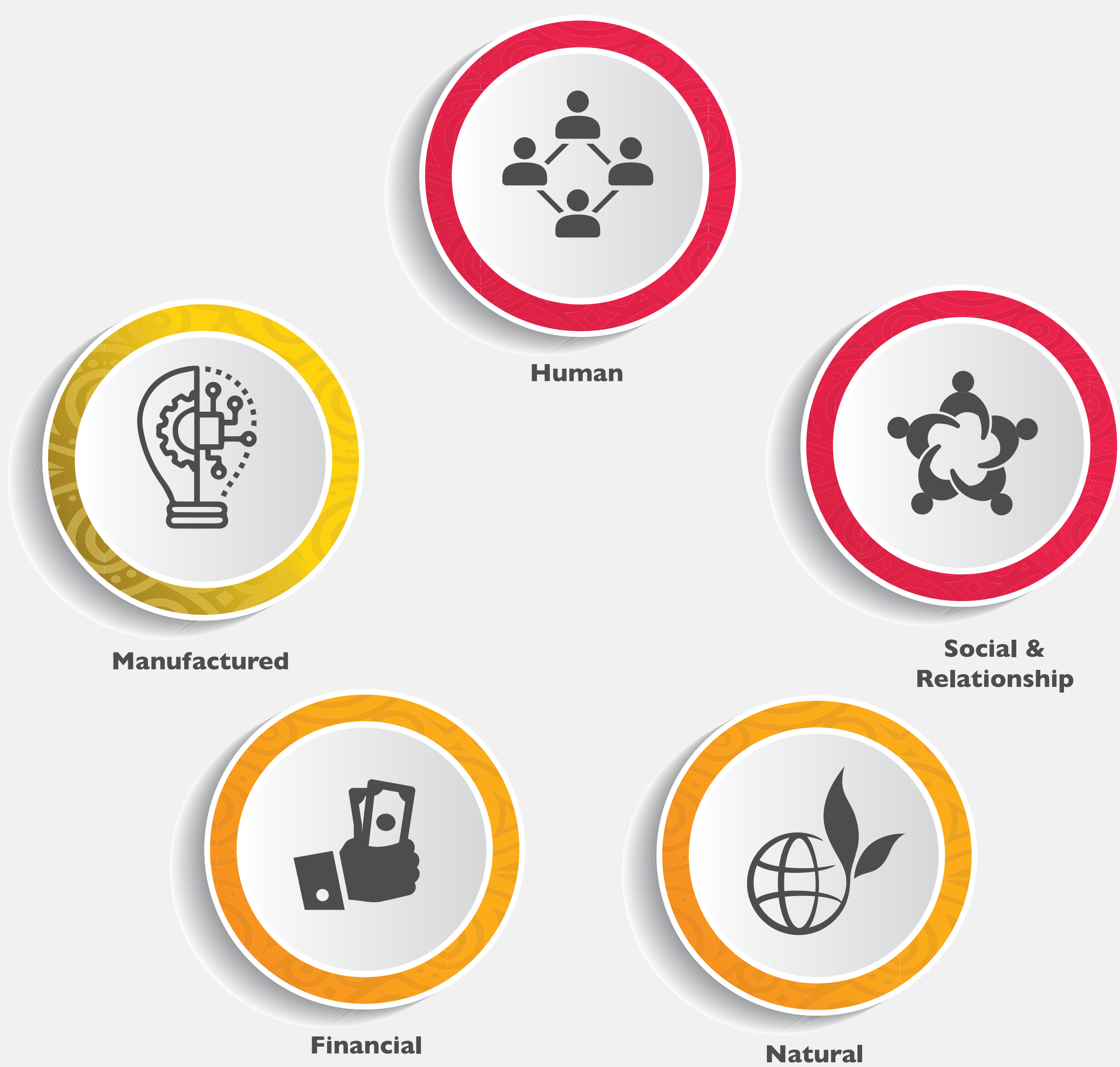
VALUE CREATION THROUGH OUR CAPITALS

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 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.

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.

The component capitals that shape our business strategy are portrayed below:



Human: (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 disruptive era of rapid 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.

Inputs:

- A large pool of young, professional, dedicated staff.
- A customer service-oriented culture.
- A strong governance and compliance culture.

Employees Headcount:

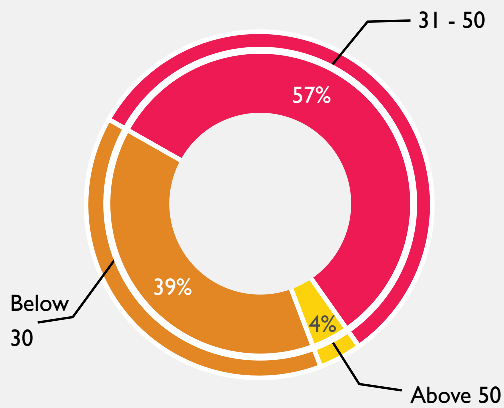
Group: 2,252 Net increase of 99 from 2,153 in 2017

Kenya: 1,066 **Tanzania:** 527

Uganda: 613 **Burundi:** 46

79% **of staff are undergraduate degree holders.**

Age (Years):



Activities:

- Use of online training tool by all staff.
- 180 training sessions held in 2018 for staff across East Africa.
- Group-wide mentorship programme covering 44 staff.
- Revamped performance achievement framework.
- Kshs. 100 million committed to health insurance for the Group.
- 8 health camps held for all staff across East Africa.
- Invested in sports and recreational activities across the Group.
- Our Tanzania football team emerged as the champions in the "Brazuka Kibenki" football tournament. DTB Tanzania also lifted the Banker's Basketball League cup.
- DTB Kenya's staff football team, Diamond FC, won the Left Foot Corporate League World Cup tournament in which 62 teams participated.

Outputs:

- Engaged employees
- Skilled employees
- Effective leaders
- Productive staff

Average length of service

5 years for all staff across East Africa.

Impact:

- 364 new hires in East Africa, of which 130 in Kenya.
- Career growth and rewards linked to our values, strategy and financial performance.
- Exposure and connectivity to broader national and regional opportunities.
- 48% female staff across the Group.

Manufactured: **(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.

Inputs:

137 Branches across East Africa.

Kenya- 69
Tanzania- 28
Uganda- 36
Burundi- 4

Digital Lobbies
14 in East Africa.

Kenya - 8
Tanzania - 1
Uganda - 5

Over 12,000 agents across East Africa (including through partnerships with Kenswitch and Posta)

Kenya- approx. 12,000
Uganda- 424
Tanzania- 97

Over 1,000 POS merchants recruited in 2018

Kenya- 618
Uganda- 414
Tanzania- 3

Over 200,000 customers subscribed to mobile banking.

Invested in IT Capex
Hardware- Kshs 352 million
Software- Kshs 152 million as a Group.

Data Centre at
Tier III
standard.

Best in class
IT SOC
room.

161 ATMs across East Africa.
Kenya- 67
Uganda- 56
Tanzania- 38

Activities:

» Contributed to digital transformation through processing 9,620,810 transactions on our digital channels in 2018.
» 9,337,684 transactions processed through DTB branches in 2018.
» 456,649 transactions processed through our agency banking network in 2018.
» Increased investment in technology and digitally-anchored innovation.

Outputs:

» Growth in new revenue streams through digital products and platforms.
» Tier III data centre with dual-powered servers, storage, network links and other IT components.
» Investments in IT leading to unhindered operations- 99.83% IT Networks uptime.

Impact:

» Increased access to banking services provided to our customers.
» Added convenience to our customers through 24/7 services through our digital channels.
» Expanded reach, leading to customer acquisition.
» Stability of IT networks and systems.

Social & Relationship Capital: (Strategic link: Centered 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.

Inputs:

A total of 772,679* Customers

Kenya: 381,154 **Tanzania:** 187,796

Uganda: 199,729 **Burundi:** 4,000

15% increase in Payment to suppliers.

2018: 5,596

2017: 4,858

(Shs. millions)

*As at 31 Dec 2018

86% increase in community investment.

2018: 39

2017: 21

(Shs. millions)

6% increase in human capital remuneration.

2018: 4,240

2017: 4,014

(Shs. millions)

Activities:

» Grow, develop and maintain viable customer relationships.
» Participated in #CSWeek2018 for the third year in a row. (Refer to pages 42- 44)
» Enabled savings to be accumulated by 192 community-based savings groups in West Nile region of Uganda, using mobile technology.
» Directly sponsored five nurses and facilitated sponsorship of an additional five to undertake undergraduate courses in nursing and midwifery at the Aga Khan University's School of Nursing.
» Funded reconstructive surgeries for 6 women who suffered severe deformities that hindered them from leading normal lives.
» Empowered a select group of 30 women micro entrepreneurs with skills and knowledge on how to sell their products online via social media.
» Good standing with investors through various investor relations engagements throughout the year.
» Mutually beneficial relationships with vendors.
» A robust social and environmental policy framework applied in lending activities.

Outputs:

» Recognised for customer service excellence through various initiatives and awards. (Refer to pages 40- 41 & page 206)
» Ensured full compliance with tax laws and obligations in the jurisdictions in which we operate.
» Community investments including donations and in-kind contributions.

Impact:

» Customer satisfaction- recognised and awarded for exceptional customer service.
» Meaningful contribution to the socio-economic well-being of East African communities.
» Fostering mutually beneficial relationships with our stakeholders.

Financial: (Strategic link: Funded to Grow)
Our financial capital includes our monetary resources, which are obtained through our business activities and from external sources. Funding mechanisms, such as equity, debt and term deposits are the main sources of our financial capital.

Inputs:

Core (Tier I) capital of Shs 54 Billion	Subordinated debt capital of Shs 8 Billion	Long term senior loans.	Customer deposits by Shs 283 Billion by Group
Kenya: 40 Bn	**Kenya:** 6 Bn	**Kenya:** 4 Bn	**Kenya:** 206 Bn
Tanzania: 7 Bn	**Tanzania:** 1 Bn	**Uganda:** 2 Bn	**Tanzania:** 45 Bn
Uganda: 6 Bn	**Uganda:** 1 Bn		**Uganda:** 31 Bn
Burundi: 1 Bn			**Burundi:** 1 Bn

Activities:

- DTB Kenya partnered with the African Development Bank for $75 Million for long term debt. (subordinated debt of $25 million, senior loan of $50 million)
- Maintained strong capital adequacy.
- Maintained strong liquidity.

Outputs:

- Growth in customer deposits by 6% from Kshs. 266 Bn to Shs. 283 Bn.
- Equity growth by Shs 5 Bn sourced through 2018 retained earnings.

Impact:

- Capital adequacy ratio growth.
- Reduction in cost of funds.
- Core Capital/ Total Risk Weighted Assets- 19.7% (Dec 2018) vs 20.5% (Dec 2017)
- Total Capital/ Total Risk Weighted Assets- 22.3% (Dec 2018) vs 23.3% (Dec 2017)

Natural:
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.

Inputs:

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 lending activities.

Activities:

- 14 projects financed at concessional interest rates by DTB Kenya and DTB Uganda, under AFD's SUNREF facility.
- Initiatives that minimise our direct or indirect carbon footprint.
- Successfully completed an energy audit for DTB Centre. (DTB Kenya Head Office)
- Go green initiative, migrating customers to e-statements.
- Much More Than Trees (#MMT) tree planting initiative.
- Adoption of energy efficient peripherals in our branches and buildings e.g. LED light bulbs, motion sensors etc.

Outputs:

- Growth in green financing through SUNREF Energy in Kenya and Uganda.
- Planted **1,000,000** tree seedlings across Kenya.

Impact:

- Commitment to environmental conservation.
- Cost reduction in materials and energy usage.
- Influencing our borrowers to more sustainable operations.

MERITOCRACY

"Strive not to be a success, but rather to be of value."

- Albert Einstein

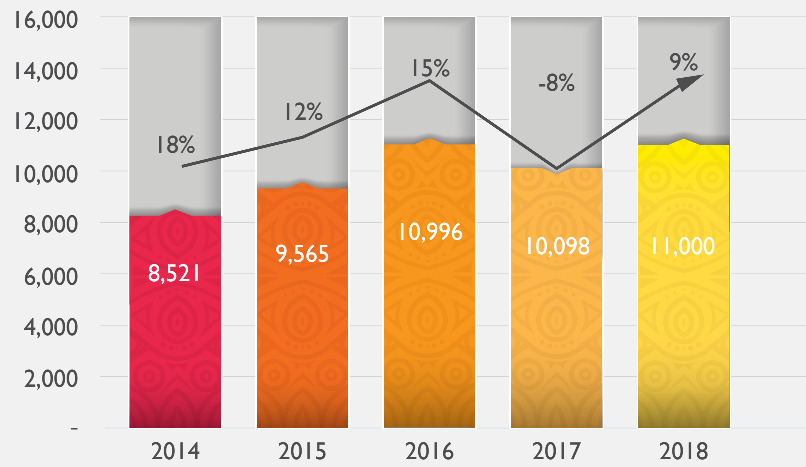
FIVE -YEAR FINANCIAL REVIEW

	2018 SHS'000	2017 SHS'000	2016 SHS'000	2015 SHS'000	2014 SHS'000
Net interest income	21,009,651	20,640,399	20,455,051	15,927,331	13,038,918
Non-fund based income	5,160,877	5,125,330	4,996,542	4,697,929	3,776,851
Gross operating income	26,170,528	25,765,729	25,451,593	20,625,260	16,815,769
Net operating profit before provisions	13,708,775	14,248,933	15,193,038	11,715,470	9,372,496
Charge for impairment of loans	(2,708,503)	(4,150,698)	(4,197,342)	(2,150,278)	(851,210)
Profit before income tax	11,000,272	10,098,235	10,995,696	9,565,192	8,521,286
Profit after tax and non-controlling interest	6,686,612	6,449,811	7,173,939	5,912,082	5,083,519
Total assets	377,719,314	363,303,400	328,044,501	271,608,597	211,539,412
Advances to customers (net)	193,074,357	196,048,155	186,303,191	177,544,871	137,654,551
Total deposits (customers and banks)	300,003,210	286,750,847	255,679,442	202,458,255	163,348,180
Shareholders' funds	53,657,050	48,369,795	41,029,312	34,134,437	28,963,235
Dividends for the year	726,966	726,966	692,435	605,275	581,064
Performance ratios					
Earnings per share - basic	Shs. 23.91	Shs 23.73	Shs 26.94	Shs 24.42	Shs 21.92
Earnings per share - diluted	Shs. 23.91	Shs 23.73	Shs 25.66	Shs 21.14	Shs 18.18
Dividend per share - basic	Shs. 2.60	Shs. 2.60	Shs. 2.60	Shs. 2.50	Shs. 2.40
Dividend per share - diluted	Shs.2.60	Shs. 2.60	Shs. 2.48	Shs. 2.16	Shs. 2.08
Net loans to total deposits	64.36%	68.37%	72.87%	87.69%	84.27%
Non performing loans to total loans (before provisions)	6.04%	6.30%	3.10%	2.30%	1.10%
Return on average assets	1.91%	2.00%	2.60%	2.70%	3.00%
Return on average shareholders' funds	13.11%	14.43%	19.10%	18.70%	20.40%
Non-fund based income to total income	19.72%	19.89%	19.60%	22.80%	22.50%
Number of branches	137	137	126	117	110
Number of employees	2,252	2,136	2,197	2,075	1,885
Expenditure on property, equipment and software	1,056,731	1,365,838	1,829,901	1,467,494	1,388,890
Other indicators (Bank only)					
Core capital to customer deposits	19.38%	18.56%	17.50%	20.10%	21.80%
Core capital to total risk weighted assets	18.70%	17.30%	16.20%	14.80%	16.80%
Total capital to total risk weighted assets	21.10%	19.00%	18.50%	17.70%	18.90%

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

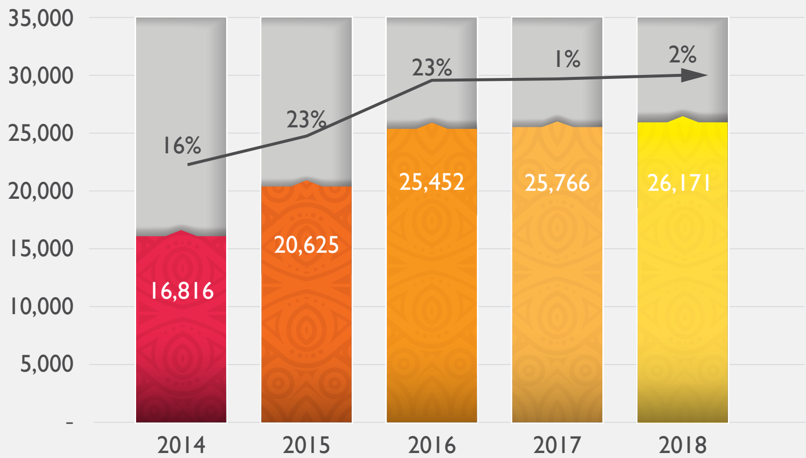
FINANCIAL PERFORMANCE HIGHLIGHTS

Group Profit before Tax (Shs. million)



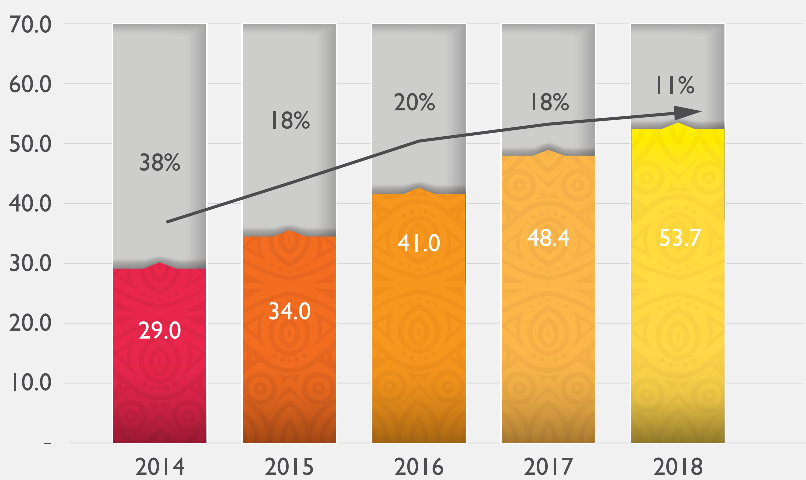
Group's pre-tax profit grew by 9% from Shs 10 .1 billion in 2017 to Shs 11.0 billion in 2018, with the Group's subsidiaries operations contributing 16% to the overall PBT.

Operating Income (Shs. million)



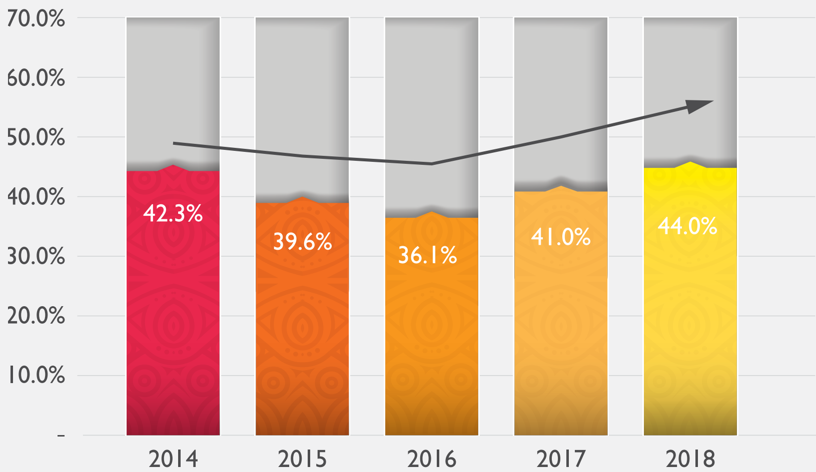
Operating income increased by 2% to Shs 26.2 billion in 2018. The Group will continue to pursue diversification of its non-fund business streams and growth though innovation.

Shareholders' Funds (Shs. billion)



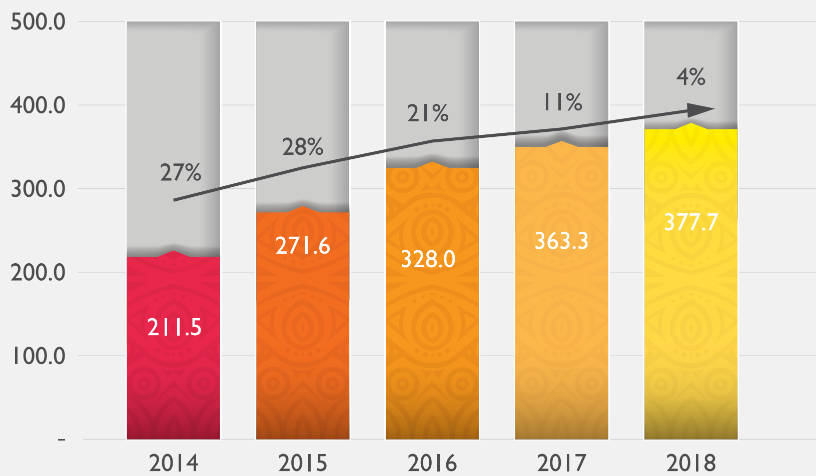
The growth in Shareholders' funds by 11% in the year 2018 is mainly attributed to Shs 5.3 billion profit after tax and dividends that was retained.

Cost Income Ratio (%)



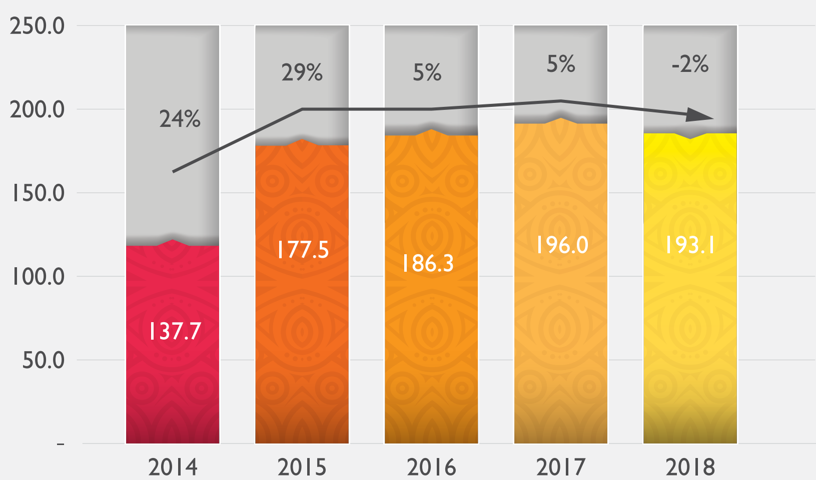
Cost to income ratio rose in 2018 mainly due to the downstream effects of investments made in technology / digital platforms. The Group intends to continue implementing its stringent cost management strategies.

Total Assets (Shs. billion)



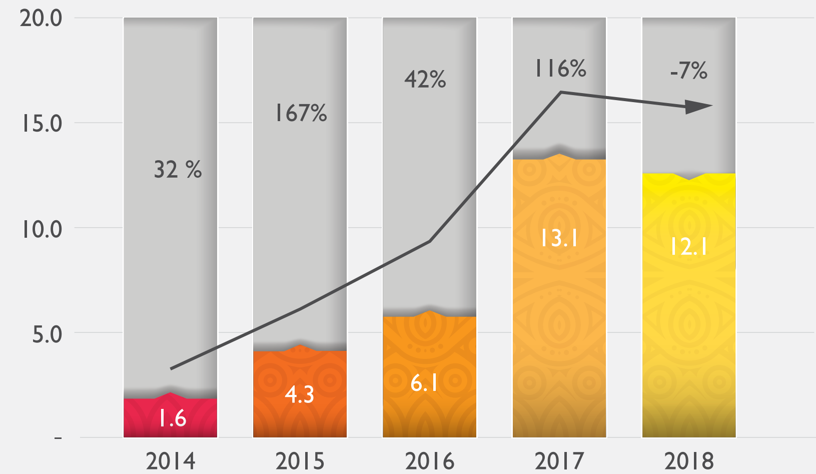
Steady growth in total assets can be attributed to the 6% increase in funding from customer deposits.

Net Advances (Shs. billion)



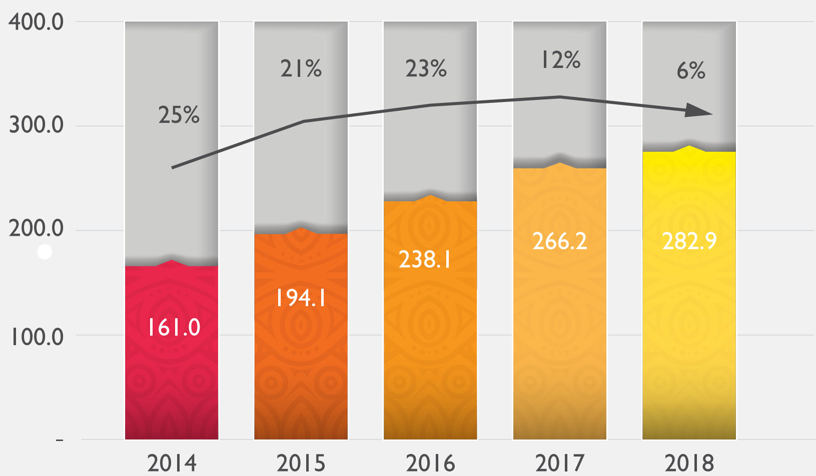
The 2% decline in total advances attributed to lack of quality credit demand and the challenges faced in the East Africa economies resulting in a cash crunch and reduced investments that impacted all spheres of the economy.

Non-performing Loans (Shs. billion)



The proportion of non-performing loans to (NPLs) total loans declined by 7% to Shs. 12.1 Bn up from Shs. 13.1 in 2017. The Group holds adequate collateral against its NPL book and, as a prudent measure, has made adequate provisions against the NPL book.

Customer Deposits (Shs. billion)



Customer deposits grew by 6% as the Group continued to leverage on it's branch network, alternate channels and customer service to serve its customers' needs better.

RISK MANAGEMENT FRAMEWORK

Enterprise Risk Management Statement

Risk management remains a fundamental component in the execution of DTB's business strategy. The risk management strategy has been embedded in the Bank's policies, procedures, processes and operations, with the aim of ensuring that the response to risk remains current and dynamic.

Sound assessment of risk enables the Bank anticipate and respond to changes in the business environment. The Bank has instituted a continuous process to evaluate existing risks and also made enhancements to systems to address non-financial risks such as reputational and financial crime (Cyber, AML and other predicate crimes).

The regulator has continuously strengthened existing guidelines, aimed at ensuring greater transparency and stronger governance, as well as development of effective business models and innovation. This has involved continuous implementation of additional measures to lower the cost of credit on a sustainable basis, including emphasis on Information Communication Technology (ICT) and leveraging on Credit Reference Bureaus (CRBs) to enhance robust credit scoring frameworks.

DTB continuously reviews its risk management processes with a view to having more practical and efficient practices, which would provide relevant and competitive business advantages in the ever-shifting internal and external environment.

DTB continues to make investments in both systems and people with a view of strengthening risk management and ensuring that the Bank operates within the regulatory and Board approved limits.

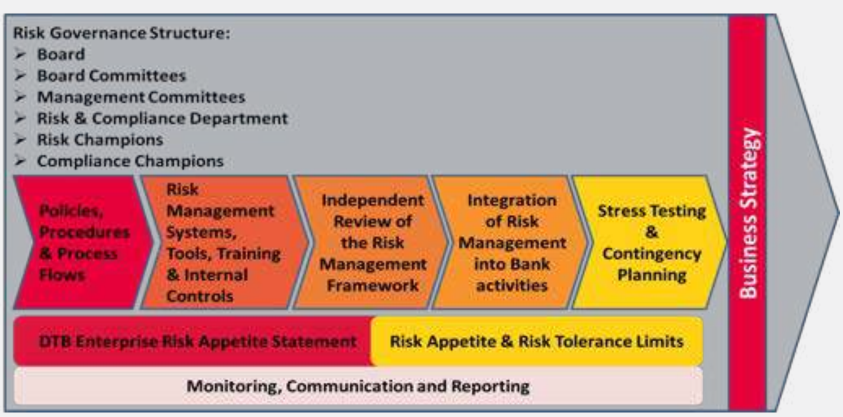
DTB placed focus on not only the traditional risk categories such as credit, market and operational risks, but also on the changing and rapidly evolving risks as detailed below:

Risk management framework

The Bank has developed its risk management framework in line with the regulatory requirements, generally accepted risk management practices, market development and increase in complexity of the business. The Board of Directors, who are ultimately responsible for the level of risks taken, are supported in this task by the Board Risk Management Committee (BRMC), Board Information Technology Committee (BITC), Board Credit Committee (BCC), Board Audit and Compliance Committee (BACC). and the Board Oversight Committee (BOC).

The BRMC is assisted in executing this role by the senior management committees, which have documented terms of reference; that guide action within the stipulated authority as directed by the Board of Directors. The committee governance structure ensures that the risk taking authority and risk management policies and procedures are cascaded down from the Board to the appropriate functions.

The elements of the risk management framework are summarised in the table below:

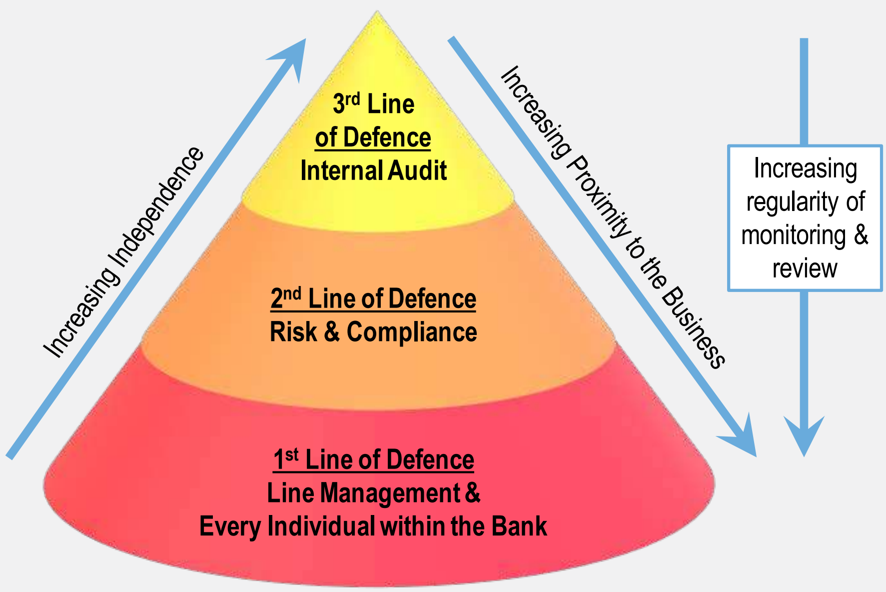


Risk management remains an integral part in the execution and implementation of the Bank's strategy and DTB shall continue to evolve its risk architecture and governance framework in line with best practices, regulatory requirements, corporate governance and changes in the business needs.

Risk Governance

The risk management approach is based on a set of governance standards and processes which rely on both collective oversight and individual responsibility. The Bank continues to review its policies, procedures, processes and systems to ensure that it has in place a robust framework, driven by the three lines of defence model which promotes transparency, accountability and consistency through clear identification and segregation of roles with a view to reduce risk.

This is further illustrated below:



i. 1st Line of Defence - Line management is the first line of defence in risk management and control. The Branch Managers, Department Heads and every staff member owns and manages risks and the related controls. Management is responsible for implementing strategic objectives within the agreed scope and in a manner that limits risks associated with each strategy so as to ensure compliance with laws and regulations. Management must ensure that staff are exposed to relevant training to adequately execute their roles and responsibilities. Management continues to actively engage and ensure that the knowledge, resources, skills, appropriate policies, procedures, processes, controls and monitoring systems are in place.

ii. 2nd Line of Defence - The Risk & Compliance Department (RCD) provides the second line of defence by monitoring these risks and controls, and reporting on the level of risk to the Board Committees.

iii. 3rd Line of Defence - Internal Audit Department (IAD) is the third line of defence and provides independent and objective assurance to Management and the Board on the effectiveness of both the first and second lines in their management of risks and controls.

The three "lines" play a distinct role within the Bank's wider governance framework and as laid down in the respective policies and procedures to mitigate the inherent risks by ensuring that threats and vulnerabilities that put the Bank at risk are adequately mitigated.

Overview of Risk Apetite

RAS aims to quantify the amount of risk the Bank is prepared to carry across the business and operational areas. Risk appetite refers to the aggregate level and types of risk the Bank is willing to assume within its risk capacity. By doing so, the Bank can achieve its strategic objectives and operating business plan. It is therefore important to understand the difference between acceptable and unacceptable levels of risk.

The Bank understands that all risks cannot be quantified and there are qualitative measures that need to be taken to ensure that the risk appetite framework is all encompassing. In this regard, the Bank identifies and manages its risk appetite through identification of risk limits and tolerance levels for each material risk. This is in addition to identification of qualitative risk management measures for material risks that cannot be quantified.

The RAS is the formal articulation of the Bank's willingness to take on certain risks and avoid or minimize other risks in the pursuit of its strategic objectives.

Risk Management Approach

No.	Key Risks	Risk Management Approach
1	**Strategy/Business Risk** The risk that the Bank's future business plans and strategies may be inadequate to prevent financial loss or protect the Bank's competitive position and shareholder returns.	DTB's balance sheet remains resilient and well diversified across the region, business sectors and products which has delivered stability for the Bank in 2018, despite a slow and uncertain socio-economic environment. The Bank remains well capitalised with a strong liquidity position.
2	**Regulatory & Compliance Risk** This is the risk of legal or regulatory sanctions, financial loss or damage to reputation that the Bank may suffer as a result of its failure to comply with laws, regulations, codes of conduct and standards of good practice that are applicable to its business activities.	DTB has a zero tolerance culture to breaches in internal policies and procedures as well as external laws and regulations. Therefore, through the Bank's Compliance Risk Management Framework and monitoring programme, the various roles and responsibilities are defined, with the three lines of defence established. All employees are expected to ensure that their processes operate in adherence to the laid down policies and procedures, which are driven from regulatory requirements and best practice. The processes are continuously checked against regulations and best practice to ensure they remain robust and relevant so as to reduce compliance risk to the minimum. The Board Audit and Compliance Committee is tasked with the oversight of the Compliance Risk Management Framework.
3	**Financial Crime** (includes Money Laundering, Terrorism Financing, Bribery & Compliance, Sanctions and other predicate crimes). Financial Crime risk is the potential for legal or regulatory penalties, material financial loss or reputational damage resulting from the failure to comply with applicable laws and regulations relating to International Sanctions, Anti-Money Laundering, Anti-Bribery and Corruption. The financial crime world is continuously evolving with new ways and typologies of crime emerging. DTB has no appetite for breaches in laws and has especially placed focus on regulations related to Financial Crime. DTB recognises that financial crime incidents cannot be entirely avoided, however by putting in place a strong Financial Crime Risk Management Framework the risk exposure can be maintained at minimum levels. DTB engaged Deloitte in year 2018 to review and further strengthen its Financial Crime Risk Management Framework by benchmarking it to not only local regulatory requirements, but also global best practices, in order to strengthen its risk management and controls/ mitigating actions in relation to financial crime.	The Bank maintains a zero tolerance approach towards financial crime. The risk categories for assessment of the financial crime risk are summarised below: • **Business Strategy -** impact of financial crime on attaining strategy targets. The Bank must effectively balance business targets and compliance to ensure that its processes do not encourage unnecessary risk taking. • **Customers -** The Bank has assessed for the purposes of identifying the inherent money laundering risk of the Bank's client base and business relationships pose, depending on the nature of the business, the occupations of the customers, the nature of anticipated transaction activity and as prescribed by global best standards such as the Financial Action Task Force. • **Products & Services and other delivery channels -** The Bank has considered the potential financial crime risks associated with each of its products, services and channels and has put in place procedures and processes to mitigate the potential of its systems being used for financial crime. The Bank also takes pro-active steps to de-risk business relationships where it is established that the risk level is unacceptable. • **Geographic locations -** The Bank continues to review and identify geographic locations that may pose a higher risk to its business. The Bank has put in place systems to understand and evaluate the specific risks associated with doing business in and transactions with and to persons from certain geographic locations. The Bank ensures it understands the risk exposures posed by each location in which it operates, risks posed by high risk jurisdictions and how these are mitigated. The Bank policy prohibits maintaining or undertaking business transactions with persons and countries under sanctions. The Bank has automated the screening processes. • **Other qualitative factors -** The Bank has also assessed risks that could impact on operational risks and increase or decrease the process failures in key control areas thereby introducing the potential for financial crime. This continues to be managed through ensuring adequate and competent staff through training, continued monitoring as well as risk management practices that assist in identification, measurement and control of risks in a rapidly changing financial crime environment.

RISK MANAGEMENT FRAMEWORK (CONTINUED)

No.	Key Risks	Risk Management Approach
		The Board also established a subcommittee, The Board Oversight Committee (BOC), in September 2018. The key mandate of the BOC is to assist the Board to provide oversight on the effective and agile implementation of the Financial Crime Risk Management transformation program. In particular, the BOC will provide direction and oversight over the actions to be implemented by management and the Bank, to: a) achieve and maintain ongoing compliance with the Supervisory Action Plan developed by the Bank and accepted by CBK in September 2018. b) enhance and improve the Bank's capabilities, systems and processes to better prevent financial crime and ensure effective surveillance of transactions and related customer activities, following the issuance of the 2018 Targeted Inspection Report by the CBK in September 2018 c) ensure the Bank's Financial Crime Risk Management framework and practices are further enhanced so that these are benchmarked to global best practices.
4	**Operational Risk** The risk of loss resulting from inadequate or failed internal processes, people and systems or from external events.	Policy approach is governed by the Board approved Operational Risk Policy. The policy is reviewed annually to ensure that it remains robust and is aligned with the changes in the internal and external environment. Risk methodologies: The Bank has developed various tools that have been instrumental in the continuous improvement, identification and mitigation of operational risk exposures. These are: • **Risk Self Assessments (RSA) -** Facilitate the analysis of business activities and the critical processes by highlighting and connecting the key exposure areas (people, processes, technology, etc.) and their respective functions. The risks are identified, measured, monitored, controlled and reported in line with the risk management framework. The RSA enable the Bank identify, monitor and report on the key risk indicators. • **Loss Data/ Incident Reports -** All departments are required to report incidents emanating from their areas. The data is then aggregated towards consideration of top and emerging risks. • **Outsourcing -** The process of identification of key risks arising from the outsourcing activities to third parties is undertaken prior to the engagement. The Bank has instituted a process to ensure an annual assessment of all the critical outsourced vendors. • **New Products/ Services -** Each new product or service is subject to an independent risk review which enables identification and assessment of risk mitigation strategies prior to roll out. The Bank has instituted a process to undertake an annual review so as to timely identify new and emerging risks. • **Fraud risk -** The Fraud Risk Management programmes ensures that the minimum standards for preventing, detecting, investigating and remediating of fraud related events is continuously undertaken. Training forms a key component of the Fraud Risk Management Programme. Quick disciplinary action is also taken where culpability is established.

No.	Key Risks	Risk Management Approach
5	**Reputation Risk** Results from damage to the Bank's image which may impair its ability to retain and generate business due to the loss of trust and confidence by key stakeholders.	DTB has put in place processes to identify (including early warning systems), assess, control, monitor and report reputation risk driven from the Board level through management and to all staff. DTB recognises that its reputation may be damaged by one or more than one reputation event, as reflected from negative publicity about its business practices, conduct or financial condition. Such negative publicity, whether true or not, may impair public confidence in the Bank, result in costly litigation, or lead to a decline in its customer base, business or revenue. Reputation plays a key role in ensuring that the Banks has a sustainable future for its business. DTB is committed to high standards of business conduct, integrity, prudence and professional competence in a manner that is not detrimental to its deposits or potential depositors. The Bank has instituted a strong corporate governance framework and practices that emphasise transparency and accountability at every level. The Code of Conduct and Ethics, Whistle Blowing policy coupled with training have ensured that the Bank's ethos are institutionalised. This is ensured through adequate HR strategies, corporate communication strategies for stakeholders and the establishment of processes and systems which effectively monitor, manage and report any unethical behavior and adverse reports that could affect the Bank's reputation.
6	**IT and Cyber Security Risk** The risk of accidental or intentional illegal use, access, modification, disclosure or destruction of information resources, which would compromise the confidentiality, integrity and availability of information assets. Technology risk on the other hand is the risk of loss and disruption due to exploitation of network vulnerabilities, system failures or defects, or from illegal use of the Bank's systems.	DTB is proactively managing this risk through implementation of a holistic cyber security resilience framework – a multi layered 24/7 strategy that encompasses people, process and technology to address the risks and allow the Bank prepare, protect, detect, respond and recover from any cyber security incident. IT and Cyber risk are covered in the quarterly report to the Board IT Committee (BITC) which is a specialised committee that reviews the IT security requirements based on the IT protection targets: Confidentiality, Integrity, Traceability and Availability. IT risks are also evaluated as part of the operational risk management by way of risk scenarios covering, for example, breakdown of critical IT systems, the risk of external attacks on the systems and protection of the Bank's data. The human factor being key in IT and cyber security, the Bank has invested heavily in its data centre, training and a 24/7 monitoring system.
7	**Credit Risk and Portfolio management** Credit risk is the risk of loss arising from failure by counterparties to meet their financial or contractual obligations when due.	The Bank's mitigation of credit risk is based on a combination of focused strategy, defined target market, secured lending and quality of underwriting, ongoing monitoring and pre-set thresholds for exposure limits, sectoral concentration and acceptable collateral. The Board Credit Committee (BCC) is primarily responsible for oversight of the Credit and Concentration risks, supported by the Management Credit Committee (MCC). The Bank also undertakes stress testing on a regular basis, a process which facilitates a forward looking approach to risk management by identifying possible events or changes in the macro-economic conditions that could have an impact on the Bank. The outcomes of stress tests assist management and the Board to determine appropriate mitigating actions to minimise and manage the risks induced by potential stresses. The Bank is also ensuring that Environmental & Social risks in the loan book, arising from clients' activities are adequately identified, managed and where necessary reported. Refer to Notes 4a, 14 & 18 of the financial statements which highlight the credit risk impact on the Group and Bank, in the current year.

RISK MANAGEMENT FRAMEWORK (CONTINUED)

No.	Key Risks	Risk Management Approach
8	**Conduct and Culture Risk** The Board and management encourage a risk intelligence conduct and culture, which is the ability of the Bank and its employees to distinguish between two types of risks: the risks that should be managed to prevent loss or harm and the risks that must be taken to gain competitive advantage. In doing this, the Board and management are responsible not just for setting the right "tone at the top," but also for cultivating an enterprise-wide awareness of risks at all levels of the Bank.	The Bank's risk culture is not a stand-alone component in its efforts toward effective risk management, but is intertwined with its risk governance practices as well as its incentive programmes. DTB undertakes conduct risk identification and mitigation strategies embedded in the core of the functions or units, through end to end review of the critical processes, risk exposure measurements and enhancement of adequate controls. The Bank conducts trainings across the business, performs regular review of roles and responsibilities defined in the Risk Appetite Statement to ensure that the culture and conduct of all staff is reflective of the core values and principles of the Bank.

Focus Areas for 2019

i. **Financial Crime Risk (Anti-money Laundering, combating terrorism financing, Sanctions and other Predicate Crime Risk) -** Under the supervision of the Board Oversight Committee (BOC), the Bank will continue to focus on this risk exposure area especially in relation to the transformation of the Financial Crime Risk Management Framework to align with local, Africa and global best practices. DTB shall continue to build the competency and bench strength of the three lines of defense, as well as work collaboratively with other stakeholders so as to have a multi-faceted approach to tackling the risk posed.

ii. **Regulatory Risk -** In light of the rapidly changing regulatory landscape both locally and globally, the Bank shall continue to focus on ensuring complete adherence to the laid down laws and regulations so as to drive effectiveness and efficiencies across the Bank's risk and compliance framework, in meeting the laid down requirements.

iii. **Enhanced risk management practices -** To enable adequate identification, assessments and response to existing and emerging risks and their impact on the Bank's internal environment the Bank shall continue to focus on the micro and macro operating environments and markets, as well as local and international geopolitical risks.

CUSTOMER FOCUS

"A customer is the most important visitor on our premises. He is not dependent on us. We are dependent on him. He is not an interuption to our work. He is the purpose of it. He is not an outsider in our business. He is part of it. We are not doing him a favour by serving him. He is doing us a favour by giving us an opportunity to do so."

- Mahatma Gandhi

DIRECTORS AND STATUTORY INFORMATION
FOR THE YEAR ENDED 31 DECEMBER 2018

DIRECTORS

Mr. Abdul Samji	Chairman
Mrs. Nasim Devji	Group Chief Executive Officer and Managing Director
Mrs. Pamella Ager	
Mr. Guedi Ainache*	
Mr. Shaffiq Dharamshi	
Mr. Linus Gitahi	
Mr. Rizwan Hyder**	
Mr. Moez Jamal***	
Mr. Alkarim Jiwa	Finance Director (Appointed on 12 September 2018)
Mr. Irfan Keshavjee	
Mr. Ismail Mawji	
Mr. Jamaludin Shamji	

* French ** Pakistani *** Swiss

COMPANY SECRETARY

Stephen Kodumbe

REGISTERED OFFICE

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

AUDITORS

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

DIRECTORS' REPORT

The Directors submit their report together with the audited financial statements for the year ended 31 December 2018 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 82.

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 94 and summarised below.

		Group		Bank
	2018	2017	2018	2017
	Shs'000	Shs'000	Shs'000	Shs'000
Profit before income tax	11,000,272	10,098,235	9,264,774	8,227,558
Income tax expense	(3,918,157)	(3,173,195)	(3,477,858)	(2,727,887)
Profit for the year	7,082,115	6,925,040	5,786,916	5,499,671
Non controlling interests	(395,503)	(475,229)	-	-
Profit attributable to owners of the Bank	6,686,612	6,449,811	5,786,916	5,499,671
Dividends	(726,966)	(726,966)	(726,966)	(726,966)
Retained profit for the year	**5,959,646**	**5,722,845**	**5,059,950**	**4,772,705**

The directors recommend the approval of a final dividend of Shs 726,965,772 (2017: Shs 726,965,772).

Equity and reserves

The authorised issued share capital and reserves of the Group and Company at 31 December 2018 and matters relating thereto are set out in Note 31 and 32 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 97 to 100 and pages 194 to 195.

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 82. Mr. Alkarim Jiwa was appointed as an Executive Finance Director on the board on 12 September 2018.

In accordance with Article No. 101 of the Bank's Articles of Association, Messrs Jamaludin Shamji and Moez Jamal retire by rotation and, being eligible, offer themselves for re-election.

In accordance with Article No. 101 of the Bank's Articles of Association, Mr. Rizwan Hyder retires by rotation and does not offer himself for re-election.

In accordance with the Board Appointment and Diversity Policy, Mr. Abdul Samji, who will have attained the age of 72 years as of the date of the AGM, retires as a Director.

Business review

The banking industry continues to navigate a challenging environment in the region, given the prevailing subdued business climate. This has been accentuated by, inter alia, lack of credit demand from quality borrowers, continuing uncertainties from a raft of consumer taxes in Kenya in 2018 (mainly, but not limited to, doubling of excise duty on financial transaction costs and the introduction of 8% VAT on petroleum products).

Despite improved headline economic growth in Kenya in 2018 (anchored on an agricultural sector boosted by the best rainy season in decades), the business environment continues to be challenged. Cash flow constraints due to delayed settlement of payables by the public sector, coupled with low access to credit (following the interest rate capping legislation enacted in 2016) has constrained private sector credit growth. A weak fiscal position poses downside risks to the economy in the face of growing public debt and rising fears of an unsustainable debt servicing bill.

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 strong performance . In 2018, DTB's Group profit before tax registered an 8.9% increase to Shs 11.0 billion compared to Shs 10.1 billion registered in 2017. The Group's asset base went up by 4.0% to stand at Shs 377.7 billion up from Shs 363.3 billion in the previous year. The asset growth was fueled by DTB Group's customer deposit base which rose by 6.2%, from Shs 266.2 billion in 2017 to Shs 282.9 billion at the end of 2018. The loan book for DTB Group shrunk marginally to stand at Shs 193.1 billion, down from Shs 196.0 billion, a year earlier. The Group's investment in Government securities rose to Shs 115.5 billion in December 2018 from Shs 112.5 billion, a year earlier; the total Group operating income rose by 1.6% to Shs 26.2 billion, up from Shs 25.8 billion realised over the same period in the previous year.

Future outlook

Given the increasing disruption brought about by new technologies and innovation - in Kenya, showcased by no-less than the mobile payments revolution - DTB's business model has evolved beyond traditional banking (i.e. lending and deposit mobilisation). By leveraging on its current technology and innovation platforms and further building on them, DTB will seek to position the bank as a premier digital bank and payments solution provider for an increasingly discerning and technology-driven customer base.

To achieve this transformation, DTB will continue to leverage and expand its current - as well as build new - partnerships with fintechs, mobile telephony operators, card schemes (such as MasterCard, VISA, Union Pay, etc.) to develop collaborative and innovative banking solutions targeting various customer segments: large corporates, small and medium enterprises, micro - enterprises, public sector, high-net worth individuals, white and blue collar employees, etc.

Principal risks and uncertainities

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 139 to 169.

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. In 2018, the bank undertook initiatives as listed below:

I. Healthcare based initiatives

Access to quality healthcare still remains a challenge especially for the less privileged members of the community. In partnership with Sir Yusuf Ali Charitable Trust and Lions Medical Centre, DTB contributed towards the setting up of an eye camp at the Shimo La Tewa SDA Church. The eye camp treated over 500 local community members in the Coastal region. DTB also partnered with International Women Plastic Surgeons to fund reconstructive surgeries for 6 women who suffered severe deformities that hindered them from leading normal lives. Further, DTB continues to sponsor five students undertaking an undergraduate degree course in nursing and midwifery at the Aga Khan's School of Nursing.

2. Environment based initiatives

The bank launched a sustainable tree planting initiative dubbed #MMTT (Much More Than Trees). This initiative has seen over 1 million tree seedlings planted in various parts of the country, through dedicated involvement by DTB staff. #MMTT's highlight was in November 2018 when DTB re-seeded the Mara North area with 1 million indigenous tree seedlings in collaboration with CooksWell Jikos and Mara Elephant Trust.

3. Education based initiatives

Empowering communities through passing on relevant skills and knowledge is enshrined in DTB's value of progressiveness. In 2018, DTB empowered a select group of 30 women micro entrepreneurs with skills and knowledge on how to sell their products online via social media. The women were taken through a 6 week course that introduced them to online marketing and eventually equipped them with the skills of how to set up online shops and market their products to the desired target audience. DTB is also continuing to sponsor five underprivileged children throughout high school under the Millennium Help Educate a Child of God program.

4. Youth based initiatives

Youth engagement and mentorship through well-structured programs is part and parcel of DTB's corporate social responsibility initiatives. In partnership with the University of Nairobi, the bank actively participated in the University's annual career fair. Over 700 students visited the DTB stand and received career based mentorship by way of CV reviews and insights on what it takes to work in a financial institution. The bank also engages the youth through its graduate management trainee program which provides an opportunity to graduates to join it and undergo a 3-year intensive training schedule that ultimately shapes their career path within the financial sector.

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 auditors 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 auditors are aware of that information.

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 %	
	2018	**2017**
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%	9.94%
	42.60%	**42.59%**

Directors' interests

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

	2018		2017	
Director	**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%
Jamaludin Shamji	-	0.0%	10,496	0.0%

Auditor

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

Approval of the financial statements

The financial statements were approved and authorised for issue by the Board of Directors on 20 March 2019.

By order of the Board

Stephen Kodumbe
Company Secretary

20 March 2019
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 2018.

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

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

The remuneration of the Non-executive Chairman and Non-executive Directors is determined 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 committtes.

Executive Directors Remuneration Policy

The remuneration of the Executive Directors including, but not limited to the related contract terms and monthly pay are set by the Board Remuneration and Nomination 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 car, parking and telephone benefits. Travel and other reasonable expenses incurred in the course of performing her duties are reimbursed. These ensure the package is competitive.

Changes to remuneration for Non - Executive Directors

The directors' remuneration during the year increased to Shs 20 million from Shs 6.4 million 2017 so as to align their remuneration with market levels.

Directors' remuneration paid during the year

Non-Executive Directors

	2018			2017		
Name	**Fees**	**Sitting Allowance**	**Total**	**Fees**	**Sitting Allowance**	**Total**
	Shs '000	**Shs '000**	**Shs '000**	**Shs '000**	**Shs '000**	**Shs '000**
Abdul Samji*	2,873	2,332	5,205	1,210	1,118	2,328
Pamella Ager	945	1,050	1,995	180	460	640
Guedi Ainache	945	1,020	1,965	133	220	353
Shaffiq Dharamshi	Waived	Waived	Waived	Waived	Waived	Waived
Linus Gitahi	945	1,030	1,975	133	240	373
Rizwan Hyder	945	300	1,245	180	240	420
Moez Jamal	962	600	1,562	180	240	420
Irfan Keshavjee	945	800	1,745	180	460	640
Ismail Mawji	945	1,130	2,075	180	420	600
Jamaludin Shamji	945	1,270	2,215	180	480	660
	10,450	**9,532**	**19,982**	**2,556**	**3,878**	**6,434**

* The amounts include remuneration from the Bank and its subsidiaries in Tanzania and Uganda.

Contract of Service – Executive Directors

	Gross Pay	**Bonus**	**Non Cash Benefits**	**Total**
	Shs' 000	**Shs' 000**	**Shs' 000**	**Shs' 000**
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**
2017				
Nasim Devji	**61,989**	**-**	**1,858**	**63,847**

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 94 to 204, which comprise the consolidated statement of financial position at 31 December 2018 and the consolidated statement of profit or loss, consolidated statement of other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, together with the separate statement of financial position of the Bank at 31 December 2018 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 affairs of the Group and the Bank and of the Group and Bank profit or loss and cash flows.

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 20 March 2019.

Abdul Samji
Chairman

Nasim Devji
Managing Director

Report on the audit of the Consolidated and Separate financial statements

Opinion

We have audited the accompanying Consolidated and Separate financial statements of Diamond Trust Bank Kenya Limited (the Bank) and its subsidiaries (together , the Group) set out on pages 94 to 204, which comprise the consolidated and separate statements of financial position as at 31 December 2018, and the consolidated and separate statement of profit or loss and other comprehensive income, the consolidated and separate statements of changes in equity and the consolidated and separate statement of cash flows for the year then ended, together with a summary of significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements give a true and fair view of the consolidated and separate financial position of Diamond Trust Bank Kenya Limited as at 31 December 2018, and 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 Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Group and Company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements that are relevant to our audit of the financial statements in Kenya, and we have fulfilled our 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 financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Information control systems and controls over financial reporting	
The key audit matter	**How the matter was addressed**
The Bank's financial accounting and reporting systems are heavily dependent on complex systems. Significant reliance on IT systems presents a significant risk to the bank as the core banking system is considered complex due to the multiple significant functionalities and interdependence with other systems The calculations, recording and financial reporting of transactions and balances recorded in the financial statements is highly dependent on IT automated system and processes. The possible financial implications of errors or fraud on the financial statements either directly or indirectly will usually be significant.	Our audit procedures in this area included, among others: — General IT controls: we tested the governance and other higher controls operating over the information technology environment across the Company, including system access and system change management, program development and computer operations. — Application controls: we tested the design and operating effectiveness of automated controls critical to financial reporting. — We considered 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, we place reliance on manual compensating controls, such as reconcilliations between systems and other information sources or performing additional testing such as extending the size of our sample to obtain sufficient appropriated audit evidence over balances impacted.

Report on the audit of the Consolidated and Separate financial statements (Continued)

Impairment allowances on loans and advances at amortised cost including off balance sheet elements of the allowance

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 121)
— Note 4 (a) – Credit risk (page 140 – 156)
— Note 14 – Classification of financial assets and liabilities (page 172 – 176)
— Note 18 – Provisions for impairment losses on loans and advances (page 178)

The key audit matter	How the matter was addressed
On 1 January 2018, the Group adopted IFRS 9, resulting in impairment charges being recognised when losses are expected rather than when they are incurred. Management has disclosed information regarding the transitional effect of this new and complex standard in note 14. Measurement of loan impairment charges for loans is deemed a key audit matter as the determination of expected credit losses is highly subjective as it involves significant level of judgement applied by management and is a significant estimate. The key areas where we identified significant levels of management judgement and therefore increased levels of audit focus on the Group's implementation of IFRS 9 are: — Assumptions used in determining criteria for significant increase in credit risk. — Choosing appropriate models and assumptions for the determination of probabilities of default (PD), exposures at default (EAD) and loss given default (LGD) and ultimately measurement of Expected Credit Loss (ECL). — Establishing the number and relative weightings of forward-looking scenarios for each type of product/market and the associated impact on ECL — Establishing groups of similar financial assets for the purposes of measuring ECL Management has provided further information about the loans and advances impairment charges in note 18 to the financial statements.	Our audit procedures in this area, included, among others: — Testing of controls over assumptions used in the expected credit loss models to assess the credit risk related to the exposure and the expected future cash flows. — Testing of controls over the compilation and review of the credit watch list, credit file review processes, approval of external collateral valuation vendors and review of controls over the approval of significant individual impairments. — Reviewing management model for establishing Stage 3 impairment amounts. This includes challenging reasonability of management assumptions through among others performing retrospective review of prior year assumptions. — Selecting a sample from the Group's loan book and carry out tests to establish whether significant facilities are correctly staged/classified and valued based on IFRS as well as regulatory considerations; — 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 IFRS 9 methodologies including the SICR criteria used; — Testing the impairment calculations to check if the correct parameters – Probability of Default (PDs, Loss Given Default (LGDs), and Exposure at Default (EADs) were determined by considering local economic/portfolio factors; — Reviewing management method of determining groups of similar financial assets for purposes of measuring ECL to confirm that assets are properly stratified based on existing economic trends; and — Assessing whether the disclosures appropriately disclose the key judgements and assumptions used in determining the expected credit losses.

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 2018 Integrated Report, but does not include the financial statements and our auditors' 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.

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

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

Directors' responsibilities on the consolidated and separate financial statements

As stated on page 89, the directors are responsible for the preparation of the financial statements that give a true and fair view in accordance with IFRSs, and in the manner required by the Kenyan Companies Act, 2015, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditors' responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' 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 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 and Company's internal control.

— Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

Report on the audit of the Consolidated and Separate financial statements (Continued)

Auditors' responsibilities for the audit of the financial statements (Continued)

— 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 and Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' 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 auditors' report. However, future events or conditions may cause the group and/or the company to cease to continue as a going concern.

— Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the 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 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 financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' 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:

i. In our opinion the information given in the report of the directors on pages 83 to 86 is consistent with the financial statements;

ii. In our opinion the auditable part of the directors' remuneration report on pages 87 to 88 has been properly prepared in accordance with the Kenyan Companies Act, 2015;

iii. We have issued an unqualified audit report on the Consolidated and Separate annual financial statements.

The signing partner responsible for the audit resulting in this independent auditors' report is CPA Joseph Kariuki - P/2102

KPMG Kenya

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

20 March 2019

STATEMENT OF PROFIT OR LOSS
FOR THE YEAR ENDED 31 DECEMBER 2018

		Group		Bank	
	Note	2018	2017	2018	2017
		Shs'000	Shs'000	Shs'000	Shs'000
Interest income	5	35,268,503	34,628,790	27,041,985	25,633,393
Interest expense	6	(14,258,852)	(13,988,391)	(12,070,881)	(11,141,329)
Net interest income		**21,009,651**	**20,640,399**	**14,971,104**	**14,492,064**
Net fee and commission income	7	3,240,860	3,140,739	1,775,805	1,784,618
Foreign exchange income		1,570,669	1,596,970	1,005,450	1,039,379
Other operating income	8	349,348	387,621	250,857	322,127
Operating income		**26,170,528**	**25,765,729**	**18,003,216**	**17,638,188**
Operating expenses	9	(11,503,099)	(10,559,865)	(6,440,528)	(5,995,593)
Impairment loss on loans and advances	18	(2,708,503)	(4,150,698)	(1,554,317)	(2,660,069)
Profit from operations		**11,958,926**	**11,055,166**	**10,008,371**	**8,982,526**
Share of results of associate after tax	26	29,483	8,390	-	-
Finance costs	30(e)	(988,137)	(965,321)	(743,597)	(754,968)
Profit before income tax		**11,000,272**	**10,098,235**	**9,264,774**	**8,227,558**
Income tax expense	11	(3,918,157)	(3,173,195)	(3,477,858)	(2,727,887)
Profit for the year		**7,082,115**	**6,925,040**	**5,786,916**	**5,499,671**
Profit attributable to:					
Owners of the Bank		6,686,612	6,449,811	5,786,916	5,499,671
Non controlling interests		395,503	475,229	-	-
		7,082,115	**6,925,040**	**5,786,916**	**5,499,671**
Earnings per share (Shs per share)					
Basic and diluted	12	23.91	23.73	20.70	20.23

The notes on pages 102 to 204 are an integral part of these financial statements.

STATEMENT OF OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2018

	Note	Group 2018 Shs'000	Group 2017 Shs'000	Bank 2018 Shs'000	Bank 2017 Shs'000
Profit for the year		**7,082,115**	**6,925,040**	**5,786,916**	**5,499,671**
Other comprehensive income					
Items that may be subsequently reclassified to profit or loss					
Exchange differences on translating foreign operations		(579,625)	194,166	-	-
Items that will not be reclassified to profit or loss					
Net loss from changes in fair value of treasury bills		(19,314)	-	-	-
Loss on revaluation of land and buildings	22	-	(12,712)	-	-
Income tax relating to these items	24	6,756	5,826	-	-
Other comprehensive income for the year, net of tax		**(592,183)**	**187,280**	**-**	**-**
Total comprehensive income for the year		**6,489,932**	**7,112,320**	**5,786,916**	**5,499,671**
Total comprehensive income attributable to:					
Owners of the Bank		6,283,470	6,359,629	5,786,916	5,499,671
Non controlling interests		206,462	752,691	-	-
		6,489,932	**7,112,320**	**5,786,916**	**5,499,671**

The notes on pages 102 to 204 are an integral part of these financial statements.

STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2018

	Note	Group 2018	Group 2017	Bank 2018	Bank 2017
		Shs'000	Shs'000	Shs'000	Shs'000
Assets					
Cash and balances with Central Banks	15	37,716,947	25,008,851	27,363,599	15,050,191
Government securities	16	115,489,352	112,481,802	86,311,885	84,911,214
Deposits and balances due from banking institutions	17	14,162,442	12,516,371	2,685,708	2,910,469
Loans and advances to customers	18	193,074,357	196,048,155	146,781,681	148,515,793
Corporate bond - at amortised cost	19	43,359	71,480	-	-
Other assets	20	2,707,333	2,551,615	1,784,571	1,656,356
Intangible assets - software costs	21	1,230,071	1,327,057	982,437	1,072,640
Property and equipment	22	6,410,674	6,716,249	4,759,643	5,020,237
Intangible assets - goodwill	23	173,372	173,372	-	-
Current income tax	11(c)	1,470,570	829,434	922,872	652,699
Deferred income tax	24	3,379,287	3,745,935	2,372,988	2,893,916
Equity investments- at fair value through OCI	25	1,797,617	1,797,617	1,797,617	1,797,617
Investments in subsidiaries and associates	26	63,933	35,462	5,752,702	5,600,406
Total assets		**377,719,314**	**363,303,400**	**281,515,703**	**270,081,538**
Liabilities					
Customer deposits	27	282,860,003	266,246,854	206,059,510	190,468,570
Deposits and balances due to banking institutions	28	17,143,207	20,503,993	14,724,330	18,785,686
Other liabilities	29	4,082,861	5,757,864	2,577,719	4,261,042
Borrowings	30	14,693,994	17,174,934	10,441,306	13,562,268
Total liabilities		**318,780,065**	**309,683,645**	**233,802,865**	**227,077,566**
Shareholders' equity					
Share capital	31	1,118,409	1,118,409	1,118,409	1,118,409
Share premium	31	9,006,569	9,006,569	9,006,569	9,006,569
Retained earnings	32 (c)	42,070,633	35,934,013	35,532,486	30,794,732
Statutory loan loss reserve	32 (d)	890,768	1,357,750	-	-
Other reserves	32	(156,295)	226,088	1,328,408	1,357,296
Proposed dividend	13	726,966	726,966	726,966	726,966
Equity attributable to owners of the Bank		**53,657,050**	**48,369,795**	**47,712,838**	**43,003,972**
Non controlling interests	26	5,282,199	5,249,960	-	-
Total equity		**58,939,249**	**53,619,755**	**47,712,838**	**43,003,972**
Total liabilities and equity		**377,719,314**	**363,303,400**	**281,515,703**	**270,081,538**

The financial statements on pages 94 to 204 were approved and authorised for issue by the Board of Directors on 20 March 2019 and signed on its behalf by:

Abdul Samji
Chairman

Nasim Devji
Managing Director

Ismail Mawji
Director

Stephen Kodumbe
Company Secretary

The notes on pages 102 to 204 are an integral part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2017

	Note	Share capital	Share premium	Statutory loan loss reserve	Other reserves	Retained earnings	Proposed dividend	Attributable to equity holders of the Bank	Non controlling Interests	Total
		Shs'000	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000
At start of year		1,065,284	7,294,767	860,779	433,325	30,682,722	692,435	41,029,312	4,847,237	45,876,549
Profit for the year		-	-	-	-	6,449,811	-	6,449,811	475,229	6,925,040
Other comprehensive income		-	-	-	(90,182)	-	-	(90,182)	277,462	187,280
Transfer of excess depreciation		-	-	-	(33,448)	33,448	-	-	-	-
Deferred tax on transfer of excess depreciation		-	-	-	1,520	(1,520)	-	-	-	-
Statutory loan loss reserve		-	-	496,971	-	(496,971)	-	-	-	-
Legal reserve		-	-	-	6,511	(6,511)	-	-	-	-
Total comprehensive income		**-**	**-**	**496,971**	**(115,599)**	**5,978,257**	**-**	**6,359,629**	**752,691**	**7,112,320**
Transactions with owners in their capacity as owners:										
Issue of shares on acquisition of HBL Kenya assets and liabilities	31	53,125	1,711,802	-	-	-	-	1,764,927	-	1,764,927
Acquisition of interests from non controlling interests in Diamond Trust Bank Uganda Limited.	33	-	-	-	(91,638)	-	-	(91,638)	(309,275)	(400,913)
Dividends:										
- Final for 2016 paid		-	-	-	-	-	(692,435)	(692,435)	(40,693)	(733,128)
- Proposed for 2017	13	-	-	-	-	(726,966)	726,966	-	-	
Total transactions with owners, recognised directly in equity		**53,125**	**1,711,802**	**-**	**(91,638)**	**(726,966)**	**34,531**	**980,854**	**(349,968)**	**630,886**
At end of year		**1,118,409**	**9,006,569**	**1,357,750**	**226,088**	**35,934,013**	**726,966**	**48,369,795**	**5,249,960**	**53,619,755**

The notes on pages 102 to 204 are an integral part of these financial statements.

CONSOLIDATED 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 start of year		1,118,409	9,006,569	1,357,750	226,088	35,934,013	726,966	48,369,795	5,249,960	53,619,755
Adjustment on initial application of IFRS 9, net of tax	14	-	-	-	23,846	(307,423)	-	(283,577)	31,966	(251,611)
Restated balance		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		-	-	-	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 Limited.	33	-	-	-	14,328	-	-	14,328	(166,624)	(152,296)
Dividends:										
- Final for 2017 paid	13	-	-	-	-	-	(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 102 to 204 are an integral part of these financial statements.

BANK STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2017

	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		1,065,284	7,294,767	1,386,184	25,993,139	692,435	36,431,809
Profit for the year and other comprehensive income		-	-	-	5,499,671	-	5,499,671
Transfer of excess depreciation		-	-	(30,408)	30,408	-	-
Deferred tax on transfer of excess depreciation		-	-	1,520	(1,520)	-	-
Total comprehensive income		**-**	**-**	**(28,888)**	**5,528,559**	**-**	**5,499,671**
Transactions with owners in their capacity as owners:							
Issue of shares on acquisition of HBL Kenya asset and liabilities	31	53,125	1,711,802	-	-	-	1,764,927
Dividends:							
- Final for 2016 paid		-	-	-	-	(692,435)	(692,435)
- Proposed for 2017	13	-	-	-	(726,966)	726,966	-
Total transactions with owners, recognised directly in equity		**53,125**	**1,711,802**	**-**	**(726,966)**	**34,531**	**1,072,492**
At end of year		**1,118,409**	**9,006,569**	**1,357,296**	**30,794,732**	**726,966**	**43,003,972**

The notes on pages 102 to 204 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 start of year		1,118,409	9,006,569	1,357,296	30,794,732	726,966	43,003,972
Adjustment on initial application of IFRS 9, net of tax	14	-	-	-	(351,084)	-	(351,084)
Restated balance		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	13	-	-	-	-	(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 102 to 204 are an integral part of these financial statements.

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2018

		Group		Bank	
		2018	2017	2018	2017
	Note	Shs'000	Shs'000	Shs'000	Shs'000
Cash flows from/(used in) operating activities					
Interest receipts		35,271,077	34,860,913	26,881,830	25,838,674
Interest payments		(14,277,385)	(13,978,997)	(11,986,952)	(11,184,103)
Net fee and commission receipts		3,242,470	3,140,739	1,775,805	1,784,618
Other income received		1,981,652	1,914,316	1,240,382	1,232,537
Recoveries from loans previously written off	18	273,758	150,079	2,312	20,221
Payments to employees and suppliers		(9,835,856)	(8,872,466)	(5,603,533)	(5,191,184)
Income tax paid	11(c)	(4,085,348)	(5,601,625)	(3,076,638)	(4,637,482)
Cash flows from operating activities before changes in operating assets and liabilities		**12,570,368**	**11,612,959**	**9,233,206**	**7,863,281**
Changes in operating assets and liabilities:					
- cash reserve requirement		(1,002,330)	(795,224)	(815,365)	(1,066,589)
- Government securities		(652,644)	(19,040,677)	(760,626)	(10,961,562)
- loans and advances to customers		(640,983)	(12,517,540)	(793,809)	(13,274,992)
- Balances due from subsidiary companies		-	-	-	113,857
- customer deposits		16,643,699	20,764,779	15,507,011	13,324,513
- other assets		(155,718)	492,619	(128,215)	656,952
- other liabilities		(1,675,003)	1,868,011	(1,683,322)	1,719,699
Net cash from/(used in) operating activities		**25,087,389**	**2,384,927**	**20,558,880**	**(1,624,841)**
Cash flows used in investing activities					
Purchase of property and equipment	22	(904,838)	(965,191)	(365,762)	(458,109)
Purchase of intangible assets - software costs	21	(151,893)	(400,647)	(125,761)	(327,654)
Purchase of shares in subsidiary/ rights issues		-	-	(152,296)	(1,056,380)
Net proceeds from sale of investment in Government securities		32,229	(878)	32,229	(878)
Proceeds from sale of property and equipment		(73,513)	9,102	(75,216)	2,762
Dividend received		-	-	65,475	68,704
Net cash used in investing activities		**(1,098,015)**	**(1,357,614)**	**(621,331)**	**(1,771,555)**
Cash flows used in financing activities					
Proceeds from borrowings		4,045,780	379,682	3,058,500	-
Repayment of borrowings		(6,543,623)	(5,430,160)	(6,200,876)	(5,258,898)
Finance costs		(926,574)	(964,378)	(722,183)	(758,407)
Dividends paid to equity holders of the bank	13	(726,966)	(692,435)	(726,966)	(692,435)
Dividends paid to non controlling interests		(39,565)	(40,693)	-	-
Net cash used in financing activities		**(4,190,948)**	**(6,747,984)**	**(4,591,525)**	**(6,709,740)**
Net increase/ (decrease) in cash and cash equivalents		**19,798,426**	**(5,720,671)**	**15,346,024**	**(10,106,136)**
Cash and cash equivalents at start of year		2,789,926	2,865,866	(10,657,432)	(7,097,656)
Cash and cash equivalents acquired from HBL		-	6,546,360	-	6,546,360
Translation difference		(1,213,135)	(901,629)	-	-
		1,576,791	**8,510,597**	**(10,657,432)**	**(551,296)**
Cash and cash equivalents at end of year	38	**21,375,217**	**2,789,926**	**4,688,592**	**(10,657,432)**

The notes on pages 102 to 204 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 and is domiciled in Kenya. The address of its registered office is as disclosed on page 82. The shares of the Company are listed at 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 of directors 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 2018, including consequential amendments to other standards with the date of initial application by the Group being 1 January 2018. 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 15 Revenue from Contracts with Customers	1 January 2018
IFRIC 22 Foreign Currency Transactions and Advance Consideration	1 January 2018
Annual improvements cycle (2014-2016)	1 January 2018
IFRS 9 Financial Instruments	1 January 2018

IFRS 15 Revenue from Contracts with Customers

IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaced IAS 18 Revenue, IAS 11 Construction Contracts and related interpretations.

The Group initially applied IFRS 15 on 1 January 2018 retrospectively in accordance with IAS 8. The adoption of IFRS 15 did not impact the timing or amount of fee and commission income from contracts with customers and the related assets and liabilities recognised by the Group. Accordingly, the impact on the comparative information is limited to new disclosure requirements.

In the following table, fee and commission income from contracts with customers in the scope of IFRS 15 is disaggregated by major type of services. Fee and commission income from contracts with customers is measured based on the consideration specified in a contract with a customer. The Group recognises revenue when it transfers control over a service to a customer.

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

Type of service	Nature and timing of satisfaction of performance obligations, including significant payment terms	Revenue recognition under IFRS 15
Retail and corporate banking service	The Group provides banking services to retail and corporate customers, including account management, provision of overdraft facilities, foreign currency transactions, credit card and servicing fees. Fees for ongoing account management are charged to the customer's account on a monthly basis. Transaction-based fees for interchange, foreign currency transactions and overdrafts are charged to the customer's account when the transaction takes place. Servicing fees are charged on a monthly basis and are based on fixed rates. Any changes in fees is subject to Central Bank of Kenya approval, in the case of the Bank.	Revenue from account service and servicing fees is recognised over time as the services are provided. Revenue related to transactions is recognised at the point in time when the transaction takes place.

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)

IFRIC Interpretation 22 Foreign Currency Transactions and Advance Consideration

This Interpretation applies to a foreign currency transaction (or part of it) when an entity recognises a non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration before the entity recognises the related asset, expense or income (or part of it). This Interpretation stipulates that the date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part of it) is the date on which an entity initially recognises the non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration.

This Interpretation does not apply to income taxes, insurance contracts and circumstances when an entity measures the related asset, expense or income on initial recognition:
(a) at fair value; or
(b) at the fair value of the consideration paid or received at a date other than the date of initial recognition of the non-monetary asset or non-monetary liability arising from advance consideration (for example, the measurement of goodwill applying IFRS 3 Business Combinations).

The amendments apply retrospectively for annual periods beginning on or after 1 January 2018, with early application permitted. The adoption of this standard did not have a material impact on the Group's financial statements.

Annual improvement cycle (2014 – 2016) – various standards

Standards	Amendments
IFRS 1 First time adoption of IFRS	Outdated exemptions for first-time adopters of IFRS are removed. The amendments apply prospectively for annual periods beginning on or after 1 January 2018.
IAS 28 Investments in Associates and Joint Ventures	A venture capital organisation, or other qualifying entity, may elect to measure its investments in an associate or joint venture at fair value through profit or loss. This election can be made on an investment-by-investment basis. A non-investment entity investor may elect to retain the fair value accounting applied by an investment entity associate or investment entity joint venture to its subsidiaries. This election can be made separately for each investment entity associate or joint venture. The amendments apply retrospectively for annual periods beginning on or after 1 January 2018; early 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)

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

IFRS 9 Financial Instruments

IFRS 9 sets out requirements for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items. This standard replaces IAS 39 Financial Instruments: Recognition and Measurement. The requirements of IFRS 9 represent a significant change from IAS 39. The new standard brings fundamental changes to the accounting for financial assets and to certain aspects of the accounting for financial liabilities.

Additionally, the Group has adopted consequential amendments to IFRS 7 Financial Instruments: Disclosures that are applied to disclosures about 2018, but have not been applied to the comparative information.

The key changes to the Group's accounting policies resulting from its adoption of IFRS 9 are summarised below. The full impact of adopting the standard is set out in Note 14.

Classification of financial assets and financial liabilities

The Group early adopted the previous version of IFRS 9 dealing with classification and measurement of financial assets in 2011. On 29 July 2014, the IASB issued the final IFRS 9 Financial Instruments Standard, which brings together the classification and measurement, impairment and hedge accounting phases of the IASB's project to replace IAS 39 Financial Instruments: Recognition and Measurement. The standard became effective on 1 January 2018. The Group has taken advantage of the exemption allowing it not to restate comparative information for prior periods with respect to impairment charges. The objective of IFRS 9 is to establish principles for financial reporting of financial assets and financial liabilities that will present relevant and useful information to users of financial statements for their assessment of the amounts, timing and uncertainty of the Group's future cash flows. In addition, the disclosure requirements of IFRS 7- Financial Instruments: Disclosures, after consequential amendments arising from IFRS 9, are applicable.

Impairment of financial assets

IFRS 9 replaces the 'incurred loss' model in IAS 39 with an 'expected credit loss' model. The new impairment model also applies to certain loan commitments and financial guarantee contracts but not to equity investments. Under IFRS 9, credit losses are recognised earlier than under IAS 39. For an explanation of how the Group applies the impairment requirements of IFRS 9, see Note 4 (a).

Transition

Changes in accounting policies resulting from the adoption of IFRS 9 have been applied retrospectively, except as described below.

– Comparative periods generally have not been restated. Differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of IFRS 9 are recognised in retained earnings and reserves as at 1 January 2018. Accordingly, the information presented for 2017 does not reflect the requirements of IFRS 9 and therefore is not comparable to the information presented for 2018 under IFRS 9.

– The following assessments have been made on the basis of the facts and circumstances that existed at the date of initial application.
  - The determination of the business model within which a financial asset is held.
  - The designation and revocation of previous designations of certain financial assets and financial liabilities as measured at FVTPL
  - The designation of certain investments in equity instruments not held for trading as at FVTOCI.
  - For financial liabilities designated as at FVTPL, the determination of whether presenting the effects of changes in the financial liability's credit risk in OCI would create or enlarge an accounting mismatch in profit or loss

– If a debt security had low credit risk at the date of initial application of IFRS 9, then the Group has assumed that credit risk on the asset had not increased significantly since its initial recognition.

For more information and details on the changes and implications resulting from the adoption of IFRS 9, see Note 4(a)

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 2018

A number of new standards, amendments to standards and interpretations are not yet effective for the year ended 31 December 2018, and have not been applied in preparing these financial statements. The Group does not plan to adopt these standards early. These are summarised below;

Standard/ Interpretation	Effective date
Amendments to IFRS 9 Prepayment Features with Negative Compensation	1 January 2019
IFRS 16 Leases	1 January 2019
Annual Improvements to IFRS Standards 2015–2017 Cycle	1 January 2019
Amendments to IAS 19 Employee Benefits	1 January 2019
Sale or Contribution of Assets between an Investor and its Associate or Company (Amendments to IFRS 10 and IAS 28).	To be determined
IFRIC 23 Uncertainty over Income Tax Treatments	1 January 2019
IFRS 17 Insurance Contracts	1 January 2022
Amendments to IAS 28 Long-term Interests in Associates and Joint Ventures	1 January 2019

Amendments to IFRS 9 Prepayment Features with Negative Compensation

The amendments to IFRS 9 clarify that for the purpose of assessing whether a prepayment feature meets the SPPI condition, the party exercising the option may pay or receive reasonable compensation for the prepayment irrespective of the reason for prepayment. In other words, prepayment features with negative compensation do not automatically fail SPPI.

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 these changes will not have a significant effect on the amounts and disclosures of the Group's financial statements.

IFRS 16 Leases

IFRS 16 provides a comprehensive model for the identification of lease arrangements and their treatment in the financial statements for both lessors and lessees. IFRS 16 will supersede the current lease guidance including IAS 17 Leases and the related interpretations when it becomes effective for accounting periods beginning on or after 1 January 2019. The date of initial application of IFRS 16 for the Group will be 1 January 2019. In contrast to lessee accounting, IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17.

Impact of the new definition of a lease

The Group will make use of the exemption available on transition to IFRS 16 not to reassess whether a contract is or contains a lease. Accordingly, the definition of a lease in accordance with IAS 17 and IFRIC 4 will continue to apply to those leases entered or modified before 1 January 2019. The change in definition of a lease mainly relates to the concept of control. IFRS 16 distinguishes between leases and service contracts on the basis of whether the use of an identified asset is controlled by the customer.

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 2018 (Continued)

IFRS 16 Leases (Continued)

Impact of the new definition of a lease (Continued)

Control is considered to exist if the customer has:

– The right to obtain substantially all of the economic benefits from the use of an identified asset; and
– The right to direct the use of that asset.

The Group will apply the definition of a lease and related guidance set out in IFRS 16 to all lease contracts entered into or modified on or after 1 January 2019 (whether it is a lessor or a lessee in the lease contract). In preparation for the first-time application of IFRS 16, the Group has carried out an implementation project. The project has shown that the new definition in IFRS 16 will not change significantly the scope of contracts that meet the definition of a lease for the Group.

Impact on Lessee Accounting

Operating leases

IFRS 16 will change how the Group accounts for leases previously classified as operating leases under IAS 17, which were off-balance sheet. On initial application of IFRS 16, for all leases (except as noted below), the Group will:

a) Recognise right-of-use assets and lease liabilities in the consolidated statement of financial position, initially measured at the present value of the future lease payments;

b) Recognise depreciation of right-of-use assets and interest on lease liabilities in the consolidated statement of profit or loss;

c) Separate the total amount of cash paid into a principal portion (presented within financing activities) and interest (presented within operating activities) in the consolidated cash flow statement.

Lease incentives (e.g. rent-free period) will be recognised as part of the measurement of the right-of-use assets and lease liabilities whereas under IAS 17 they resulted in the recognition of a lease liability incentive, amortised as a reduction of rental expenses on a straight-line basis. Under IFRS 16, right-of-use assets will be tested for impairment in accordance with IAS 36 Impairment of Assets. This will replace the previous requirement to recognise a provision for onerous lease contracts. For short-term leases (lease term of 12 months or less) and leases of low-value assets (such as personal computers and office furniture), the Group will opt to recognise a lease expense on a straight-line basis as permitted by IFRS 16.

The Group expects to adopt the standard using a modified retrospective approach where the cumulative effect of initially applying it is recognised as an adjustment to the opening balance of retained earnings and comparatives are not restated. The implementation is expected to increase assets by approximately 1% of the current group asset base and increase financial liabilities by the same amount with no effect on net assets or retained earnings.

Impact on Lessor Accounting

Under IFRS 16, a lessor continues to classify leases as either finance leases or operating leases and account for those two types of leases differently. However, IFRS 16 has changed and expanded the disclosures required, in particular regarding how a lessor manages the risks arising from its residual interest in leased assets.

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 2018 (Continued)

Annual Improvements to IFRS Standards 2015–2017 Cycle

The Annual Improvements include amendments to four Standards.

IAS 12 Income Taxes

The amendments clarify that an entity should recognise the income tax consequences of dividends in profit or loss, other comprehensive income or equity according to where the entity originally recognised the transactions that generated the distributable profits. This is the case irrespective of whether different tax rates apply to distributed and undistributed profits.

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

The amendments to IFRS 3 clarify that when an entity obtains control of a business that is a joint operation, the entity applies the requirements for a business combination achieved in stages, including remeasuring its previously held interest (PHI) in the joint operation at fair value. The PHI to be remeasured includes any unrecognised assets, liabilities and goodwill relating to the joint operation.

IFRS 11 Joint Arrangements

The amendments to IFRS 11 clarify that when a party that participates in, but does not have joint control of, a joint operation that is a business, obtains joint control of such a joint operation, the entity does not remeasure its PHI 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 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.

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

The amendments clarify that the past service cost (or of the gain or loss on settlement) is calculated by measuring the defined benefit liability (asset) using updated assumptions and comparing benefits offered and plan assets before and after the plan amendment (or curtailment or settlement) but ignoring the effect of the asset ceiling (that may arise when the defined benefit plan is in a surplus position). IAS 19 is now clear that the change in the effect of the asset ceiling that may result from the plan amendment (or curtailment or settlement) is determined in a second step and is recognised in the normal manner in other comprehensive income.

The paragraphs that relate to measuring the current service cost and the net interest on the net defined benefit liability (asset) have also been amended. An entity will now be required to use the updated assumptions from this remeasurement to determine current service cost and net interest for the remainder of the reporting period after the change to the plan. In the case of the net interest, the amendments make it clear that for the period post plan amendment, the net interest is calculated by multiplying the net defined benefit liability (asset) as remeasured under IAS 19.99 with the discount rate used in the remeasurement (also taking into account the effect of contributions and benefit payments on the net defined benefit liability (asset).

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 2018 (Continued)

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

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 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.

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.

IFRIC 23 Uncertainty over Income Tax Treatments

IFRIC 23 sets out how to determine the accounting tax position when there is uncertainty over income tax treatments.

The interpretation requires an entity to:

- determine whether uncertain tax positions are assessed separately or as a group; and
- assess whether it is probable that a tax authority will accept an uncertain tax treatment used, or proposed to be used, by an entity in its income tax filings:
  - If yes, the entity should determine its accounting tax position consistently with the tax treatment used or planned to be used in its income tax filings.
  - If no, the entity should reflect the effect of uncertainty in determining its accounting tax position.

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 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 2018 (Continued)

IFRS 17 Insurance Contracts

The new Standard establishes the principles for the recognition, measurement, presentation and disclosure of insurance contracts and supersedes IFRS 4 Insurance Contracts.
The Standard outlines a General Model, which is modified for insurance contracts with direct participation features, described as the Variable Fee Approach. The General Model is simplified if certain criteria are met by measuring the liability for remaining coverage using the Premium Allocation Approach.

The General Model will use current assumptions to estimate the amount, timing and uncertainty of future cash flows and it will explicitly measure the cost of that uncertainty, it takes into account market interest rates and the impact of policyholders' options and guarantees.

The implementation of the Standard is likely to bring significant changes to an entity's processes and systems, and will require much greater co-ordination between many functions of the business, including finance, actuarial and IT.
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.

For the purpose of the transition requirements, the date of initial application is the start if the annual reporting period in which the entity first applies the Standard, and the transition date is the beginning of the period immediately preceding the date of initial application. 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.

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

The amendment clarifies that IFRS 9, including its impairment requirements, applies to long-term interests. Furthermore, in applying IFRS 9 to long-term interests, an entity does not take into account adjustments to their carrying amount required by IAS 28 (i.e., adjustments to the carrying amount of long-term interests arising from the allocation of losses of the investee or assessment of impairment in accordance with IAS 28).

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 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.

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 2018.

2 Summary of significant accounting policies (Continued)

b. Consolidation (Continued)

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. A listing of the Group's associates is shown in Note 26.

Investment in subsidiaries

Investments in the subsidiaries (details of which are disclosed in Note 26) 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.

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.

2 Summary of significant accounting policies (Continued)

c. Foreign currency translation (Continued)

(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

i) Policy applicable from 1 January 2018

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 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."

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 (or impairment allowance before 1 January 2018). The 'gross carrying amount of a financial asset' is the amortised cost of a financial asset before adjusting for any expected credit loss allowance.

2 Summary of significant accounting policies (Continued)

(d) Interest income and expense (Continued)

(i) Policy applicable from 1 January 2018 (Continued)

Calculation of interest income and expense

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

However, for financial assets that have become credit-impaired subsequent to initial recognition, interest income is calculated by applying the effective interest rate to the amortised cost of the financial asset. If the asset is no longer credit-impaired, then the calculation of interest income reverts to the gross basis.
For financial assets that were credit-impaired on initial recognition, interest income is calculated by applying the credit-adjusted effective interest rate to the amortised cost of the asset. The calculation of interest income does not revert to a gross basis, even if the credit risk of the asset improves.

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.

(ii) Policy applicable before 1 January 2018

The policies applied in accounting and presentation of interest income and expense before 1 January 2018 were not different from the policies applied after 1 January 2018.

(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.

2 Summary of significant accounting policies (Continued)

(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 arevaluation 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).

(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.

Good will 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.

2 Summary of significant accounting policies (Continued)

(i) Financial instruments

Financial assets - Policy applicable after 1 January 2018

Initial recognition and initial measurement of Financial Assets

The Group recognises 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 recognises loans and advances, deposits, debt securities issued and subordinated liabilities on the date on which they are originated. All other financial instruments (including regular-way purchases and sales of financial assets) are recognised on the trade date, which is the date on which the 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 amortised 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. amortised 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.

Amortised 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 amortised 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 amortised cost unless it is designated as at fair value through profit or loss (FVTPL) on initial recognition. 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 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 amortised 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:

2 Summary of significant accounting policies (Continued)

(i) Financial instruments(Continued)

Financial assets - Policy applicable after 1 January 2018 (Continued)

Classification and measurement of Financial Assets (Continued)

	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 amortised cost measurement

For amortised 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 realise 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 realised 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 realised. 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.

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.

2 Summary of significant accounting policies (Continued)

(i) Financial instruments(Continued)

Financial assets - Policy applicable after 1 January 2018 (Continued)

Fair value through other comprehensive income (FVTOCI) (Continued)

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 amortised 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) recognised 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.

Fair value through profit or loss

The Group classifies assets that do not qualify for amortised 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 amortised 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 amortised cost or FVTOCI.

2 Summary of significant accounting policies (Continued)

(i) Financial instruments(Continued)

Financial assets - Policy applicable after 1 January 2018 (Continued)

Fair value through profit or loss (Continued)

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 recognised 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 levels 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 amortised 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.

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).

2 Summary of significant accounting policies (Continued)

(i) Financial instruments(Continued)

Financial assets - Policy applicable after 1 January 2018 (Continued)

Contractual cash flows characteristics test (Continued)

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:

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

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.

2 Summary of significant accounting policies (Continued)

(i) Financial instruments(Continued)

Financial assets - Policy applicable after 1 January 2018 (Continued)

Reclassification of Financial Assets (Continued)

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 amortised 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 amortised 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 amortised cost to FVTOCI measurement, for presentation purposes, a loss allowance would be derecognised (and thus would no longer be recognised as an adjustment to the gross carrying amount) but instead would be recognised 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 amortised 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 recognised 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 recognised; instead, a loss allowance is always recognised 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 recognises 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 recognised on equity investments.

2 Summary of significant accounting policies (Continued)

(i) Financial instruments(Continued)

Financial assets - Policy applicable after 1 January 2018 (Continued)

Impairments of Financial Asset (Continued)

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.

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 recognises 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.

2 Summary of significant accounting policies (Continued)

(i) Financial instruments (Continued)

Financial assets - Policy applicable after 1 January 2018 (Continued)

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: *Performing*	12-Month ECL	• 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	• If credit risk is low as of the reporting date or the credit risk has not increased significantly since initial recognition	
Stage 2: *Watch Lists*	Lifetime ECL – Loans that have witnessed significant increase in credit risk	• 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.	• Negative/Bad report from 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	• Evidences of misapplication of loan proceeds by customer • Litigations likely to have material impact • Profit warnings
Stage 3: *Substandard* *Doubtful* *Lost*	Lifetime ECL - default	• Past due for more than 90 days • Drop in ratings (internal or external) by 3-4 notches • Significant deterioration of loan to value ratio • Significant financial difficulty of the customer • Breaches in financial covenants	• 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.	• Evidences of misapplication of loan proceeds by customer • Adverse changes in business, financial or economic conditions • Macro-economic forward looking information

2 Summary of significant accounting policies (Continued)

(i) Financial instruments (Continued)

Financial assets - Policy applicable after 1 January 2018 (Continued)

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 recognised 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:

1. The financial instruments only have significant payment obligations beyond the next 12 months;
2. 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
3. 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.

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:

1. 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.
2. 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 amortised 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).
3. 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).
4. 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).

2 Summary of significant accounting policies (Continued)

(i) Financial instruments (Continued)

Financial assets - Policy applicable after 1 January 2018 (Continued)

Significant Increase in Credit Risk (SICR) (Continued)

Qualitative Criteria (Continued)

5. 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.
6. 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).
7. 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 amortised 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:

1. Significant financial difficulty of the borrower or issuer;
2. A breach of contract such as a default or past due event;
3. The restructuring of a loan or advance by the Group on terms that the Group would not consider otherwise;
4. It is becoming probable that the borrower will enter bankruptcy or other financial re-organization; or
5. The disappearance of an active market for a security because of financial difficulties.

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

2 Summary of significant accounting policies (Continued)

(i) Financial instruments (Continued)

Financial assets - Policy applicable after 1 January 2018 (Continued)

Credit-impaired financial assets (Continued)

Loss allowances for ECL are presented in the statement of financial position as follows:
- Financial assets measured at amortised cost: as a deduction from the gross carrying amount of the assets;
- Loan commitments and financial guarantee contracts: generally, as a provision;
- Where a financial instrument includes both a drawn and an undrawn component, and the 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 recognised in the statement of financial position because the carrying amount of these assets is their fair value. However, the loss allowance is disclosed and is recognised in 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.

General approach to collective or individual assessment

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

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.

2 Summary of significant accounting policies (Continued)

(i) Financial instruments (Continued)

Financial liabilities and equity - Policy applicable after 1 January 2018

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

i. a contractual obligation:
ii. to deliver cash or another financial asset to another entity (e.g. a payable); or
iii. 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

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

i. 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
ii 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 amortised 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.

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

2 Summary of significant accounting policies (Continued)

(i) Financial instruments (Continued)

Financial liabilities and equity - Policy applicable after 1 January 2018 (Continued)

Classification of financial liabilities (Continued)

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:
1. Financial liabilities classified as held for trading; and
2. 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:
1. financial liabilities incurred principally for the purpose of repurchasing them in the near term;
2. 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
3. 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 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:
a. an interest rate swap that has negative fair value that is not accounted for as a hedging instrument;
b. a derivative liability incurred upon writing a foreign exchange option that is not accounted for as a hedging instrument;
c. 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
d. 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 upoun initial recognition be designated as at FVTPL only in one of the following circumstances

1. it eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring assets or liabilities or recognising the gains and losses on them on different bases (commonly referred to as an 'accounting mismatch');
2. 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.
3. 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 amortised cost).

2 Summary of significant accounting policies (Continued)

(i) Financial instruments (Continued)

Financial liabilities and equity - Policy applicable after 1 January 2018 (Continued)

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 recognise the asset to the extent of its continuing involvement. A corresponding liability is also recognised in accordance with and measured so that the net carrying amount of the asset and the liability is:

1. The amortised cost of the rights and obligations retained, if the asset is measured at amortised cost; or
2. 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:

1. 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
2. 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 recognised 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 Group are recognised in profit or loss only when:

a. the Group'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 Group; 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 recognised in profit or loss.

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.

2 Summary of significant accounting policies (Continued)

(i) Financial instruments (Continued)

Other policies - Policies applicable after 1 January 2018

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:

a. The amount of the loss allowance determined in accordance with IFRS 9 and
b. The amount initially recognised less, when appropriate, cumulative amount of income recognised 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:

a. The amount of the loss allowance determined in accordance with IFRS 9 and
b. The amount initially recognised less, when appropriate, cumulative amount of income recognised 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 recognised 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 derecognised, the Group assesses whether there has been a significant increase in the credit risk of the financial instrument by comparing:

a. the risk of a default occurring at the reporting date (based on the modified contractual terms); and
b. 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 should 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 - Policies applicable after 1 January 2018 (Continued)

Modifications not 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 amortised cost.

2 Summary of significant accounting policies (Continued)

(i) Financial instruments (Continued)

Other policies - Policies applicable after 1 January 2018 (Continued)

Transition requirements- Comparative information on initial application.
The Group decision is not to restate prior periods at transition date. If the Group does not restate prior periods, it is required to recognise any difference between the previous carrying amount and the carrying amount at the beginning of the annual reporting period that includes the date of initial application in the opening retained earnings (or other component of equity, as appropriate) of the annual reporting period that includes the date of initial application.

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, 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 categorised 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 categorised 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.

2 Summary of significant accounting policies (Continued)

(i) Financial instruments (Continued)

Other policies - Policies applicable after 1 January 2018 (Continued)

Valuation Techniques (Continued)

(a) Market approach (Continued)

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.

(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:

i. present value techniques and
ii. 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:

i. the discount rate adjustment technique and
ii. 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 - Policies applicable after 1 January 2018

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 are 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 amortised cost and those that are measured at fair value. Amortised cost financial assets are the financial instrument category that comprise various classes such as term loans, overdraft, unsecured medium-term loans etc.

2 Summary of significant accounting policies (Continued)

(i) Financial instruments (Continued)

Disclosure Requirements - Policies applicable after 1 January 2018 (Continued)

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 amortised cost;

d. financial liabilities measured at amortised 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 the business model (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.

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:

a. 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;

b. the amount by which any related credit derivatives or similar instruments mitigate that maximum exposure to credit risk;

c. 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:
   i. 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
   ii. 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.

d. 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

e. 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:
   i. the methods used to comply with the requirements in (c) above; and
   ii. 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.

2 Summary of significant accounting policies (Continued)

(i) Financial instruments (Continued)

Disclosure Requirements - Policies applicable after 1 January 2018 (Continued)

Financial liabilities at FVTPL

When the Group has designated financial liabilities as at FVTPL, it discloses, in particular the reporting entity's creditworthiness. The disclosure requirements vary depending on whether all of the fair value gains or losses are recognised 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 recognised 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:

a. the cumulative change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability;
b. 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;
c. any transfers of the cumulative gain or loss within equity during the period, including the reason for such transfers;
d. if a liability is derecognised during the period, the amount (if any) is 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:

a. 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
b. 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.

Reclassification

When financial assets of the Group are reclassified from amortised 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:

a. the date of reclassification;
b. detailed explanation of the change in business model and a qualitative description of its effect on the Group's financial statements; and
c. 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 amortised cost, the Group discloses the effective interest rate determined on the date of reclassification and the interest income or expense recognised.

If since its last annual reporting date the Group has reclassified financial assets so that they are measured at amortised cost, it discloses:

a. the fair value of the financial assets at the end of the reporting period; and
b. the fair value gain or loss that would have been recognised in profit or loss during the reporting period if the financial assets had not been reclassified.

Policies applicable before 1 January 2018

Objective evidence of impairment

At each reporting date, the Group assessed whether there was objective evidence that financial assets not carried at FVTPL were impaired. A financial asset or a group of financial assets was 'impaired' when objective evidence demonstrated that a loss event had occurred after the initial recognition of the asset(s) and that the loss event had an impact on the future cash flows of the asset(s) that could be estimated reliably.

2 Summary of significant accounting policies (Continued)

(i) Financial instruments (Continued)

Policies applicable before 1 January 2018

Objective evidence of impairment (Continued)

In addition, a retail loan that was overdue for 90 days or more was considered impaired. Objective evidence that financial assets were impaired included:
- significant financial difficulty of a borrower or issuer;
- default or delinquency by a borrower;
- the restructuring of a loan or advance by the Group on terms that the Group would not consider otherwise;
- indications that a borrower or issuer would enter bankruptcy;
- the disappearance of an active market for a security; or
- observable data relating to a group of assets, such as adverse changes in the payment status of borrowers or issuers in the group, or economic conditions that correlated with defaults in the group.

A loan that was renegotiated due to a deterioration in the borrower's condition was usually considered to be impaired unless there was evidence that the risk of not receiving contractual cash flows had reduced significantly and there were no other indicators of impairment.

In addition, for an investment in an equity security, a significant or prolonged decline in its fair value below its cost was objective evidence of impairment. In general, the Group considered a decline of 20% to be 'significant' and a period of nine months to be 'prolonged'. However, in specific circumstances a smaller decline or a shorter period may have been appropriate.

The Group considered evidence of impairment for loans and advances and held-to-maturity investment securities at both a specific asset and a collective level. All individually significant loans and advances and held-to-maturity investment securities were assessed for specific impairment. Those found not to be specifically impaired were then collectively assessed for any impairment that had been incurred but not yet identified (IBNR). Loans and advances and held-to maturity investment securities that were not individually significant were collectively assessed for impairment by grouping together loans and advances and held-to-maturity investment securities with similar credit risk characteristics.

Individual or collective assessment

An individual measurement of impairment was based on management's best estimate of the present value of the cash flows that were expected to be received. In estimating these cash flows, management made judgements about a debtor's financial situation and the net realisable value of any underlying collateral. Each impaired asset was assessed on its merits, and the workout strategy and estimate of cash flows considered recoverable were independently approved by the Credit Risk function.

The collective allowance for groups of homogeneous loans was established using statistical methods such as roll rate methodology or, for small portfolios with insufficient information, a formula approach based on historical loss rate experience. The roll rate methodology used statistical analysis of historical data on delinquency to estimate the amount of loss. Management applied judgement to ensure that the estimate of loss arrived at on the basis of historical information was appropriately adjusted to reflect the economic conditions and product mix at the reporting date. Roll rates and loss rates were regularly benchmarked against actual loss experience.

The IBNR allowance covered credit losses inherent in portfolios of loans and advances, and held-to-maturity investment securities with similar credit risk characteristics when there was objective evidence to suggest that they contained impaired items but the individual impaired items could not yet be identified.In assessing the need for collective loss allowance, management considered factors such as credit quality, portfolio size, concentrations and economic factors. To estimate the required allowance, assumptions were made to define how inherent losses were modelled and to determine the required input parameters, based on historical experience and current economic conditions. The accuracy of the allowance depended on the model assumptions and parameters used in determining the collective allowance. Loans that were subject to a collective IBNR provision were not considered impaired.

Measurement of impairment

Impairment losses on assets measured at amortised cost were calculated as the difference between the carrying amount and the present value of estimated future cash flows discounted at the asset's original effective interest rate. Impairment losses on available-for-sale assets were calculated as the difference between the carrying amount and the fair value.

2 Summary of significant accounting policies (Continued)

(i) Financial instruments (Continued)

Policies applicable before 1 January 2018

Reversal of impairment

- For assets measured at amortised cost: If an event occurring after the impairment was recognised, caused the amount of impairment loss to decrease, then the decrease in impairment loss was reversed through profit or loss.

- For available-for-sale debt security: If, in a subsequent period, the fair value of an impaired debt security increased and the increase could be related objectively to an event occurring after the impairment loss was recognised, then the impairment loss was reversed through profit or loss; otherwise, any increase in fair value was recognised through OCI.

Any subsequent recovery in the fair value of an impaired available-for-sale equity security was always recognised in OCI.

Presentation

Impairment losses were recognised in profit or loss and reflected in an allowance account against loans and receivables or held-to-maturity investment securities. Interest on the impaired assets continued to be recognised through the unwinding of the discount.

Impairment losses on available-for-sale investment securities were recognised by reclassifying the losses accumulated in the fair value reserve in equity to profit or loss. The cumulative loss that was reclassified from equity to profit or loss was the difference between the acquisition cost, net of any principal repayment and amortisation, and the current fair value, less any impairment loss previously recognised in profit or loss. Changes in impairment attributable to the application of the effective interest method were reflected as a component of interest income.

Write-off

The Group wrote off a loan or an investment debt security, either partially or in full, and any related allowance for impairment losses, when Group Credit determined that there was no realistic prospect of recovery.

(j) 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.

(k) 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.

(l) Leases

Assets leased to customers under agreements, which transfer substantially all the risks and rewards of ownership, with or without ultimate legal title, are classified as finance leases. When assets are held subject to a finance lease, the present value of the lease payments, discounted at the rate of interest implicit in the lease, is recognised as a receivable. The difference between the total payments receivable under the lease and the present value of the receivable is recognised as the un-earned finance income, which is allocated to the accounting periods under the pre-tax net investment method to reflect a constant periodic rate of return.

Leasehold land with periods of over 50 years have been included in property and equipment.

2 Summary of significant accounting policies (Continued)

(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. 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

2 Summary of significant accounting policies (Continued)

(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.

(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 at amortised cost and FVTOCI: The most significant judgements relate to defining what is considered to be a sinificant increase in credit risk, determining lifetine 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.

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 Group 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 Group-wide levels. These clearly delineate accountability and lines of authority across the Group'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 Group'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 Group. 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.

4 Financial risk management (Continued)

(a) Credit risk management (Continued)

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.

The disbursement of credit facilities at each bank in the Group 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.

4 Financial risk management (Continued)

(a) Credit risk management (Continued)

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 ECL. The Group sources macroeconomic information from a reputable data vendor that sources and forecasts using information from World Bank, IMF, EIU, CBK, KNBS etc. 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 2018 for the years 2019 to 2023, for Kenya which is the country where the parent operates and therefore is the country that has a material impact in ECLs.

	2019	2020	2021	2022	2023
GDP: Nominal GDP, USD, % y-o-y					
- Base case	0.059	0.067	0.078	0.081	0.078
- Best case	0.064	0.073	0.085	0.088	0.085
- Worst case	0.054	0.061	0.071	0.074	0.071
GDP: GDP per capita, KES, % y-o-y					
- Base case	0.083	0.093	0.095	0.092	0.093
- Best case	0.091	0.102	0.104	0.101	0.102
- Worst case	0.075	0.084	0.086	0.083	0.084
LABOUR FORCE: Total unemployment, % y-o-y					
- Base case	0.042	0.041	0.041	0.043	0.044
- Best case	0.040	0.039	0.039	0.041	0.042
- Worst case	0.044	0.043	0.043	0.045	0.046
MONEY SUPPLY: M3, % y-o-y					
- Base case	0.090	0.090	0.090	0.090	0.090
- Best case	0.098	0.098	0.098	0.098	0.098
- Worst case	0.082	0.082	0.082	0.082	0.082

4 Financial risk management (Continued)

(a) Credit risk management (Continued)

	2019	2020	2021	2022	2023
FISCAL: Total revenue, KES, % y-o-y					
- Base case	0.132	0.122	0.123	0.122	0.122
- Best case	0.148	0.137	0.138	0.137	0.137
- Worst case	0.116	0.107	0.108	0.107	0.107
FOREIGN RESERVES: Foreign reserves ex gold, USDbn, % y-o-y					
- Base case	0.100	0.100	0.100	0.100	0.100
- Best case	0.110	0.110	0.110	0.110	0.110
- Worst case	0.090	0.090	0.090	0.090	0.090
EXCHANGE RATE: KES/USD, eop % y-o-y					
- Base case	0.028	0.036	0.035	0.034	0.041
- Best case	0.027	0.035	0.034	0.033	0.040
- Worst case	0.029	0.037	0.036	0.035	0.042
INTEREST RATES: Lending rate, %, eop					
- Base case	0.126	0.126	0.126	0.111	0.111
- Best case	0.110	0.110	0.110	0.097	0.097
- Worst case	0.142	0.142	0.142	0.125	0.125
INFLATION: Consumer price inflation, % y-o-y, eop					
- Base case	0.065	0.065	0.065	0.065	0.065
- Best case	0.061	0.061	0.061	0.061	0.061
- Worst case	0.069	0.069	0.069	0.069	0.069

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 7 years.

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

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

4 Financial risk management (Continued)

Risk management principles (Continued)

Modified financial assets (continued)

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 I

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 will be 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 I unit of exposure (e.g. I KSH) 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 EIR of the loan.

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 contact 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.

4 Financial risk management (Continued)

(a) Credit risk management (Continued)

Credit quality analysis (continued)

Group

On balance sheeet facilities at amortised cost Loans and advances to customers	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 01 January 2018	150,028,116	44,024,481	13,050,400	-	207,102,997
– 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**

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 carrrying 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 carrrying amount	115,489,352	-	-	-	115,489,352
Corporate bonds					
- Gross and net carrrying amount	43,359	-	-	-	43,359
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
– 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)	-	(16,506,485)
Write-offs	(10,913)	(354)	(24,551)	-	(35,818)
Other changes	(589,995)	(22,230)	21,206	-	(591,019)
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**

4 Financial risk management (Continued)

(a) Credit risk management (Continued)

Credit quality analysis (Continued)

Group
On balance sheet facilities - at armotised cost (Continued)

Loss allowances - Loans and advances to customers

	12-month ECL Shs'000	Lifetime ECL Shs'000	Lifetime ECL Shs'000	POCI Shs'000	Total Shs'000
Loss allowance as at 31 December 2017	403,262	2,373,704	8,277,876	-	11,054,842
Restatement of the prior year	367,850	41,200	(9,043)	-	400,007
Loss allowance as at 1 January 2018	771,112	2,414,904	8,268,833	-	11,454,849
Changes in the loss allowance					
– Transfer to stage 1	545,513	(529,887)	(15,626)	-	-
– Transfer to stage 2	(23,851)	60,528	(36,677)	-	-
– Transfer to stage 3	(9,170)	(113,762)	122,932	-	-
– Write - offs	(155)	(13,961)	(5,182,492)	-	(5,196,608)
New financial assets originated or purchased	172,020	517,612	221,389	-	911,021
Financial assets that have been derecognised	(259,323)	(1,070,880)	(295,034)	-	(1,625,237)
Changes in models/ risk parameters	237,267	94,356	259,731	-	591,354
Foreign exchange and other movements	(378,753)	(11,662)	2,074,777	-	1,684,362
Loss allowance as at 31 December 2018	**1,054,660**	**1,347,248**	**5,417,833**	**-**	**7,819,741**

4 Financial risk management (Continued)

(a) Credit risk management (Continued)

Credit quality analysis (Continued)

Group **Off balance sheet facilities**	**12-month ECL** **Shs'000**	**Lifetime ECL** **Shs'000**	**Lifetime ECL** **Shs'000**	**POCI** **Shs'000**	**Total** **Shs'000**
Loss allowance as at 31 December 2017	-	-	-	-	-
Restatement of the prior year	43,686	6,748	18,983		69,417
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**

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	
	2018	2017
	Shs'000	Shs'000
Credit-impaired loans and advances to customers at 1 January	13,208,517	5,981,305
Classified as credit-impaired during the year	7,032,905	13,233,499
Transferred to not credit-impaired during the year	(138,321)	(3,889,758)
Net repayments	(1,401,314)	(914,963)
Disposals	(7,033,538)	(2,128,206)
Other movements	477,075	768,523
Credit-impaired loans and advances to customers at 31 December	**12,145,324**	**13,050,400**

The contractual amount outstanding on financial assets that were written off during the year ended 31 December 2018 and that are still subject to enforcement activity is Shs. 5.5 billion.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

4 Financial risk management (Continued)

(a) Credit risk management (Continued)

Credit quality analysis (Continued)

Bank

On balance sheeet facilities at amortised cost

Loans and advances to customers	**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	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**

4 Financial risk management (Continued)

(a) Credit risk management (Continued)

Credit quality analysis (continued)

Bank

Other financial assets at amotised 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					
- Gross carrrying 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 carrrying amount	**86,311,885**	**-**	**-**	**-**	**86,311,885**
Off balance sheet facilities					
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**

4 Financial risk management (Continued)

(a) Credit risk management (Continued)

Credit quality analysis (Continued)

Bank

On balance sheet facilities at amortised cost

Loss allowances - Loans and advances to customers	**12-month ECL** Shs'000	**Lifetime ECL** Shs'000	**Lifetime ECL** Shs'000	**POCI** Shs'000	**Total** Shs'000
Loss allowance as at 31 December 2017	182,194	1,929,951	7,023,494	-	9,135,639
Restatement of the prior year	400,060	91,342	-	-	491,402
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**

4 Financial risk management (Continued)

(a) Credit risk management (Continued)

Credit quality analysis (Continued)

Bank

Off balance sheet facilities

	12-month ECL Shs'000	Lifetime ECL Shs'000	Lifetime ECL Shs'000	POCI Shs'000	Total Shs'000
Loss allowance as at 31 December 2017	-	-	-	-	-
Restatement of the prior year	30,160	1,611	-	-	31,771
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)
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**

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	
	2018	2017
	Shs'000	Shs'000
Credit-impaired loans and advances to customers at 1 January	10,597,748	4,486,767
Change in allowance for impairment		
Classified as credit-impaired during the year	4,993,714	7,822,881
Transferred to not credit-impaired during the year	(20,271)	(1,104,197)
Net repayments	(524,795)	(633,876)
Disposals	(5,817,215)	(743,791)
Other movements	481,442	769,964
Credit-impaired loans and advances to customers at 31 December	**9,710,643**	**10,597,748**

The contractual amount outstanding on financial assets that were written off during the year ended 31 December 2018 and that are still subject to enforcement activity is Shs 4.3 billion

Impaired financial assets – Comparative information under IAS 39

Financial assets that are past due or impaired

	Group		Bank	
	2018	2017	2018	2017
	Shs'000	Shs'000	Shs'000	Shs'000
Loans and advances are summarised as follows:				
Neither past due nor impaired	157,559,137	150,028,116	118,203,570	115,874,881
Past due but not impaired	31,410,786	44,024,481	25,248,764	31,178,803
Impaired	12,145,324	13,050,400	9,710,643	10,597,748
Gross	201,115,247	207,102,997	153,162,977	157,651,432
Less: Provision for impairment of loans and advances				
Stage 3 impairment	(5,421,312)	(8,233,546)	(4,179,635)	(7,023,575)
Stage 1 and 2 impairment	(2,619,579)	(2,821,296)	(2,201,661)	(2,112,064)
Net carrying amount	**193,074,356**	**196,048,155**	**146,781,681**	**148,515,793**

4 Financial risk management (Continued)

(a) Credit risk management (Continued)

Credit quality analysis (Continued)

	Group		Bank	
	2018	2017	2018	2017
	Shs'000	Shs'000	Shs'000	Shs'000
Past due up to 30 days	13,776,250	26,457,973	10,738,431	14,664,313
Past due 31 - 60 days	8,232,243	8,624,516	6,686,207	4,955,571
Past due 61 - 90 days	9,402,293	8,941,992	7,824,126	7,764,615
Total	**31,410,786**	**44,024,481**	**25,248,764**	**27,384,499**

Maximum exposure to credit risk before collateral held				
Balances with Central Banks	29,788,551	17,376,788	22,171,419	10,162,149
Government securities	115,489,352	112,481,802	86,311,885	84,911,214
Deposits and balances due from banking institutions	14,162,442	12,516,371	2,685,708	2,910,469
Loans and advances to customers	193,074,357	196,048,155	146,781,681	148,515,793
Corporate bond	43,359	71,480	-	-
Other assets	1,666,262	1,597,417	1,272,253	1,198,736
Credit risk exposures relating to off-balance sheet items:				
- Acceptances and letters of credit	22,611,416	16,114,877	19,721,291	13,549,963
- Guarantee and performance bonds	19,032,251	16,532,373	16,932,196	14,202,735
	395,867,990	**372,739,263**	**295,876,433**	**275,451,059**

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	
	2018	2017	2018	2017
	Shs'000	Shs'000	Shs'000	Shs'000
Fair value of collateral	332,509,063	292,830,179	233,833,175	232,673,185

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 counterparty 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 follows:

4 Financial risk management (Continued)

(b) Concentration risk (Continued)

Group

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**
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)	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
Off balance sheet											
Contingent liabilities	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**
31 December 2017											
On balance sheet											
Equity investments- at FVTOCI	-	-	1,797,617	-	-	-		-	-	-	1,797,617
Loans and advances to customers (Gross)	31,041,992	41,557,763	14,194,207	30,495,347	9,394,220	51,675,101	724,036	17,770,254	8,172,186	2,077,891	207,102,997
Deposits due from banking institutions	-	-	-	12,516,371	-	-		-		-	12,516,371
Other assets (excluding prepayments & Statutory receivables)	-	-	-	-	-	-		-	-	1,597,417	1,597,417
	31,041,992	41,557,763	15,991,824	43,011,718	9,394,220	51,675,101	724,036	17,770,254	8,172,186	3,675,308	223,014,402

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

4 Financial risk management (Continued)

(b) Concentration risk (Continued)

Group (Continued)

31 December 2017	Manufacturing	Wholesale and retail trade	Transport and communications	Business & financial services	Agriculture	Building, construction & real estate	Retail housing	Touism 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 liabilities	4,482,476	19,818,593	1,956,776	1,157,342	1,034,978	2,383,206	-	299,830	144,570	1,369,480	32,647,250
Undrawn credit lines	908,105	2,679,885	266,956	307,282	176,442	5,739,945	109,480	248,910	566,316	299,122	11,302,443
	5,390,581	**22,498,478**	**2,223,732**	**1,464,624**	**1,211,420**	**8,123,151**	**109,480**	**548,740**	**710,886**	**1,668,602**	**43,949,693**

Bank

31 December 2018	Manufacturing	Wholesale and retail trade	Transport and communications	Business & financial services	Agriculture	Building, construction & real estate	Retail housing	Touism and hotels	Individuals	Others	Total
On balance sheet											
Equity investments- at FCTOCI	-	-	1,797,617	-	-	-	-	-	-	-	1,797,617
Loans and advances to customers (Gross)	17,731,475	25,434,707	10,340,396	27,558,593	5,263,143	43,046,141	1,182,767	14,365,432	8,148,024	92,325	153,163,003
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**	**30,244,301**	**5,263,143**	**43,046,141**	**1,182,767**	**14,365,432**	**8,148,024**	**1,364,578**	**158,918,581**
Off balance sheet											
Contingent liabilities	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**

4 Financial risk management (Continued)

(b) Concentration of risk (Continued)

Bank

31 December 2017	Manufacturing	Wholesale and retail trade	Transport and communications	Business and financial services	Agriculture	Building and construction and real estate	Retail housing	Touism 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)	23,058,577	28,160,473	10,019,851	26,843,137	7,659,016	40,052,272	709,841	13,071,228	8,008,190	68,847	157,651,432
Deposits due from banking institutions	-	-	-	2,910,469	-	-		-	-	-	2,910,469
Other assets (excluding prepayments & statutory receivables)	-	-	-	-	-	-	-	-	-	1,198,736	1,198,736
	23,058,577	**28,160,473**	**11,817,468**	**29,753,606**	**7,659,016**	**40,052,272**	**709,841**	**13,071,228**	**8,008,190**	**1,267,583**	**163,558,254**
Off balance sheet											
Contingent liabilities	4,311,531	16,191,888	1,837,618	993,140	1,034,978	1,803,854	-	196,261	144,570	1,238,858	27,752,698
Undrawn credit lines	240,282	582,076	146,664	8,220	132,658	5,139,888	109,480	139,401	376,772	156,626	7,032,067
	4,551,813	**16,773,964**	**1,984,282**	**1,001,360**	**1,167,636**	**6,943,742**	**109,480**	**335,662**	**521,342**	**1,395,484**	**34,784,765**

(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, in the Group's case. 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 Bank 's exposure to price risk was limited to its investment in Government securities held at fair value through the profit and loss. This investment has subsequently been disposed in January 2019. 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 any interest rate risk on off balance sheet items.

Group	**Up to 1 month**	**1-3 months**	**3-12 months**	**1-5 years**	**Over 5 years**	**Non-interest sensitive**	**Total**
31 December 2018	**Shs'000**	**Shs'000**	**Shs'000**	**Shs'000**	**Shs'000**	**Shs'000**	**Shs'000**
FINANCIAL ASSETS							
Cash and balances with Central Banks	-	-	-	-	-	37,716,947	37,716,947
Government securities	9,841,960	10,276,993	85,299,250	10,071,149	-	-	115,489,352
Deposits and balances due from banking institutions	6,563,783	3,424,443	497,070	-	-	3,677,146	14,162,442
Loans and advances to customers	30,597,692	160,349,181	813,404	563,898	-	750,182	193,074,357
Corporate bond	-	-	43,359	-	-	-	43,359
Equity investments at FVTOCI	-	-	-	-	-	1,797,617	1,797,617
Other assets	-	-	-	-	-	1,666,262	1,666,262
Total financial assets	**47,003,435**	**174,050,617**	**86,653,083**	**10,635,047**	**-**	**45,608,154**	**363,950,336**
FINANCIAL LIABILITIES							
Customer deposits	134,507,045	53,112,944	68,008,376	2,277,230	-	24,954,408	282,860,003
Deposits and balances due to banking institutions	16,986,666	-	11,070	-	-	145,471	17,143,207
Borrowings	-	4,207,639	10,472,093	-	-	14,262	14,693,994
Other liabilities	-	-	-	-	-	3,404,209	3,404,209
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**
31 December 2017							
Total financial assets	42,490,571	187,492,662	70,402,922	14,701,663	-	34,433,875	349,521,693
Total financial liabilities	149,348,566	63,780,268	68,834,051	2,410,606	-	24,710,041	309,083,532
Interest sensitivity gap	**(106,857,995)**	**123,712,394**	**1,568,871**	**12,291,057**	**-**	**9,723,834**	**40,438,161**

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 2018	**Shs'000**	**Shs'000**	**Shs'000**	**Shs'000**	**Shs'000**	**Shs'000**	**Shs'000**
FINANCIAL ASSETS							
Cash and balances with Central Bank of Kenya	-	-	-	-	-	27,363,599	27,363,599
Government securities	8,961,900	3,950,840	66,678,750	6,720,395	-	-	86,311,885
Deposits and balances due from banking institutions	2,685,708	-	-	-	-	-	2,685,708
Loans and advances to customers	133,504	146,255,005	393,172	-	-	-	146,781,681
Equity investments - at fair value through OCI	-	-	-	-	-	1,797,617	1,797,617
Other assets	-	-	-	-	-	1,272,253	1,272,253
Total financial assets	**11,781,112**	**150,205,845**	**67,071,922**	**6,720,395**	**-**	**30,433,469**	**266,212,743**
FINANCIAL LIABILITIES							
Customer deposits	109,549,040	47,595,831	48,827,291	87,348	-	-	206,059,510
Deposits and balances due to banking institutions	14,724,330	-	-	-	-	-	14,724,330
Borrowings	-	887,015	9,554,291	-	-	-	10,441,306
Other liabilities	-	-	-	-	-	2,281,010	2,281,010
Total financial liabilities	**124,273,371**	**48,482,846**	**58,381,582**	**87,348**	**-**	**2,281,010**	**233,506,156**
Interest sensitivity gap	**(112,492,258)**	**101,722,999**	**8,690,340**	**6,633,047**	**-**	**28,152,459**	**32,706,587**
At 31 December 2017							
Total financial assets	10,591,626	165,286,851	54,787,122	5,671,877	-	18,046,544	254,384,020
Total financial liabilities	120,912,850	59,270,056	42,487,460	146,158	-	3,971,317	226,787,841
Interest sensitivity gap	**(110,321,224)**	**106,016,795**	**12,299,662**	**5,525,719**	**-**	**14,075,227**	**27,596,179**

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	
	2018	2017	2018	2017
	Shs'million	Shs'million	Shs'million	Shs'million
+ 5% movement	1,364	1,450	1,151	1,224
- 5% movement	(1,364)	(1,450)	(1,151)	(1,224)

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 by the Board. 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 2018. Included in the table are the Group's and Bank's financial instruments, categorised by currency.

Group	**USD**	**GBP**	**EURO**	**OTHERS**	**TOTAL**
	Shs'000	**Shs'000**	**Shs'000**	**Shs'000**	**Shs'000**
At 31 December 2018					
FINANCIAL ASSETS					
Cash and balances with Central banks	3,237,571	269,836	588,573	55,260	4,151,240
Deposits and balances due from banking institutions	12,356,225	1,128,643	1,297,946	376,471	15,159,285
Other assets	49,158	-	-	-	49,158
Loans and advances to customers	97,646,520	29,155	2,632,190	137	100,308,002
Equity investments- at FVTOCI	1,797,617	-	-	-	1,797,617
Total financial assets	**115,087,091**	**1,427,634**	**4,518,709**	**431,868**	**121,465,302**
FINANCIAL LIABILITIES					
Customer deposits	76,746,234	5,707,601	4,319,360	353,032	87,126,227
Deposits and balances due to banking institutions	17,754,297	12,817	1,754	100,456	17,869,324
Other liabilities	1,501,699	2,534	1,407	1,471	1,507,111
Borrowings	14,679,732	-	-	14,262	14,693,994
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	**9,821,143**	**(4,446,363)**	**166,465**	**(89,335)**	**5,451,910**
Overall net position	**14,226,272**	**(8,741,681)**	**362,653**	**(126,688)**	**5,720,556**
At 31 December 2017					
Total financial assets	112,062,656	1,224,796	4,702,225	349,473	118,339,150
Total financial liabilities	109,712,424	3,132,895	3,031,069	304,635	116,181,023
Net balance sheet position	**2,350,232**	**(1,908,099)**	**1,671,156**	**44,838**	**2,158,127**
Net off balance sheet position	**(494,222)**	**1,842,535**	**(1,778,855)**	**41,904**	**(388,638)**
Overall net position	**1,856,010**	**(65,564)**	**(107,699)**	**86,742**	**1,769,489**

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 2018					
FINANCIAL ASSETS					
Cash and balances with Central Bank of Kenya	653,650	132,109	400,928	1,025	1,187,712
Deposits and balances due from banking institutions	1,511,507	597,698	197,529	353,655	2,660,389
Other assets	2,848	-	-	-	2,848
Loans and advances to customers	66,855,699	28,553	2,585,090	-	69,469,342
Equity investments - at fair value through OCI	1,797,617	-	-	-	1,797,617
Total financial assets	**70,821,321**	**758,360**	**3,183,547**	**354,680**	**75,117,908**
FINANCIAL LIABILITIES					
Customer deposits	35,502,158	5,129,865	2,993,961	332,458	43,958,442
Deposits and balances due to banking institutions	14,569,378	12,676	1,649	100,456	14,684,159
Other liabilities	122,040	941	1,151	1,290	125,422
Borrowings	10,441,306	-	-	-	10,441,306
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**
At 31 December 2017					
Total financial assets	69,032,026	497,982	3,821,778	175,357	73,527,143
Total financial liabilities	65,835,050	2,411,879	2,280,002	255,490	70,782,421
Net balance sheet position	**3,196,976**	**(1,913,897)**	**1,541,776**	**(80,133)**	**2,744,722**
Net off balance sheet position	**(765,976)**	**1,845,623**	**(1,633,374)**	**99,460**	**(454,267)**
Overall net position	**2,431,000**	**(68,274)**	**(91,598)**	**19,327**	**2,290,455**

Currency risk sensitivity analysis

At 31 December 2018, 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:

4 Financial risk management (Continued)

(c) Market Risk Management (Continued)

(iii) Foreign exchange risk (Continued)

Currency risk sensitivity analysis(Continued)

	Group		Bank	
	2018	2017	2018	2017
	Shs'million	Shs'million	Shs'million	Shs'million
+ 5% movement	194.5	60.2	6.2	76.7
- 5% movement	(194.5)	(60.2)	(6.2)	(76.7)

(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**	**1-3 months**	**3-12 months**	**1-5 years**	**Over 5 years**	**Total**
At 31 December 2018	**Shs'000**	**Shs'000**	**Shs'000**	**Shs'000**	**Shs'000**	**Shs'000**
FINANCIAL ASSETS						
Cash and balances with Central Banks	25,016,075	5,370,857	7,108,448	221,558	9	37,716,947
Government securities	10,004,506	24,683,723	72,365,162	9,797,646	6,216,789	123,067,826
Deposits and balances due from banking institutions	10,328,554	3,414,996	1,721,354	-	-	15,464,904
Loans and advances to customers	13,603,841	11,944,329	59,682,844	88,955,336	54,274,213	228,460,563
Corporate bond - held to maturity	-	-	29,177	19,241	-	48,418
Equity investments- at fair value through OCI	-	-	-	-	1,797,617	1,797,617
Other assets	1,666,262	-	-	-	-	1,666,262
Total financial assets	**60,619,238**	**45,413,905**	**140,906,985**	**98,993,781**	**62,288,628**	**408,222,537**
FINANCIAL LIABILITIES						
Customer deposits	159,613,122	54,795,224	71,878,342	1,985,340	2,035,958	290,307,986
Deposits and balances due to banking institutions	17,642,127	650,203	102,666	-	-	18,394,996
Borrowings	360,168	2,069,205	3,887,228	8,968,142	727,069	16,011,812
Other liabilities	3,380,623	-	-	-	23,586	3,404,209
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)

Group (Continued)

At 31 December 2017	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
Total financial assets	56,209,124	52,782,056	154,782,547	93,880,718	44,337,762	401,992,207
Total financial liabilities	159,425,821	61,830,758	66,835,168	13,324,487	19,739,504	321,155,738
Net liquidity gap	**(103,216,697)**	**(9,048,702)**	**87,947,379**	**80,556,231**	**24,598,258**	**80,836,469**

Bank

At 31 December 2018	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
FINANCIAL ASSETS						
Cash and balances with Central Bank of Kenya	16,035,022	5,156,269	6,044,993	127,315	-	27,363,599
Government securities	8,961,900	18,143,902	52,484,121	6,216,789	6,216,789	92,023,501
Deposits and balances due from banking institutions	1,501,275	-	1,206,312	-	-	2,707,587
Loans and advances to customers	9,419,762	6,493,953	44,631,157	67,269,989	41,654,796	169,469,657
Other assets	1,272,253	-	-	-	-	1,272,253
Equity investments- at FVTOCI	-	-	-	-	1,797,617	1,797,617
Total financial assets	**37,190,212**	**29,794,124**	**104,366,583**	**73,614,093**	**49,669,202**	**294,634,214**
FINANCIAL LIABILITIES						
Customer deposits	110,826,366	49,095,952	52,508,777	339,960	-	212,771,055
Deposits and balances due to banking institutions	14,737,990	-	-	-	-	14,737,990
Borrowings	-	999,165	2,469,861	8,657,238	407,375	12,533,639
Other liabilities	2,281,010	-	-	-	-	2,281,010
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)

(d) Liquidity risk management (Continued)

Bank (Continued) At 31 December 2017	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
Total financial assets	32,782,789	41,034,554	123,097,689	61,815,028	34,784,767	293,514,827
Total financial liabilities	128,606,120	53,492,696	46,822,074	7,975,118	297,238	237,193,246
Net liquidity gap	**(95,823,331)**	**(12,458,142)**	**76,275,615**	**53,839,910**	**34,487,529**	**56,321,581**

(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 Groups's Risk & 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).

4 Financial risk management (Continued)

(f) Fair values of financial assets and liabilities (Continued)

		Group		Bank	
		2018	2017	2018	2017
		Shs'000	Shs'000	Shs'000	Shs'000
Level 1	Government securities	7,256,374	15,474	505,173	15,474
Level 2	Land and buidings	3,695,805	3,702,585	3,453,019	3,452,719
Level 2	Equity investments at FVTOCI	1,797,617	1,797,617	1,797,617	1,797,617
		12,749,796	**5,515,676**	**5,755,809**	**5,265,810**

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-priced 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 amortised cost and their fair value approximates their carrying amount.

(g) Capital management

The Group's objectives when managing capital, which is a broader concept than the 'equity' on the balance sheet, are

1. to comply with the capital requirements set by the Central Bank of Kenya (CBK);
2. to safeguard the Bank as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders;
3. 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

4 Financial risk management (Continued)

(g) Capital management (Continued)

- 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:

a. Core capital to Total risk weighted assets (TRWA) ratio	10.50%
b. Core capital to deposits ratio	8.00%
c. 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 11.5% and Total capital to TRWA ratio of 16.0% respectivly.

As at 31 December 2018, 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.

The table below summarises the composition of regulatory capital and the ratios of the Group and Bank as at 31 December:

	Group		Bank	
	2018	**2017**	**2018**	**2017**
	Shs'000	**Shs'000**	**Shs'000**	**Shs'000**
Tier 1 Capital	53,691,094	48,147,761	39,935,899	35,343,675
Tier 1 + Tier 2 Capital	60,937,163	54,606,090	45,102,257	38,790,383
Risk-weighted assets				
On-balance sheet	234,151,674	206,915,373	152,113,583	155,455,549
Off-balance sheet	7,224,405	1,158,277	31,142,396	22,557,980
Operational and market risk	31,402,829	26,735,888	30,421,925	26,025,107
Total risk-weighted assets	**272,778,908**	**234,809,538**	**213,677,904**	**204,038,636**
Basel ratio				
Tier 1 (CBK minimum - 10.5%)	19.7%	20.5%	18.7%	17.3%
Tier 1 + Tier II (CBK minimum - 14.5%)	22.3%	23.3%	21.1%	19.0%

4 Financial risk management (Continued)

(g) Capital management (Continued)

The capital adequacy ratios for the subsidiaries are summarised below;

	2018	2017
Tier I		
DTB Tanzania - Bank of Tanzania (BOT) minimum - 12.5%;	18.8%	18.9%
DTB Uganda - Bank of Uganda (BOU) Tminimum - 12.5%	28.2%	25.5%
DTB Burundi - Banque de la Republique du Burundi minimum - 12.5%	49.2%	59.4%
Tier I + Tier II		
DTB Tanzania (BOT) minimum - 14.5%;	23.9%	25.01%
DTB Uganda - (BOU) minimum -14.5%	29.1%	30.4%
DTB Burundi - Banque de la Republique du Burundi minimum - 14.5%	50.8%	62.3%

	Group		Bank	
	2018	2017	2018	2017
	Shs'000	Shs'000	Shs'000	Shs'000
5 Interest income				
Loans and advances	21,956,985	22,651,861	16,754,047	16,837,147
Government securities	13,010,069	11,744,676	10,188,136	8,694,690
Placements and bank balances	301,449	232,253	99,802	101,556
	35,268,503	34,628,790	27,041,985	25,633,393
6 Interest expense				
Customer deposits	13,463,538	13,497,804	11,327,165	10,659,671
Deposits due to banking institutions	795,314	490,587	743,716	481,658
	14,258,852	13,988,391	12,070,881	11,141,329
7 Net fee and commission income				
Fee and commission income	3,413,397	3,284,531	1,948,342	1,928,410
Inter-bank transaction fees	(172,537)	(143,792)	(172,537)	(143,792)
Net fees and commissions	3,240,860	3,140,739	1,775,805	1,784,618
8 Other operating income				
Rental income	47,245	43,798	46,913	43,277
Commission from insurance business	326,748	247,227	161,291	117,515
(Loss)/ gain on sale of property and equipment	(92,008)	(3,249)	(81,779)	1,379
Other	67,363	99,845	124,432	159,956
	349,348	387,621	250,857	322,127

		Group 2018 Shs'000	Group 2017 Shs'000	Bank 2018 Shs'000	Bank 2017 Shs'000
9	**Operating expenses**				
	Operating expenses include:				
	Staff costs (note 10)	4,240,098	4,014,339	2,559,119	2,448,213
	Depreciation (Note 22)	1,002,064	982,200	552,147	570,146
	Amortisation of software costs (Note 21)	272,225	354,847	190,224	222,187
	Operating lease rentals	886,512	775,915	449,611	385,090
	Auditors' remuneration	22,629	19,357	9,013	8,050
	Other expenses	5,079,571	4,413,207	2,680,414	2,361,907
		11,503,099	**10,559,865**	**6,440,528**	**5,995,593**
10	**Staff costs**				
	Salaries and allowances	3,639,672	3,498,142	2,305,195	2,254,456
	Contribution to defined contribution retirement scheme	137,475	94,311	135,703	92,702
	National Social Security Fund contribution	119,253	112,568	2,544	2,627
	Others including insurance and training expenses	343,698	309,318	115,677	98,428
		4,240,098	**4,014,339**	**2,559,119**	**2,448,213**
11	**Income tax expense**				
a)	Tax charge				
	Current income tax	3,448,301	4,199,844	2,810,559	3,304,839
	Over provision of income tax in previous year	(4,089)	(1,619)	(4,094)	(1,500)
	Deferred income tax (Note 24)	563,007	(1,026,013)	783,351	(575,272)
	(Over)/ under provision of deferred tax credit in previous year (Note 24)	(89,062)	983	(111,958)	(180)
		3,918,157	**3,173,195**	**3,477,858**	**2,727,887**

11 Income tax expense (Continued)

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	
	2018	2017	2018	2017
	Shs'000	Shs'000	Shs'000	Shs'000
Profit before income tax	11,000,272	10,098,235	9,264,774	8,227,558
Tax calculated at the statutory tax rate of 30% (2017: 30%)	3,300,082	3,029,471	2,779,432	2,468,268
Tax effect of:				
Income not subject to tax	(344,627)	(74,689)	(189,792)	(26,086)
Expenses not deductible for tax purposes	1,055,853	143,167	1,004,270	211,503
Deferred tax inherited from HBL	-	75,882	-	75,882
Overprovision of current income tax in previous year	(4,089)	(1,619)	(4,094)	(1,500)
(Over)/ under provision of deferred tax in previous year	(89,062)	983	(111,958)	(180)
Income tax expense	**3,918,157**	**3,173,195**	**3,477,858**	**2,727,887**

c) Tax payable /(receivable)

At 1 January				
Payable	-	695,434	-	681,444
Receivable	(829,434)	(121,468)	(652,699)	-
	(829,434)	573,966	(652,699)	681,444
Income tax charge	3,448,301	4,199,844	2,810,559	3,304,839
prior year overprovision	(4,089)	(1,619)	(4,094)	(1,500)
Tax paid	(4,085,348)	(5,601,625)	(3,076,638)	(4,637,482)
At 31 December	**(1,470,570)**	**(829,434)**	**(922,872)**	**(652,699)**

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	
	2018	2017	2018	2017
Profit attributable to shareholders (Shs thousands)	6,686,612	6,449,811	5,786,916	5,499,671
Weighted average number of ordinary shares in issue (thousands)	279,602	271,855	279,602	271,855
Earnings per share (Shs per share) - basic and diluted	23.91	23.73	20.70	20.23

The earnings per share have been calculated on the basis of the number of weighted ordinary shares issued as at 31 December 2018. There were no potentially dilutive shares outstanding at 31 December 2018.

13 Dividends per share

At the Annual General Meeting to be held on 23 May 2019, a final dividend in respect of the year ended 31 December 2018 of Shs 2.60 per share amounting to a total of Shs 726,965,772 is to be proposed.

The total dividend for the year is Shs 2.60 per share (2017: Shs 2.60), amounting to a total of Shs 726,965,772 (2017: 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 fianancial assets and liabilities

(a) Group

The following table provides a reconcilliation between line items in the statement of financial position and categories of financial instruments.

31 December 2018	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	-	-	-	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 investments- at FVTOCI	-	-	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**
31 December 2017					
Cash and balances with Central Banks	-	-	-	25,008,851	25,008,851
Government securities	-	15,474	-	112,466,328	112,481,802
Deposits and balances due from banking institutions	-	-	-	12,516,371	12,516,371
Loans and advances to customers	-	-	-	196,048,155	196,048,155
Corporate bond - at amortised cost	-	-	-	71,480	71,480
Equity investments- at FVTOCI	-	-	1,797,617	-	1,797,617
Other assets	-	-	-	1,597,417	1,597,417
Total financial assets	**-**	**15,474**	**1,797,617**	**347,708,602**	**349,521,693**

14 Classification of financial assets and liabilities (Continued)
(a) Group (Continued)
31 December 2017 (Continued)

	Mandatorily at FVTPL Shs'000	Designated at FVTPL Shs'000	Investment at FVTOCI Shs'000	Amortised cost Shs'000	Total carrying amount Shs'000
Customer deposits	-	-	-	266,246,854	266,246,854
Deposits and balances due to banking institutions	-	-	-	20,503,993	20,503,993
Other liabilities	-	-	-	5,157,751	5,157,751
Borrowings	-	-	-	17,174,934	17,174,934
Total financial Liabilities	**-**	**-**	**-**	**309,083,532**	**309,083,532**

The Group early adopted the previous version of IFRS 9 dealing with classification and measurement of financial assets in 2011. The Group has adopted the updated version from 1 January 2018. There has been no material change in measurement but the Group has reclassified some debt instruments to FVTOCI previously not permissible in the version adopted earlier. The table below shows the measurement categories under IFRS 9 for the group's financial assets and liabilities

	Original classification under previous version of IFRS 9	New classification on adoption of updated IFRS 9	Original carrying amount	New carrying amount	Impact of adopting new version of IFRS 9
Financial assets	**Shs'000**	**Shs'000**	**Shs'000**	**Shs'000**	**Shs'000**
Cash and balances with Central Banks	Amortised cost	Amortised cost	25,008,851	25,008,851	-
Government securities	Amortised cost	Amortised cost and FVTOCI debt instruments	112,481,802	112,532,508	50,706
Deposits and balances due from banking institutions	Amortised cost	Amortised cost	12,516,371	12,506,227	(10,144)
Loans and advances to customers	Amortised cost	Amortised cost	196,048,155	195,648,148	(400,007)
Corporate bond - at amortised cost	Amortised cost	Amortised cost	71,480	71,480	-
Equity investments- at fair value through OCI	FVTOCI	FVTOCI	1,797,617	1,797,617	-
Other assets	Amortised cost	Amortised cost	1,597,417	1,597,417	-
Total			**349,521,693**	**349,162,248**	**(359,445)**
Financial liabilities					
Customer deposits	Amortised cost	Amortised cost	266,246,854	266,246,854	-
Deposits and balances due to banking institutions	Amortised cost	Amortised cost	20,503,993	20,503,993	-
Other liabilities	Amortised cost	Amortised cost	5,157,751	5,157,751	-
Borrowings	Amortised cost	Amortised cost	17,174,934	17,174,934	-
			309,083,532	**309,083,532**	**-**

14 Classification of fianancial assets and liabilities (Continued)
(a) Group (Continued)

The table below reconciles the carrying amounts for specific assets that were impacted by the adoption of the updated version.

	Carrying amount in 2017	Reclassification	Remeasurement	New carrying amount
Amortised cost	**Shs'000**	**Shs'000**	**Shs'000**	**Shs'000**
Government securities	112,481,802	(9,475,510)	-	103,006,292
Loans and advances to customers	196,048,155	-	(400,007)	195,648,148
Deposits and balances due from banking institutions	12,516,371	-	(10,144)	12,506,227
FVOCI debt instrument				
Government securities	-	9,475,510	50,706	9,526,216
Gross effect of adopting IFRS 9 (Day 1 adjustment)			**(359,445)**	
Deferred tax (Note 24)			107,834	
IFRS 9 impact net of tax			**(251,611)**	

There was no change in the carrying values of all other financial assets and liabilities other than Government securities, loans and advances to customers and deposits and balances due from banking instituions as shown above

(b) Bank

The table below reconciles the carrying amounts for specific assets that were impacted by the adoption of the updated version.

31 December 2018	Mandatorily at FVTPL	Designated at FVTPL	Investment at FVTOCI	Amortised cost	Total carrying amount
	Shs'000	**Shs'000**	**Shs'000**	**Shs'000**	**Shs'000**
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 investments - 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**

14 Classification of fianancial assets and liabilities (Continued)

(b) Bank (Continued)

The table below reconciles the carrying amounts for specific assets that were impacted by the adoption of the updated version.

31 December 2017	Mandatorily at FVTPL	Designated at FVTPL	Investment at FVTOCI	Amortised cost	Total carrying amount
	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000
Cash and balances with Central Banks	-	-	-	15,050,191	15,050,191
Government securities	-	15,474	-	84,895,740	84,911,214
Deposits and balances due from banking institutions	-	-	-	2,910,469	2,910,469
Loans and advances to customers	-	-	-	148,515,793	148,515,793
Equity investment - at fair value through OCI	-	-	1,797,617	-	1,797,617
Other assets	-	-	-	1,198,736	1,198,736
Total financial assets	**-**	**15,474**	**1,797,617**	**252,570,929**	**254,384,020**
Customer deposits	-	-	-	190,468,570	190,468,570
Deposits and balances due to banking institutions	-	-	-	18,785,686	18,785,686
Other liabilities	-	-	-	3,971,317	3,971,317
Borrowings	-	-	-	13,562,268	13,562,268
Total financial liabilities	**-**	**-**	**-**	**226,787,841**	**226,787,841**

The table below shows the measurement categories of the adoption of updated version of IFRS 9

	Original classification under previous version of IFRS 9	New classification on adoption of updated IFRS 9	Original carrying amount	New carrying amount	Impact of adopting new version of IFRS 9
	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000
Cash and balances with Central Bank of Kenya	Amortised cost	Amortised cost	15,050,191	15,050,191	-
Government securities	Amortised cost	Amortised cost and FVTOCI debt instruments	84,911,214	84,911,214	-
Deposits and balances due from banking institutions	Amortised cost	Amortised cost	2,910,469	2,900,322	(10,147)
Loans and advances to customers	Amortised cost	Amortised cost	148,515,793	148,024,391	(491,402)
Equity investments - at fair value through OCI	FVTOCI	FVTOCI	1,797,617	1,797,617	-
Other assets	Amortised cost	Amortised cost	1,198,736	1,198,736	-
Total financial assets			**254,384,020**	**253,882,471**	**(501,549)**

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

14 Classification of fianancial assets and liabilities (Continued)

(b) Bank (Continued)

	Original classification under previous version of IFRS 9	New classification on adoption of updated IFRS 9	Original carrying amount	New carrying amount	Impact of adopting new version of IFRS 9
	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000
Customer deposits	Amortised cost	Amortised cost	190,468,570	190,468,570	-
Deposits and balances due to banking institutions	Amortised cost	Amortised cost	18,785,686	18,785,686	-
Other liabilities	Amortised cost	Amortised cost	3,971,317	3,971,317	-
Borrowings	Amortised cost	Amortised cost	13,562,268	13,562,268	-
Financial liabilities			**226,787,841**	**226,787,841**	**-**

The table below reconciles the carrying amounts for specific assets that were impacted by the adoption of the updated version.

	Carrying amount in 2017	Reclassification	Remeasurement	New carrying amount
Amortised cost	Shs'000	Shs'000	Shs'000	Shs'000
Government securities	84,911,214	-	-	84,911,214
Loans and advances to customers	148,515,793	-	(491,402)	148,024,391
Deposits and balances due from banking institutions	2,900,322	-	(10,147)	2,890,175
Gross effect of adopting IFRS 9			(501,549)	
Deferred tax relating to day I adjustment			150,465	
IFRS 9 impact net of tax			**(351,084)**	

There was no change in the carrying values of all other financial assets and liabilities other than loans and advances to customers and deposits and balances due from banking instituions as shown above

15 Cash and balances with Central Banks

	Group		Bank	
	2018	2017	2018	2017
	Shs'000	Shs'000	Shs'000	Shs'000
Cash in hand	7,928,396	7,632,063	5,192,180	4,888,042
Balances with Central Banks				
-Unrestricted balances	13,068,906	1,675,731	11,523,648	329,743
-Restricted balances (Statutory Minimum Reserve)	16,719,645	15,701,057	10,647,771	9,832,406
	37,716,947	**25,008,851**	**27,363,599**	**15,050,191**

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

16 Government securities

	Group		Bank	
	2018	2017	2018	2017
	Shs'000	Shs'000	Shs'000	Shs'000
-At amortised cost				
Treasury bills	82,498,766	79,116,543	73,917,323	62,780,731
Treasury bonds	25,734,212	33,349,785	11,889,389	22,115,009
	108,232,978	**112,466,328**	**85,806,712**	**84,895,740**
-At fair value through OCI				
Treasury bills	6,751,201	-	-	-
-At fair value through profit and loss				
Treasury bonds	505,173	15,474	505,173	15,474
Total Government securities	**115,489,352**	**112,481,802**	**86,311,885**	**84,911,214**

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	
	2018	2017	2018	2017
	Shs'000	Shs'000	Shs'000	Shs'000
Included in cash and cash equivalents	3,319,355	1,469,754	-	-
Less than 1 year	102,098,849	97,219,189	79,591,490	79,239,337
1-5 years	10,071,148	13,792,859	6,720,395	5,671,877
	115,489,352	**112,481,802**	**86,311,885**	**84,911,214**

17 Deposits and balances due from banking institutions

Due from other banks	14,201,767	12,516,371	2,697,094	2,910,469
Expected credit loss	(39,325)	-	(11,386)	-
	14,162,442	**12,516,371**	**2,685,708**	**2,910,469**

All deposits due from banking institutions are due within 91 days.

18 Loans and advances to customers

	Group		Bank	
	2018	2017	2018	2017
	Shs'000	Shs'000	Shs'000	Shs'000
Loans and advances	196,322,117	200,879,492	148,369,847	151,427,927
Finance leases	4,793,130	6,223,505	4,793,130	6,223,505
Gross loans and advances	201,115,247	207,102,997	153,162,977	157,651,432
Less: Provision for impairment				
Stage 3 impairment	(5,421,312)	(8,233,546)	(4,179,635)	(7,023,575)
Stage 1 and 2 impairment	(2,619,578)	(2,821,296)	(2,201,661)	(2,112,064)
Net loans and advances	**193,074,357**	**196,048,155**	**146,781,681**	**148,515,793**

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 2017				
At start of year	4,968,968	3,291,685	3,983,289	2,751,655
Provision for loan impairment	5,347,541	173,596	3,791,244	-
Loans written off during the year as uncollectible	(1,901,582)	-	(743,791)	-
Recoveries	(640,792)	(660,290)	(490,645)	(660,290)
Acquired from Habib Bank Limited	483,478	20,699	483,478	20,699
Translation difference	(24,067)	(4,394)	-	-
At end of year	**8,233,546**	**2,821,296**	**7,023,575**	**2,112,064**
Year ended 31 December 2018				
At start of year	8,233,546	2,821,296	7,023,575	2,112,064
IFRS 9 day one adjustment	(9,043)	409,050	-	491,402
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**

	Stage 3 impairment	Stage 1 and 2 impairment	Total
	Shs'000	Shs'000	Shs'000
Charge to statement of profit or loss (Group)			
Year ended 31 December 2017			
Provision for loan impairment	5,347,541	173,596	5,521,137
Recoveries	(640,792)	(660,290)	(1,301,082)
Net increase in provision	4,706,749	(486,694)	4,220,055
Amounts recovered previously written off	(150,079)	-	(150,079)
Loans written off through the statement of profit or loss	80,722	-	80,722
Net charge to the statement of profit or loss	**4,637,392**	**(486,694)**	**4,150,698**

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 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 charge to the statement of profit or loss	**3,292,165**	**(583,662)**	**2,708,503**

Charge to statement of profit or loss (Bank)

	Stage 3 impairment Shs'000	Stage 1 and 2 impairment Shs'000	Total Shs'000
Year ended 31 December 2017			
Provision for loan impairment	3,791,244	-	3,791,244
Release of provision no longer required	(490,645)	(660,290)	(1,150,935)
Net increase in provision	3,300,599	(660,290)	2,640,309
Amounts recovered previously written off	(20,221)	-	(20,221)
Loans written off through statement of profit or loss	39,981	-	39,981
Net charge to statement of profit or loss	**3,320,359**	**(660,290)**	**2,660,069**
Year ended 31 December 2018			
Provision for loan impairment	2,876,217	-	2,876,217
Release of provision no longer required	(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 to statement of profit or loss	**1,956,122**	**(401,805)**	**1,554,317**

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 2018, was Group: Shs 6.7 billion, Bank: Shs 5.5 billion (2017 - Group: Shs 4.8 billion, Bank: Shs 3.6 billion).

18 Loans and advances to customers (Continued)

Loans and advances to customers include finance leases receivables as follows:

	Group and Bank	
	2018	2017
	Shs'000	Shs'000
Gross investment in finance leases:		
Not later than 1 year	835,018	785,350
Later than 1 year and not later than 5 years	5,039,842	6,778,306
Later than 5 years	2,523	-
	5,877,383	7,563,656
Unearned future finance income on finance leases	(1,084,252)	(1,340,151)
Net investment in finance leases	**4,793,131**	**6,223,505**
The net investment in finance leases may be analysed as follows:		
Not later than 1 year	564,131	710,782
Later than 1 year and not later than 5 years	4,227,765	5,512,723
Later than 5 years	1,235	-
Net investment in finance leases	**4,793,131**	**6,223,505**

	Group	
	2018	2017
	Shs'000	Shs'000
19 Corporate bond at amortised cost	43,359	71,480

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	
	2018	2017	2018	2017
	Shs'000	Shs'000	Shs'000	Shs'000
Uncleared effects	992,412	864,537	915,224	761,228
Deposits and prepayments	1,041,071	954,198	512,318	457,620
Others	673,850	732,880	357,029	437,508
	2,707,333	**2,551,615**	**1,784,571**	**1,656,356**

21 Intangible assets-software costs

	Group		Bank	
	2018	2017	2018	2017
	Shs'000	Shs'000	Shs'000	Shs'000
At start of year	1,327,057	1,283,008	1,072,640	979,459
Additions	151,893	400,647	125,761	327,654
Acquired from Habib Bank Limited (note 34)	-	164	-	164
Transfer from property and equipment (note 22)	58,534	12,166	-	-
Amortisation charge for the year	(272,225)	(354,847)	(190,224)	(222,187)
Write offs/disposal	(25,740)	(13,082)	(25,740)	(12,450)
Translation difference	(9,448)	(999)	-	-
At the end of year	1,230,071	1,327,057	982,437	1,072,640
Cost	2,778,362	2,751,119	2,106,978	2,006,957
Accumulated amortisation	(1,548,291)	(1,424,062)	(1,124,541)	(934,317)
Net book amount	**1,230,071**	**1,327,057**	**982,437**	**1,072,640**

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

22 Property and equipment

a Group

	Leasehold land	Buildings	Leasehold improvements	Motor vehicles	Furniture fittings & equipment	Work in progress	Total
At 1 January 2017	**Shs'000**	**Shs'000**	**Shs'000**	**Shs'000**	**Shs'000**	**Shs'000**	**Shs'000**
Year ended 31 December 2017							
Opening net book amount	1,085,204	2,600,991	809,064	47,581	1,871,941	323,413	6,738,194
Translation difference	(1,100)	(5,617)	(3,939)	(668)	(4,725)	56	(15,993)
Additions	-	35,819	104,661	7,402	447,176	370,133	965,191
Transfer from work in progress	-	-	64,682	-	74,183	(138,865)	-
Transfer to intangible assets (Note 21)	-	-	-	-	-	(12,166)	(12,166)
Revaluation	-	(12,712)	-	-	-	-	(12,712)
Acquired from HBL (Note 34)	-	-	34,934	6,898	18,465	-	60,297
Disposals - cost	-	-	(6,504)	(10,992)	(190,035)	-	(207,531)
Disposals - accumulated depreciation	-	-	2,213	10,905	170,051	-	183,169
Depreciation charge	(18,724)	(47,825)	(184,996)	(21,344)	(709,311)	-	(982,200)
Closing net book amount	**1,065,380**	**2,570,656**	**820,115**	**39,782**	**1,677,745**	**542,571**	**6,716,249**
At 31 December 2017							
Cost or valuation	1,084,104	2,618,481	1,816,831	178,577	5,035,008	542,571	11,275,572
Accumulated depreciation	(18,724)	(47,825)	(996,716)	(138,795)	(3,357,263)	-	(4,559,323)
Net book amount	**1,065,380**	**2,570,656**	**820,115**	**39,782**	**1,677,745**	**542,571**	**6,716,249**
At 31 December 2017							
Cost	432,381	2,031,228	1,816,831	178,577	5,035,008	542,571	10,036,596
Revaluation surplus	651,723	587,253	-	-	-	-	1,238,976
Cost or valuation	**1,084,104**	**2,618,481**	**1,816,831**	**178,577**	**5,035,008**	**542,571**	**11,275,572**

22 Property and equipment (Continued)
a Group (Continued)

	Leasehold land	Buildings	Leasehold improve-ments	Motor vehicles	Furniture fittings & equipment	Work in progress	Total
	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000	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	10,637,247
Revaluation surplus	651,101	583,664	-	-	-	-	1,195,564
Cost or valuation	**1,083,422**	**2,612,383**	**1,799,000**	**198,191**	**5,701,742**	**438,073**	**11,832,811**

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

22 Property and equipment
a Bank

	Leasehold land	Buildings	Leasehold improve-ments	Motor vehicles	Furniture fittings & equipment	Work in progress	Total
At 1 January 2017	**Shs'000**	**Shs'000**	**Shs'000**	**Shs'000**	**Shs'000**	**Shs'000**	**Shs'000**
Year ended 31 December 2017							
Opening net book amount	1,060,199	2,388,141	269,331	13,003	1,051,421	290,891	5,072,986
Additions	-	4,379	27,274	-	208,736	217,720	458,109
Acquired from HBL (Note 34)	-	-	34,934	6,898	18,465	-	60,297
Transfers from work in progress	-	-	54,855	-	62,668	(117,523)	-
Disposals - cost	-	-	(1,881)	(1,942)	(12,354)	-	(16,177)
Disposals - accumulated depreciation	-	-	1,838	1,942	11,388	-	15,168
Depreciation charge	(18,724)	(36,315)	(87,216)	(9,455)	(418,436)	-	(570,146)
Closing net book amount	**1,041,475**	**2,356,205**	**299,135**	**10,446**	**921,888**	**391,088**	**5,020,237**
At 31 December 2017							
Cost or valuation	1,060,199	2,392,520	749,912	100,687	3,038,756	391,088	7,733,162
Accumulated depreciation	(18,724)	(36,315)	(450,777)	(90,241)	(2,116,868)	-	(2,712,925)
Net book amount	**1,041,475**	**2,356,205**	**299,135**	**10,446**	**921,888**	**391,088**	**5,020,237**
At 31 December 2017							
Cost	430,251	1,914,117	749,912	100,687	3,038,756	391,088	6,624,811
Revaluation surplus	629,948	478,403	-	-	-	-	1,108,351
Cost or valuation	**1,060,199**	**2,392,520**	**749,912**	**100,687**	**3,038,756**	**391,088**	**7,733,162**

22 a Property and equipment(Continued)
Bank (Continued)

	Leasehold land	Buildings	Leasehold improve-ments	Motor vehicles	Furniture fittings & equipment	Work in progress	Total
At 1 January 2018	**Shs'000**	**Shs'000**	**Shs'000**	**Shs'000**	**Shs'000**	**Shs'000**	**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**

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	
	2018	**2017**	**2018**	**2017**
	Shs'000	**Shs'000**	**Shs'000**	**Shs'000**
Cost	2,516,202	2,520,336	2,588,249	2,464,119
Accumulated depreciation	(251,577)	(221,746)	(208,925)	(184,294)
Net book amount	**2,264,625**	**2,298,590**	**2,379,324**	**2,279,825**

23. Intangible assets - goodwill

	Group	
	2018	**2017**
	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. 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% (2017: 30%).The movement on the deferred tax account is as follows:

Deferred tax asset	Group		Bank	
	2018	**2017**	**2018**	**2017**
	Shs'000	**Shs'000**	**Shs'000**	**Shs'000**
At start of year	3,745,935	2,639,217	2,893,916	2,242,582
Acquired from Habib Bank Limited (Note 34)	-	75,882	-	75,882
(Charge)/ credit through the statement of profit or loss (Note11)	(563,007)	1,026,013	(783,351)	575,272
Charged through other comprehensive income	6,756	5,826	-	-
Understatement of deferred tax in previous year	89,062	(983)	111,958	180
IFRS 9 day 1 adjustment	107,834	-	150,465	-
Translation difference	(7,293)	(20)	-	-
At end of the year	**3,379,287**	**3,745,935**	**2,372,988**	**2,893,916**

24. Deferred income tax (Continued)

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

31 December 2017	1.1.2017 Shs'000	Acquired from HBL	Prior year under statement/ translation	Charged through OCI Shs'000	Charged to profit or loss Shs'000	31.12.2017 Shs'000
Deferred income tax liabilities						
Unrealised foreign exchange gain	(2,650)	-	-	-	(379)	(3,029)
Revaluation surplus	(117,916)	-	-	5,826	46,024	(66,066)
	(120,566)	-	-	5,826	45,645	(69,095)
Deferred income tax assets						
Property and equipment	112,408	-	-	-	31,589	143,997
Provisions for loan impairment	2,542,068	75,882	(1,003)	-	659,124	3,276,071
Other provisions	83,694	-	-	-	17,794	101,488
Investment credit carried forward	21,613	-	-	-	271,861	293,474
	2,759,783	75,882	(1,003)	-	980,368	3,815,030
Net deferred income tax asset	**2,639,217**	**75,882**	**(1,003)**	**5,826**	**1,026,013**	**3,745,935**

31 December 2018	1.1.2018 Shs'000	IFRS 9 day 1 adjustment Shs'000	Prior year under statement/ translation Shs'000	Charged though OCI Shs'000	Charged to the statement of profit or loss Shs'000	31.12.2018 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	3,276,071	120,002	81,769	-	(1,074,764)	2,403,078
Other provisions	101,488	3,044	-	-	(19,845)	84,687
Tax losses	293,474	-	-	-	299,145	592,619
Fair value changes in Government securities	-	(15,212)	-	5,910	-	(9,302)
	3,815,030	**107,834**	**81,769**	**5,910**	**(611,630)**	**3,398,913**
Net deferred income tax asset	**3,745,935**	**107,834**	**81,769**	**6,756**	**(563,007)**	**3,379,287**

24. Deferred income tax (Continued)

Bank 31 December 2017	1.1.2017 Shs'000	Acquired from HBL Shs'000	Prior year under statement Shs'000	Charged though OCI Shs'000	Charged to profit or loss Shs'000	31.12.2017 Shs'000
Deferred income tax assets						
Property and equipment	149,054	-	-	-	-	149,054
Revaluation reserve	(73,960)	-	-	-	39,205	(34,755)
Provisions for loan impairment	2,085,746	75,882	180	-	519,916	2,681,724
Other provisions	83,273	-	-	-	17,649	100,922
Unrealised foreign exchange gain	(1,531)	-	-	-	(1,498)	(3,029)
Net deferred tax asset	**2,242,582**	**75,882**	**180**	**-**	**575,272**	**2,893,916**

31 December 2018	1.1.2018 Shs'000	IFRS 9 day 1 adjustment Shs'000	Prior year under statement Shs'000	Charged though OCI Shs'000	Charged to profit or loss Shs'000	31.12.2018 Shs'000
Deferred income tax assets/(liabilities)						
Property and equipment	149,054	-	-	-	198,042	347,096
Revaluation reserve	(34,755)	-	-	-	-	(34,755)
Provisions for loan impairment	2,681,724	147,421	111,958	-	(965,431)	1,975,672
Other provisions	100,922	3,044	-	-	(18,991)	84,975
Unrealised foreign exchange gain	(3,029)	-	-	-	3,029	-
Net deferred tax asset	**2,893,916**	**150,465**	**111,958**	**-**	**(783,351)**	**2,372,988**

	Group and Bank 2018 Shs'000	 2017 Shs'000
25. Investments securities- at fair value through OCI	**1,797,617**	**1,797,617**

The investment relates to a Kenya Airways loan with an embeded instrument of equity shares.

26. Investments in subsidiaries and associates	Group 2018 Shs'000	 2017 Shs'000
Associate - Jubilee Insurance Company of Burundi S.A.		
At start of year	35,462	28,616
Share of results after tax	29,483	8,390
Translation	(1,012)	(1,544)
At end of year	**63,933**	**35,462**

26. Investments in subsidiaries and associates (Continued)

The cost of the investment in the subsidiaries and the associates are listed below together with the interests held.

	Beneficial Ownership		Group		Bank	
			2018	2017	2018	2017
			Shs'000	Shs'000	Shs'000	Shs'000
Subsidiaries	**2018**	**2017**				
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%	67.33%			636,907	484,611
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	5,600,405
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**	**5,600,406**

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 2018 is Shs 5,282,199,000 (2017: Shs 5,249,960,000), of which Shs. 2,699,224,000 is for Diamond Trust Bank Tanzania Limited, Shs.2,400,491,000 for Diamond Trust Bank Uganda Limited and Shs.182,484,000 is attributable to Diamond Trust Bank Burundi SA. Transactions with non-controlling interests during the year are as detailed under Note 33.

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.

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	
	2018	2017	2018	2017	2018	2017
	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000
Total assets	56,043,563	52,400,676	43,952,562	43,709,766	3,034,581	2,807,871
Liabilities	48,178,688	44,869,328	36,637,784	36,603,833	1,917,103	1,787,516
Shareholders funds	7,864,875	7,531,348	7,314,778	7,105,933	1,117,478	1,020,355
Total liabilities and equity	56,043,563	52,400,676	43,952,562	43,709,766	3,034,581	2,807,871
Summarised statement of profit or loss						
Total operating income	4,292,357	4,299,787	3,487,780	3,526,746	261,256	228,077
Profit before tax	1,029,744	1,346,236	459,779	380,747	133,996	86,320
Income tax expense	(346,841)	(415,394)	(31,641)	21,362	(7,669)	(13,436)
Profit for the year	682,903	930,842	428,138	402,109	126,327	72,884
Total profit allocated to non -controlling interests	234,372	319,465	140,502	131,960	20,629	23,804
Dividends paid to non-controlling interests	39,565	40,693	-	-	-	-

26. 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	
	2018	2017	2018	2017	2018	2017
	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000
Cash generated from operations	804,365	4,127,239	3,573,389	(27,936)	21,079	(64,565)
Net cash used in investing activities	(251,234)	(347,123)	(265,604)	(210,357)	(46,273)	(16,255)
Net cash generated from financing activities	(259,282)	(391,339)	587,843	1,207,795	-	-
Net increase in cash and cash equivalents	293,849	3,388,777	3,895,628	969,502	(25,194)	(80,820)
Cash and cash equivalents at start of year	6,898,684	3,922,121	7,043,779	6,363,646	(495,105)	(322,245)
Exchange differences in cash and cash equivalents	(420,567)	(412,214)	(603,718)	(289,369)	71,330	(92,040)
Cash and cash equivalents at end of year	**6,771,966**	**6,898,684**	**10,335,689**	**7,043,779**	**(448,969)**	**(495,105)**

	Group		Bank	
	2018	2017	2018	2017
27. Customer deposits	Shs'000	Shs'000	Shs'000	Shs'000
Current and demand deposits	94,129,131	88,307,547	63,705,291	60,657,697
Savings accounts	33,093,173	26,201,123	18,372,117	12,584,871
Fixed and call deposit accounts	155,637,699	151,738,184	123,982,102	117,226,002
	282,860,003	**266,246,854**	**206,059,510**	**190,468,570**
28. Deposits and balances due to banking institutions				
Deposits due to banking institutions	14,765,892	18,785,138	14,468,841	18,414,976
Current account balances due to banking institutions	2,377,315	1,718,855	255,489	370,710
	17,143,207	**20,503,993**	**14,724,330**	**18,785,686**
29. Other liabilities				
Due to subsidiary company	-	-	79,560	79,560
Outstanding bankers' cheques	327,132	413,349	282,510	357,809
Accrued expenses	678,380	609,546	487,385	463,401
Revenue collected on behalf of Revenue Authorities	772,635	631,257	-	-
Unearned income on funded and non funded income	510,844	424,321	128,901	135,096
Refundable deposits	167,808	175,792	167,808	154,629
Other payables	1,626,062	3,503,599	1,431,555	3,070,547
	4,082,861	**5,757,864**	**2,577,719**	**4,261,042**

	Group		Bank	
30. Borrowings	**2018**	**2017**	**2018**	**2017**
a. Subordinated debt	**Shs'000**	**Shs'000**	**Shs'000**	**Shs'000**
i. International Finance Corporation (IFC)				
At start of year	5,188,166	5,387,554	4,139,384	4,451,720
Accrued interest	239,603	231,137	248,276	245,134
Paid during the year	(1,067,816)	(620,548)	(1,064,748)	(589,191)
Translation difference	(28,337)	190,023	(51,251)	31,721
	4,331,616	**5,188,166**	**3,271,661**	**4,139,384**
ii. Deutsche Investitions- und Entwicklungsgesellschaft (DEG)				
At start of year	1,340,740	1,277,746	-	-
Net movement in interest	54,249	48,716	-	-
Paid during the year	(49,130)	-	-	-
Translation difference	29,309	14,278	-	-
	1,375,168	**1,340,740**	**-**	**-**
iii. African Development Bank(AfDB)				
At start of year	-	-	-	-
Additions during the year	2,548,750	-	2,548,750	-
Net movement in interest	42,776	-	42,776	-
Translation difference	(170)	-	(170)	-
	2,591,356	**-**	**2,591,356**	**-**
Total - Subordinated debt	**8,298,140**	**6,528,906**	**5,863,017**	**4,139,384**
b. Senior loan				
i. International Finance Corporation (IFC)				
At start of year	79,516	647,377	79,516	647,377
Accrued interest	1,252	16,608	1,252	16,608
Paid during the year	(79,187)	(589,553)	(79,187)	(589,553)
Translation difference	(1,581)	5,084	(1,581)	5,084
	-	**79,516**	**-**	**79,516**
ii. Deutsche Investitions- und Entwicklungsgesellschaft (DEG)				
At start of year	2,784,355	3,606,924	2,099,510	2,603,332
Additions during the year	1,013,431	-	-	-
Accrued interest	94,660	97,699	88,683	99,911
Paid during the year	(1,046,730)	(947,153)	(595,092)	(625,392)
Translation difference	(13,245)	26,885	(31,330)	21,659
	2,832,471	**2,784,355**	**1,561,771**	**2,099,510**

30. Borrowings (Continued)

	Group		Bank	
	2018	2017	2018	2017
	Shs'000	Shs'000	Shs'000	Shs'000
iii. Societe de Promotion et de Participation pour la Cooperation Economique S.A (PROPARCO)				
At start of year	2,557,954	3,102,490	2,557,954	3,102,490
Accrued interest	117,834	126,222	117,834	126,222
Paid during the year	(666,470)	(693,821)	(666,470)	(693,821)
Translation difference	(39,164)	23,063	(39,164)	23,063
	1,970,154	**2,557,954**	**1,970,154**	**2,557,954**
iv. Agence Francaise Development (AFD)				
At start of year	1,039,955	512,497	520,116	512,497
Additions in the year	-	516,584	-	-
Accrued interest	22,207	22,450	19,728	15,289
Paid during the year	(18,203)	(11,297)	(18,203)	(11,297)
Translation difference	3,897	(279)	(6,388)	3,627
	1,047,856	**1,039,955**	**515,253**	**520,116**
Total - Senior loans	**5,850,481**	**6,461,780**	**4,047,178**	**5,257,096**
c. Trade Finance				
i. Standard Chartered Bank London				
At start of year	4,165,788	-	4,165,788	-
Additions during the year	509,750	4,129,000	509,750	4,129,000
Accrued interest	128,783	37,813	128,783	37,813
Paid during the year	(4,200,074)	-	(4,200,074)	-
Translation difference	(73,136)	(1,025)	(73,136)	(1,025)
Total - Trade Finance	**531,111**	**4,165,788**	**531,111**	**4,165,788**
d. Administered funds				
Bank of Uganda	14,262	18,460	-	-
Total - Borrowings	**14,693,994**	**17,174,934**	**10,441,306**	**13,562,268**

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$ 57 million (2017: US$ 40 million) raised from the International Finance Corporation (IFC) and the African Development Bank. 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 2018 was US$12 million.

- US$ 20 million unsecured facility issued in March 2015, with a tenure of 8 years. Outstanding balance as at 31 December 2018 was US$20 million.
- US$ 25 million unsecured facility from AFDB issued in October 2018, with a tenure of 8 years. Outstanding balance as at 31 December 2018 was US$25 million.

30. Borrowings (Continued)

Description of Borrowings (Continued)

(i) Subordinated debts (Continued)

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, and an additional 7 year subordinated debt facility of US$ 7.5 million from DEG, received in September 2014.

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.

The above subordinated debt facilities were obtained to enhance the respective entity's capital base. The debt obligation of the respective entity ranks ahead of the interest of holders of equity and is redeemable on maturity. These notes bear interest at rates referenced to the six months Libor. The subordinated debt from DEG of USD 5 million was prepaid on 15 February 2019.

(ii) Senior loans

Diamond Trust Bank Kenya Limited

At the beginning of the year, Diamond Trust Bank Kenya Limited had a long-term senior loan from the International Finance Corporation (IFC) sourced in 2008 amounting to US$ 10 million. The facilitiy was fully repaid as at 31 December 2018.

The Bank also has a 7 year loan from Deutsche Investitions- und Entwicklungsgesellschaft (DEG), a 7 year loan from Proparco and a further 11 year loan from Agence Française de Développement (AFD). The total exposure at year end was US$ 39.7 million (2017 US$ 47.8 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. These funds were prepaid on 15 February 2019. Further, on 31 July 2018, the Bank received USD 10 million from DEG for 8 years. On 11 May 2017, the Bank received USD 5 million from Agence Française de Développement (AFD) for 11 years.

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 facilty through their bank. As at December 2018, the bank had drawn down Shs 14 million (2017 - Shs 18 million). This loan is for a period of 7 years at zero interest rate.

	Group		Bank	
	2018	2017	2018	2017
	Shs'000	Shs'000	Shs'000	Shs'000
e. Finance costs				
Subordinated debts	452,002	397,166	291,053	245,134
Senior loans	311,087	316,363	227,496	258,042
Trade finance borrowings	163,209	221,216	163,209	221,216
Amortised appraisal fees	61,839	30,576	61,839	30,576
	988,137	**965,321**	**743,597**	**754,968**

31. Share capital and reserves

a. Share capital and Share premiums

	Number of shares (Thousands)	Share capital Shs'000	Share premium Shs'000
1 January 2017	266,321	1,065,284	7,294,767
Share issue	13,281	53,125	1,711,802
31 December 2017	**279,602**	**1,118,409**	**9,006,569**
1 January and 31 December 2018	**279,602**	**1,118,409**	**9,006,569**

The total authorised number of ordinary shares is 300,000,000 (2017: 300,000,000) with a par value of Shs 4 per share. The issued shares as at 31 December 2018 are 279,602,220 (2017 - 279,602,220) and are fully paid.

32. Other reserves

Consolidated statement of changes in other reserves

	Notes	Revaluation surplus	Translation reserve	Other reserves	Total
Year ended 31 December 2017					
At start of year		1,490,881	(712,124)	(345,432)	433,325
Revaluation gain		(12,712)	-	-	(12,712)
Deferred tax on revaluation of land and buildings		5,826	-	-	5,826
Excess depreciation		(33,448)	-	-	(33,448)
Deferred tax on transfer of excess depreciation		1,520	-	-	1,520
Translation adjustment	(i)	-	(83,296)	-	(83,296)
Legal reserve	(ii)	-	-	6,511	6,511
Increase in interest in Diamond Trust Bank Uganda Limited	33	-	-	(91,638)	(91,638)
At end of year		**1,452,067**	**(795,420)**	**(430,559)**	**226,088**
Year ended 31 December 2018					
At start of year		1,452,067	(795,420)	(430,559)	226,088
Adjustment on initial application of IFRS 9 net of tax	14	-	-	23,846	23,846
Income tax relating to OCI		-	-	6,756	6,756
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)
Translation adjustment	(i)	-	(390,584)	-	(390,584)
Legal reserve	(ii)	-	-	13,446	13,446
Increase in interest in Diamond Trust Bank Burundi Limited	33	-	-	14,328	14,328
At end of year		**1,401,892**	**(1,186,004)**	**(372,183)**	**(156,295)**

(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

32. Other reserves (Continued)

Bank statement of changes in reserves

Other reserves	2018	2017
	Shs'000	Shs'000
At start of year	1,357,296	1,386,184
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**	**1,357,296**

Other reserves represents solely the surplus on the revaluation of leasehold land and buildings net of income tax and is non distributable.

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.

33. 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.

In December 2017, Diamond Trust Bank Kenya Limited acquired an additional 5.63% stake in Diamond Trust Bank Uganda Limited (DTBU) by taking up the rights of the other shareholders who renounced their rights at a consideration of Shs 400,913,000. The Group now holds 67.34% from 61.71% before the rights issue at 31 December 2017. The carrying amount of the net assets the group acquired was Shs 309,275,000

The effect of changes in the ownership interest of DTBB and DTBU in equity attributable to owners of the bank in 2018 and 2017 is summarised as follows:

	2018	2017
	Shs'000	Shs'000
Carrying amount of non-controlling interests acquired	166,624	309,275
Consideration paid for the interests	(152,296)	(400,913)
Recognised in parent's equity	**14,328**	**(91,638)**

34. Acquisition of Habib Bank Limited (HBL) branch operations in Kenya

On 1 August 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). The completion of the transaction, among others, increased DTB's market share, augumented its capital base, enhanced its operational leverage and diversified its presence through correspondent relationships in additional geographical areas that include some of the most promising growth frontier markets in Asia within the markets where HBL has operations. This transaction also supports the consolidation of the banking sector in line with the policy statements by the Central Bank of Kenya and the National Treasury of the Government of Kenya.

i) Consideration transferred-Equity instruments issued

The bank issued 13,281,105 shares to Habib Bank Limited as the consideration for the net assets acquired. The fair value of the ordinary shares issued was based on the listed weighted average share price of the Company for a period of six months up to 31 July 2017 of Kshs 132.89 per share amounting to Shs 1,764,926,043.

ii) Acquisition-related costs

The Group incurred acquisition-related costs of Shs 57,207,066 on legal fees and due diligence costs. These costs were accounted for under operating expenses in 2017 (Shs 2,718,218) and 2016 (Shs 54,488,848).

iii) Identifiable assets acquired and liabilities assumed

The following table summarises the recognised amounts of assets acquired and liabilities assumed at the date of acquisition.

	Shs'000
Cash and balances with Central Banks	662,813
Deposits and balances due from banking institutions	6,091,347
Loans and advances to customers	2,673,712
Other assets and prepaid expenses	46,154
Property and equipment	60,297
Intangible Assets	164
Deferred income tax	75,882
Deposits and balances due to banking institutions	(207,800)
Customer deposits	(7,586,928)
Other liabilities	(102,510)
Total identifiable net assets acquired	**1,713,131**
Net asset value negotiated	1,824,691
Receivable from HBL	**(111,560)**

iv) Measurement of fair values

The valuation techniques used for measuring the fair value of material assets acquired were as follows.

Assets acquired	Valuation technique
Loans and advances	Contractual amounts due less any impairment provision
Property and equipment	Depreciated replacement cost. Depreciated replacement cost reflects adjustments for physical deterioration as well as functional and economic obsolescence.
Deposits and balances due from banking institutions	Contractual amounts due less any impairment provision

34. Acquisition of Habib Bank Limited (HBL) branch operations in Kenya (Continued)

v) Negative goodwill (bargain on acquisition)

Negative goodwill arising from the acquisition has been recognised as follows.

	2017
	Shs'000
Net assets value negotiated	1,824,691
Consideration of equity shares issued	1,764,927
Bargain purchase on acquisition	**59,764**

The bargain purchase is included in other income.

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	
	2018	2017	2018	2017
Contingent liabilities	Shs'000	Shs'000	Shs'000	Shs'000
Acceptances and letters of credit	22,611,416	16,114,877	19,721,291	13,549,963
Guarantees and performance bonds	19,032,251	16,532,373	16,932,196	14,202,735
	41,643,667	**32,647,250**	**36,653,487**	**27,752,698**

Nature of contingent liabilities

An acceptance is an undertaking by a bank 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.

Commitments	Group		Bank	
	2018	2017	2018	2017
	Shs'000	Shs'000	Shs'000	Shs'000
Undrawn credit lines and other commitments to lend	11,459,607	11,302,443	7,151,163	7,032,067
Foreign exchange forward contracts	11,673,812	4,185,644	9,829,148	3,448,363
Foreign exchange spot transactions	2,048,210	1,314,359	1,521,497	787,607
Operating lease rentals (i)	3,129,133	3,113,910	1,662,216	1,450,380
Capital commitments	131,432	77,396	24,560	-
	28,442,194	**19,993,752**	**20,188,584**	**12,718,417**

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

(i) Operating lease rentals are analysed as follows:

	Group		Bank	
	2018	2017	2018	2017
	Shs'000	Shs'000	Shs'000	Shs'000
Not later than 1 year	791,519	755,169	400,631	378,847
Later than 1 year and not later than 5 years	1,976,198	2,031,808	1,109,202	1,071,533
Later than 5 years	361,416	326,933	152,383	-
	3,129,133	**3,113,910**	**1,662,216**	**1,450,380**

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

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:

36. Business segments information (Continued)

a. Financial summary

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	5,549,019	4,439,828	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**

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

36. Business segments information (Continued)

At 31 December 2017	**Kenya**	**Tanzania**	**Uganda**	**Burundi**	**Total**	**Consolidation adjustments**	**Group**
	Shs'000	**Shs'000**	**Shs'000**	**Shs'000**	**Shs'000**	**Shs'000**	**Shs'000**
Interest income from external customers	25,630,250	4,727,210	4,027,803	243,527	34,628,790		34,628,790
Other income from external customers	3,198,096	1,033,320	872,097	21,817	5,125,330		5,125,330
Total income from external customers	28,828,346	5,760,530	4,899,900	265,344	39,754,120		39,754,120
Share of results of associate after tax	-	-	-	8,390	8,390		8,390
Inter-segment income	27,245	-	27,975	-	55,220	(55,220)	-
Total income	28,855,591	5,760,530	4,927,875	273,734	39,817,730		39,762,510
Interest expense from external customers	(11,086,109)	(1,462,315)	(1,402,701)	(37,267)	(13,988,392)		(13,988,392)
Other expenses – external	(5,221,943)	(2,006,532)	(1,851,024)	(143,319)	(9,222,818)		(9,222,818)
Inter-segment expenses	(52,077)	(3,143)	-	-	(55,220)	55,220	-
Finance costs	(754,967)	(77,504)	(132,850)	-	(965,321)		(965,321)
Depreciation and amortisation	(792,351)	(236,696)	(294,670)	(13,330)	(1,337,047)		(1,337,047)
Impairment losses	(2,660,069)	(629,676)	(867,455)	6,502	(4,150,698)		(4,150,698)
Total expenses	(20,567,516)	(4,415,866)	(4,548,700)	(187,414)	(29,719,496)		(29,664,276)
Segment profit before tax	**8,288,075**	**1,344,664**	**379,175**	**86,320**	**10,098,234**		**10,098,234**
Income tax expense	(2,765,727)	(415,394)	21,362	(13,436)	(3,173,195)		(3,173,195)
Segment profit after tax	**5,522,348**	**929,270**	**400,537**	**72,884**	**6,925,039**		**6,925,039**
Segment assets	**270,512,088**	**52,400,676**	**43,709,766**	**2,807,871**	**369,430,401**	**(6,127,001)**	**363,303,400**
Segment liabilities	**227,122,817**	**44,869,328**	**36,603,833**	**1,787,516**	**310,383,494**	**(699,849)**	**309,683,645**

36. Business segments information (Continued)

b. Additions to non current assets

At 31 December 2018	Kenya Shs'000	Tanzania Shs'000	Uganda Shs'000	Burundi Shs'000	Total Shs'000
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**
At 31 December 2017					
Property and equipment	458,109	299,118	188,492	19,472	965,191
Intangible assets- software	315,204	49,071	23,211	711	388,197
	773,313	**348,189**	**211,703**	**20,183**	**1,353,388**

c. Revenue by products

An analysis of revenue by product from external customers is presented below:

At 31 December 2018	Kenya Shs'000	Tanzania Shs'000	Uganda Shs'000	Burundi Shs'000	Total Shs'000
Interest income					
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**

36. Business segments information (Continued)

An analysis of revenue by product from external customers is presented below:

At 31 December 2017	Kenya Shs'000	Tanzania Shs'000	Uganda Shs'000	Burundi Shs'000	Total Shs'000
Interest income					
Loans and advances	16,834,004	3,035,005	2,591,945	190,907	22,651,861
Government securities	8,694,690	1,611,841	1,385,862	52,283	11,744,676
Placements and bank balances	73,581	80,364	77,971	337	232,253
	25,602,275	4,727,210	4,055,778	243,527	34,628,790
Interest expense					
Customer deposits	10,635,569	1,445,604	1,388,843	27,788	13,497,804
Deposits due to banking institutions	453,683	15,139	12,286	9,479	490,587
	11,089,252	1,460,743	1,401,129	37,267	13,988,391
Net interest income	**14,513,023**	**3,266,467**	**2,654,649**	**206,260**	**20,640,399**
Non interest income					
Fee and commission income	1,902,133	710,787	626,171	19,163	3,258,254
Foreign exchange income	1,039,379	321,248	234,353	1,990	1,596,970
Other income	256,584	1,285	11,573	664	270,106
	3,198,096	**1,033,320**	**872,097**	**21,817**	**5,125,330**

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 2018 and 31 December 2017 were as follows:

Bank

	2018			2017		
	In Shs	In US$	In GBP	In Shs	In US$	In GBP
Assets						
Government securities	11.13%	-	-	11.08%	-	-
Deposits with banking institutions	-	4.75%	-	-	3.75%	-
Loans and advances to customers	12.37%	7.14%	7.45%	13.10%	7.63%	9.50%
Amounts due from group companies	-	-	-	-	4.50%	-
Liabilities						
Customer deposits	5.91%	3.35%	2.04%	6.31%	3.29%	1.37%
Deposits due to banking institutions	3.98%	3.20%	-	5.90%	2.83%	-
Subordinated debts	-	5.73%	-	-	5.60%	-
Senior loans	-	4.65%	-	-	4.25%	-
Trade finance	-	4.02%	-	-	4.20%	-

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

	Group		Bank	
	2018	2017	2018	2017
	Shs'000	Shs'000	Shs'000	Shs'000
Cash and balances with the Central Banks (Note 15)	37,716,947	25,008,851	27,363,599	15,050,191
Cash reserve requirement	(16,719,645)	(15,701,057)	(10,647,771)	(9,832,406)
Government securities maturing within 91 days at the point of acquisition	3,319,355	1,469,754	-	-
Deposits and balances due from banking institutions (Note 17)	14,201,767	12,516,371	2,697,094	2,910,469
Deposits and balances due to banking institutions (Note 28)	(17,143,207)	(20,503,993)	(14,724,330)	(18,785,686)
	21,375,217	**2,789,926**	**4,688,592**	**(10,657,432)**

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.

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	
	2018	2017	2018	2017
(a) Group Companies	**Shs'000**	**Shs'000**	**Shs'000**	**Shs'000**
Amounts due to:				
Other group companies	-	-	1,709,883	594,631
Interest expense incurred	-	-	68,238	24,508
Amounts due from:				
Other group companies	-	-	2,341	5,704
Interest income received	-	-	926	25,595
(b) Directors				
Loans to directors:				
At start of year	4,756	3,842	4,037	2,597
Advanced during the year	349	5,193	349	1,503
Advances to director appointed during the year	24,102	-	24,102	-
Repaid during the year	(2,270)	(4,262)	(1,578)	(63)
Translation adjustment	(28)	(17)	-	-
At end of year	26,910	4,756	26,910	4,037
Interest income earned from directors loans	1,960	387	1,960	223

39. Related party transactions (Continued)

	Group		Bank	
	2018	2017	2018	2017
	Shs'000	Shs'000	Shs'000	Shs'000
Deposits by directors:				
At start of year	930,648	715,832	795,002	671,273
Net movement during the year	281,645	216,440	277,755	123,729
Translation adjustment	(927)	(1,624)	-	-
At end of year	**1,211,366**	**930,648**	**1,072,757**	**795,002**
Interest paid on directors' deposits	82,301	63,572	82,301	62,970
(c) Other disclosures				
Advances to other related parties				
Advances to companies related through control by a common shareholder, controlled by directors or their families	2,329,665	2,551,466	2,160,418	2,339,075
Advances to employees	1,584,175	1,574,183	1,290,860	1,273,282
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	341,271	451,077	290,249	274,531
Interest income earned from related companies and employees	347,124	393,471	298,262	328,721
Deposits with other related parties				
Deposits by companies related through common shareholding, common directorship and companies controlled by directors or their families	8,111,045	7,937,081	4,037,269	4,268,739
Deposits by employees	357,848	374,068	321,457	319,168
Interest expense incurred on deposits by related companies and employees	307,861	475,739	114,258	235,434
Key management compensation				
Salaries and other short-term employment benefits	895,582	799,522	520,272	469,315
Termination benefits	34,029	28,023	22,145	17,103
	929,611	**827,545**	**542,417**	**486,418**
Directors' remuneration				
- fees for services as a director	29,720	14,765	17,757	5,046
-other emoluments (included in key management compensation above)	115,109	106,410	75,432	63,847
	144,829	**121,175**	**93,189**	**68,893**

PROGRESSIVENESS

"The test of our progress is not whether we add more to the abundance of those who have much, it is whether we provide enough for those who have little."

- Franklin D. Roosevelt

2018 HIGHLIGHTS

KENYA

Award-Winning Bank

DTB won seven awards in the course of 2018 for customer service, financial reporting, innovation, among others. Further to that, DTB's Group CEO and Managing Director, Nasim Devji received the award of Fellow of the Institute of Directors Kenya for her service, exemplary leadership and contribution to the cause of Corporate Governance in Kenya. DTB's 2018 accolades were:

- Best Bank in Product Innovation – Winner (The Banking Awards)
- Best Bank in SME Banking – 1st runner up (The Banking Awards)
- Most Customer Centric Bank – 1st runner up (The Banking Awards)
- Best Bank in Customer Service – East Africa (Banker Africa Awards)
- Best Company in Leadership Engagement – (Institute of Customer Experience; Customer Service Week Awards)
- Banking Category – Winner – (Financial Reporting Awards)
- Governance Category – 1st runner up (Financial Reporting Awards)
- Fellow of Institute of Directors – Nasim Devji (Institute of Directors)

DTB Partners with AfDB for Financing SMEs

DTB and the African Development Bank (AfDB) signed two agreements totaling to USD. 75 million for financing SMEs and local corporates in Kenya. The collaboration enables DTB to entrench its position as a leading business bank in East Africa, helping more local companies grow and compete in the African and global marketplace.

DTB Partner with WorldRemit for Money Transfer Service

DTB partnered with London-based money remittance firm WorldRemit which enables Kenyans living in the diaspora to make instant money transfers to the Bank's local branches. The partnership addresses the growing demand for instant, digital remittances among the three million plus Kenyans living abroad and eases the international cash transfer process.

Expanded Branch Network

In 2018, DTB opened its doors to Nyeri County with its 69th branch in Kenya located on Kenyatta Road. DTB also re-opened its Changamwe branch at Airport Centre Mall along Airport Road in the Coast region.

DTB Partners with the Entrepreneur's Organization Kenya

DTB partnered with the Entrepreneur's Organization (EO) Kenya on their flagship Accelerator Program. The program seeks to support the development and growth of early-stage entrepreneurs who are driven to seek out the resources necessary to reach the USD. 1 million turnover mark required to become a full member of EO Kenya. This is achieved by supporting them to develop and enhance their skills and knowledge in strategy, networking and personnel management, cash management and business execution. DTB donated USD.10,000 towards providing entrepreneurs with the tools, accountability and community they need to aggressively grow and master their businesses.

Empowering Female Entrepreneurs

DTB empowered a select group of 30 women micro-entrepreneurs with skills and knowledge on how to sell their products online via social media. The women were taken through a 6-week course that introduced them to online marketing and eventually equipped them with the skills of how to set up online shops and market their products to their desired target audience.

Forum for African Women Educationalists (FAWE) Kenya

DTB partnered with FAWE Kenya whose main aim is to achieve equality and equity in education through centres of excellence, gender responsive education and women entrepreneurship programs. AIC Girls Primary School in Kajiado became one of its centres of excellence in 1999 and functions as a rescue centre for girls from FGM and early child marriages.

Much More Than Trees

DTB embarked on a journey to improve the environment and communities it operates in by undertaking various activities throughout 2018. The initiative dubbed "Much More Than Trees" (#MMTT) is aimed at empowering communities by contributing positively to their environmental, economic, health and social attributes. In the course of the year, the Bank planted over one million trees with the support of support of key partners who include Nairobi GreenLine, SOS Children's Home, Mara Elephant Trust and CooksWell Jikos.

Mater Heart Run 2018

DTB has continuously sponsored the annual Mater Heart Run to support children with heart ailments from an economically disadvantaged background. In 2018, DTB made a donation to the Mater Misericordiae Hospital toward this cause and sent staff members to participate in the run.

Service Above Self Charity Run

DTB was proud to partner with The Rotary Club of Diani by sponsoring 2018 Service Above Self charity run. The run was held at the Neptune Paradise Village in Diani and raised funds Rotary Club of Diani community projects in Kwale County like on the provision of reading materials to schools, supply of sanitary towels to schools and the support of medical facilities in the area.

2018 HIGHLIGHTS (CONTINUED)

TANZANIA

Staff awards

Diamond Trust Bank Tanzania Limited held their annual branch and staff awards for 2018. The awards recognised branches which excelled in business development as well as operational excellence. Some of the branches recognized for outstanding performance included Uhuru Branch and Upanga Branch. Staff were also awarded for being pro-active and going beyond the call of duty to satisfy customers. The award, christened "Great Banking Award" was given to 5 employees who received cash rewards as well as gift hampers in recognition of their outstanding performance.

SME workshop

Small and Medium Size Enterprises (SMEs) are at the heart of Tanzania's economic agenda. DTB Tanzania embarked on a journey to equip SMEs with tools and knowledge that will positively impact their operations. To this end, the bank partnered with PKF Advisory to host workshops covering topics such as updates on-compliance issues as well as labor laws and their business implication. DTB Tanzania has issued over TZS 285 billion to the SME sector and this represents 45% of the bank's loan book.

CSR initiatives

As a responsible corporate citizen, DTB Tanzania participated in various activities geared towards improving the lives of the communities it operates in. Some of these activities include:

2018 HIGHLIGHTS (CONTINUED)

a. Sponsoring the second Health in Mafia organized by Ilala Afya Centre. Through this initiative, medical specialists such as gynecologist, radiologists and orthopedic surgeons provided specialized care to the patients.

b. Construction of a 12 room toilet facility at Ukonga Primary School. The facility includes a girls changing room, 2 toilet rooms for teachers as well as a special toilet room for physically handicapped pupils. This facility will serve over 1300 pupils in the school.

c. Medical camp at Makumbusho Primary School in Kinondoni District. This medical camp was organized in partnership with the Rotary Club of Oyester Bay District. Over 1200 students were screened, counseled and treated at no cost on ailments such as malaria, dental and eye problems.

d. Donation of hospital equipment at Kongwa Hospital in Dodoma. This donation was in support of the Premature born unit. Items donated included: baby warmers, sunction machines, feeding tubes, digital thermometers, neonatal beds and khangas.

2018 HIGHLIGHTS (CONTINUED)

UGANDA

Mastercard Platinum Credit Card Launch

DTB Uganda launched the Mastercard Platinum credit card to its customers, being the first issuer in Uganda of the product. Cardholders are able to use their cards at millions of acceptance locations locally, globally or online, thus enhancing the consumer experience and boosting payment security for the benefit of all citizens.

DTBU Joins the Interswitch Network

DTB Uganda partnered with Interswitch with the aim of enabling customers to access their funds with ease and convenience. Interswitch provides wide acceptance where all member banks can access affordable services from each other's ATM's.

Lending a Helping Hand

DTB extended a helping hand to children with disabilities at the Missionary of Poor Church in Mengo, Kisenyi. The Bank donated a variety of items towards supporting the education of the children.

RESILIENCE

"A winnner is a dreamer who never gives up."

- Nelson Mandela

NOTICE OF THE ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN THAT THE FIFTY THIRD ANNUAL GENERAL MEETING OF THE SHAREHOLDERS OF DIAMOND TRUST BANK KENYA LIMITED WILL BE HELD AT THE LAICO REGENCY HOTEL, CRYSTAL BALLROOM, NAIROBI, ON THURSDAY, 23 MAY 2019 AT 11.00 A.M. TO TRANSACT THE FOLLOWING BUSINESS:

1. To confirm the Minutes of the Fifty Second Annual General Meeting held on 24 May 2018.

2. To receive, consider and adopt the Audited Consolidated Financial Statements for the year ended 31 December 2018 together with the reports of the Directors and the Auditor thereon.

3. To approve payment of a final dividend of 65% on the Issued and Paid-up Share Capital to the shareholders registered in the Company's books as at 24 May 2019, to be made on or about 26 June 2019, as recommended by the Board.

4. To elect Directors:

   (a) Mr. Jamaludin Shamji retires by rotation in accordance with Article 101 of the Company's Articles of Association and, being eligible, offers himself for re-election.

   (b) Mr. Moez Jamal retires by rotation in accordance with Article 101 of the Company's Articles of Association and, being eligible, offers himself for re-election.

   (c) Mr. Rizwan Hyder retires by rotation in accordance with Article 101 of the Company's Articles of Association and does not offer himself for re-election.

   (d) Mr. Abdul Samji retires in accordance with the Board Appointment and Diversity Policy having attained the age of 72 years as of the date of the Annual General Meeting.

5. To elect members of the Board Audit and Compliance Committee.

In accordance with the provisions of Section 769 of the Companies Act, 2015, the following Directors, being members of the Board Audit and Compliance Committee, be elected to continue to serve as members of the said Committee:

   (a) Mr. Ismail Mawji

   (b) Mrs. Pamella Ager

   (c) Mr. Guedi Ainache

   (d) Mr. Linus Gitahi

   (e) Mr. Irfan Keshavjee

6. To approve the Directors' Remuneration Report for the year ended 31 December 2018 as provided in the Audited Consolidated Financial Statements, and to authorise the Directors to fix the Directors' remuneration for the year 2019.

7. To re-appoint KPMG Kenya, as the Company's Auditor.

8. To note the Auditor's remuneration for the year 2018, and to authorise the Directors to fix the Auditor's remuneration for the year 2019.

9. To transact any other business of which due notice has been received.

BY ORDER OF THE BOARD

Stephen Kodumbe
Company Secretary

22 March 2019

Notes:

1. Every member of the Company is entitled to attend and vote at the above meeting and any adjournment thereof or in the alternative to appoint a proxy to attend and vote on his/her/its behalf. A proxy need not be a member of the Company. To be valid, a Proxy Form must be duly completed by a member and returned to the Company Secretary, Diamond Trust Bank Kenya Limited, DTB Centre, Mombasa Road, P.O. Box 61711, City Square 00200, Nairobi, Kenya so as to reach him not later than 48 hours before the time appointed for holding the meeting or any adjournment thereof.

2. In the case of a member being a corporation, the Proxy Form must be under the Common Seal or under the hand of an officer or Attorney duly authorised in writing.

3. Copies of this Notice, the Proxy Form and the Integrated Report can be viewed and/or downloaded from our website www.dtbafrica.com. Printed copies are also available, upon request, from the Company Secretary, Diamond Trust Bank Kenya Limited, DTB Centre, Mombasa Road, P.O. Box 61711, City Square 00200, Nairobi, Kenya.

*I/We (in block letters) ....

of P.O. Box ....

being a *member/members of **DIAMOND TRUST BANK KENYA LIMITED**

hereby appoint ....

of P.O. Box ....

or failing *him/her ....

of P.O. Box ....

as* my/our proxy, to vote for *me/us *me/our behalf at the Annual General Meeting of the Company to be held at the Laico Regency Hotel, Crystal Ballroom, Nairobi, on Thursday, 23 May 2019 at 11.00 a.m., at any adjournment thereof.

Dated this.. day of..2019

Signature(s)/Seal: ....

*Strike off whichever is not applicable

Important Notes

1. If you are unable to attend this meeting personally, this Proxy Form should be completed and returned to the Company Secretary, Diamond Trust Bank Limited, P.O. Box 61711, City Square 00200, Nairobi Kenya, so as to reach him not later than 48 hours before the time appointed for holding the meeting or any adjournment thereof.

2. The person appointed as proxy need not be a shareholder of the Company.

3. In the case of a member being a corporation, the proxy form must be under the common seal or under the hand of an officer or attorney duly authorised.

www.dtbafrica.com

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AFFIX POSTAGE STAMP HERE

The Company Secretary
Diamond Trust Bank Kenya Limited
P.O. Box 61711, City Square 00200
Nairobi, Kenya

Diamond Trust Bank Kenya Limited

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