Barclays Bank of Kenya Limited

2018 Integrated Report

BARCLAYS

Part of the Absa family

Barclays Bank of Kenya Limited

Barclays Bank of Kenya Limited ('Barclays Kenya' or 'the Group') strives to incorporate the principles of integrated thinking and reporting. This report aims to help the reader understand how we define and measure our value creation process while executing our primary purpose of bringing possibility to life for our customers and all other stakeholders.

Our Purpose

To bring your possibility to life

We believe in possibility; in the actions of people who always find a way to get things done. We believe in creating opportunities for our customers to make their possibilities real and supporting them every step of the way

- **For our people,** we will create a culture that appreciates, unifies and differentiates us from our competitors
- **For our customers,** we will create unprecedented seamless experiences to engage and delight them
- **For society,** all our colleagues will lead with a conscience...doing the best for people and the planet

Our Values

We drive high performance to achieve sustainable results

- We play to win and are accountable for results
- We innovate, we are decisive and we act quickly
- We learn from our failures, we are bold enough to change course

We are obsessed with the customer

- We are curious; we anticipate our customers' needs
- We take ownership of delivering the One Absa customer experience
- We outperform by going beyond customer expectations

Our people are our strength

- We integrate diverse perspectives to invent the future
- We collaborate with courage, honesty and powerful energy
- We trust, value and grow our people to achieve their full potential

We have an African heartbeat

- We deliver a uniquely Absa experience, across Africa
- We co-create across Africa to deliver better solutions
- We actively engage our communities to bring possibility to life

Our Strategy

'Growth, Transformation and Returns'

As one of the leading financial services providers, we believe that strong growth, accelerated transformation and sustainable returns for all our stakeholders will positively contribute to the prosperity of the Kenyan people, economy and society at large.

About our cover

Cover image courtesy of Kenya Tea Development Authority (KTDA).

We are proud to be a partner to Kenya Tea Development Authority who supports over 560,000 small-scale farmers and generates in excess of $700 million in aggregate tea sales from Kenya.

What's inside this report

Our capitals

Our relevance as a financial services provider today and in the future and our ability to create long term value are interrelated and fundamentally dependent on the forms of capital available to us (inputs), how we use them (value-adding activities), our impact on them (outputs) and the value we deliver (outcomes).

Financial: Our shareholders' equity and funding from investors and customers, which are used to support our business and operational activities, including credit extension.

Human: Our culture and our people, investing in their development and our collective knowledge, skills and experience to enable innovative and competitive solutions for our customers.

Manufactured: Our business structure and operational processes, including our physical and digital infrastructure, our products, as well as our information technology that provide the framework and mechanics of how we do business and create value.

Intellectual: Our brand and franchise value, research and development, innovation capacity, reputation and strategic partnerships.

Social and relationships: Our citizenship and strong stakeholder relationships, including the communities in which we operate, as we recognise the role that banking sector plays in building a strong and thriving society as well as financial ecosystem.

Natural: Our impact on natural resources through our operations and business activities.

Stakeholders

- Colleagues
- Customers
- Shareholders
- Regulators
- Society

Reading the report

- Pg Page reference
- Positive increase
- Positive decrease
- Negative increase
- Negative decrease

__Forward looking statements:__ This report contains certain forward looking statements with respect to Barclays Kenya's financial position, results, operations and businesses. These statements and forecasts involve risk and uncertainty as they relate to events and depend on circumstances that occur in the future. There are various factors that could cause actual results or development to differ materially from those expressed or implied by these forward looking statements. Consequently, all forward looking statements have not been reviewed or reported on by the Group's auditors.

Barclays Bank of Kenya Limited

Growth

Revenue: **Shs 31.7bn**
2017: **Shs 30.3bn**

Operating profit growth: **8%**
-9% in 2017

Fastest balance sheet growth in a decade at:
20% in total assets
12% in customer deposits

Total assets: **Shs 325bn**
2017: **Shs 272bn**

51% Lowest underlying cost to income ratio in 7 years, adjusted for one-off restructuring investments and Separation costs

Revenue growth ahead of industry peers

Transformation

Separation programme commenced and on track

New operating model reviewed and head office restructure executed

Chief Data Office and Chief Customer Office established

Physical footprint rationalised at **85 branches** (2017: 91)

3 million new customers given access to financial services

Digital channel capabilities enhanced; achieving **70%** of transactions processed outside the branch (2017: 65%)

New businesses and propositions launched:

1. Timiza Virtual Banking
2. Signature Credit Card
3. Wealth and Investment Management
4. Equity Research
5. Enterprise Supply Chain Development

Returns

Earnings per share: **Shs 1.37**
2017: **Shs 1.28**

Stock price annual gain: **14%**
Outperforming Nairobi Securities All Share index (NSE ASI) and banking industry, whose stock declined by 18% and 10%, respectively

Dividend per share: **Shs 1.10**
2017: **Shs 1.00**

Return on equity: **16.8%**
2017: **15.7%**

Governance and Enterprise Risk Management

Non-performing loans: **Shs 10.8bn**
2017: **Shs 9.4bn**

Liquidity ratio: **35.7%**
2017: **33.4%**

Loan loss rate: **2.2%**
2017: **1.8%**

A diverse and independent Board of Directors with a wealth of skills, experience and professionalism

Sustainability

Economic impacts

2 200
women entrepreneurs trained and provided credit facilities to scale their small businesses through SheTradesKE

500 million
homes to be reached globally through the Magical Kenya Open presented by Absa; promoting and creating a world of possibility for Kenya

3 000 000
new customers provided with financial access through Timiza Virtual Banking

Shs 8.6bn
contributed in tax spending

Shs 29bn
loans issued to fund sectors that support economic growth

100
internships offered by Barclays Kenya in 2018

Technological impacts

Participated in Nairobi Innovation Week as title sponsor, promoting innovative ideas across various industries and creating funding opportunities for digital-enabled businesses

Engaged in a number of thought leadership forums on innovation and technology

Social impacts

155 000
youth beneficiaries empowered through ReadytoWork training programme

Launched Enterprise Supply Chain Development programme; providing Shs 180mn in unsecured loans for the value chain of organizations in pilot phase

Blood donation
initiated #15toSaveALife blood donation campaign; rolling out 29 blood centres across the country and raising more than 1,700 blood units

541
students benefitted from Barclays Scholarship Fund for 2018/2019 academic year

2 500
young people supported to secure placements with our partner institutions through ReadytoWork internship programme

Environmental impacts

Reduced carbon emissions from the physical footprint rationalisation and efficient occupation of spaces

Reduced consumption of paper through various paperless initiatives

We are, because of you.

Barclays shines at the Financial Reporting, Real Estate and the Marketing Society of Kenya Awards.

Keeping our books and yours in perfect balance

For many years you have entrusted us with growing your investments and our commitment to high standards of corporate governance was noted at this years FiRe Awards.

- Runner-Up –Listed companies
- Runner-up - Banks Category

> "We would like to thank our customers for continuing to choose us as their banking partner. None of this would happen without them"
>
> *Jeremy Awori*
> *Managing Director*

Recognised for marketing excellence

Our eagerness in marketing was recognised at the Marketing Society of Kenya Awards Gala, with our Marketing and Corporate Relations team getting three awards on the evening.

- 1st Runner up for the Best Sports Marketing Campaign (Barclays Kenya Open)
- 1st Runner up for the Best Brand PR Campaign (Barclays to Absa Name Change)
- 1st Runner up for the Best Product Launch Campaign (Timiza)

Excelling in the real estate sector

We are delighted to have been recognized at the Real Estate Excellence Awards 2018 in various categories.

- Winner- Best Bank in Property Development
- Runner-Up -Best Mortgage Financier in Kenya
- Runner-up Best Bank in Real Estate Financing in Kenya

BARCLAYS

(absa) Part of the Absa family

About our Integrated Report

Our operations

2018 was an important year for Barclays Kenya as we concluded the first year of execution against our new 'Growth, Transformation and Returns' strategy. During this period, we achieved strong performance in key aspects of our value creating business model, including customer growth, increased returns, governance and risk management.

This integrated report seeks to highlight the results of strategic decisions made throughout 2018, as well as span various topics around the future of the Kenyan banking industry, with a focus on how the Group adapts to changes in the operating environment by investing in new opportunities and addressing potential threats.

This report is the continuation of our commitment to demonstrate how our strategy, governance and performance create value for all our stakeholders. It follows the 2017 report which introduced Barclays' new strategic direction. This report also contains data about the prudence of the Bank's leadership as we capitalise on business opportunities and bring possibility to life.

Scope and boundary of reporting

The Barclays Bank of Kenya Integrated Report is produced and published annually. This report communicates how our strategy, governance, performance and prospects, in the context of the external environment, lead to creation of value over the short, medium and long-term. The report covers the year 1 January to 31 December 2018, and builds on the 2017 report. Any material events after this date and up to the Board approval date of 8 March 2019 have also been included.

Financial and non-financial reporting

The report extends beyond financial reporting and includes non-financial performance, opportunities, risks and outcomes attributable to, or associated with, our key stakeholders, with a significant influence on our ability to create value.

Targeted readers

This report is primarily intended to address the information requirements of long-term investors (our equity shareholders and prospective investors). We also present information relevant to the way we create value for other key stakeholders, including our customers, colleagues, regulators and society.

Key concepts

Value creation

Value creation is the result of how we apply and leverage our capitals or resources (inputs) in delivering financial performance and value (outputs and outcomes) for all our stakeholders while making trade-offs. Our value creation process is explained in our value creating business model on page 10 and 11 and integrated in the way we think and make decisions.

Materiality

We apply the principle of materiality in assessing the material issues to be included in our integrated report. This report focuses particularly on those issues, opportunities and challenges that materially affect Barclays and its ability to consistently create sustainable value for shareholders and other stakeholders. Our material issues, as described on pages 32 to 33, influence our strategy and inform the content of this report.

Reporting framework, principles and assurance

Our integrated reporting process and the content of this report are guided by the principles and requirements of the International Integrated Reporting Framework and International Financial Reporting Standards (IFRS). As a Kenyan bank and a company listed on the Nairobi Securities Exchange (NSE), we align to the NSE and Capital Markets Authority (CMA) Listing Requirements, the Kenya Companies Act of 2015, Corporate Governance Guidelines and Codes of Conduct prescribed by the Central Bank of Kenya (CBK) and Corporate Governance Guidelines of the CMA.

We employ a combined assurance model to assess and assure various aspects of the business operations, including elements of external reporting. These assurances are provided by the Management and the Board. The scope of services performed by our external assurance providers refer to the Barclays Bank of Kenya Limited Annual Financial Statements (AFS), presented in pages 99 to 106. We received external assurance from our auditors, KPMG Kenya (pages 94 to 98), on the fair presentation of these annual financial statements.

Approval and accountability

The Board of Directors is ultimately responsible for ensuring the integrity and completeness of this integrated report. It is the Board of Directors opinion that this report presents a fair and balanced view of our performance.

The Board approved this 2018 Integrated Report on 8 March 2019.

Barclays Kenya in context

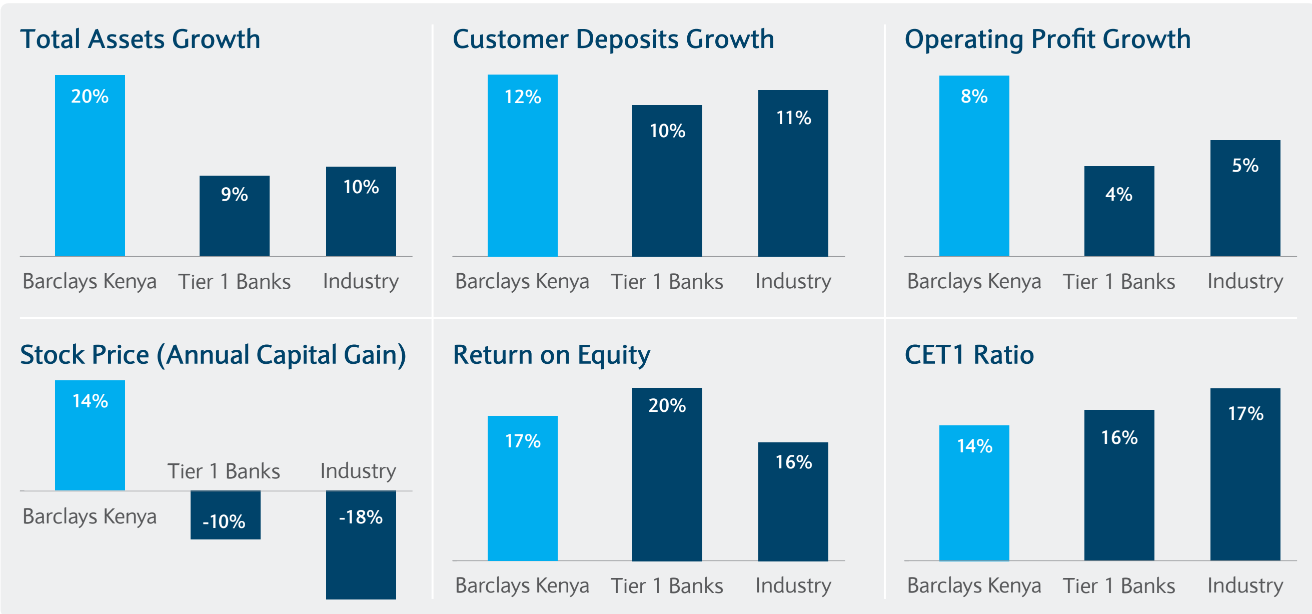
We are building upon the proud heritage that Barclays has established in Kenya

for over 103 years,

as well as taking the opportunity to create our own destiny as we transition to Absa.

We are one of the leading Tier 1 banks in Kenya, controlling approximately

8.5% market share



Absa Group footprint in Africa

We are part of Absa Group Limited - one of the largest diversified financial services groups in Africa and the second largest banking group in East Africa

- **12** countries
- **42 000** colleagues
- **US$ 97bn** balance sheet
- **1 100** branches
- **Shs 533bn** total assets (Kenya, Tanzania, Uganda)

Barclays Kenya footprint

- **98** service centres (85 branches, 13 premier and prestige centres)
- **212** ATMs, including 72 iATMs
- **378** agencies
- **4 703** merchants
- **5 569** POS


absa
You can only build on a 100-year heritage.
As Barclays, we've been serving Kenya for over 100 years. And we're proud to say that as Absa Group, we will continue to build on the strong foundation and proud heritage we've established on the continent.
We look forward to using our impressive footprint in 12 African countries to build a truly African organisation with global reach – one that Kenya can be proud of, for the next 100 years.
www.absa.africa
Absa Group, serving Kenya as Barclays.
BARCLAYS
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Our value-creating business model

Inputs

External Operating Environment

- Promising economic outlook on balance with certain downside risks apparent
- Continued impacts on banks' interest margins from interest rate caps
- Emerging banking industry consolidation cycle
- Unprecedented cyber security threats
- Evolving customer needs and multifaceted competitive landscape thanks to disruptive technology

Our Capitals

Financial
- Equity – Shs 2 716mn
- Deposits – Shs 185 977mn
- Retained Earnings – Shs 36 592mn
- Market Capitalisation – Shs 52bn

Intellectual
- Globally-benchmarked products
- Investment in IT; delivering stability, security and enhanced services
- Innovation in products and services

Human
- 2 268 colleagues with strong expertise and competencies
- Customer obsessed and performance focused culture
- Solid credible executive and leadership team
- Robust compliance and governance practices

Manufactured
- 91 branches
- 213 ATMs
- Digital and alternate channel

Social and relationship
- Sustainable strategic partnerships
- Sustainable investments in education, enterprise development and financial literacy
- Internationally recognised new brand Absa
- Robust stakeholder relationship

Natural capital
- Efficient working space plan
- Natural resources to facilitate operations, i.e, energy, water, paper
- Investments to improve environmental impacts

Our business activities

Our Customers
- Our customers are at the centre of everything we do. This guides our strategy and execution towards creating sustainable value. In fact, we are obsessed with our customers

Our Strategy: The way we differentiate ourselves
- Our strategy focuses on creating shared value through delivering growth, transformation and returns for all our stakeholders and the society. We make clear strategic choices

Operating Context: We review and refresh our focus accordingly
- Our strategy represents our proactive and effective approach to the operating environment
- We review and refresh our strategic responses regularly to anticipate and manage risks while creating opportunities to create value during times of structural changes in the industry

Governance, Risk Management, Performance Management: How we govern and measure our progress
- Our governance approach promotes strategic decisions to reconcile the interests of the bank and the society
- Our strategy is achieved within our risk appetite parameters to ensure effective execution to yield results

Business Areas: How we share accountability to drive results
- Our business units and corporate functions have aligned their execution priorities to our corporate strategy, towards generating value to our stakeholders

Our outputs

Our business clusters, products and services

Retail and Business Banking (RBB)

Strategic priorities
- Strongly growth, diversify and transform the retail and business bank
- Build the most digital, customer obsessed bank

Our areas of strength and differentiation

Corporate and Investment Banking (CIB) including Global Markets

Strategic priorities
- Build the powerhouse institutional bank
- Build the most digital, customer obsessed bank

Our areas of strength and differentiation

Financial outcomes

Total income - Impairment − Operating expenses +Taxes = Net profit

Detailed information of our financial outcomes. Read pages 99 - 106.

Our Bank >>
Value Proposition >>
Value Creating Strategy >>
Delivering Value >>
Protecting Value >>
Financial Review

- We deliver an integrated set of products and services under two clusters: Retail and Business Banking (RBB) and Corporate and Investment Banking (CIB) including Global Markets.

- We extend loans, overdrafts and mortgages to Retail and Business Banking
- We collect deposits and make payments for Retail, Business and SME
- We have created alternate banking solutions through our virtual banking services and alternate banking platforms
- We offer acquiring and card solutions
- We protect wealth through Banacassurance

- Strong understanding of customer needs given 103 years of market presence in Kenya
- Extensive service footprint with the right mix of physical and digital channels to serve customers optimally
- Leading provider of credit card solutions in the Kenyan market with distinct products to cater for diverse clientele
- Best mortgage provider in the market, won Best Mortgage Financier in Kenya and Best Tier 1 Bank in Property Development Financing in Kenya (Real Estate Excellence Awards)
- Shariah banking pioneer in the country with best Shariah compliant solutions, won Best Shariah Compliant Investment Bank in Kenya 2018 (Business Vision, UK)
- Leading mobile banking solutions with Timiza virtual banking proposition
- Innovative propositions on transactional accounts with Zidisha Rewards and Twin Account offerings

- We extend credit facilities through corporate loans and trade loans
- We offer Corporate transaction and payments Services through our various corporate accounts
- We manage treasury and cash for our coporate clients through our liquidity management products
- We offer working capital solution through our trade financing and overdraft facilities
- We provide project financing through term loans and asset based financing
- We offer wealth management and advice through brokerage services
- We extend trading products such as foreign exchange, derivatives , securities

- Market leader; won Best Corporate Bank in Kenya (East Africa Awards 2018 by Banker Africa)
- Multi-sectorial and diversified products and services in global corporates, global development organisations, financial and non-financial institutions, large local corporates and public sector
- Innovative technology
- Strong sector expertise
- Investment in technology to enhance customer acquisition, improve efficiency and customer interaction
- Leverage on regional and global capabilities of Absa Group Limited to tap into regional markets

− Dividend payout = Retained earnings

Outcomes

Creating value for our stakeholders

Shareholders
- Strong Balance Sheet growth at 20% (total assets) and 12% (customer deposits)
- Resilient revenue growth at 5%
- Market leading operating profit growth at 8%
- Turn-around in ROE at 16.8%
- Increase in stock price by 14%
- Increase in dividend per share by 10%
- Well positioned above regulatory capital and liquidity requirements

Customers
- Introduced new brand, Absa, through a comprehensive Separation programme
- Launched new propositions/products to reaffirm leading positions: Timiza Virtual Banking, Signature Credit Card, Enterprise Supply Chain Development, Equity Research, Wealth Management, etc.
- Market leading security level
- Rationalised at 85 branches and 212 ATMs
- Processed 70% of transactions outside of the branch

Colleagues
- 2 128 colleagues with strong commitments to serve our customers
- Paid Shs 10bn in colleagues benefits
- Transormed culture :be the reason as a result of training investment
- Revamped performance based, customer obsessed recognition programme
- Named Top 5 Financial Services Employer of the Year

Regulators
- Complied with regulation on IFRS9, FinCrime, etc.
- Invested Shs 63bn in Government Securities to support funding needs

Society and Environment
- Provided financial access to 3 million new customers
- Contributed Shs 8.6bn in tax spending
- Empowered 155 000 youth through Ready2Work; offered 541 scholarships
- Benefitted 2 200 women entrepreneurs through SheTradesKE
- Promoted Kenya to 500 million homes worldwide through Magical Kenya Open
- Developed thought leadership on sustainability
- Continued responsible lending
- Increased environmental footprint,through reduced carbon emissions
- Implemented e-statement, paperless banking and processes

Detailed information on our stakeholder value creation is disclosed in our Delivering Value section. Read pages 43 - 70.

His Excellency the President Uhuru Kenyatta (front centre), hands over the Barclays Kenya Open trophy to 2018 winner, Italian Lorenzo Gagli (front left) at the Muthaiga Golf Club, in Nairobi. Looking on (front right) is Barclays Bank of Kenya's Chairman, Charles Muchene.

Reflections from our Chairman

"In 2018, we became the best performing bank stock at the NSE; increasing total returns for our shareholders. We entered 2019 with a strong momentum and I am excited by the positive outlook and potential opportunities as we live our purpose of bringing possibility to life."

Charles Muchene
Chairman, Board of Directors
Barclays Bank of Kenya

2018 was another year of great progress as we embarked on repositioning our business in line with our five-year corporate strategy. The strategy sets us on a new path underpinned by three pillars – **Growth, Transformation and Returns (GTR)** - to deliver sustainable and optimal results for all our stakeholders. We are also at an exciting moment in our history, as we transition to a new brand identity, Absa, as part of the deconsolidation of Absa Group from Barclays PLC. This move is not simply a name change; it will see us become a truly African-rooted and innovative business, while sustaining our position among the industry leaders by providing our customers with the best possible solutions. Following the Separation, we are becoming a bank that is more locally competitive and relevant, while retaining a regional and global appeal.

External environment

In 2018, we saw the economy accelerate relative to the previous year owing to stable macroeconomic conditions and improved investor confidence. Inflation was anchored within the government target range at 5.7% with the Kenyan shilling remaining relatively stable.

The Kenyan economy made progressive strides, albeit with certain risks apparent. The Monetary Policy Committee lowered Central Bank Rate (CBR) twice in the year to 9% with an aim to support economic activities. However, private sector credit growth continued to slow down, reaching an all-time low of 2.4% in the 12-month period to December 2018. Corporate performance was restrained as 17% of the NSE-listed companies issued profit warning.

Regulatory and legislative environment continued to evolve in complexity, introducing both structural and secular shifts to the banking sector, as outlined below:

- The Finance Act 2018 retained the interest rate cap and removed the deposit floor cap, leaving banks to adjust interest payable on customer deposits
- The National Treasury completed the Draft Financial Markets Conduct Bill that sought to create effective financial consumer protection, make credit more accessible and consequently support financial innovation and competition
- The Central Bank of Kenya (CBK) proposed to introduce a Banking Sector Charter that will guide service provision in the sector. The Charter aims to instill discipline in the banking sector in order to make it responsive to the needs of the banked population
- The Ministry of Information and Communication (ICT) published the Kenya Data Protection Bill 2018, in response to the General Data Protection Regulation (GDPR) introduced by the European Union Law

Reflections from our Chairman *(continued)*

- On a global front, the implementation of International Financial Reporting Standard 9 (IFRS 9) on 1 January 2018 ushered a significant shift in accounting. The impact of this standard on our performance is detailed on page 44 of the Reflections from our Chief Financial Officer. The CBK allowed a five-year transition period to fully comply with IFRS 9 in terms of regulatory capital computation

Within a strengthened regulatory environment, we foresee a safe and sound industry, where customers gravitate towards banks that comply with emerging laws and regulations.

Our response in 2018

In 2018, we proudly announced the intention to transition to the new brand – Absa. As part of one of the largest banking groups in Africa and the second largest banking group in East Africa, we are determined to contribute to the growth of our country, and that of the continent. Our purpose of bringing your possibility to life speaks of our passion to create opportunities for Kenyans and all other stakeholders.

The overriding purpose guided our newly-created **'Growth, Transformation and Returns'** strategy, which was built on key fundamentals such as the management of risks, maintenance of a high level of capital, efficiency of operations and quality of services. Through our business model, we seek to diversify our revenue streams and optimise our operations, thus making our results less volatile and vulnerable to economic cycles. In 2018, we made strong progress against our strategy and delivered all our commitments.

- **Growth:** We recorded the fastest growth in a decade as we anticipated the rapidly changing needs of our customers and developed solutions to meet those needs. Delivering on our customer promises expanded our customer base to over 3 million, while diversifying revenue streams originating from new businesses and propositions.
- **Transformation:** We made bold steps to accelerate our transformation; including: establishment of Chief Data Office and Chief Customer Office; strategic investments in automation, robotics and artificial intelligence; execution of operating model review and head office restructure. Our collective efforts have repositioned us favourably for the digital era in addition to sustaining our leadership in cost management in the industry at a 2% year-on-year growth.
- **Returns:** We fulfilled our commitments to generate sustainable returns for our shareholders. Our stock became the best performing bank stock and large cap stock at the NSE, returning 14% capital gains to our shareholders. Our progressive dividend policy sustained a leading position in dividend yield and pay-out following a 10% pay-out increase recommended by the Board. Furthermore, our return on equity increased on a year-on-year basis for the first time since 2010, jointly enhancing total returns for our shareholders.

A culture of good governance and ethics

In 2018, Barclays Kenya focused on delivering its commitments through disciplined strategy execution in an increasingly challenging socioeconomic environment. The Board continued to focus on providing sound independent leadership and oversight of the Bank's strategy execution. In addition, the Board was active and dynamic in supporting the Management in scanning macro and micro environment in which the Bank operated, and in overseeing the formulation of the most effective strategic responses to various operational challenges and opportunities.

Negative corporate behaviour, for instance, continued to dominate news headlines during the year as proceeds from corruption-related cases permeated through the financial services sector. Such failures undermined progress in governance, resulting to a reduced trust in the economy. To counter this, Barclays Kenya maintained our zero tolerance for corruption by actively promoting whistle-blowing lines to colleagues and acting decisively where wrong-doing was identified. These aspirations were carried through to our client and supplier relationships.

We continued to welcome steps being taken to expose the systemic corruption that has plagued public and private sectors. Tackling the malfeasance remains a critical priority that the Kenyan government must urgently address in order to position the country as a foreign investment destination of choice. This is a process that requires intricate policy coordination, appropriate management of state-owned entities, meaningful structural reforms and a political resolve in a challenging socio-political environment.

To support this process, Barclays Kenya made deliberate and progressive commitment and investment in financial crime mitigation, resulting in zero sanctions and/or regulatory breaches during the reporting period. This followed our enhanced rigor and the installation of structures and processes to identify potential money laundering and terrorism financing activities.

Each and every one of our colleagues at Barclays shares a joint responsibility to ensure that we operate with integrity at all times; and we ensure that our related regulatory compliance systems are capable of detecting any misuse. This implies the detection and escalation of situations that pose risks.

As the Board, we have the ultimate responsibility to oversee actions of the Management, and we robustly engage in the delivery of that task. We appreciate the fact that stakeholder trust takes time to build, but can be lost in an instant. As such, we are all focused on demonstrating that we are a business that truly promotes an ethical culture.

Separation update

We see the transition to our new brand Absa as an inflection point. We are creating our own destiny as part of one of the largest pan-African banking groups, and we begin to operate the business closer to customers and local markets, make faster decisions and drive more exciting innovation. At the heart of our business model will remain the customer, and with Absa, we are transforming ourselves to a locally relevant business whilst retaining the top class global standards and product capabilities that we have inherited from Barclays PLC. We have been here for over 103 years and we are renewing our commitment to Kenya for the long term.

Good progress has been made on the re-branding. While continuing, for the time being, to use Barclays as our main identity; we now carry an additional "Member of the Absa Family" identifier. We expect the process of changing to Absa to be completed by June 2020. With Absa, we have an African and Kenyan heartbeat; we aim to remain integral to the Kenyan economy, contributing to its prosperity and bringing possibility to life for the Kenyan people.

Our vision for the future

Building upon a strong 2018, we are on course for a progressive strategy execution against the three strategic pillars – Growth, Transformation and Returns. Ultimately, the delivery of our strategy fulfills our purpose. We aspire to empower individuals, colleagues, small businesses, corporates and the society at large to grow.

We aim to build our legacy as the best bank in customer experience - the key driver to return Barclays Kenya to its no.1 market position over the long term. As we do this, we commit to generate sufficient returns for our shareholders and create sustainable value for all our stakeholders.

Changes to the Board

As at 31 December 2018, the Board of Directors comprised 10 members, eight of whom were independent Non Executive and two were Executive Directors. Japheth Okoth Olende and Louis Onyango Otieno were appointed to the Board on 7 March 2018 as independent Non Executive Directors. Their appointment was a deliberate effort to harness the wealth of experience that Olende and Otieno present in insurance and technology.

Company Secretary, Paul Ndungi, resigned from the Bank in June 2018 and was replaced in the interim by Deputy Company Secretary, Stella Kariuki. We thank Mr. Ndungi for his contribution and wish him well in his future endeavors.

Appreciation

The Bank's success is attributable to all our colleagues whose daily efforts collectively generate value for our stakeholders. I am grateful for their ongoing commitment and openness to change, while living a strong and ethical culture. I also express my gratitude to our Chief Executive Officer Jeremy Awori, and the management team for their devotion to our strategy, as well as my fellow Board members whose wise counsel has guided the Bank to greater heights. Above all, I thank our customers for walking this journey with us.

We entered 2019 with strong momentum, and I am excited by the positive outlook and potential opportunities that will accelerate our strategy execution as we live our purpose of bringing possibility to life.

Charles Muchene
Chairman, Board of Directors

Transformation through Separation

Over 2016 and 2017, Barclays PLC reduced its shareholding in Absa Group Limited from 62.3% to 14.9%. Following the announcement, a comprehensive programme has been delivering the replacement of systems and capabilities to successfully separate from Barclays PLC.

At least 40% of all Separation change projects are transformative, delivering independence and allowing us to become a scalable and digitally-led organisation. In addition, the programme is consolidating and digitising core technology services. In most instances, we are upgrading, and thus improving, our existing solutions with more recent versions. These solutions include delivering a consolidated offering for pan-African payments, consolidating all Absa Regional Operations (ARO) card-related systems, and delivering a unified human capital management solution for the Absa Group (Workday).

Given the size and complexity of the programme, a fully dedicated team of 45 colleagues has been appointed to deliver the Separation. In addition, various governance structures and a steering committee are in place to ensure a seamless separation and the re-brand to Absa. There are detailed plans shared with key stakeholders including our regulators for approval.

In 2019, the bank's Separation programme will involve immense investments and the implementation of over 70 technology-specific projects, which will further eliminate service dependency on Barclays PLC or move the bank to superior, efficient, robust and customer centric systems. Not only will we migrate to a new card system but we will also issue our customers with Absa endorsed debit and credit cards in preparation for the change. The vast majority of work remains on track. It is commendable that all technology changes achieved so far have been implemented without any customer service incidents. Resources that supported business-critical ARO applications from the Barclays Technology Centre in India were successfully transferred to our selected third party, who continue to provide these services under a separate contract. Absa aims to transfer resources from India to South Africa over five years with half of them by 2021.

2019 is critical for the separation programme, with 12 platinum projects set for delivery. One of the most significant technical projects will be the migration of the core banking applications from the UK to South Africa which will be done in the first half of the year, removing existing complexities and improving overall customer experience.

We will also replace our core financial crime systems with an integrated and analytically advanced system that has a substantially improved functionality.

The brand change is unprecedented for the business in terms of scale and includes digital platforms, forms, marketing and business collateral, corporate and retail premises, ATMs and point of sale devices. However, we have made good progress to re-brand from Barclays to Absa by June 2020, and our products and services will not be affected by the name change. We will begin the process of repairing, refurbishing and re-branding our real estate comprising of 212 ATMs, 85 branches and five head office premises.

We intend to engage all our stakeholders through rolling-out various activities and marketing campaigns during the year with the aim of informing, engaging and exciting each stakeholder.

For our colleagues, the activities involve the launch of new values, launch of an enhanced leadership talent framework and a number of internal campaigns. For our customers and external stakeholders, we shall run several media campaigns in preparation for our brand launch on Legal Day One.

Separation programme update – 2018

March
Announced our strategic growth intent

April
Announced reorganisation to align the organisation to the new strategy

May
Shareholders approved name change; culture change programme launched

June
Achieved regulatory deconsolidation from Barclays PLC

July
Barclays Africa Group Limited was renamed to Absa Group Limited; refreshed the Absa brand in South Africa

September
Absa Group opened London offices

December
Absa Group's Board approved the ARO strategy

Our Bank >>
Value Proposition >>
Value Creating Strategy >>
Delivering Value >>
Protecting Value >>
Financial Review

Value creation through good governance

Our governance philosophy

Good corporate governance defines the ethical behaviour of the Bank over and above compliance with laws and regulations. It is not only a contributor to our performance, but is crucial to the economic well-being of society. It is imperative that the highest standards of corporate governance are upheld to ensure positive and sustainable values for all stakeholders of the Bank.

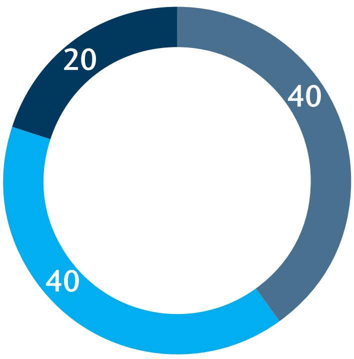
Corporate governance is integral to Barclays Kenya operations and cuts across all spheres of the Bank. In 2018, the Board continued to ensure the adoption of sound governance structures, frameworks, policies, procedures and practices in the operations of the Bank.

The protection of investors' interests through a sound management system has contributed to our long term success in Kenya over 103 years of our existence. With this commitment, in 2018 the Board and management team met the highest standards of corporate governance while delivering superior value to all our stakeholders. Thanks to their dedicated input, we remain successful, especially as we move into the next phase of growth under the new Absa brand.

Board tenure

At each Annual General Meeting, one-third of the directors, who have been longest in office since their last election, retire, but are eligible for re-election. Where a new Board member is appointed, they hold office until the first AGM that is held after their appointment before they are eligible for re-election by the shareholders.

The Board is well balanced between longer-serving directors and recent appointees with:



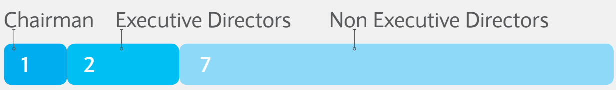
40%
served for up to 3 years

40%
served between 3–5 years

20%
have been in office for over 5 years

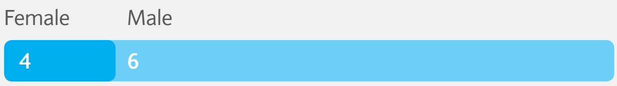
Board composition and diversity

The Board is comprised of 10 members. There is a clear separation of roles between the Chairman and the Chief Executive Officer, We seek to promote independent judgement and diverse views and opinions. All directors must exercise their judgement independently in order to strengthen their oversight in protecting the interests of all stakeholders.

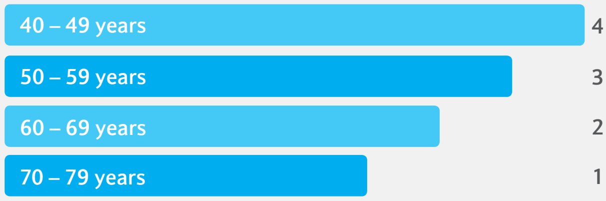


Gender

Studies have shown that companies that embrace diversity in gender, ethnicity and age achieve better financial performance.



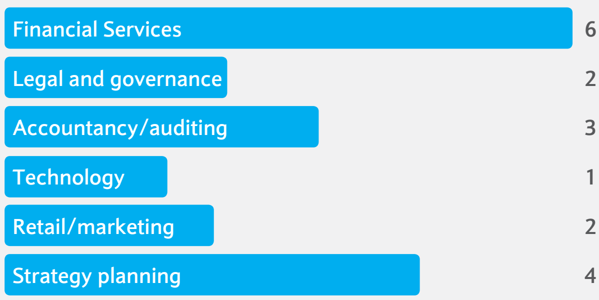
Age



Board skills

In order to enhance the effectiveness of the Board in carrying out its mandate board members should have a different understanding of governance and appropiate technical financial knowledge. In particular, skills and experience in banking, risk and capital management, technology, legal, auditing, accounting, human resource and strategy engagement are desirable. During the year, the directors attended various training sessions and fora to enhance their skills and keep abreast with topical governance issues. These sessions covered, among others, anti-money laundering and cyber security training. The two newest directors also underwent the mandatory induction training established by the Board.

The Board holds a diversity of knowledge, skills, experience and independence as outlined below:



Value creation through good governance *(continued)*

Directors' responsibilities

The Board is collectively responsible for ensuring the long-term success of the Company while safeguarding the interests of various stakeholders. This is achieved by providing effective leadership and oversight of strategy formulation and strategy execution. The Board and Executive Management are committed to maintaining the highest standards of corporate governance to deliver sustainable value to our shareholders and other stakeholders. The management committees report to the Board and Board Committees as per their respective mandates.

Each director is provided with a role profile and a charter of expectations upon appointment, documents which clearly outline the behaviour and competencies expected from them including this expected time commitment. On average, the time commitment for Non Executive Directors is 30 to 40 days per year. Performance indicators are included in the role profiles to guide the directors, and it is against these indicators that their individual performance is evaluated each year.

Board effectiveness review

Every year, the performance of the Board and its committees is evaluated against their respective mandates, and the results are collated by the Company Secretary and communicated to the Board for appropriate action. In 2018, the Board engaged an external consultant to undertake annual Board evaluation process. The consultant assessed the effectiveness of the Board, Committees, Chairman and individual directors, as well as facilitated peer reviews. The main conclusion from the exercise was that the Board, Committees and individual directors were performing well. The process was concluded in the June 2018 Board meeting where remedial actions for areas requiring improvement were taken. Some of the identified gaps continue to receive focus with the Chairman overseeing the implementation of agreed actions for purposes of reporting to the Board.

Role of the Board in promoting sustainability

The CMA's Code of Corporate Governance Practices for Issuers of Securities to the Public 2015 outlines the need for the Board to ensure that the Bank's strategy promotes sustainability. In this regard, the guidelines require that the Board pays attention to Environmental, Social and Governance (ESG) aspects of the business, which underpin sustainability.

It is, therefore, now widely recognised both locally and internationally that ESG issues must be factored in as measures of good corporate governance. While the business already considers ESG when formulating strategy in order to support integrated reporting, the Board maintains deliberate monitoring and reporting standards on this at Board level. In this way, there is a constant effort to ensure that the Bank's operations are undertaken in a manner that does not compromise future needs.

Legal and governance audit

We engaged an external governance auditor accredited by the Institute of Certified Secretaries (ICS) to undertake the Bank's legal and governance audit as per the CMA's Code of Corporate Governance Practices for Issuers of Securities to the Public 2015. The key governance areas raised in the governance audit were assessed and the outcomes were categorised as either 'Very Good', 'Good', 'Fair', 'Poor' or 'Very Poor'. Out of the 163 areas reviewed, 67.5% were Very Good, 26% were Good, 5.5% were Fair and 1.2% were Poor. There was no rating of Very Poor in any governance area. The areas rated as 'Poor' related to the composition of Board Committees, where some adjustments, currently under consideration by the Board, were made. The auditors, however, noted that the current composition of the Board is not in contravention of the law or the code of corporate governance.

Committee Reviews

The Board has three mandated committees, comprising suitably skilled directors, to oversee and govern their respective areas. Committee Chairperson gives written (and then verbal) feedback to the Board at Board meetings.

The mandates and membership of committee members, as well as the key activities of each committee during 2018 are outlined in the reports from each of the Committee Chairperson on pages 74 - 79.

Relationship with stakeholders

The Bank is committed to communicating openly with all stakeholders and shareholders in particular on its performance, while addressing any other areas of concern that may present. This is achieved through the publication of annual integrated report and convening of Annual General Meeting (AGM). The Bank's financial results are published in local media every quarter in compliance with regulatory requirements. On a day-to-day basis, all shareholders have direct access to the Company Secretary and the Shares Registrar, who both respond to shareholder queries on a variety of issues. We prefer to communicate with our shareholders electronically and, accordingly, in 2018 we published our Integrated Report at *www.barclays.co.ke* and notified shareholders of the AGM via SMS.

Our Board of Directors

Charles Muchene - 61
Chairman

- Appointed to Board: August 2016
- Appointed Chairman: October 2016
- Committee Membership: CGNC

External Directorships
- East African Breweries Limited
- AIG Kenya Limited

Previous Roles
- Independent Non Executive Director, CfC Stanbic Holdings Limited
- Country Senior Partner and Financial Service Industry Leader, PricewaterhouseCoopers

Qualifications
- Bachelor of Commerce (Hons), University of Nairobi
- Fellow, Institute of Certified Public Accountants of Kenya
- Member, Institute of Certified Public Secretaries of Kenya

Jeremy Awori - 48
Executive Director and Chief Executive Officer

- Appointed to Board: February 2013
- Committee Membership: CGNC, CC

External Directorships
- Board Member, Kenya Private Sector Alliance (KEPSA)
- Executive Council Member, Kenya Bankers Association

Previous Roles
- Former Chairman, Kenya Bankers Association
- Chief Executive Officer, Standard Chartered Tanzania
- Regional Sales and Performance Director, Standard Chartered Middle East, South Asia and Africa
- Head of Consumer Banking, Standard Chartered UAE

Qualifications
- MBA, McGill University (Canada)
- BSc. Pharmacy, Manchester University (UK)
- Fellow, Aspen Global Leadership Institute
- Member, Young Presidents Organisation

Yusuf Omari - 45
Executive Director and Chief Financial Officer

- Appointed to Board: June 2009
- Committee Membership: None

External Roles and Memberships
- Board Member, University of Nairobi Enterprise Services
- Board Member, the Institute of Certified Public Accountants of Kenya (ICPAK)

Previous Roles
- Head of Compliance, Barclays Kenya
- Head of Internal Audit East and West Africa, Barclays Kenya
- Senior Auditor, KPMG

Qualifications
- Advanced Management Program (AMP), Strathmore and IESE Business School
- MBA, Strathmore Business School
- B.A. Economics, University of Nairobi
- Fellow, Institute of Certified Public Accountants of Kenya
- Certified Internal Auditor

Our Board of Directors *(continued)*

Dr. Laila Macharia - 48 | Non Executive Director

- Appointed to Board: August 2014
- Committee Membership: CGNC, ARC

External Roles and Memberships
- CEO, Africa Metro

Qualifications
- LLD, Stanford Law School (US)
- LLM, Stanford Law School (US)
- LLM, Cornell Law School (US)
- LL.B, Cornell Law School (US)
- B.A., University of Oregon (US)

Ashok Shah - 70 | Non Executive Director

- Appointed to Board: August 2011
- Committee Membership: CC, CGNC, ARC

External Roles and Memberships
- Group CEO of the Apollo Investments Ltd.
- Board Member, CDS Corporation
- Board Member, Capital Markets Challenge Fund
- Board Member, APA Insurance Limited
- Board Member, Apollo Life Assurance
- Board Member, Apollo Asset Management

Qualifications
- Dip. Applied Chemistry, Kingston University (UK)
- Member, Chartered Institute of Arbitrators
- Associate, Chartered Insurance Institute

Norah Ochieng' Odwesso - 51 | Non Executive Director

- Appointed to Board: August 2014
- Committee Membership: CGNC, ARC

External Roles and Memberships
- Public Affairs and Communications Director, Coca-Cola Beverages
- Chairperson, Junior Achievement Kenya
- Board Member, Gender Violence Recovery Centre
- Governing Council Member, Management University of Africa

Qualifications
- MA, Finance and Investment, University Of Exeter (UK)
- Bachelor of Commerce (Hons), University of Nairobi
- Certified Investor Relations Professional
- Honorary Fellow, Kenya Institute of Management (KIM)

Winnie Ouko - 48 | Non Executive Director

- Appointed to Board: August 2014
- Committee Membership: ARC, CC

External Roles and Memberships

- Co-Founder and Director, Lattice Consulting Limited
- Executive Director, Lattice Training
- Director, World Wide Fund for Nature International
- Director, Kenya Pooled Water Fund
- Director, Vodacom Tanzania

Previous Roles

- Capital Markets Manager, First Africa Capital
- Associate Director, Standard and Poor's (US)
- Auditor at PwC Kenya

Qualifications

- MBA, Cornell University (US)
- Bachelor of Commerce, Insurance (Hons), University of Nairobi
- Certified CPA (K)

Patricia Ithau - 53 | Non Executive Director

- Appointed to Board: March 2016
- Board Chairperson: Barclays Financial Services Limited

External Roles and Memberships

- Non Executive Director, Trade and Markets East Africa
- Non Executive Director, Kenya Private Sector Alliance (KEPSA)
- Executive Coach, Academy of Executive Coaching

Previous Roles

- Managing Director, L'Oreal East Africa

Qualifications

- Advanced Management Program (AMP), Strathmore and IESE Business School
- MBA, United States International University Africa
- Bachelor of Commerce (Hons), University of Nairobi
- Dip. Executive Coaching, Academy of Executive Coaching
- Scenario Planning Program Certificate, L'Oréal Business School

Japheth Olende - 65 | Non Executive Director

- Appointed to Board: March 2018
- Board Chairperson: Barclays Bank Insurance Agency Limited

Previous Roles

- Member, Chartered Insurance Institute London
- Member, Institute of Directors, Kenya.
- President, American Chamber of Commerce Kenya Chapter
- Director, Kenya Private Sector Alliance (KEPSA)
- Director, Association of Kenya Insurers
- Director, Insurance Institute of Kenya.

Qualifications

- Bachelor of Commerce (Hons), University of Nairobi
- Chartered Insurer, CII London
- Member, Institute of Directors

Our Board of Directors *(continued)*

Louis Onyango Otieno - 54

Non Executive Director

- Appointed to Board: March 2018
- Committee Membership: ARC

External Roles and Memberships

- Director, Middle East and Africa Corporate Affairs, Microsoft 4Afrika
- Board Member, Nation Media Group

Previous Roles

- Director of Marketing, Microsoft
- Director of Business Operations, Microsoft
- Director Enterprise Sales, Microsoft
- General Manager, East and Southern Africa, Microsoft
- President of the American Chamber of Commerce Kenya Chapter
- ICT advisor to the Presidents of Tanzania, Uganda and Mozambique
- Kenya's Vision 2030 Board Member

Qualifications

- MBA, Long Island University
- BSc (Hons) Computer Science, Mercy College

Stella Gacharia Kariuki - 40

Acting Company Secretary

- Appointed to role: June 2018

Previous Roles

- Deputy Company Secretary and Legal Counsel, Barclays Bank of Kenya

Qualifications

- MBA, University of Leicester (UK)
- LL.B, University of Nairobi
- Dip. Law, Kenya School of Law
- Dip. Advanced Programme in Risk Management, University of South Africa (UNISA)
- Advocate of the High Court of Kenya
- Commissioner for Oaths
- Notary Public
- Registered Certified Public Secretary

Our Country Management Committee

Barclays Kenya's Country Management Committee is a diverse and experienced management team comprising the Chief Executive Officer, Chief Financial Officer and 13 other members of senior management.

Jeremy Awori
Chief Executive Officer

Yusuf Omari
Chief Financial Officer

James Muchiri
Chief Operating Officer

David Hardisty
Retail and Business Banking Director

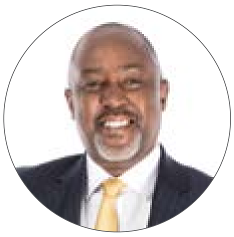
James Agin
Corporate Banking Director

Anthony Kirui
Head of Markets

Zahid Mustafa
Chief Customer Officer

Geneva Musau
People Director

Laban Omangi
Head of Compliance and Legal



Chiera Waithaka
Chief Risk Officer

Christine Mwai-Marandu
Credit Director

Caroline Ndung'u
Marketing and Corporate Relations Director

Joshua Ndung'u
Regional Director and Chief Internal Auditor, Kenya

Anthony Mulisa
Regional Treasurer EA and Separation Programme Director

Moses Musyoka-Muthui
Country Strategy Director

A detailed profile of our Country Management Committee members is available on our website, www.barclays.co.ke

Paintings by Barclays Bank of Kenya's colleagues on display at the Westend Offices, in Westlands, Nairobi, during the 2018 Absa Day. The exhibition was among several activities planned to mark the transition from Barclays to Absa.

Reflections from our Chief Executive Officer

"The steps we took in executing our new strategy made a significant difference to our business performance and continued to support the Kenyan society. We recorded strong performance in each of the three strategic pillars, which collectively made 2018 a successful first year of strategy execution."

Jeremy Awori
Chief Executive Officer
Barclays Bank of Kenya

Introduction

In 2018, we introduced our new **'Growth, Transformation and Returns'** strategy following a successful material strategic review in 2017. The strategy is inspired by our purpose of **'bringing possibilities to life'** which comes along with the promise of our new brand and identity – **Absa.**

The steps we took in executing the new strategy made a significant difference to our business performance and continued to support the Kenyan society. We recorded strong performance in each of the three strategic pillars – Growth, Transformation and Returns – which collectively made 2018 a successful first year of strategy execution and constructively positioned us on our way to become the financial services institution that Kenya will be most proud of.

2018 successes and milestones

On the commercial front, 2018 was the best all-round year of financial performance for the bank in a decade. This strong performance was a testament that our strategy is working, with momentum gained across all three strategic pillars.

The first strategic pillar – Growth – is inspired by our passion to bring our stakeholders' possibility to life. In 2018, we set new growth records on various fronts. Our balance sheet grew by 20% in Total Assets to Shs 325bn. We safeguarded Shs 207bn of deposits for our customers, reflecting the fastest growth in a decade at 12% year-on-year. A strong revenue growth buttressed by well-contained cost base, increased our operating profit by 8% year-on-year, which was the highest growth since 2010.

These financial successes reflected the results of our collective efforts to transform customer experience. We developed products and services to fulfill the evolving customer needs; for example, the Timiza Virtual Banking platform, which attracted 3 million new customers in nine months to the end of 2018, La Riba Trade Finance, Zidisha na Salo – a salary advance proposition, unsecured bid bond for SME customers and Signature Credit Card, among others. In addition, we reviewed and revised upward our service standards across all business units and functions.

Our second strategic pillar – Transformation – speaks to our aspiration to take bold strategic choices that position us favourably for the digital era while driving efficiency and improving customer experience. We believe our business is about people. Our transformation starts with people, with customers and colleagues being at the heart of everything we do, while focusing on bringing possibility to life for our customers and the society.

Reflections from our Chief Executive Officer *(continued)*

In 2018, we continued to invest in automation, robotics and artificial intelligence to optimise operations and allow for customised customer solutions; ultimately enhancing customer experience. We acknowledged the changing pattern in customer preferences towards alternate channels. Therefore, we continued our physical branch network reconfiguration coupled with enhancing alternate channel capabilities.

Further, we established the Chief Data Office and Chief Customer Office, whose mandate is to use data analytics, agile principles and innovation management in order to ultimately transform customer experience across all business segments. We believe advanced data analytics gives us a distinctive competitive advantage. For example, the advanced pricing management platform we rolled-out in 2018 enabled us to innovate pricing strategy with much greater flexibility, allowing for personalised pricing in-line with customer needs.

Our most important long term competitive advantage remains our people. With that in mind, we introduced a new culture, with a focus on building an aspirational, fun and vibrant place to work for our colleagues.

We progressed well on our Separation programme, which will not only see our brand change from Barclays to Absa by June 2020, but also see our systems and technology upgraded and transformed. This inflection point presents us with a great opportunity to build on the rich heritage that Barclays has established in Kenya for 103 years, while creating our own destiny as a part of one of the largest pan-Africa banking groups.

Our third strategic pillar is Returns – where we aspire to maximise returns for our shareholders by ensuring optimised financial strengths, and that we create value for our investors.

As a result of the collective focus on strategy execution, our share price was the best performing bank stock and large cap stock at the NSE with 14% annual capital gains. We rewarded shareholders with a 10% increase in dividend pay-out, totaling approximately Shs 6bn. This is our way of sharing our financial successes with our shareholders. Our ROE increased for the first time since 2010, and with our dividend yield closing the year as the best in banking, our shareholders' total returns were the highest in the industry.

Bringing our purpose to life and doing business responsibly

As a leading financial services institution, which is integral to the Kenyan economy, we appreciate the trust that our customers, stakeholders and society have placed on us. With that in mind, we are passionate about Kenya's development and sustainability. We are passionate about bringing possibility to life as committed in our purpose and corporate strategy. Ultimately we believe human performance precedes financial performance, and that there is clear alignment between living our purpose, improving customer experience, our financial performance and our stock price.

Bringing our purpose to life

In 2018, we accelerated our strategic Force for Good agenda. Over the years, we have sustained significant investments in education, as we believe there is a positive correlation between the quality of education and economic prosperity. Our ReadytoWork programme, whose objective is to help trainees make a smooth transition into job market, has gained decent reputation. Through ReadytoWork, more than 155 000 youth have benefitted from online-based skill trainings. To unlock the next potential level of impact from ReadytoWork, we introduced the ReadytoWork internship programme, on-boarding approximately 100 interns in various Barclays Kenya departments across the country. This is in addition to the more than 2 500 youth whom we have secured placements for. We offered 541 scholarships for students from 60 universities. We also provided smart cards to allow students better manage their personal finances and support their study.

With strong expertise in, and solid understanding of, the role of micro, small and medium sized enterprises (MSMEs) in the Kenyan economy, we launched various initiatives to support the segment.

- Firstly, propositions such as Timiza Virtual Banking give financial access to small business owners who were previously excluded from formal financial services.
- Secondly, initiatives such as SheTradesKE in partnership with the International Trade Centre (ITC) have given out credit facilities and supported over 2 200 women entrepreneurs with skills to upscale their businesses and access international business opportunities.
- Lastly, programmes such as Enterprise Supply Chain Development do not only develop the capabilities of our corporate clients but also create business opportunities for small business owners, who are a part of the value chain.

We are particularly proud of the work we are doing to empower women, as gender equality is a defining part of our DNA. Through our internal Women Network Forum, we run mentorship programme equipping more than 300 women with required skills to shine in leadership roles. As a bank, we have been championing the gender agenda on several fronts; for example, we became the first listed company to achieve a 50:50 gender balance at the Board level.

Over the past eight years, we have worked hand in hand with Kenya Open Golf Limited to grow the stature of the Kenya Open golf tournament into a great asset, not just for the golfing fraternity but for the country as a whole. The tournament is one of the biggest sport events in Sub-Saharan Africa and has played a big role in promoting Kenya as a tourism destination.

Our Bank >>
Value Proposition >>
Value Creating Strategy >>
Delivering Value >>
Protecting Value >>
Financial Review

Through our parent company – **Absa Group Limited** – we announced investments in the tournament over the next two years; bringing Kenya to the screens of over 500 million homes globally. We are opening up a world of possibility for Kenya and Africa with the tournament. As we do that, we will also be exposing our new brand to millions of people across the globe.

Doing business responsibly

Going forward, we will step up the pace of integrating sustainability into our corporate and business strategy, as we are keen on staying ahead of the curve and setting the standards for the banking industry. We aspire to build upon our rich heritage of 103 years serving the Kenyan society, by further building a sustainable and responsible approach to business as an integral part of who we are. The 17 Sustainable Development Goals (SDGs) initiated and promoted by United Nations have given significant impetus to our efforts and we are confident that we will build strong partnerships with like-minded organisations to drive our sustainability agenda.

Our corporate sustainability strategy for the medium to long term is being re-defined. The sustainability strategy will support the next phase of our strategy and focus on areas where we believe we can make the biggest difference; as we embed our citizenship agenda in everyday business endeavours. The sustainability strategy will define our path forward on how we live our purpose.

Delivering our vision

In 2018, we concluded material parts of our transformation cycle, setting a foundation upon which we will build further successes in 2019. We are not complacent, and we recognise that unprecedented changes in the regulatory mandate, the competitive landscape and customer expectations require regular strategic reviews and refreshed strategic responses.

Moreover, with the introduction of our new brand Absa, a new dawn is upon us. The new brand comes with a new promise to guide us into the future, and we acknowledge that we must seize the moment. 2019 will be the year where we implement most of the initiatives in our Separation programme. We are getting ready for the Absa brand launch. And to do that, we aim to focus our efforts on investments to improve customer experience and further transform our culture; ultimately grow revenue and gain market share.

I intend to lead the company to be distinctively known as the best bank in customer experience as the key driver to return to the no.1market position over the long term.

I am leading a team that is brave, passionate and ready to deliver our vision and live our purpose. As we do that, we are confident of generating sustainable returns above cost of capital for our shareholders, while making a positive impact on our customers and colleagues while maintaining support for the Kenyan society.

2019 focus areas

In 2019, we have set five clear collective focus areas to ensure the delivery of our strategy.

Focus 1

- First focus area is to improve customer experience; which is the key driver of our growth strategy towards reclaiming the no.1 market position over the long term and creating value for all our stakeholders. We will continue to make significant investments in enhancing service capabilities, reviewing products and propositions, and simplifying our operations.

Focus 2

- Second focus area is the transition to Absa, which we are committed to delivering successfully. The year ahead is critical as it will see more than 50% of services that we relied on Barclays PLC migrate to Absa; essential brand campaigns and sponsorships launch; and technology capability enhancements continue. We are confident that we will create a positive and meaningful change for our customers, shareholders, and the society.

Focus 3

- Third focus area is to grow and diversify revenue to gain market share, which is the appropriate balance of the strategic choices we have made in exploring new business ventures, reinvesting in some of our existing businesses, while making key strategic trade-offs in others.

Focus 4

- Fourth focus area looks at our people and culture transformation. Bestowed with strong local expertise together with vast regional and global reach, we are ready to bring possibility to life for customers and society. In this regard, we are investing significantly in fostering our strength based, performance focused and customer obsessed culture; besides increasing our attention on attracting, developing and retaining talent.
- We are confident that we are re-imagining the way we do things as we prepare our colleagues for the new era while delivering a high performing organisation.

Focus 5

- Last focus area is on external stakeholders, whereby we aim to accelerate the focus of the company outwards so as to deliver for our stakeholders.

Jeremy Awori
Chief Executive Officer

The needs and expectations of our stakeholders

We take into account the expectations of all stakeholders during our strategic planning process. It is our responsibility to ensure that we deliver their expectations in our pursuit of long term value. Our approach to stakeholder engagement is in four steps: engage, assess, respond and measure. Our strategy entails one measure of success and that is growth – for both Barclays Kenya and for our stakeholders.

Colleagues

- 2 128 colleagues (2017: 2 270)
- 61% Management, 39% Unionsable (2017: 59%, 41%)
- 48% female, 52% male (2017: 48%, 52%)
- 68% front office, 32% back office (2017: 65%, 35%)
- 97% retention of high performing staff (2017: 97%)
- 8.5% colleague turnover (2017: 13.5%)
- 40% women in senior management roles (2017: 40%)
- Shs 97mn training spend (2017: Shs 72mn)

Their needs and expectations

- Fair remuneration, effective performance management and recognition
- Career development and opportunities for professional growth
- Employment at a company with a strong brand that is recognised as a good employer
- An empowering, diverse and enabling environment that embraces diversity and inclusivity

Customers

- **Individuals** from children to adults, from entry level juniors to high net worth individuals
- **Various legal entities** such as trusts, non-governmental entities and associations, small businesses, large corporations and public sector organisations

Their needs and expectations

- Proactive approach in understanding customer needs
- Diverse and customised solutions to meet customer needs
- Innovation to meet the evolving dynamics of customers' needs and expectations in digital era

Our responses	How we engage stakeholders	Measures
• Introduced a new culture to transform into an aspirational, fun and vibrant place to work • Created employment opportunities for growth • Recognised and rewarded colleagues on a quarterly and annual basis • Invested in career development through online and offline training as well as mentorship programmes • Focused on physical and mental health through diversified wellness programme; including: gym cost subsidies, know-your-health forums, wellness benefits, stress management trainings to encourage work-life balance • Foster an inclusive environment through gender diversity and equality	• Actively engaged our colleagues though staff town halls, open forum sessions, which allowed for two-way interactions between colleagues and the management • Carried out annual colleague survey and quarterly feedback surveys • Conducted training and development progammes • Arranged for responses and consultations to complaints • Drove colleague engagement through initiatives such as flexible working hours – survey from those who work dynamically indicated a 4% up in colleague engagement score 2018	• Gallup colleague engagement survey • Colleagues' health status • Statistics on work-life balance • Statistics on gender balance and disability ratio
• Enabled financial inclusion by providing the previously unbanked population with access to financial services (e.g.: Timiza virtual banking) • Focused on understanding customer needs through implementing human-centred design approach • Innovated our existing customer value propositions as well as developed new propositions based on these understanding • Reviewed and revised upward customer service standards across all businesses and functions • Increased customer engagement through deepening banking relationships armed with strong sector expertise, as well as developing technology-enabled solutions (e.g.: automated customer life cycle management, predictive data analysis, intelligent virtual assistant, etc.) • Increased accessibility through physical footprint rationalisation and alternate channel enhancement	• Formulated strategy based on strategic review of customer needs and put the customer at the centre of our strategy, which guided our execution and performance • Involved customers in the problem-solving process and value proposition development through human-centred design approach • Frequently collected customer feedbacks through various channels (24/7 Call Centre, front office staffs, relationship managers, customer surveys, etc.) • Enhanced relationship-based model in Business Banking, and Corporate and Investment Banking • Increased customer engagement frequency with our top leadership	• NPS (Net Promoter Score) and CEM (Customer Experience Measurement) score

The needs and expectations of our stakeholders *(continued)*

Their needs and expectations

Shareholders

- Our parent company – Absa Group Limited
- Ordinary shareholders and prospective investors
- Retail investors, asset management and retirement funds in Kenya and increasingly in international markets that invest in Barclays Bank equity and as well as funding instruments
- Sell-side analysts
- Credit rating agencies

Sustainable total returns which are enabled through:

- Sustainable ROE which is significantly above COE
- Potential upside in share price to deliver capital gain
- Sustainable (and potentially improved) earnings per share
- Attractive dividend policy
- Sound balance sheet to protect against downside risks

Proven tracking records of management credibility and sound governance

Regulators

- Central Bank of Kenya
- Capital Markets Authority
- Kenya Revenue Authority
- Retirement Benefit Authority
- South African Reserve Bank

Their needs and expectations:

- Appropriate governance structure and framework
- Compliance with all laws and regulation
- Being a responsible taxpayer
- Contribution to development of the industry

Society

- Citizens of Kenya, comprising of individual members of society, non-governmental organisations and suppliers
- The environment on which these citizens depend for their well-being

Their needs and expectations:

- Alignment of our strategy with the UN SDGs to create economic, social, technological and environmental impacts
- Accessibility of our products and services to all people, businesses and communities of all demographics
- Promotion of diversity and inclusion in our banking practices

Our Bank >>
Value Proposition >>
Value Creating Strategy >>
Delivering Value >>
Protecting Value >>
Financial Review

Our responses	How we engage stakeholders	Measures
• Developed robust corporate strategy and value creation model; delivering balanced and optimal results on 3 principal financial measurements: Revenue growth, CIR and ROE • Committed and delivered sustainable total returns for shareholders every quarter; through improving earnings per share, ROE and dividend pay-out • Maintained a strong balance sheet construct with adequate capital buffers • Ensured transparent reporting and disclosures	• Actively reported to the Board of Directors about our strategy and strategic execution on a quarterly basis • Committed to protect total returns of our minority shareholders throughout the Separation • Engaged shareholders through the AGM in May 2018 with the Board providing review of our performance and providing an opportunity for interaction and shareholder voting on various resolutions • Delivered robust and transparent shareholder engagement framework throughout the years; including: investor meetings, results announcements and analyst briefings; locally and internationally • Ensured award winning integrated reporting to maintain sound and complete reporting	• Top-line growth faster than market growth • Increase in total returns • Strong balance sheet construct
• Embraced robust governance • Embraced ethical bank practices and regulatory compliance • Actively participated in and chaired regulatory committees • Contributed meaningfully in tax spending • Participated in buying government securities	• Promoted open conversations and regular engagements with our regulators to ensure clarity and transparency • Actively involved in policy recommendations and contributed feedbacks to policy drafts by supervisory authorities • Actively involved in industry thought leadership groups	• Compliance with policy governance and policy requirements • Governance awards • Tax payments
• Positively transformed the economy through our lending and transactional services • Promoted economic growth and tourism development through sponsorship of Magical Kenya Open; reaching 500mn homes globally • Invested in our Force for Good agenda to support youth education and employment (ReadytoWork) and minority groups such as women and SMEs (SheTradesKE) • Promoted transparency around our Separation programme • Promoted efficient use of spaces towards a low carbon economy	• Engaged in continual dialogue with interest groups to improve our impacts on economy, society, technology and environment • Regularly engaged with our stakeholders through participation in different forums and round tables as well as joined industry, sector and specific topic discussions • Developed a sustainability strategy in alignment with the United Nations' SDGs; promoting partnerships and direct participation • Developed mandate for our Marketing and Corporate Relations team around continuous engagements with these stakeholder groups	• Social impacts in the communities in which we operate • Sustainable contribution to the community

Our material matters

Risks and opportunities in our operating environment

Our material matters are evident in our key risks and opportunities and represent the matters that have the most impact on our ability to deliver our strategy and create value. These change over time as new trends and developments emerge, impacting the operating environment and our stakeholders' expectations.

We determine our material matters through collaborative efforts and the following process:

1

Identify

Identifying matters that have the potential to impact our sustainability and the ability to create value for our stakeholders.

Areas of potential impact that are assessed include strategic, financial, competitive, reputational, social, economic, legislative, regulatory, political and policy matters.

2

Validate

Validating the matters identified according to relevance in the current operating context and highest potential to significantly impact the viability of our business in the long term, as well as our relationships with stakeholders.

3

Apply

Applying our strategy to address and respond to the material matters.

4

Assess

Assessing the material matters continuously to ensure that our strategy remains relevant.

Our material matters

Economic environment

After a challenging 2017 characterised by severe drought and a protracted election period, the Kenyan economy stabilised in 2018. GDP growth accelerated to 6.3% in 2018 from 4.9% in 2017[1]. In addition to the more stable political landscape as the election period concluded, growth in agriculture and service sectors helped to propel growth. Inflation was well anchored within the target band of the Central Bank of Kenya (CBK) at 5.7%[1], exchange rate remained stable, and external dynamics for Kenya improved for the most part of 2018 allowing for an annual accumulation of foreign exchange reserves.

However, the economy faced material headwinds, the most pressing of which was a run of fiscal and current account deficits as well as elevated vulnerability due to increasing public debt. Public Debt to GDP ratio hiked to 60% in 2018 from 44% seen 5 years ago[2]. Meanwhile, Debt Service to Revenue ratio climbed to 47% in 2018, approximately 2.5 times up from 18.7% in 2013[2]. This trend prompted the international credit ratings agency Moody's to downgrade Kenya's issuer rating from B1 to B2 in February 2018.

Looking forward, the Kenyan economic outlook remains promising on balance with certain downside risks apparent. According to International Monetary Fund (IMF), the size of the Kenyan economy is projected to reach Shs 10.1 trillion in 2019, marking the largest absolute expansion in recent years. In percentage term, GDP growth is estimated at 5.83% in 2019[3]. The growth momentum is being anchored by decent agriculture production, however offset by the likely projected drought in 2019. Credit conditions are expected to improve and thus boost growth. Investments in some of productive sectors to support the government's Big 4 Agenda are likely to drive growth; with agriculture and manufacturing sectors remaining a priority. Continued infrastructure spending, mainly in transportation and energy sectors, is also likely to fuel growth over the medium term.

Kenya's political environment remains vibrant with the newly-found political unity improving sentiment on Kenya. The Kenya shilling has started to appreciate against the US dollar since the start of 2019, given improved FX inflows including strong remittance flows. However, we expect that as domestic demand continues to improve from continued infrastructure spending and increased private sector activities, there will be an orderly stability in the exchange rate with minor depreciation towards the end of 2019.

On the other hand, external headwinds have intensified. Rising global uncertainties pose a threat to the recovery of Sub-Saharan Africa in general, and Kenya in particular. Firstly, growth among main trading partners has moderated given increased protectionism and persisting trade policy uncertainty. Secondly, the faster-than-expected normalisation of monetary policies in advanced economies may result in reductions in capital flows, higher financing costs, and disorderly exchange rate depreciations. These risks amid an environment characterised by foreign-currency-dominated debt further challenge growth.

Domestic risks include the downside risk of the interest rate cap, given that the interest rate regime continues to adversely affect the ability to influence the economy through monetary policy tools. The interest rate cap has put a dampener on private sector credit growth, which restrained at an average of 3.3% throughout 2018 with little signs of recovery(4). There has been progress on fiscal consolidation, yet Kenya's debt servicing requirements remain high in relation to the government's annual revenue collections. Although the twin deficits narrowed in 2018, we expect to see the current account deficit widen marginally over the next few years.

Diversifiable risks and available opportunities for Barclays Kenya

The anticipated improvement in economic conditions positively supports doing business. Opportunities include improved sentiment and confidence driving corporate and consumer spending and investment, given favourable macroeconomic factors featuring low inflation and stable interest rates.

However, an uncertain economic environment is likely to affect earnings growth potential. Key risks are ongoing weak loans growth due to the interest rate cap, high bad debts driven by a higher unemployment level and large corporate defaults. A sovereign credit rating downgrade could also accelerate impairment charges and reduce level of returns.

Barclays Kenya is deeply interdependent with the macroeconomic environment. The Bank operates in the context of near term and medium term downside economic risks. However, the resilience of our strategy, governance and risk management will collectively ensure a business model dynamic and resilient enough for the Bank's successes over varied economic cycles.

As a large, Kenyan-focused financial services provider, we see our primary role as that of underwriting the Kenyan economy. As we navigate a new chapter of growth under Absa Group Limited, our continued commitment to the Kenyan people and the Kenyan economy, through financing economic development, has been renewed and will be sustained. We see growth opportunities across the board.

Sources:
1. Leading Economic Indicators December 2018, Kenya National Bureau of Statistics
2. Africa Market Guide 2019, Absa Research
3. International Monetary Fund
4. Central Bank of Kenya

Our material matters *(continued)*

Regulation, governance and risk management

Banking regulation

Commerce is regulated to ensure fair play – that all participants play by the rules, that consumers and broad stakeholders are protected and, simply, that organisations do well and do good while remaining responsible corporate citizens. Banking is particularly highly regulated given the trust the industry has to bestow. Trust is the most important asset for any bank. the Kenyan banking industry finds itself - although well intended - in a potential over-regulation cycle.

With more than five pieces of new regulation coming on stream in 2018 that seemed to overlap on intent and requirements, the compliance requirements and obligations on banks became more complex.

We believe that there is no right or wrong answer on the right level of regulation, but if to learn from the reciprocal cycles of the US banking regulation and deregulation cycles over the past few decades, it is clear that over-regulation curtails rapid innovation in financial services and deregulation ensures rapid short term growth, however with potential long term risks on soundness and safety of the banking system.

Over the long term, banking overregulation may have a net negative impact on economies. In 2019, we are likely to see more laws being implemented in banking, likely making banking operations more complex to manage and banking services more costly. We anticipate the industry will continue to be held in highest standards to predict and prevent financial crime, failures of which will be costly. We welcome the need to make the industry safe and sound. Thus, we support the regulators and will continue to collaborate as the regulatory regime evolves.

Managing in the interest rate cap environment

The interest rate cap has been in place since September 2016. Towards the end of 2018, the bias shifted to a slightly easier monetary policy evidenced by the CBK in Monetary Policy Committee (MPC) meeting in November indicating that the interest rate cap weakened the effectiveness of monetary policy transmission tools.

While intention of the interest rate cap was to spur economic growth by lowering cost of borrowing, the effect has been the opposite. Banks face difficulty in lending to the growing SME segment as banks are unable to price effectively and correctly for risk. As a result, we have seen the SME segment; which is the engine for economic growth constituting 98% of all businesses in Kenya; locked out of the credit market.

Additionally, putting major sectors in context, banks' average loan concentration to agriculture is approximately 4% of total loans and advances, despite the agriculture sector being the single largest contributor of the economy, accounting for more than 30% of GDP and driving approximately 50% of employment directly and indirectly. This dislocation illustrates the structural challenges that banks face in financing the economy, in the era of interest rate cap.

It is unlikely that the interest rate cap will be tackled in the Parliament before the latter parts of 2019. With the interest rate cap still in place and relatively high non-performing loans at 12% industry average, it is unlikely that credit growth in 2019 and 2020 will average anything close to 18% levels seen between 2014 and 2016.

Diversifiable risks and available opportunities for Barclays Kenya

With increased and improved regulation, key opportunities include stronger bank balance sheets in order to weather potential economic downturns and to be well positioned for growth as the economy improves. Banks will undoubtedly continue to become safer and sounder, which will benefit the economy at large.

On the other hand, as regulation evolves, risks might include increasing impact on banks' revenues, costs and capital positions. Additional compliance requirements and charges would ultimately affect customers. Interest rate cap and stricter credit scoring could result in certain customers and segments being excluded from formal financial services.

Given Barclays Kenya's robust risk management framework and strong capital position, we are well positioned to manage risks as well as meet existing and new regulatory requirements. However, we anticipate and will welcome timely and effective amendments in the broad regulatory mandate to spur economic growth. We are open for collaboration towards addressing, improving and strengthening the legislative and regulatory environment, including the search for alternative solutions to the interest rate cap, in order to generate positive effects of the industry, the economy and the society.

Banking industry consolidation

A wave of scalable and sub-scale consolidation has been evidenced in Kenyan banking industry in the last few years. There have been seven small sub-scale M&A transactions in banking in the last 2 years, mostly driven by either bank failures or the need for entry to market and license acquisition motives. December 2018 saw the most consequential and market driven M&A deal announcement without any undue regulatory pressure. This is the clearest indication that a market driven banking consolidation cycle is upon us. An economy of Kenya's size can effectively be underwritten by a bulge bracket where a few banks control the largest share of the industry. The bank to population ratio in Kenya is 1:1 million compared to 1:3 million in South Africa and 1:10 million in Nigeria, indicating that Kenya is overbanked.

Whilst big banks are not synonymous to safe and sound banks, there is a benefit to an economy when banks of large-sized balance sheets can fund large-scale development projects, particularly in emerging markets like Kenya where capital and credit markets are yet to fully develop and bank lending, not capital markets, is overly relied upon to fund growth.

For the consolidating banks, the benefits are beyond gaining market power; as expanded capital base, potential synergies from integration, and lower operating costs than the sum of the parts, et-cetera, mean that banks can pass efficiency benefits to customers while remaining well capitalised, sustainable and profitable.

The banking consolidation cycle is now 'officially' open for those with strategic appetite. Acquisition capital is unlikely to be a show stopper thanks to the option of share swap arrangements that has been the most effective route of acquisition currencies elsewhere in emerging markets where banking has consolidated.

Kenya needs fewer and stronger banks, and when big banks begin to consolidate, it is an indication that we are in the middle of a consolidation cycle. The need for a bulge bracket will see market driven consolidation in Kenya over time towards 5 big banks controlling over 50% market share of the industry, together with 10 to 15 sub-scale niche players. This is the composition of banking structure the Kenyan economy needs.

Our institutional caution is that acquisitions to gain market power in existing markets could perversely, at times, indicate admission of failure to grow. However, consolidation to optimise and synergise financial resources, if well executed and integrated, may have some value in the long term.

Diversifiable risks and available opportunities for Barclays Kenya

Accelerated consolidation triggers greater competition among top tier banks, increasing choices for customers and reinforcing the need for further customer experience improvements. Consolidation also bestows scale and a stronger financial position if well executed.

We have reviewed a number of market consolidation scenarios, and have left ourselves options for opportunistic inorganics, if certain market events occur.

However, we are at a position of strength, as the transition to the new brand Absa allows us to re-introduce ourselves as a truly Kenyan brand, while sustaining a strong and competitive global and regional reach which is set for growth. We are taking market share and we will continue to drive our strategy and remain competitive, no matter the outcomes of the industry consolidation.

Our material matters *(continued)*

Disruptive technologies and emerging consumer trends

The needs and expectations of customers continue to evolve, driven by changing demographics and lifestyle patterns, along with increased choices both in terms of service providers and distribution channels. In financial services, innovative use of digital technology has heightened customer expectations for personalisation while transforming the manner in which customers interact with banks. Customers are now increasingly multi-banked, which results from reduced brand affinity and loyalty given the availability of various bank offerings, quality of services and pricing. As we have seen in a number of other industries, incumbents who do not respond to changing customer preferences and behaviours are facing greatest risks and, in certain instance, existential threats.

The pace of digital adoption in banking has surpassed expectations in recent years and this trend is likely to accelerate further. This will continue to enable the entry of new and disruptive entrants to financial services who specifically target small, profitable niche segments. In Kenya, technological advancements in digital finance have materially improved access to financial services to 82.9% of total population from 40.4% in 2009. 79% of the Kenyan population is using mobile money provided by various players – telecommunication companies, banks, digital loan mobile apps, et-cetera. Additionally, we are seeing signs of global BigTechs making inroads into Africa and Kenya. They are platform-based businesses offering all-in-one ‘super apps’, which are likely to disrupt payments, financial services as well as various other industries.

Security and resilience remain critical in the internet economy. The dramatic rise in cyber crime is unprecedented which comes in many forms enabled by sophisticated technological advances. In Kenya, the National Cyber Security Centre detects an average of 4 million cyber threats every 3 months, exposing many companies, institutions and co-operative societies to cyber risks. The banking industry remains the most targeted industry followed by government institutions. Banks’ ability to respond to heightened cyber and fraud risks will be key to retain customer trust.

Diversifiable risks and available opportunities for Barclays Kenya

In the internet economy, opportunities include growing customer base, and thus revenue, by providing convenient, relevant and contextual digital solutions to customer needs. On the other hand, risks include the striking threats from cybercrime, data protection, higher expense burden of investing in large-scale technological projects, and the need for constant improvements to stay competitive.

While we have a number of competitive advantages in the current environment, including our multi channels and propositions, securing and enhancing relationships with our customers will be paramount to our future success.

In 2018, we constructed our Digital Transformation Strategy with the aim to take us to the next phase of transformation. In doing this, we aspire to further unlock potential enabled by exponential growth of banking innovation and leap frog where we can. Our Digital Transformation Strategy endeavors to meet the evolving customer needs across a diversity of targeted markets. To offer protection against cyber risks, we continue to enhance our cyber security capability, which is an integral part of all new developments as well as current defence protocols.

We are aware that banks which stand still will be left behind and we are executing a comprehensive digital transformation programme to remain ahead of the curve.

A strategy for Growth, Transformation and Returns

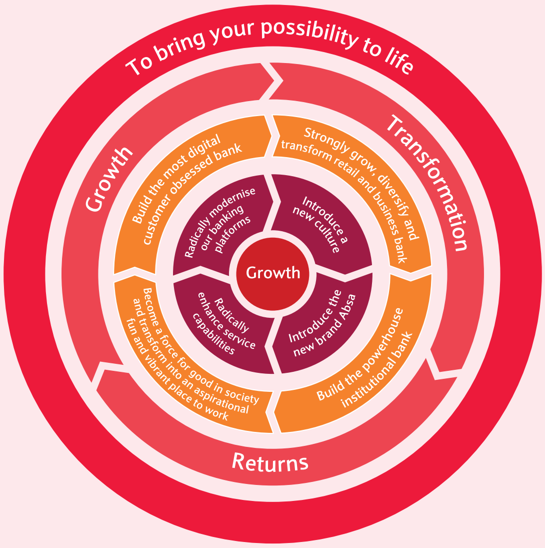
For 103 years, customers have trusted Barclays with their financial needs as one of the leading financial institutions in Kenya. With the Separation programme which sees us transition to Absa, we are now building on the rich heritage that Barclays has established in Kenya, as well as taking the opportunity to create our own destiny.

Being a part of one of the largest diversified financial services groups in Africa and the second largest financial services group in East Africa, we are passionate about contributing to the growth of Kenya and the continent at large. This passion is embodied in our purpose of bringing possibility to life.

Our purpose guides our newly created five year strategy – 'Growth, Transformation and Returns' – which we formulated in 2017 after a material strategic review of our business where we considered material matters in making our strategic choices. The strategy sets a clear and bold goal – to become the best bank in customer experience as the key driver to return the franchise to no.1 market position over the long term. At the centre of our strategy, and our every action, is growth; unlocking growth opportunities and creating value for all our stakeholders.

Looking forward, the new brand - Absa - presents us with a crucial opportunity to re-introduce ourselves to Kenya, as a truly Kenyan organisation that is locally relevant with regional and global reach. This inflection point guides our execution path, towards building a most successful, purpose-driven commercial organisation in Kenya.

Our strategy



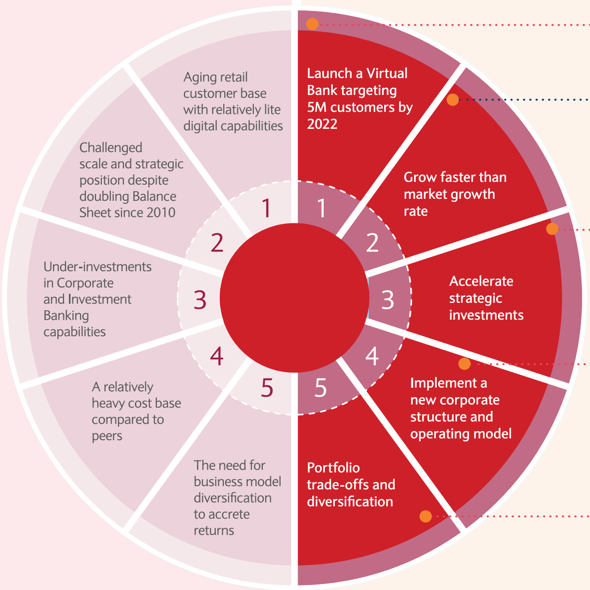
1 Purpose
3 Strategic Pillars
4 Priorities
4 Enablers
1 Measure of Success

Our goal

Become the best bank in customer experience as the key driver to return the franchise to no.1 market position over the long term

In 2018, we made great progress on executing against our core strategic challenges

Our core strategic challenges identified in 2017[(1)] | **Our strategic responses and commitments over 2018 - 2023[(1)]** | **Execution progress in year 1 (2018)**



1.
- Timiza launched on-boarding **3 million** customers

2.
- **Fastest growth** on key lines in a decade
- Revenue growth **ahead of industry peers**

3.
- Undisputed No.1 Global Markets business (**revenue up by 28%**)
- No.3 CIB business (**customer deposits up by 28%**)

4.
- Underlying Cost to Income ratio down by **4%** to **51%**
- New operating model reviewed and HQ restructure executed
- Chief Data Office and Chief Customer Office established

5.
- Capital reallocated to ROE-accretive portfolios
- ROE increased to **16.8%**, improving for the first time since 2010

Notes: 1. Barclays Bank of Kenya Limited 2017 Integrated Report, page 35

Our Bank >>
Value Proposition >>
Value Creating Strategy >>
Delivering Value >>
Protecting Value >>
Financial Review

A strategy for Growth, Transformation and Returns
(continued)

The elements of our 'Growth, Transformation and Returns' strategy

Our strategy delivers growth through customer obsession. The strategy is carefully constructed, in depth, to provide context and confidence that our strategic agenda creates value for all our stakeholders.

The strategy comprises of one purpose that guides our mission and desired legacy, three strategic pillars that guide how we optimse results for all stakeholders, four strategic priorities that outline our business objectives, four enablers which define how we will allocate resources to deliver the strategic priorities and one measure of success – growth.

Our purpose

As one of the largest financial institutions, Barclays is a core element of the Kenyan economy and integral to the fabric of the Kenyan society. Our purpose is to 'bring your possibility to life', as we believe in the actions of people who always find a way to get things done. We are obsessed with customers, with creating opportunities for them to make their possibilities real and to support them every step of the way. We are a future-focused organisation, driven by progress and our desire to thrive together with the society beyond commercial successes. This forms the foundation of our existence.

Three strategic pillars

To live our purpose, we are dedicated to run our business under three strategic pillars: 'Growth, Transformation and Returns'. We believe strong growth, accelerated transformation and sustainable returns for all stakeholders will contribute positively to the growth trajectory of the Kenyan economy and Kenyan society at large.

- Our first strategic pillar is **growth** – unlocking growth opportunities for all our stakeholders while delivering financial growth goals in line with our commercial strategy
- The second pillar speaks to our aspiration to **transform** our business for the modern era.
- The last pillar is our commitment to maximise **returns** for all our stakeholders by ensuring our financial capital is properly optimised

Four strategic priorities

We will prioritise our business objectives around four strategic priorities:

- Build the most digital, customer obsessed bank
- Strongly grow, diversify and transform the retail and business bank
- Build the powerhouse institutional bank
- Become a force for good in society and transform into an aspirational, fun and vibrant place to work

Four enablers

Towards successful delivery of the four strategic priorities, we will allocate our resources to accelerate implementation of four enablers:

- Radically modernise our banking platforms
- Radically enhance service capabilities
- Introduce the new brand Absa
- Introduce a new culture

These enablers are crafted based on the need to further enhance our core strengths with the investment potential that we have.

One measure of success

We set ourselves one measure of success – **growth**. We see growth everywhere we look given our optimism about the future of Kenya. We are passionate and ready to contribute to Kenya's growth and share in her successes. Over the long term, the delivery of our strategy will fulfil our purpose, achieve financial and commercial successes and create value for all our stakeholders.

In this way, we view **'growth'** more holistically and more broadly for all our stakeholders. Ultimately, our business is about the impact we make to the society and the possibility we bring to life. This redefined **'growth'** will be our ultimate measure of success.

Our four strategic priorities

1. Build the most digital, customer obsessed bank

Why this is important

Our loyal customer base and market leading value proposition are among our competitive advantages. However, we realise we have to adapt to changing customer behaviours, accelerating technology-driven competition while navigating a complex regulatory mandate.

Therefore, we must continue to put the customer at the centre of everything we do. Our propositions and services must be reflective of customer expectations. We must restructure ourselves around the customer. We must further digitise the bank, simplify and transform technology infrastructure, and use data more efficiently; so as to improve customer experience and allow us to invest more for future growth.

Key business objectives

- Enhance customer service towards being known as the best bank in customer experience
- Restructure our organisation to embed customer obsession at all levels
- Simplify and progressively modernise our data and technology infrastructure

2. Strongly grow, diversify and transform the retail and business bank

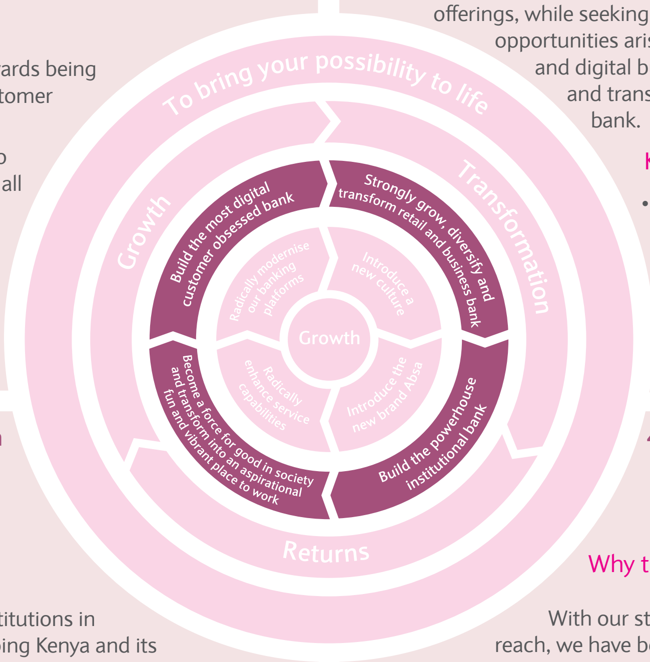
Why this is important

Opportunities exist across retail and business bank. Kenya's population was 48 million in 2018 with an annual growth rate of 2.5%, according to the World Bank. The population is also young, with 40.4% under the age of 15, and 18.8% between the ages of 15 and 24. As the younger population matures, their demands for financial services are heightened towards ease of access, personalisation and relevance. Changing lifestyle patterns and better economic environment incubate entrepreneurship, grow trading activities and develop the SME segment, which directly and indirectly drives more than 50% of employment.

To better address evolving demand of the young population and support the SME segment, we will continue to grow our current offerings, while seeking to capture the significant opportunities arising from transactional banking and digital businesses; ultimately diversifying and transforming our retail and business bank.

Key business objectives

- Be the most customer centric retail bank
- Be the transactional business bank of choice



3. Become a force for good in society and transform into an aspirational, fun and vibrant place to work

Why this is important

As one of the leading financial institutions in Kenya, we have committed to helping Kenya and its people prosper for 103 years. Building upon this rich history along with the transition to Absa, we have a renewed commitment to advancing Kenyan society. As we do that, our colleagues are the drivers for our success. In order to deliver our transformation in the next 5 years, our colleagues will require new skills and capabilities to reflect changing needs of the business, and the demands of living our purpose.

We see ourselves in business as not only a commercial organisation but also a vehicle for shared growth. As a result, we are driving the next phase of citizenship through our Force for Good agenda. This will ensure a sustainable and responsible approach that is integral to what we do and how we operate. In addition, we will continue to attract, develop and retain relevant skills and capabilities while fostering a culture that supports our values; and that is agile and well positioned for the new era.

Key business objectives

- Be a core part of the fabric of the Kenyan society
- Be the home of talent in the Kenyan banking industry

4. Build the powerhouse institutional bank

Why this is important

With our strong local, regional and global reach, we have been one of the leading corporate and investment bank businesses and the no.1 global markets business in Kenya. We recognise the collective role of various government agencies, commercial corporates and non-profit organisations in supporting development of the Kenyan economy as well as key growth sectors. Therefore, we aspire to continue supporting these organisations by offering relevant, convenient and relationship-led solutions whilst together driving shared growth with our clients.

We aspire to not only support our corporate clients but also drive growth in small businesses; ultimately, developing the whole value chain. We believe developing ecosystems will be the way to win and we see ourselves dominating in ecosystem banking as the key to be the powerhouse institutional bank.

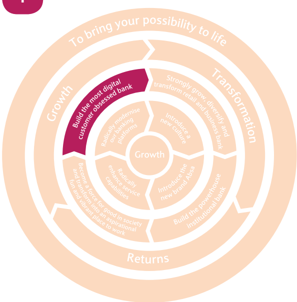
Key business objectives

- Be the powerhouse corporate and investment bank franchise
- Retain the undisputed no.1 global markets business as perceived by our clients, our industry peers and our regulators

2018 execution against our four strategic priorities

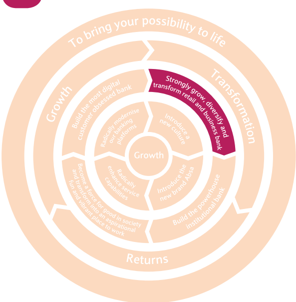
Below is a comprehensive update of the progress we made in 2018 against the four strategic priorities:

1



In 2018, we acquired 3 million Timiza customers.

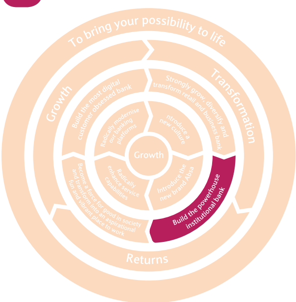
2



In 2018, we unveiled the revamped the retail and business bank.

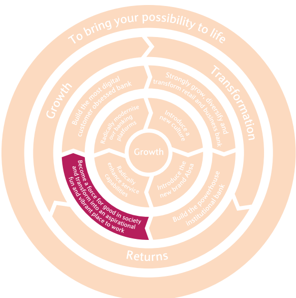
Strategic priorities	2018 execution highlights	2018 resulting performance highlights
Build the most digital, customer obsessed bank	• We reviewed and revised upward customer service standards across all businesses and functions • We launched a top class virtual banking proposition (Timiza) • We continued to optimise and reform the physical branch network to reflect evolving customer preference • We formulated a five-year digital transformation strategy	• 3 million customers on-boarded on Timiza • 70% of customer transactions processed outside the branch • Branch optimisation targets met on-time • Customer NPS improved and complaints reduced • Various critical process assessments initiated for redesign
Strongly grow, diversify and transform the retail and business bank	• We strongly grew the balance sheet while continuing to manage risks • We introduced new propositions to meet customer needs • We maintained market leadership in credit card business • We streamlined processes to allow for increased access to our mortgage offering • We enhanced innovative propositions on transactional accounts with the Zidisha Rewards and Twin Accounts offerings	• Double digit growth in customer deposits driven by innovations in transactional accounts • New businesses launched: Timiza virtual banking, La Riba trade Finance, Signature Credit Card, and Wealth Management among others • Awarded Best Shariah compliant investment Bank in Kenya (Business Vision, UK) • Awarded Best Mortgage Financier in Kenya (Real Estate Excellence Awards)

3



In 2018, we sustained our no.1 position in global markets business.

4



In 2018, we were among the top 5 financial services employers.

For four years up to 2018, we have invested Shs 340mn in the Kenyan society.

Strategic priorities	2018 execution highlights	2018 resulting performance highlights
Build the powerhouse institutional bank	• We maintained market leadership across our Corporate and Investment Bank business • We maintained our no.1 position in Global Markets business • We launched 2018 Africa Financial Markets Index in Kenya; leading the development of financial markets • We invested to enhance transactional banking capabilities • We enhanced sector expertise; especially sectors driving Kenya's economic growth • We launched equity research to support our brokerage business	• Markets revenue grew by a record 28% year-on-year • Net corporate lending grew by 10% year-on-year and customer deposits grew by 28% year-on-year, ahead of the industry peers • Received a number of awards and recognitions achieved (Banker Africa, Thompson Reuters East Africa)
Become a force for good in society and transform into an aspirational, fun and vibrant place to work	• We accelerated the Force for Good agenda • We introduced elements of the new brand Absa; determined to bringing possibility to life • We revamped various citizenship initiatives, including: Barclays ReadytoWork programme, Magical Kenya Open sponsorship, Barclays Scholarship Fund, and blood donation drives • We implemented various people change initiatives in line with our culture transformation journey • We launched our new values under Absa • We revamped our colleagues recognition programme • We continued promoting our performance culture, and further improved diversity and inclusion	• 155 000 youth beneficiaries empowered through ReadytoWork programme • 2 500 young people supported to secure placements with our partner institutions • 2 200 women entrepreneurs trained and provided credit facilities to support their small businesses through SheTradesKE • 541 students benefitted from Barclays Scholarship Fund for 2018/2019 academic year • Shs 29bn loans issued to fund sectors that support economic growth • 100 internships offered by Barclays Kenya • 500 million homes globally to be reached through the Magical Kenya open presented by Absa; promoting and creating a world of possibility for Kenya • More than 1 700 blood units raised from 29 blood centres across the country • 40% of senior roles held by women • Awarded Top 5 Financial Services Employer of the Year (Brighter Monday Kenya)

Barclays Bank of Kenya's Customer Network Director, Ann Kinuthia (left), and Kenya Ports Authority's Customer Service Manager, Tauhida Gitau, during the official opening of the new JKIA branch location.

Reflections from our Chief Financial Officer

"The Separation from Barclays PLC will have an impact on Barclays Kenya's financial results over the next few years. We will provide normalised financial results to adjust for consequences of the Separation and to better reflect our underlying performance."

Yusuf Omari
Chief Financial Officer
Barclays Bank of Kenya

The year 2018 brought about mixed fortunes for the Kenyan banking Industry. There was general stability driven by a number of key macroeconomic factors as a result of growth in key sectors such as agriculture, manufacturing and tourism.

The political environment was also stable following the ceasefire in March 2018 by leading politicians after the acrimonious 2017 general elections. The impact of the interest rates cap introduced in 2016 continued to be felt as evidenced by a low private sector growth coupled with several regulatory changes and proposals witnessed in the year.

We responded to the external headwinds by further strengthening our balance sheet, reducing risky exposure and growing transactional revenue, while enhancing operational efficiency. These actions allowed us to remain competitive amidst a challenging environment.

Our transformation journey continued in 2018 when we conducted a voluntary staff exit scheme which 78 full time colleagues took up. The total number of our full time colleagues is now 2 128, a 6% drop from the previous year. We further realised efficiencies from the closure and/or relocation of four branches.

Financial reporting changes: Normalisation

The Separation from Barclays PLC will have an impact on Barclays Kenya's financial results over the next few years. This includes a substantial change in spend as we invest in the systems required to be separated from Barclays PLC, the Transitional Service Agreement costs we pay to Barclays PLC for the provision of various services during the Separation, and depreciation and amortisation of any intangibles. Our holding company - Absa Group Limited (AGL) - will provide capital to help mitigate the capital and cash flow impact of the Separation spend over time.

We will provide normalised financial results to adjust for the consequences of the Separation, to better reflect our underlying performance, and to inform our capital and dividend decisions. We will continue to present financial statements that are compliant to International Financial Reporting Standards (IFRS) and the Companies Act 2015 requirements.

Reflections from our Chief Financial Officer
(continued)

Accounting changes

As the result of our IFRS 9 adoption in 2018, credit impairments changed to a life-time expected credit loss approach from an incurred basis. Although IFRS 9 brings forward the recognition of credit provisions, our charge should not differ through the cycle. However, it creates some new business strains as banks grow their loans. IFRS 9 also introduces greater volatility as there is a cliff effect when loans move between stages.

Provisioning is likely to become harder to compare across banks, because of two major issues. There is a substantial global technical debate on how to treat post write-off recoveries in calculating loss given defaults. We reconsidered our treatments and excluded 20% of them from loss given defaults which resulted in a Shs 533mn or 21% increase in our adjustment as at 1 January 2018. Secondly, in November 2018 the sector received conclusion from the International Financials Interpretation Committee on how to treat interest in suspense recovered on cured stage 3 assets. As a result, in 2019 we will amend our accounting treatment and report credit impairment gains rather than interest in suspense as we previously did. The change will reduce both our revenue and credit impairments but with no impact to our bottom line.

Performance highlights

The published Profit after Tax (PAT) was Shs 7.4bn, a 7% increase from 2017. The rise was mainly driven by a 5% growth in total income, which was partially offset by a growth of 2% and 24% in costs and impairment, respectively. Normalised PAT reflected a growth of 11% year-on-year.

Meanwhile, our normalised Cost to Income ratio which excluded one-off expenses to support the Separation was 53%, while headline Cost to Income ratio was 54%. Our key financial lines continue to grow, demonstrating our commitment to delivering long term value to our shareholders.

Income statement analysis

Income statement	2016	2017	2018	YoY Change
	Shs' million	Shs' million	Shs' million	%
Net interest income	22 334	21 801	**21 992**	1
Non funded income	9 349	8 457	**9 702**	15
Total revenue	31 683	30 258	**31 694**	5
Operating expenses	16 904	16 782	**17 177**	2
Pre-provision profit	**14 779**	**13 476**	**14 517**	**8**
Impairment on loans and advances	3 927	3 115	**3 871**	24
Profit before tax	10 852	10 361	**10 646**	3
Income tax expense	3 453	3 435	**3 230**	(6)
Profit after taxation	**7 399**	**6 926**	**7 416**	**7**

Strong revenue growth in target areas

Our revenue composition has improved year-on-year, confirming that the diversification strategy is working. Net Interest Income (NII) now accounts for 69% (2017: 72%), whereas Non Funded Income (NFI) represents 31% (2017: 28%) of total revenue.

NII increased by 1% to Shs 22bn driven by growth in the Government Securities book and strong Liabilities growth. Yield on loans declined as a result of a 1% reduction in Central Bank reference rates, while the cost of funds increased as competition for deposits heightened.

NFI grew by 15% in-line with our strategic agenda, largely driven by improved performance of fixed income trading book, FX income and new revenue streams such as Timiza Virtual Banking.

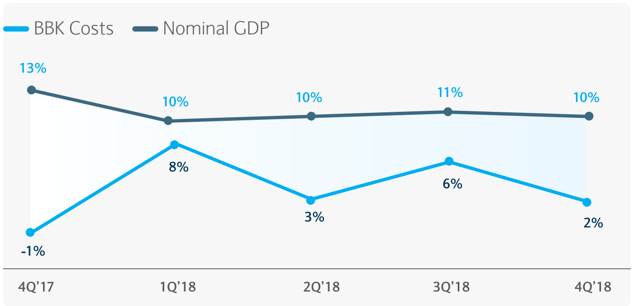
Low cost growth without compromising investments

The bank costs stood at Shs 17.2bn representing a 2% year-on-year growth. These are satisfactory results taking into account the inflationary adjustments and investments carried out in the year. Within this cost, Shs 479mn was spent on our Voluntary Exit Scheme (VES) scheme and Shs 387mn was incurred due to the Separation.

Our structural cost programmes continued to produce efficiency gains that allowed us to invest in strategic initiatives, including the automation of processing centres, investments in alternative channels, and branch rationalisation.

Our persistent pursuit of innovation has seen the bank digitise most of our product offerings and services, allowing clients to enjoy the convenience and freedom of self-service. Digitisation and third party partnerships resulted to 70% of our transactions being carried out outside the branch, compared to 65% at the end of 2017.

Cost to Income ratio dropped to 54% from 55% in 2017, while normalised Cost to Income ratio stood at 53%. Going forward, we anticipate ongoing challenge in pricing for risk in the banking industry, given the retaining interest rate cap. However, we aim to continue to diversify our revenue stream, whilst further enhancing efficiency to drive normalised CIR towards sub-50% and in-line with peers.



Rising credit impairments

Impairment recorded an increase of 24% from Shs 3.1bn in 2017 to Shs 3.9bn in 2018, which is largely attributed to specific corporate names and the adoption of a more stringent IFRS 9 impairment model. We have, however, partially mitigated the impact by enhancing our underwriting standards and internal efficiencies on collections and recoveries fronts.

Non-performing loans (NPLs) was 5.8% outperforming industry average. And the average loss rate increased to 2.2% driven by higher impairments.

We are confident that with the expected stability in macroeconomic factors, our asset quality will improve in 2019. We continue to invest in people, systems and processes to ensure sustainable impairment levels.

Improved loan momentum

We reported a 5% growth to close at Shs 177bn Net Customer Loans and Advances with year-on-year growth across all segments of the business. The IFRS9 Day 1 impact to Net Customer Loans and Advances was Shs 3.1bn.

Retail Banking was boosted by growth in the newly-launched Timiza Virtual Banking proposition, which disbursed Shs 10bn in lending, while Corporate Banking growth was driven by borrowing from key client names.

Our key focus areas, namely scheme loans, trade loans, general lending and assets finance, continued to post good results with strong year-on-year growth.

Balance sheet analysis

Balance sheet	2016	2017	2018	YoY Change
	Shs' million	Shs' million	Shs' million	%
Total assets	**259 718**	**271 572**	**325 313**	**20**
Net loans and advances to customers	168 510	168 397	**177 354**	5
Liabilities	**217 330**	**227 474**	**281 107**	**24**
Customers' deposits	178 180	185 977	**207 408**	12
Total equity	42 388	44 098	**44 206**	0
Total equity and liabilities	**259 718**	**271 572**	**325 313**	**20**
Net advances to deposits (%)	**95**	**91**	**86**	

Solid deposit growth

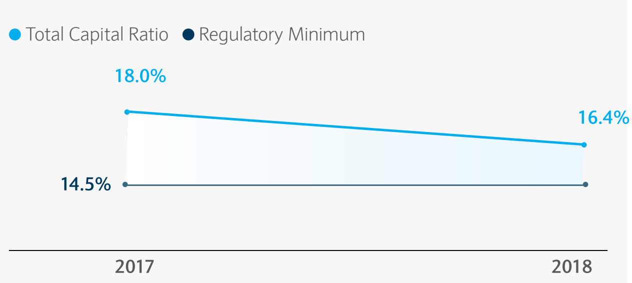
Customer Deposits grew by 12% to Shs 207bn. Retail Banking was up by 11%, a growth driven by transactional accounts with Twin Plus accounts grow by Shs 403mn year-on-year, and Zidisha product by Shs 5.1bn. Business Banking and Corporate Banking were up 11% and 15%, respectively.

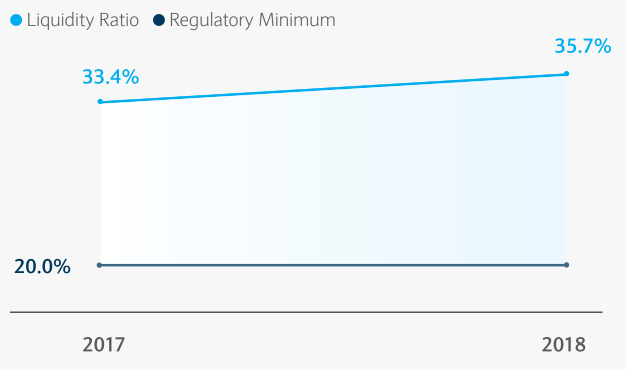
Reflections from our Chief Financial Officer *(continued)*

Capital and liquidity remained strong

Our capital and liquidity ratios remained strong, showing sufficient headroom above regulatory requirements. Our Total Capital Adequacy ratio was 16.4% and liquidity reserve position at 35.7% against the regulatory limits of 14.5% and 20%, respectively.

We do not foresee any adverse impact on our capital ratios by the Separation, and we are well-positioned to support future growth in-line with our strategy.





Barclays Kenya offers the following characteristics that are attractive to investors going forward:

- Over the past two years, our share price increased by 25% despite investor sentiment in the market being weighed down by compressed bank earnings and tightened margins resulting from the interest rate cap;
- We have returned a total of Shs 21.7bn in dividends to our shareholders in the last four years, sustaining a Shs 1.00 dividend per share over the same period. We also revised our dividend policy in 2018 - increasing dividend per share by 10% to Shs 1.10 - with commitment to sustain the new levels;
- Our growth records in 2018 point to our underlying performance remaining strong; and
- We continue to engage with the investment community on the delivery of our strategy and discussions on rationale behind investment decisions.

The investment thesis to our stock is growth, outgrowing the industry on top line revenue and balance sheet, while remaining competitive on cost efficiencies, and optimising capital to generate top quartile returns after excluding the Separation costs. Throughout the re-branding cycle, BBK and our parent company – Absa Group Limited – commit to protecting minorities. Therefore, dividend policy is unlikely to be impacted on the downside by the Separation costs.

Future performance outlook

We anticipate 2019 to be a better year with a more vibrant economic environment. This presents a perfect opportunity to build a strong foundation for sustainable growth into the future as we move into the second year of our strategic cycle.

The political environment is stable and favourable for business activities while most of the macroeconomic indicators are promising. We expect a trickle-down effect from key economic sectors like tourism, building and construction, and agriculture. As a result, we expect business growth across all our business functions and product lines.

Our new Timiza Virtual Banking proposition is on a growth trajectory, having registered 3 million customers within the first year of launch.

In the same way, our new revenue streams, such as Bancassurance and stock brokerage, are expected to remain competitive with improved performance.

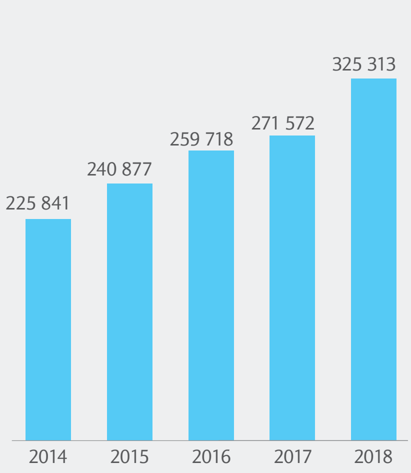
We will continue to build on our efficiencies through innovation and digitisation to improve our productivity across functions as we recycle costs for strategic business investments. We aim to increase our alternate channels usage from the current 70% to more than 75% by the end of the year, while targeting normalised Cost to Income ratio within lows of 50%.

Finally, our returns to shareholders remain a key priority to us as the management expects to continue posting a high Return on Equity and a sustainable dividends pay-out ratio.

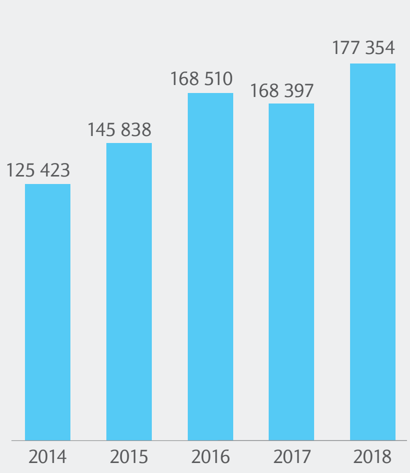
Yusuf Omari
Chief Financial Officer

Five year Group review

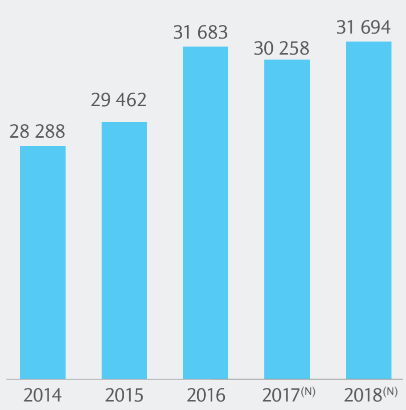
Total assets



Net loans and advances

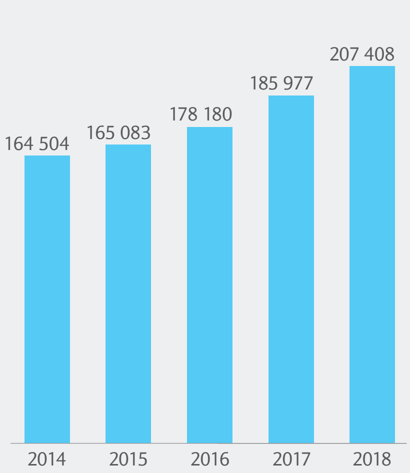


Total income

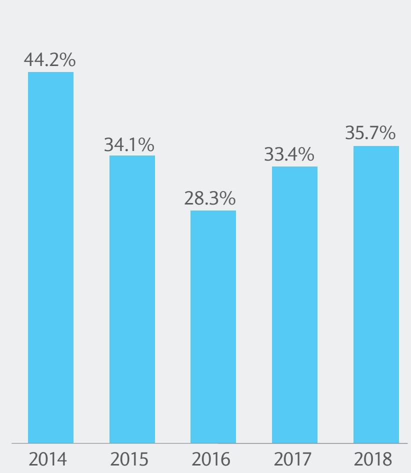


N Revenue lost through the interest rate cap recovered in 2018

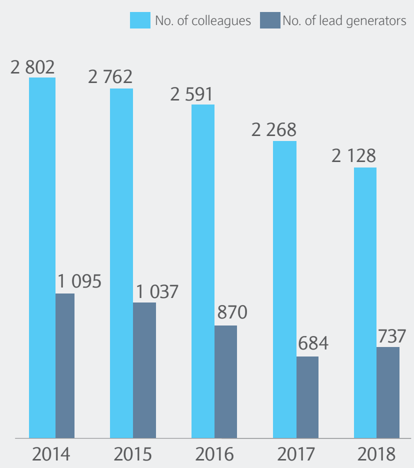
Deposits from customers



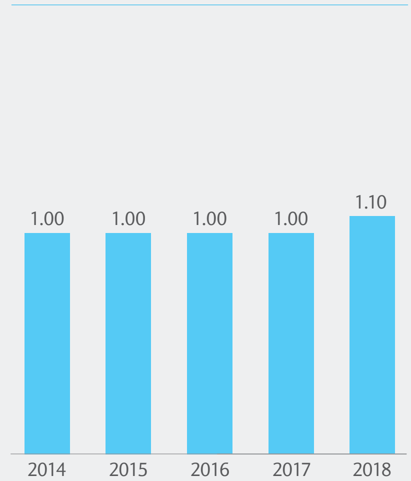
Liquidity ratio



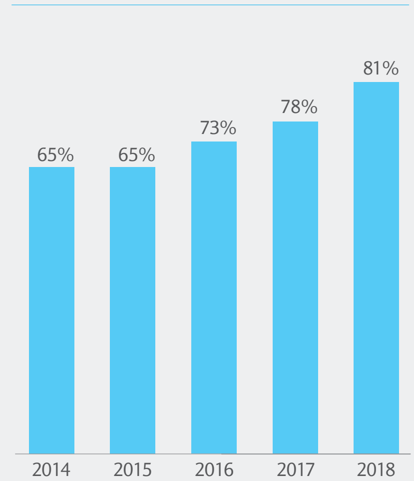
Headcount



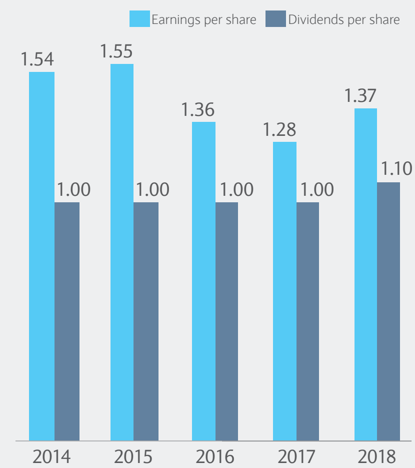
Dividends per share



Dividend payout ratio



DPS & EPS



Delivering our strategy through our business segments

Retail and Business Banking including Small and Medium Enterprises (SME) - (RBB)

Overall, the ambition of Retail and Business Banking is indicated in one of the four strategic priorities of our strategy: Strongly grow, diversify and transform the retail and business bank (see more in Reflection from the Strategy Director on page 39). RBB unit aims to deliver this through building a digitally-led and customer-obsessed business, which maximises stakeholder returns in a sustainable way while actively shaping the society we operate in.

In 2018, we embarked on a journey to co-create our ambition, strategy and a winning culture. We evaluated the operating environment, reflected on our achievements and challenges and defined our business objectives. We restated our commitment to truly drive customer obsession in the bank. This implied placing customers first in everything we do: offering relevant, convenient and accessible customer solutions, and changing our ways of working.

Guided by the bank's strategic priority of 'strongly grow, diversify and transform the retail and business bank', two business objectives and six focus areas were defined for Retail and Business Banking:

Retail and Business Banking strategy

Strategic priority

Strongly growth, diversify and transform the retail and business bank

Key business objectives

- Be the most customer centric retail bank
- Be the transactional business bank of choice

Six focus areas

- Customer obsession: Ensure our customers get a better and more exciting experience with us through revising service standards, improving processes and resourcing for customer impacting roles
- Liabilities: Enhance transactional banking capabilities, including Twin and Zidisha Rewards propositions
- Banking: Increase our focus on growing Timiza platform towards being the next generation virtual banking proposition
- Payments: Tap into cash collections and transactional opportunities in business bank
- Card: Drive card acquisition and spend through Barclaycard Social proposition
- Ecosystem banking: Leverage on banking ecosystem through relationship management (RM) Club to acquire more business opportunities

Retail and Business Banking performance

	2018	2017	Growth
	Shs' Million	Shs' Million	%
Net interest income	10 690	11 789	(9%)
Non interest income	4 867	4 503	8%
Impairment	3 371	2 856	18%
Customer loans	109 148	105 180	4%
Customer deposits	171 911	154 444	11%

Retail banking

Our business objective in retail bank is to be the most customer centric retail bank in Kenya which is fit for the future, enabled through:

- Rationalising the physical branch network and enhancing digital channel capabilities. We believe the combination of strong relationships for affluent banking, optimised physical branch network and improved digital offerings will be fit for purpose and our goal of being known as the best bank in customer experience
- Attracting new customers by enhancing marketing and sales capacity; and retaining them by providing relevant and customised solutions to meet their needs throughout life-cycle. Part of this will be building and scaling Bancassurance and Wealth businesses
- Leveraging on banking ecosystem to move to a customer-led business. This allows us to bank retail end of the ecosystem based on their extended relationship with the bank through a value chain of employers, suppliers and buyers
- Adopting and using advanced analytics to drive right and real-time insights
- Aspiring to dominate the digital space with the best stand-alone virtual banking

The business objective drove innovative solutions to cater to customer needs whilst driving strong business growth and diversification of our portfolio. Some of these solutions include the following:

Timiza Virtual Banking

Timiza platform was launched in March 2018 as an integrated virtual banking proposition for the retail mass market. Some distinguishing features of Timiza include:

- A fully digital on-boarding process via Unstructured Supplementary Service Data (USSD) *848# and mobile application. This helps provide a seamless customer experience for registering and opening accounts

- A 30-day micro loan offering for qualified customers which could be extended for another 30 days with a facility fee and interest
- A deposit proposition linked to Zidisha savings account, allowing customers to save and earn significant rewards for maintaining account balances
- Timiza Virtual Banking proposition was a great success with 3 million customers signing up in the year and Shs 10bn worth of loans being disbursed.

Barclaycard Social

Through this innovative proposition, we repositioned our card from being solely a transactional solution to offering new and exciting lifestyle to our customers. With the launch of Barclaycard Social proposition, various clubs and experiences were created to address our customers' lifestyle needs. Barclaycard Social Golf and Wine were officially launched in June. We have golf, wine, whiskey, and food clubs fully active with members, which have driven customer retention in addition to new customer referrals and feedbacks on our services. We also crafted experiences for our customers, notably: movie, health, travel and concert experiences.

Signature Credit Card

The Signature Credit Card launch addressed needs of our affluent banking customers with distinct rewards that match their lifestyle.

Zidisha Rewards

Zidisha Rewards account is a transactional account that gives customers access to quarterly cash rewards. This account targets customers who look for differentiated financial solutions based on their lifestyle and needs, and those who want value for their money.

The account is operated digitally through our internet banking and mobile banking platforms, eliminating the need to access physical branch. Key features of the account are:

- Unlimited deposits and withdrawals
- Flexibility with customers gaining access to extra funds in their twin account to which they have access
- Rewards linked to their transaction behaviour and balances. This is calculated daily and paid quarterly.

Mortgages

Mortgages remain a crucial part of our lending strategy and continue to grow in double digits year-on-year. In 2018, we won 'Best Mortgage Financier in Kenya' and 'Best Tier 1 Bank in Property Development Financing in Kenya' awards at the Real Estate Awards. We will continue diversifying our product offerings and building relationships with key stakeholders in the real estate industry to be the preferred mortgage provider in Kenya. Further, to increase mortgage uptake, in 2018 we ran engaging media campaigns. We held a mortgage ignite event in mall-based branches culminating in a first Mortgage Expo from Barclays Kenya. Through Barclays Ignite, we also launched differentiated customer engagements to increase uptake of our key products and propositions such as Twin, Gold Credit Card and Bancassurance.

During the year, we continued to review our physical branch network as our response to the increasing customer preference of digital channels. In 2018, we closed two branches and relocated four others. 70% of our transactions migrated into alternate channels with online banking improvement allowing for additional billers and a revamped mobile application leveraging on bio-metric to enhance security.

Looking forward

We aspire to return to top 3 market position in our chosen segments over time, which is clearly aligned with the bank's strategy. Customer obsession is the key driver of growth as we provide world class services and solutions to our customers. We have invested in a new pricing technology – Core Billing and Pricing – which gives us the unique ability to transition from a product centric to a customer centric strategy. We can now offer innovative and personalised solutions enabled by relationship pricing, thus increasing wallet share and revenue. Our customers will enjoy discounts through product bundles and loyalty benefits as well as 360 degree pricing for all the products they hold with Barclays.

We will continue to grow and diversify our offerings based on identified customer needs; focusing on Timiza Virtual Banking, transactional banking, card and payments, among others. In addition, data-driven approach to marketing and customer engagement will further drive acquisition and retention.

Our continued focus on channel optimisation will ensure the accessibility and convenience of our services through optimal distribution of physical branch network and significant improvement of alternate channels. In addition, we will continue to review and streamline our processes.

Business banking

Our business banking is a significant player in the industry with over 80 000 clients, of whom a vast majority are SME clients. In 2018, we have re-configured business banking strategy towards being the transactional bank of choice for our clients. We believe it will enable us to maintain dominance in all aspects of the client ecosystem.

The first focus area is to deepen relationships with business clients to better understand and provide the right solutions for their needs. The second focus area is to leverage on corporate clients and spread benefits from our products and services down the value chain to SME clients.

Delivering our strategy through our business segments *(continued)*

We aim to play a critical role in Kenyan economy through supporting the development of different value chains, especially serving SME segment in a sustainable way. Our RBB/CIB partnership to bank the value chain through Enterprise and Supply Chain Development (ESD) programme has been a key growth area, while driving customer acquisition and balance sheet growth.

We are continuously improving our processes and turn-around time (TAT) as evidenced by strong growth in Vehicle Asset Finance. In alignment with our commitment to support the government's Big 4 Agenda, significant structured deals in government leasing were realised in 2018.

Trade and foreign exchange remain our key growth areas, and have been supported by technology-enabled solutions such as M-Pesa Real Time Settlement, KRA Customs solutions and Business Internet Banking improvement. We also launched Islamic trade financing to address the increasing need from our customers.

Looking forward

Trade and transactional banking are therefore critical in the delivery of our growth ambition, and will be driven by scaling payments and collections systems, as well as improving digital offerings to drive transaction growth and trade volumes. In addition, growth will be supported by the ongoing simplification and digitisation of trade application processes.

Corporate and Investment Banking including Markets - (CIB)

In 2018, we set ourselves an ambitious strategy of building the powerhouse institutional bank. This strategy guided two business objectives: 1) be the powerhouse corporate and investment bank franchise, and 2) be the undisputed no.1 markets business as perceived by our clients, our industry peers and our regulators.

Corporate and Investment Banking Strategy

Strategy Ambition

- We aspire to build a corporate and investment banking (CIB) powerhouse underpinned by strong relationships and customer experience within a robust control environment

Key Business Objectives

- Growing sustainable CIB business
- Maximize shareholder returns while positively impacting the communities and the environment we operate in.

Focus Areas

- Key Focus Sectors: Manufacturing, Agriculture, Wholesale and Retail, Energy, Oil and Gas, Telecoms & Transport, Services; Education, Tourism and Health, Property & Real Estate
- Focus Customer Segments; Global Corporates, Global Development Organizations, Financial and Non Bank Financial institutions, Large Regional/Local Corporates and Public Sector
- Product Expansion: Structured Trade Commodity Finance (STCF), Fuel Open Tender System, Commercial Property Financing (CPF), Risk Management Products (RMPs), Ecosystems and Value Chains (ESD),
- Digital platforms: Integrated, end to end digital and technology enablement to support client experience, new products and efficiencies.
- Data and Analytics: Transforming Data into Client Value, proactively engage clients via predictive analytics
- Thriving CIB Organization and People: Innovation culture, inclusivity, diversity, high performance and productivity as well as colleagues value proposition and experience
- Shaping Role in Society: Strategic partnerships with Clients, Thought leadership, Education delivery and reform, and Sustainable development goals in Core business operations

Corporate and Investment Banking performance

	2018	2017	Growth
	Shs' Million	Shs' Million	%
Net interest income	**11 302**	10 012	13%
Non interest income	**758**	769	-
Impairment	**500**	259	93%
Customer loans	**68 206**	63 217	8%
Customer deposits	**35 497**	31 533	13%

The business objective – to be the powerhouse corporate and investment bank franchise – guided our CIB-led ecosystem banking strategy. We have continuously enhanced our product, service and people capabilities both locally and globally. We will disruptively leverage on clients' value chain and partnerships to transform into an efficient, digital and CIB-led customer centric bank. In this way, we will play a unique role in the economy and society by using our local and global expertise to mitigate risks, while taking the lead in increasing our returns and market share by growing existing business portfolios, and creating new businesses and markets.

Ultimately, we aim to be a powerhouse corporate and investment bank franchise as a result of our ongoing and collective efforts to build a sustainable business and maximise shareholder returns, while positively impacting our clients and the society in which we operate.

Client experience

In alignment with the bank's strategy, client experience continues to be our key driver of growth.

Our relationship-led business model is key to drive client experience. This model develops meaningful customer relationship and facilitates in-depth discussions, which allow us to better understand our clients and offer them an array of products and services based on their unique needs.

The model is led by a knowledgeable and experienced CIB team who are armed with in-depth understanding of and solid expertise in clients' banking needs across various sectors. The team work seamlessly with product experts and service colleagues to ensure seamless client experience.

In 2018, we conducted and measured Net Promoter Score (NPS) surveys, from which we witnessed improvement in customer satisfaction as well as defined some areas for further improvements and investments.

It was attributed to such commitment to services and our collective efforts that we achieved 'Best Corporate Bank in Kenya' award at The East Africa Awards 2018 by Banker Africa.

Delivering our strategy through our business segments *(continued)*

Ecosystem banking

We launched ESD programme as a key ecosystem engine powering our ambitious objective. So far, we have made significant progress by providing over Shs 180mn in unsecured loans for the value chain of organisations in pilot phase. We have also developed a web-based platform that has transformed ESD lending by easing access to finance. All funding requests for local purchase order (LPO) financing and invoice discounting are now received online. The programme has as well brought on-board large corporate client partners as anchors.

The next frontier for this programme is to create an online marketplace for suppliers; who, with their robust credit rating profile, can market their products and services to other corporate organisations with ease. Going forward, toward delivering a wholly integrated business ecosystem proposition, we are looking at a bank-wide solution for the entire corporate client value chain; covering suppliers, distributors and colleagues across both CIB and RBB.

2018 performance highlights

In 2018, we attracted 47 new clients and continued supporting more than 550 existing clients. We focused on solid and long lasting relationships, spanning across multi-sectorial segments in global corporates, global development organisations, financial and non-financial institutions, large local corporates and public sector.

This diversified client portfolio is in line with our growth strategy, and guided by one of the bank's strategic priorities of becoming a force for good in society through financing the economy. We have steadily increased lending to key sectors which drive economic growth, financing 105 corporate clients from Agriculture, Manufacture, Wholesale and Retail, Services (Education, Health and Tourism), Energy, Oil and Infrastructure, Real Estate, Transport and Telecommunication sectors. We issued Shs 29bn in new loans across different sectors to support economic development, including individual client borrowing of Shs 4.5bn.

Our continued focus on Structured Trade and Commodity Finance led to a US$ 205mn (Shs 21bn) financing of Fuel in the Open Tender System. Additionally, we continued to actively participate in securing public sector syndicated loans for both local and offshore financing. For these purposes, we leveraged on various partnerships to deliver compelling propositions, facilitating the financing of government/private based projects worth of US$ 80mn (Shs 8bn).

We further delivered a wide range of solutions through innovative technology and end-to-end digital enablement; leading to a seamless, consistent and superior client experience. We drove transactional banking and cash management services uptake through timely delivery of key digitisation projects that will continue to give us a competitive advantage in the market.

In summary, we sustained our position as one of the leading corporate and investment banking in Kenya. Strong client growth and differentiated client experience strengthened our financial performance in 2018 with deposits and assets growing at 13% and 36% year-on-year, respectively. CIB's contribution to the bank's revenue and profit before tax was Shs 15bn and Shs 12bn, representing year-on-year growth of 17% and 27% respectively.

Looking forward

Being customer obsessed is also key to sustain the growth momentum going forward, and to achieve our business objective – be the powerhouse corporate and investment bank franchise. We anticipate the evolving change in channel preference towards digital channels of our corporate clients. Therefore, it is critical to consistently develop our digital platform capabilities, as well as deliver seamless client experience across all touch points within the client's ecosystem and value chain.

We will continue to invest in transactional banking platforms, with the purpose of not only growing transaction volumes in trade finance as the economy expands and trade demand increases, but also driving our ecosystem banking strategy and supporting RBB in building the transactional Business Banking of choice.

In addition, we target to increase investments in project financing, especially in sectors which support the government's Big 4 Agenda to spur economic growth. As a result, we will responsibly grow the business while managing a diversity of risks to generate optimal returns for our shareholders, and to benefit the economy, as well as the wider society in which we operate. In this way, we foresee our business growing at much faster rate compared to our peers, ultimately delivering on our business objective – be the powerhouse corporate and investment bank franchise.

Markets

In 2018, performance of Markets was strong across all key measurements – revenues, profit before tax, transaction volume and client activities – on the back of a disciplined and focused strategy execution. Markets continued to be an important revenue stream to the bank and, in 2018, contributed the largest share of Non-Interest Income. This strong performance was anchored on synergies between Markets and other business units including corporate, business and retail banking, as well as the bank's supporting functions.

In alignment the bank's strategy, emphasis on customer obsession led to increased client engagements, and an improved turn-around time on client requests, resulting in a 30% growth in turnover. We made significant investments in e-channels, further improving customer experience and offering convenience. We expect these investments to deliver exceptional returns and reaffirm our market leader position in Markets.

2018 performance highlights

2018 marked strong growth in revenue with a 15% growth in foreign exchange (FX) revenue, and an overall 28% year-on-year growth in Markets revenue – a validation that our chosen strategy and investments in products and services are yielding results. This performance indicates that we are on course to deliver our ambition of doubling revenue by 2023.

Underlying the 2018 performance was a significant growth in business volumes across various client segments, which increased by 30% over the same period and whose impact outpaced the shrinking margins. This was achieved through a deliberate focus on growing wallet share for all existing clients, while driving an aggressive acquisition agenda to on-board new clients and trading counterparts.

Spot FX continued to be the product with largest volume and revenue. However, we have gradually been increasing traded volumes in FX Forwards and Swaps in an effort to deepen the financial markets and diversify our revenue streams. To remain relevant, we introduced electronic channels which recorded encouraging uptake with over one hundred customers signing up on the platform.

Similarly, Derivatives and Risk Management Product offerings not only offered holistic solutions in foreign exchange, interest rates and commodities for our clients, but also provided revenue uplift for the bank.

Fixed Income Trading continued to perform above our expectations, and will remain a key revenue driver despite being relatively new in our product offerings. In 2018, the product contributed about 18% of total Markets revenue, and is expected to grow by over 25% going forward.

Barclays Financial Services Limited (BFSL), our brokerage unit, was on a sharp upward trajectory in term of volumes traded and revenues earned in a bear market, which saw the Nairobi Securities Exchange index plummet to multi-year lows worsened by the exit of many foreign investors. Our relatively young business provides brokerage services to local and foreign institutional investors in Cash Equities, Bond Trading, Exchange Traded Derivatives and Exchange Traded Funds (ETFs). To grow revenue and increase market share, we upheld deliberate efforts to expand bond brokerage services to local financial institutions.

Looking forward

To support our business objective – to be the undisputed no.1 Markets business as perceived by our clients, our industry peers and our regulators, and double our revenues by 2023 – we have invested heavily in human capital and technology. We seek to utilise these capabilities to grow customer volumes by 30% year-on-year, while building on robust initiatives grounded by the CIB and RBB businesses

Electronic channels are crucial to future growth; therefore, we are aggressively rolling out two foreign exchange systems Barx and Novo FX platforms. These electronic trading platforms will support growth of our client business, complement and improve our current processes, and enhance our customer interaction.

Trading remains an important growth segment as the financial markets evolve rapidly with the presence of new independent entrants. We are determined to remain ahead of the curve and continue to cement our position as leaders in market making.

Continuous development of the capital markets provides a basis for our brokerage business to accelerate its growth trajectory. We have prioritised to expand our client base and attract foreign institutions leveraging on our regional footprint. We expect the renewed focus on custody business of Absa Group Limited will unlock potential revenue growth and thus effectively support our wealth and investment management proposition in Kenya.

Managing risk strategically

Effective Risk Management in business is core in the achievement of short and long term Value Creation, Growth and Sustainability.

Risk management approach

The nature of the banking environment exposes the business to both intrinsic and extrinsic risks. These include credit losses from lending, market risk traded positions and treasury risks (including liquidity, leverage and capital loss). Operational challenges as a result of technology failures, lags in processes, human factors and external environment disruptions also contribute to the catalogue of risks that we have to proactively manage.

This, therefore, makes risk management an integral input in our value creation process.

Barclays Bank of Kenya has identified nine specific risks referred to as Principal Risks, to bring out a common understanding of the risk management plans for the business. Within the principal risks, the bank has a matrix of lead and lag indicators for rating the risks.

The Key Indicators metrics are used to monitor changes in Material Risks, Key Controls and Business Performance to enable a proactive response to adverse trends. This is undertaken through key risk assessment processes to determine whether the Bank is within or outside the acceptable appetite levels.

Our Risk management framework

Our approach to managing risk is outlined in the Enterprise Risk Management Framework which is underpinned by the following foundations:

A robust and consistent governance structure at country and business level.

The bank established a governance structure that provides oversight on day-to-day risk management to drive responsibility and accountability across the business. The Board of Directors is supported in providing adequate risk management oversight through various committees: Board Risk and Audit Committee, Country Management Committee, Executive Risk Committee, Assets and Liability Committee, and other risk and control forums. The Chief Risk Officer (CRO) also provides independent oversight on risk management to ensure appropriate frameworks and tools are implemented and embedded across the bank.

Well defined material risk categories known as principal risks.

Nine principal risks

Financial
- Credit
- Market
- Treasury
- Insurance

Non-financial
- Operational
- Model
- Reputation
- Conduct
- Legal

A robust risk operating model with three lines of defence that provide clear accountability.

Risk operating model

We apply a three lines of defence model to govern risk across all businesses and functions.

1st line
Process and control owners in customer facing segments and functions which are responsible for managing end-to-end risks and controls in their businesses.

2nd line
Independent risk, compliance, legal and control functions which formulate risk and control policies, and review the first line's adherence to these.

3rd line
Internal audit function test and review controls to determine that the first and second lines execute their responsibilities effectively and consistently.

A comprehensive process to evaluate, respond and monitor risks.

Evaluate, respond, monitor

This is a structured and practical risk management approach to identify and assess the risk, determine the appropriate response, and then monitor the effectiveness of the response and the changes to the risk profile.

Evaluate
Individuals, teams and departments, including those responsible for delivering the objective under review, identify and assess the potential risks.

Respond
The appropriate risk response ensures that risks are managed within risk appetite. This includes:
- risk mitigation;
- risk transfer; and
- ceasing certain activities.

Monitor
Ensure that risk profiles remain within agreed appetite levels, verify that controls are working as intended, and challenge or promote re-evaluation of the risks.

Principal risk management

Risks are classified into Principal risks, as below		How risks are managed
Financial principal risks		
Credit risk	The risk of loss to the firm from the failure of clients, customers or counterparties, including sovereigns, to fully honour their obligations to the firm, including the whole and timely payment of principal, interest, collateral and other receivables.	Credit risk teams identify, evaluate, sanction, limit and monitor various forms of credit exposure, individually and in aggregate.
Market risk	The risk of loss arising from potential adverse changes in the value of the firm's assets and liabilities from fluctuation in market variables including, but not limited to, interest rates, foreign exchange, equity prices, commodity prices, credit spreads, implied volatilities and asset correlations.	A range of complementary approaches to identify and evaluate market risk are used to capture exposure to market risk. These are measured, controlled and monitored by market risk specialists
Treasury and Capital risk	**Liquidity risk:** The risk that the firm is unable to meet its contractual or contingent obligations or that it does not have the appropriate amount, tenor and composition of funding and liquidity to support its assets. **Capital risk:** The risk that the firm has an insufficient level or composition of capital to support its normal business activities and to meet its regulatory capital requirements under normal operating environments or stressed conditions (both actual and as defined for internal planning or regulatory testing purposes). This includes the risk from the firm's pension plans. **Interest rate risk in the Banking Book:** The risk that the firm is exposed to capital or income volatility because of a mismatch between the interest rate exposures of its (non-traded) assets and liabilities.	Treasury and capital risk is identified and managed by specialists in Capital Planning, Liquidity, Asset and Liability Management and Market Risk. A range of approaches are used appropriate to the risk, such as: limits; plan monitoring; and stress testing
Non-financial principal risks		
Operational risk	The risk of loss to the firm from inadequate or failed processes or systems, human factors or due to external events (e.g. fraud or cybercrime) where the root cause is not due to credit or market risks.	The Bank assesses its operational risk and control environment across its businesses and functions with a view to maintaining an acceptable level of residual risk.
Model risk	The risk of the potential adverse consequences from financial assessments or decisions based on incorrect or misused model outputs and reports.	Models are evaluated for approval prior to implementation, and on an ongoing basis.
Reputation risk	The risk that an action, transaction, investment or event will reduce trust in the firm's integrity and competence by clients, counterparties, investors, regulators, colleagues or the public.	Reputation risk is managed by maintaining a controlled culture within the Bank, with the objective of acting with integrity, enabling strong and trusted relationships to be built with customers and clients, colleagues and broader society.
Conduct risk	The risk of detriment to customers, clients, market integrity, competition or Barclays from the inappropriate supply of financial services, including instances of wilful or negligent misconduct.	The Compliance function sets the minimum standards required, and provide oversight to monitor that these risks are effectively managed and escalated where appropriate.
Legal risk	The risk of loss or imposition of penalties, damages or fines from the failure of the firm to meet its legal obligations including regulatory or contractual requirements.	The Legal function supports colleagues in identifying and limiting legal risks.

Managing risk strategically *(continued)*

Overview of the Risk Management Environment in 2018

For the 2018 financial year, the bank remained within its approved risk appetite and no breaches, both under financial and non-financial risk metrics, were reported.

Operational risk

In 2018, the management of these key risks was impressive with fraud risk recording a saving of 70% by mitigation efforts such as insurance and fraud monitoring systems. Payment processes improved as a result of automation and enhancement of digital channels. Technology and cyber key risks management was enhanced by securing the bank's infrastructure, a result of which no attacks reported. The bank, through self assessment, achieved an overall green rating in 2018. Operational loss budget resulted in a saving of 60% year-on-year.

Trade market risk

As far as traded market risk is concerned, interest yields recorded a marginal drop as the effects of the Interest rate cap law enacted in 2016 continued to take effect on lending to the private sector. The Monetary Policy Committee cut down the reference rate by from 10% to 9% while the CBK continued to manage yields by rejecting expensive bids in the Treasury Bills and Bonds auctions. As a result, our Trading Book portfolio gained Shs 532mn, a 52% increase from the previous year. This ensured that the bank was within its regulatory exposure limits on currency net open positions and internal value at risk limits for its interest rate and foreign exchange trading books.

Non trade market risk

In 2018, Barclays Bank of Kenya operated within the allocated thresholds of non traded market risk, while taking advantage of market developments to maximize returns in the banking book. The Investments Committee was also set up to make decisions on banking book investments after evaluating the liquidity and interest rate mismatches in the balance sheet against expected return for various tenors.

Liquidity and funding risk

The bank continued to be well capitalised with a Tier 1 capital adequacy ratio of 14.4% against a regulatory requirement of 10.5% and a total capital ratio of 16.4% against a regulatory requirement of 14.5%. To ensure continued compliance with capital adequacy ratios, the Board set a capital buffer of 1.5% on Tier 1 and Total Capital for the 2019 period based on minimum capital outputs from a series of specific and multi-factor stress scenarios. Furthermore, the bank experienced impressive liquidity ratios over the year to close at 35.7% against a regulatory requirement of 20% on the back of growth in customer liabilities reflecting continued customer confidence in the brand. As a result, the Government Securities portfolio also recorded a double digits growth in 2018 compared to 2017. The Bank successfully submitted its Internal Capital Adequacy Assessment Process (ICAAP) 2017/18 report to the regulator indicating appropriate buffers held to cater for the various stress scenarios.

Credit Risk

We continue to implement and embed the best-in-class risk management frameworks in consumer lending, to support business growth. In 2018, risk scorecards were updated to take into account the operating environment characterised by the economic lag effects of the 2017 election year. These included application scorecards for credit initiation, behavioral scorecards for portfolio management and propensity scorecards for collections and recoveries. In March 2018, mobile lending under the Timiza platform was launched, and we have continued to evolve our lending models to support growth of this proposition. Additionally, the lending model for the Micro SME segment was revamped and relaunched in April 2018, to see a risk adjusted uplift in the SME balance sheet. Finally, we launched a new product proposition in Wealth and Insurance Premium Financing to support growth of the Asset Finance book.

The SME Segment remains an integral lever for growth for both the Kenyan Economy and the bank. Despite the sector being characterized by a lack of reliable financial records to facilitate credit assessment, Barclays has devised ways to sustainably provide credit facilities to this segment through the development of non-financial credit assessment models.

The sector also lacks appropriate collateral for securing loans, but Barclays has continued to lend to these Customers on an unsecured basis. This is against the industry norm especially after the interest rates were capped when most banks suspended unsecured lending.

Furthermore, Barclays Bank of Kenya continues to run the Enterprise Supply Chain Development program extending credit to the suppliers of corporate clients who would ordinarily not be eligible for such facilities. The program leverages on a partnership with the corporates to de-risk the SMEs enabling them secure credit. The scheme now enables SMEs gain confidence to bid for more and bigger businesses. So far, Shs 160mn has been disbursed under this program.

Credit Risk Priorities for 2019

Credit Risk aims to deliver credit frameworks and policies to support new lending propositions in targeted growth segments, including trade and mobile lending.

Leveraging on data analytics to improve collections and recoveries performance, and automation of credit processes to improve efficiency and reduce the cost of risk, will remain key priorities for RBB lending in 2019.

On corporate lending, we will continue to refine the credit risk appetite to support growth in Local Large Corporates and the Public Sector as part of the diversification agenda. In addition, we will continue to grow credit skills capability within the branch network through trainings for branch and relationship managers.

Future outlook and opportunities

The bank acknowledges that risk management is core in delivering its GTR strategy in line with overall bank's purpose **'To bring your possibility to life'.** Effective risk management, therefore, remains central in driving the bank's strategic and operating objectives. It is on this front that the bank is rationalizing all its processes as guided by the customer obsession priority attained through a Critical Process Assessment (CPA). Critical Processes are those that the bank has selected as most important in the administration and delivery of the business' main strategies. The CPA approach helps the bank to identify, assess and manage the material risks that could prevent the bank from achieving its strategic and operating objectives, ultimately hampering its promise of fulfilling commitments to major stakeholders, including customers, shareholders and regulators. Key outcomes of the CPA are the transformation of service, product delivery and the amplification of the customer experience.

Aligned to our planned brand change, the bank has elevated Change and Separation Risk Management Governance through a dedicated senior management committee led by a programme director. A robust risk monitoring framework is in place to guarantee a seamless and continuous delivery of services to our customers. Significant investments in people skills, policy frameworks and systems also continue to be made to enhance our resilience capability in particular around Technology and Cyber Risk management.

Colleagues: Transform into an aspirational, fun and vibrant place to work

One of the four strategic priorities of our strategy is to ensure that Barclays Bank of Kenya members of staff enjoy working for the company, and are exposed to opportunities for both self and professional growth.

This is driven by the understanding that our 'Growth Transformation and Returns' agenda is anchored on our people. Therefore, as we execute our new corporate strategy we intend to create an organisation aspirational enough for everyone to wish to work, vibrant and fun enough for our colleagues to enjoy what they do, and engaging enough for colleagues to thrive and find purposeful meaningful work.

Our values were developed as a result of an extensive collaboration exercise by colleagues across Absa Group in 12 African countries. Absa Group aspires to roll out the change in visual identity of the organisation across Africa in 2019 and 2020. These values will inform the cultivation of a new ethos that underpins who we are and how our customers and stakeholders experience us in the future.

As we transition to Absa, we have also tied our new brand to three attitudes; **Brave, Passionate and Ready**, collectively helping us to start redefining how we get things done and how we rally our colleagues every day in all we do for our stakeholders. The combination of the new corporate strategy, a new brand, new values and new attitudes is what forms the basis of **transformation into an aspirational, vibrant and fun place to work**.

In 2018 we accelerated this transformation across many areas including:

- development and leadership culture
- people management
- reward & recognition
- diversity & inclusivity
- wellness
- health & safety

Development and Leadership Culture

As part of the Absa Group, we have redefined leadership; we see leadership at all levels of the organization and we believe less hierarchical organisations will win. As such, we are driving distributed leadership as our new management philosophy – where colleagues across all levels of organizations are fully empowered to lead. In 2018 we continued to take a broader and deeper approach as we seek to produce a diverse leadership pipeline for succession management. We are adequately covered on succession and we have an active pool of leaders in our organisation.

We invested in exciting leadership development programs for our colleagues across the board including equipping our branch managers with relevant skills to drive bank-wide product and services from their branches, relationship managers training on broad macro factors that impact our clients, instituted a sales academy for our front line lead generators and expanded our compliance career academy in partnership with the Duke University, the University of Cape Town and Deloitte Touché Tohmatsu to re-skill our people on new compliance risks facing the industry. To engender leadership principles more deliberately and proactively, we are working towards launching a leadership academy as part of Absa Group, that will see us develop and deliver tailored leadership programs in partnership with major universities and leadership training institutions.

In 2018, we focused our efforts on cultivating a strengths-based culture, premised on authenticity, customer-obsession and role ownership. Through a series of closely interlinked initiatives, we sought to help colleagues bring their individual and team contributions to the success of the business. We launched the **Be The Reason (BTR)** Discovery Program that helps Barclays staff to identify their strengths, understand their purpose, while appreciating how these two fundamental elements combine to influence personal, team and, ultimately, business performance. The programme has played a significant role in our ambition of creating an organisation where everyone feels the impact of their contribution in the growth of the business. This is one of the initiatives that have significantly contributed to a high-performance culture across the business.

Additionally, following the programme, colleagues have been able to articulate our new five-year strategy, in addition to clearly understanding the role they play in its execution. This is brought to life through the call to action of 'Be the Reason' for 'Growth Transformation and Returns' - BTR for GTR. In 2018, we trained a large number of 'strengths coaches' who will, henceforth, support the sustainability of the cultural transformation programme in 2019, with a focus on helping colleagues to truly embed their strengths in their day-to-day responsibilities.

	2018	2017
Women in senior management roles	**40%**	40%
Training spend (Shs)	**97mn**	72mn

Diversity and inclusivity

As management oversees the strategic growth and administration of the Company, its influence has been particularly felt among the bank's workforce, where it has, over the years, inspired and driven a gender-balanced objective. In 2018, the bank maintained a 52:48 split between male and female workers, even as it targets the 50:50 split recommended as one of the ways to increase professional diversity across the business.

2018 was an eventful year for the women starting out with the celebrations for International Women's Day on the 8th of March. The year's theme was dubbed #PressforProgress. Women were called upon to keep pursuing their dreams and goals until they attained their full potential.

We also held a talk and panel discussion themed 'Sticky Floors & Glass Ceilings' where we interacted with accomplished women to demystify the myths and perceptions that inhibit career growth in women. Over 100 ladies benefited from this engagement and purposed to watch out for warnings signs in their career growth agendas and take timely corrections.

Overall, we have continued to put in concerted efforts in our Women network agenda. Some of these include:

- Mentoring program equipping over 300 ladies with skills required to help them rise and progress in their spheres of influence.
- Sponsored 8 women for an intensive Board program to prepare them for board positions with the aim of increasing gender diversity and influence.
- Maintained a staff gender ratio of 48:52, Women to Men which continue to support the great financial performance of the bank.

We purpose to maintain an ongoing positive climate of inclusion.

People management

People management capability is integral in developing high performing teams of engaged colleagues with excellent execution abilities. We rolled out the third phase of the Certified People Manager Program (CPMP 3) to further enhance our line managers' capabilities by equipping them with the necessary skills to influence colleagues through the change journey, support people managers to execute the country strategy, in their day to day activities to increase team productivity. The program is experiential, and allows the line managers to practice courageous conversations. We have, so far, trained 218 line managers, and on completion of the program, we will conduct a survey to certify the line managers at Gold Standard.

Reward and recognition

The launch of 'Be The Reason' helped us evaluate the realities facing our business presently and, most importantly, allowed us to shape the discourse about the future we want. An exciting part of the program was the quarterly BTR Awards, which recognised the exceptional colleagues that made a significant impact for the business across the year. This is against the backdrop of the on-going BTR discovery journey, which seeks to bring the best out of all Barclay's colleagues by identifying and amplifying their key strengths, while defining their purpose in the actualisation of enterprise goals.

Wellness

In 2018, we continued with our drive for a healthy living by the implementation of our comprehensive and integrated wellness programme. The programme supports the empowerment of staff from a people-function perspective by helping them gain energy and feel better about themselves, including both their emotional and financial well-being.

In this regard, we have a partnership with an external vendor for the provision of counselling services to both staff and their families. The counselling support, which is available on a 24/7 basis, covers, among other items, bereavement, trauma and child therapy. A total of 67 colleagues were supported in 2018. The programme also encompasses support to our staff with long-term illnesses, allowing them to lead healthy, productive lives. Our annual voluntary HIV testing session recorded an unprecedented 96% turnout in 2018.

We encourage colleagues to adopt a healthy lifestyle and we have invested in a biometric equipment to support in tracking key healthy metrics such as blood pressure, blood sugar and body mass indices. As far as physical well-being is concerned, we have facilities in place that allow our staff to access gym facilities at subsidized rates. Similarly, we plan regular hikes, our target being one every month. Last year, we had seven hiking events around the country.

We held a successful family fun day with various physical activities. 2 100 colleagues together with their families attended and participated in various activities including running, swimming and other physical games.

Financial health is also a key part of our wellness programme. Through programmes such as HR Soko, which allows our colleagues to purchase groceries and other items from partner vendors at subsidized prices, we enable them to make the savings needed for personal development.

Colleagues: Transform into an aspirational, fun and vibrant place to work *(continued)*

Occupational health and safety

Over and above compliance with relevant legislation, we have instituted an occupational health and safety strategy, which in addition to protecting our colleagues also covers contractors, suppliers and our customers. Guided by both the Work Benefits Injury Act and the Factories and Other Places of Work Act, the strategy is designed to prevent work-related accidents and occupational illnesses, by identifying and assessing potential hazards, and maintaining a comprehensive risk management framework.

The Bank conducted intensive training and awareness efforts, accompanied by regular mechanical, electrical and fire audits to minimize occupational hazards. In addition, we critically evaluate the ergonomic functions of our workplaces, and regularly train our colleagues on the proper way to use their equipment. This is in a bid to avoid backaches, joint pains, as well as eye and ear injuries. Going forward, we are planning to install standing desks across our networks, to dissuade lengthy sitting sessions, which have been linked to most lifestyle diseases.

68%	Population of colleagues who completed the general OHS Awareness Training in Kenya.
100%	Percentage of buildings in Kenya with current Building and Fire Safety Risk Assessments.
84	Total number of Retail and Business Banking work Areas in Kenya.
29	Total number of Corporate Work Areas active on the OHS systems in Kenya.

We are also planning to boost our health and wellness offering by implementing 10 ideas proposed by colleagues 80 ways to create a fun place to work. The leading ideas include virtual working arrangements, better use of the sports club and entrepreneurial pitches.

Transforming the people function capabilities (Project Edge)

Following the Separation from Barclays PLC, the People Function is undergoing changes to separate from Barclays PLC, as well as to significantly enhance the colleague experience. The People function re-platforming will simplify and standardise people processes across the Absa Group, and deliver efficiencies as well as deliver improvement in line manager decision-making processes. This transformation program also results in the up skilling of line managers to perform people management responsibilities in support of our enhanced culture of distributed leadership and empowerment at all levels of the organisation.

We have packaged this transformation under project edge, which seeks to deliver among other things; Workday – a modern day digitally enabled platform that runs the people function. This is the most transformational investment in technology tools for the people function, that will help us advance ahead of the industry.

In conclusion, we remain committed to building and securing the most important asset of our business – our people – and we see what we do for our people as the single most competitive advantage that we have. We will continue to advance, committedly, every day, to ensure that we become the most aspirational, vibrant and fun place to work in Kenya.

Colleagues Engagement is on the rise ; with room for improvement

Target	29%	58%	13%
	Engaged	Not engaged	Actively disengaged
2018	26% ^	55% ✓	19% ✓
2017	19%	59%	22%
	These colleagues are loyal and psychologically committed to the company. They are more productive and more likely to stay with their company for at least one year.	These colleagues may be productive, but they are not psychologically connected to their company. They are more likely to miss workdays and more likely to leave.	These colleagues are physically present, but psychologically absent. They are unhappy with their work situation and insist on sharing this unhappiness with their colleagues.

2018 Gallup Survey

Our Bank >>
Value Proposition >>
Value Creating Strategy >>
Delivering Value >>
Protecting Value >>
Financial Review

Customers: Customer obsession as a key driver of growth

Technology continues to play a big role in our overall customer experience strategy. This is based on the understanding that in the bank of the future, technology will determine the overall satisfaction and loyalty levels of customers. Technological advancement in the mainstream banking industry is being recorded following disruption by FinTechs. Consequently, it is critical that the customer remains key in any design of services and products, and that all developments integrate fully in the customer lifestyles to achieve a convenient and flexible environment for our dynamic customers.

Treating Customers Fairly (TCF)

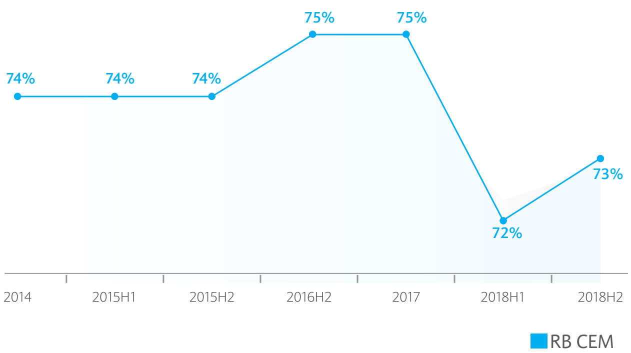
In order to achieve our strategic objective of being a customer obsessed bank, we have increased emphasis on initiatives that seek to treat customers fairly and improve our customer experience model.

In 2018, we focused on reducing the number of customer complaints through a reduction in system downtime as a result of upgraded technologies, and resourcing our contact centre. This two-pronged effort led to a 70% decline in customer complaints

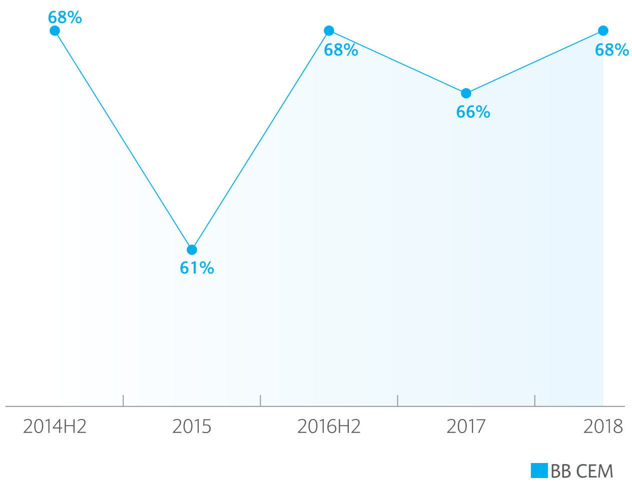
How we measure ourselves

The preferred measurement we use to obtain customer feedback is the Net Promoter Score (NPS) and Customer Experience Measurement Score (CEM). Customers are interviewed independently twice a year for the Retail and Business Banking Customers and once a year for the Customers in the Corporate segment. The goal is to gain a better understanding of what the customers' expectations are, and how, as a business, we are continuously looking ahead and proactively finding solutions for our clients' needs.

Customer experience in Retail Banking



Customer experience in Business Banking



Improvement in NPS trends confirms that the Bank is on the right track in becoming customer obsessed. We aim at improving this trend in the following years in line with our strategy of being the most Customer obsessed business.

For these purposes, we are implementing a governance structure that includes both tactical and strategic approaches. The tactical approach ensures that on a daily basis, the senior leadership group is fully aware of the customer experience environment. Both compliments and complaints received remain key drivers for decisions that feed in and align with the Bank's strategic plans. This strategic approach is driven through Customer Service Council meetings held on a monthly basis as well as focus groups and other forums, where customer feedback is obtained to ensure that a holistic view of the customer experience framework.

The new daily feedback approach and involvement by senior leadership began in July 2018, with progress being made in terms of quicker decisions and actions that ensure a better outcome for our customers.

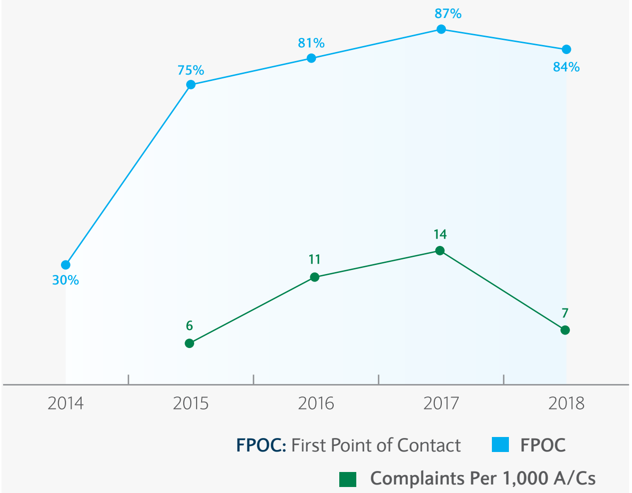
In 2018 we invested in upgrades on the digital channels and the core banking system to ensure that we make incremental and noticeable changes in system stability. Timiza, for instance, was the culmination of a resolving process to meet customer needs, using technology that drives efficient self-service options.

We also took a conscious decision to create a dedicated call centre and social media page to handle all the Timiza related queries. The goal is to ensure that customers using the product experience a strong support service model with the right expertise and speed to address emerging issues and challenges.

Our Bank >>
Value Proposition >>
Value Creating Strategy >>
Delivering Value >>
Protecting Value >>
Financial Review

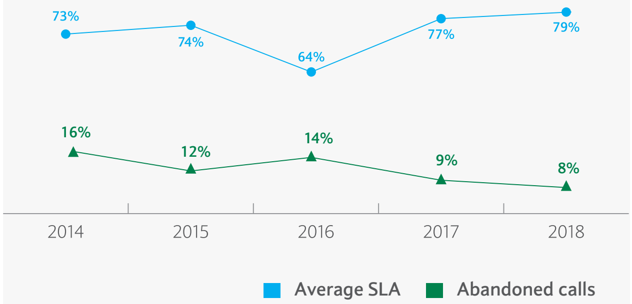
Complaints performance

Complaints received vs FPOC Performance



- Their exists a correlation between complaint logged and FPOC performance, where a period with many complaints logged also records a high performance of FPOC performance.
- Highest number of complaints were received in 2017.
- A great improvement noted in 2018 whereby the metric improved to an average of <10

Contact Centre Performance



- An improvement in the trend noted as from 2016 when average service levels as well as abandonment rate improved.

Table on Contact Centre Performance

	2014	2015	2016	2017	2018
Average SLA	73%	74%	64%	77%	**79%**
Abandoned calls	16%	12%	14%	9%	**8%**

Customer experience and bank operations

Our focus, looking ahead, remains on the customer It is critical that as a financial institution we consistently evaluate the customer journey from end to end, with attention on every interaction they have with the bank. The goal is to ensure that we maintain their loyalty and trust.

As part of Absa Group Limited, opportunities abound for us to achieve transformational changes in our processes, inefficiencies. These opportunities are driven by relevant suite of customer solutions.

The My Shoes Are My Office (MSAMO) programme which requires colleagues to place themselves at the service of the customer by building relationships, continues to be an important aspect of our business growth strategy. Bank events have proven to be solid engagements for winning customer attention and trust.

We hold regular customer service forums, which chaired by the directors of the different business segments. The meetings are planned to discuss the achievement of our customer service plans against strategy.

Key performance indicators, feedback from customers, and changes in processes and operations are covered in the sessions. A key performance indicator for the business is customer dissatisfaction, and at every meeting solutions are identified to improve the end-to-end customer interaction for a challenge-free service. To improve our customer experience, we have invested in a contact centre and an Integrated Voice Recorder (IVR) system, both of which remain operational 24 hours a day.

Similarly, our core banking system and ATM availability have steadily improved due to increased investments in the bank's wide area network and other hardware within the estate. We continue to digitise and automate our bank operations for the convenience of our customers. In 2018, we fully digitized and automated our key payments processes. This initiative will carry on into the next reporting year across all bank processes for sustained assurance in:

- Exceptional customer experience
- Improved process efficiencies
- Enhanced control environment

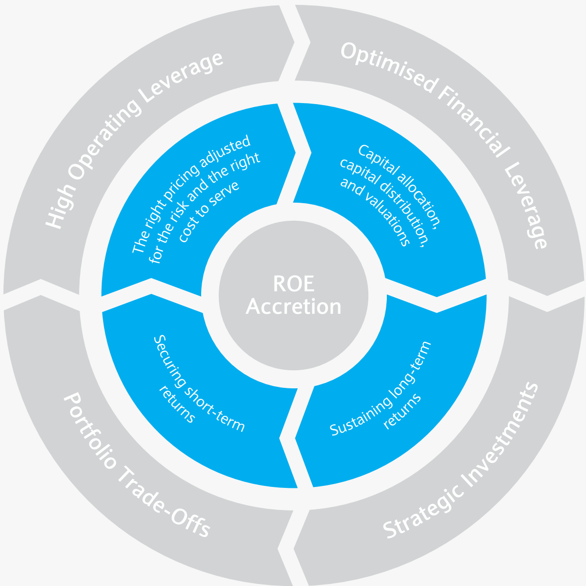
Shareholders: Deliver sustainable total returns

Our shareholders provide capital and funding, and have a carried interest in the performance of Barclays Kenya. Our shareholders require sustainable returns, and a robust governance framework with proven track record of credibility.

As an integral part of the 'Growth, Transformation and Returns' strategy, we designed and disclosed our value creation model in 2017, whose objective is to accrete returns for our shareholders.

Our shareholder returns creation model

In 2017, we designed and disclosed our value creation model(1); focusing on:



- Implementing the right pricing adjusted for risk and the right cost to serve in order to maximise profitability, given our operating cost structure and impact of the interest rate cap
- Optimising financial leverage through allocating our capital and resources efficiently
- Grounding strategic investments in growth areas to drive sustainable long term returns
- Making trade-offs at business and product levels; with strong strategic rationale; to secure short term returns

Notes: 1. Barclays Bank of Kenya Limited 2017 Integrated Report, page 39

Our shareholder value creation model illustrates our chosen drivers and the way we allocate resources to meet shareholder expectations on total returns.

The four defined drivers are:

The right pricing adjusted for risk and the right cost to serve

As Barclays Kenya is a business with high operating leverage, we aim to maximise profitability through substantial and sustainable growth in top line revenue. It is enabled by implementing the right pricing adjusted for risk and the right cost to serve; which was clearly demonstrated in 2018 strategy execution:

Going forward, we anticipate ongoing challenge in pricing for risk in the banking industry, given the retaining interest rate cap. However, we aim to continue to diversify our revenue stream, whilst further enhancing efficiency to drive normalised CIR towards sub-50% and in-line with peers.

Capital allocation, distribution and valuations

We aim to employ an optimal financial leverage level to safeguard the capital our shareholders invest in us. The strategy execution in 2018 resulted into optimised capital allocation, strong and liquid balance sheet and proven resilience:

- We distributed capital across a diversity of businesses, customer segments, sectors and products to provide a robust return profile
- We frequently and efficiently reviewed and reallocated capital to ROE-accretive portfolios
- We strongly grew liabilities with Customer Deposits growing by 12% – the fastest growth in a decade
- We continued to enhance risk appetite allocation to enable us to efficiently manage our risk profiles.

Sustaining long-term returns

As clearly indicated in one of our strategic pillars on page 38, we commit to maximise long term returns for our shareholders. This will be enabled through long term strategic investments to unlock growth potential.

In 2018, our strong year-on-year growth allowed us to reward short term dividend incentives, as well as invest for long term value creation. The strong growth included:

- Fastest Balance Sheet growth in a decade at 20% in Total Assets and 12% in Customer Deposits
- Resilient Revenue growth at 5% despite impact of the interest rate cap on interest margin
- Strong growth in NFI at15% driven by new revenue streams
- Fastest Operating Profit growth in 8 years at 8%, which was ahead of market average at 4% and tier 1 average at 5%
- Fastest customer base growth in history to over 3 million as the result from Timiza Virtual Banking.

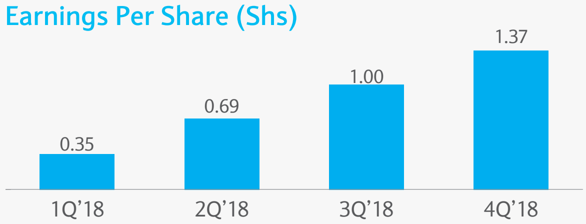
Our Bank >>
Value Proposition >>
Value Creating Strategy >>
Delivering Value >>
Protecting Value >>
Financial Review

Securing short-term returns

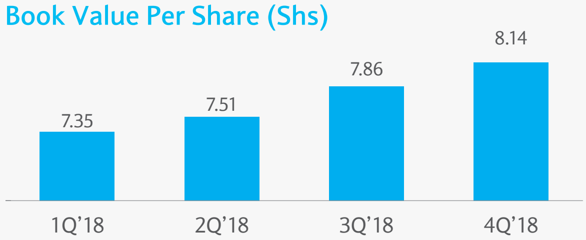
Return on equity turned around to 16.8% as at the end of 2018; improving for the first time since 2010. It was clear indicator towards a promising return profile over the 2018 – 2023 strategic cycle.

In addition we generated sequential increase in EPS and book value per share, underscoring our short-term returns profile

Earnings Per Share (Shs)



Book Value Per Share (Shs)

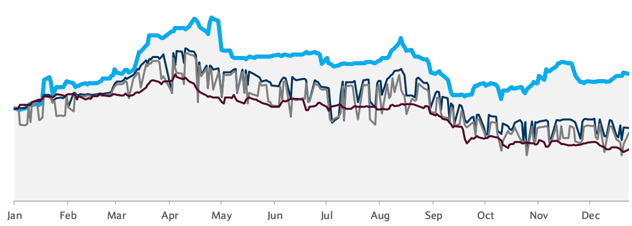


Creating value for our shareholders in 2018

We executed our new value creating model for the first year in 2018, leading to a significant increase in total returns for our shareholders. This was evidenced by key results and outcomes, including:

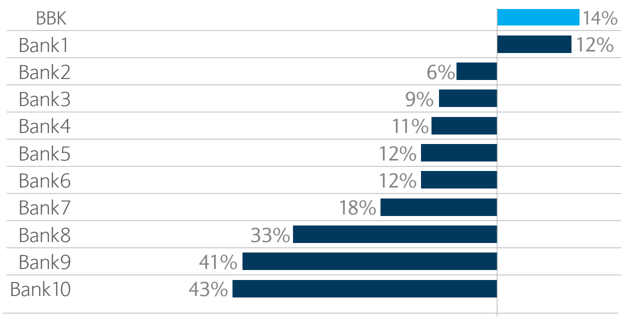
- Being the best performing bank stock and large cap stock at the NSE with 14% annual capital gain;
- Growing EPS to Shs 1.37 from Shs 1.28 in 2017 with our valuation remaining attractive at 1.4x Price to Book Value;
- Sustaining our leading position in dividend yield at 9%; closing the year with the highest dividend yield among NSE-listed bank stocks;
- Increasing dividend per share – for the first time in 4 years – by 10% to Shs 1.10, to a total of approximately Shs 6bn pay-out; and
- Increasing our ROE for the first time since 2010.

Best performing Bank stock at the NSE

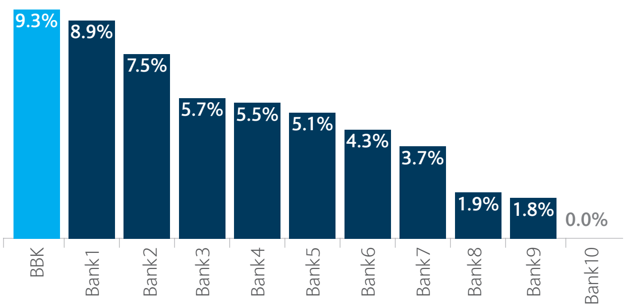


BBK ▲14% Tier 1 Banks ▼08% All Listed Banks ▼10% NSE ASI ▼18%

Best annual capital gain of NSE-listed banks



Best dividend yield of NSE-listed banks



Going forward

- Given our strong capital position, we aspire to sustain the dividend pay-out level which was increased by 10% in 2018
- Our growth records in 2018 point to our underlying performance remaining strong. We aim to further strengthen our performance
- We will maintain regular engagements with investment community to ensure transparency on past performance, as well as shared expectations around our strategy and future performance
- We will continue to practice sound corporate governance which is led by a diversified Executive Management with solid tracking records in turning around the business, and overseen by an experienced independent Board of Directors.

Regulators: Operate within our risk appetite

A positive conduct culture, anchored in our values, has played a defining role in ensuring that Barclays operates an ethical and sustainable business. We acknowledge that effective management of Conduct Risk is fundamental for the complete achievement of our GTR strategy.

For monitoring, we have in place a Conduct Risk framework, policies and standards, which have been approved by the Board for periodical measurement through key risk indicators.

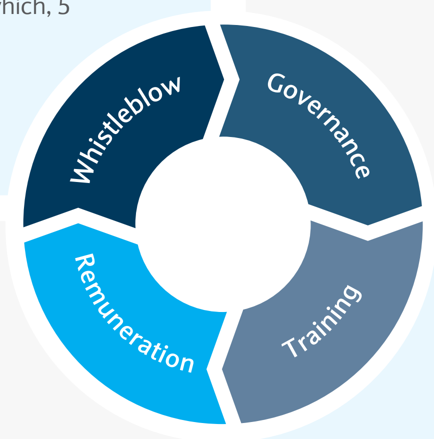
All colleagues are responsible for the management and mitigation of Conduct Risk with oversight being provided by the Compliance function. A number of programmes have been put in place to ensure that we have the right conduct outcomes.

Conduct risk framework

"we provide a safe environment for colleagues to report misconduct withour fear of retaliation"

14 whistleblow reports in 2018 out of which, 5 were conduct related

Governance "Quarterly conduct risk monitoring and reporting with escalation of major conduct issues to the Board Audit and Risk Committee"



"Performance is measured against financial and non financial metrics to encourage the right behaviour and conduct"

"Mandatory staff training to create awareness of the expected values and behaviours"

- Preventing financial crime 99.95%
- Whistleblowing100%
- Colleague compliance100%

Regulators

Regulatory Relations and Developments

As a financial services group, employer and tax payer, we are subject to the oversight of a number of regulators. While the Central Bank of Kenya is our main regulator, our policy is to encourage open and regular engagement with all our regulators. Some of the other regulators that we deal with on a daytoday basis include the CMA, NSE, IRA, KRA and RBA.

Regulatory Developments - Consumer protection, data privacy and cyber security were the broad regulatory themes in 2018. This was due to the need to strengthen consumer protection, improve transparency and enhance competition in the banking industry, as well as the protection of our customers' personal information.

Consumer Protection - The impact of the interest capping restrictions introduced by the Banking (Amendment) Act, 2016 continued to be a focus area for the Central Bank of Kenya and Parliament, with draft regulations being circulated to address conduct and ethical issues in the banking sector while enhancing consumer protection ahead of any changes to the interest capping restrictions.

The first step towards amending the interest capping law enacted in 2016 was done through the Finance Act, 2018. The Finance Act scrapped the floor on interest on deposit prescribed by the Banking (Amendment) Act 2016, leaving banks with discretion on the interest to be issued on customer deposits. The interest cap on loans remained unchanged.

In an effort to entrench a culture of ethics and a responsible credit market, the Central Bank of Kenya published the draft Banking Sector Charter for public comment. The charter was hinged on four central pillars:

- Adoption of customer-centric business models by banks,
- Risk-based credit pricing,
- Enhanced transparency and information disclosure
- Entrenching an ethical culture in banks. By the close of 2018, a final Banking Charter was yet to be issued.

Finally, the National Treasury made a second attempt to regulate market conduct through the publication of the Financial Markets Conduct Bill, 2018 (FMC Bill). The first attempt was the Financial Services Authority Bill, 2016. The overarching purpose of the FMC Bill was to sustainably enhance consumer protection and deal with inadequacies in consumer protection and unregulated lending in the financial sector. The FMC Bill is still undergoing stakeholder engagement.

Data Privacy and Cyber Security One of the bank's strategic objectives is to become a digitally led business. We note that with digitisation comes additional cyber risks and that it is imperative for us to install measures to protect our customers' information including during crossborder storage and transactions.

We recognize the Ministry of ICT's Data Protection Bill, 2018, which seeks to protect the collection, storage and processing of personal information. The Bill was published shortly after the European Union General Data Protection Regulations, which provide for extraterritorial protection of personal information relating to EU citizens.

Furthermore, the Central Bank of Kenya offered draft Cyber Security Guidelines for Payment Service Providers (PSP Guidelines) for public comment. This follows the implementation of the Guidance Note on Cyber Security in the Banking Sector in 2017. The purpose of the PSP Guidelines is to set the minimum standards that PSPs must adopt to ensure a sound, secure and efficient payment system.

As a bank, we have complied with the Banking Sector Guidance Note and in relation to cyber security affecting PSPs, we ensure that any thirdparty PSPs we partner with has systems that meet our minimum standards of security. This is done as part of our outsourcing risk assessment process. Additionally, being part of a global financial group, we continue benefit from robust policies, systems and processes.

Financial Crime

Financial crime is a major threat to the integrity of the financial services industry locally and internationally. Kenya is considered a high risk country for financial crime and, therefore, heightened controls are required especially for cash based transactions. In 2018, the Kenya Bankers Association issued guidelines for all commercial banks when handling over the counter cash transactions of over Shs1mn. In relation, the bank has invested in a robust financial crime framework comprising business and Board level committees, policies and procedure manuals, trainings, expert financial crime teams and IT systems.

Reputation Risk

Our reputation is one of our main assets. Damage to our brand, and the consequent erosion of our reputation reduces the attractiveness of Barclays to stakeholders, and may lead to negative publicity; loss of revenue; regulatory or legislative action; loss of existing and potential client business; reduced workforce morale, and difficulties in recruiting talent. Ultimately it may destroy shareholder value.

In 2018, Reputation Risk was elevated from a Key Risk under Conduct Risk to a Principal Risk under the Enterprise Risk Management Framework. Following this, the Reputation Risk Framework was approved by the Board and cascaded to the business. The Compliance team has oversight over the management of Reputation Risk with escalations being addressed by the executive level Reputation Risk Management Committee and ultimately the Board Audit and Risk Committee.

Society: Become a force for good

American economist Howard Bowen, in his book *Social Responsibilities of the Businessman*, says that because business activity affects the whole society, entrepreneurs should carry out activities that are consistent with positive social objectives and values.

In line with this, as Barclays Kenya undergoes a transition to the Absa brand, there is a deliberate plan to uphold its citizenship objective as a community investment as opposed to charity and philanthropy. This is an approach that has been found to yield more gains for all stakeholders.

Going forward, the bank will administer its operations in a way that highlights Absa's ambition to become a purpose-driven financial services organisation. Barclays announced that it was becoming Absa in 2018, ushering in the entry of a Pan African bank, with a global reach but most importantly, one that is relevant to the societies within which it has a footprint. Under the new brand, the bank has identified being a 'force for good' as one the key priorities of its mid-term strategy.

The transition is seamless as the bank sustains its focus on three critical pillars of corporate citizenship:

- Enterprise development
- Financial access
- Education and skills

Correspondingly, the bank's citizenship approach, right from Absa Group, moved from the fringes of the business strategy to a strategic pillar of business success underpinned by the Shared Growth Agenda. From this stable foundation, we will help shape society by:

- Bringing fresh thinking and thought leadership to accelerate innovative solutions to societal challenges
- Contributing to the societies in which we operate and aim to enhance the continent's growth and development
- Caring for our environment and helping others to do the same

Anchored on these three pillars, the bank maintained its pursuit of strategies that bring good to the society. This was achieved by instituting policies and solutions that place the shared growth principles at heart. Similarly, all of Barclays Kenya's colleagues were, in 2018, continuously encouraged to only partake in engagements contributing to the growth of the communities amongst which we operate.

2019: Force for Good

Transform the citizenship agenda from philanthropy to community investment in line with our key objective of making the environment we operate in conducive for business

2018: Shared Growth & more

Continue to build on shared growth philosophy - creating shared value and having an externally facing focus on communities, allows us to play a positive shaping role in society and be an active force for good

2015-17: Shared Growth

Introduction of the principles of creating shared value. Recognition of the opportunity to develop commercial business solutions to key social challenges

2012 -14: Introducing Citizenship

Transition to the three pillars The way we do business, Supporting communities, Contributing to growth. This encompassed both traditional Community. Investment projects and an emergence of 'pilot project' business solutions to key social challenges

2000's: CSR/ CSI

A shift to 'Strategic' CI, aligned to grant making donations focused on money management and skills development

1990s: Philanthropy

Focused on donations and volunteering; not aligned to business

Our Bank >>
Value Proposition >>
Value Creating Strategy >>
Delivering Value >>
Protecting Value >>
Financial Review

Pillars of growth

1. Enterprise development

ESD

More than 30
businesses equipped with the skills required to upscale their operations through Enterprise Supply Chain Development (ESD) programme

Partnerships with 13 clients
for the transformation of value chains through long-term programming for the growth and development of market opportunities

Shs 160mn loans
issued through ESD programme

SheTradesKE

2 200
women entrepreneurs equipped with the skills needed to upscale their businesses, through SheTradesKE of whom at least 50 were exposed to international trade through business club trips including to the World Travel Market in London

More than Shs 340mn
worth of loans awarded to over 120 SheTradesKE entrepreneurs

100 women
given support to expand their businesses and improve their digital commerce capabilities out of whom 50 are currently trading on eBay

2. Financial access

3 million
Timiza customers

Shs 10bn
disbursed as loans

3. Education and skills

Scholarship fund

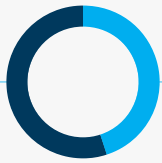
Shs 155mn
for 2017/18 and 2018/19 academic years

541
university students have so far benefitted across the country

58
universities

Gender split

56%
Female



44%
Male

5%
Persons living with disabilities

ReadytoWork

Provides students in tertiary institutions with:

- Work skills
- People skills
- Money skills
- Entrepreneurial skills

155 000
youth beneficiaries

2 500
beneficiaries placed in various organisations

100
offered internship by the bank in 2018

90
internship opportunities in 2019

Innovation leadership

Aware of Kenya's position as an innovation hub, we sponsored the 2018 Nairobi Innovation Week, an event that brought together various stakeholders in the industry, including universities, the Government and our other partners to celebrate, refocus and re-energize the innovative efforts in the country. During the week, startup businesses and investors exchanged ideas, while creating funding opportunities for the actualization of innovations. Barclays participated in the forum to:

- Reiterate our commitment to the innovation agenda and the youth through the Ready to Work programme.
- Play a business advisory role to upcoming startup businesses seeking both mentorship and financing.

Society: Become a force for good *(continued)*

Diversity and inclusion policy

Barclays has a non-discriminatory work policy and takes into consideration people living with disabilities. In this regard, the Bank supports Diversity and Inclusion (DNI) objectives when recruiting vendors and in the awarding of tenders, so as to give opportunities to women, youth and people living with disabilities.

This is in line with the goal of empowering our community and providing equitable opportunities for prosperity.The Bank's more than 30 new DNI vendors secured financing opportunities through the Bank's ESD programme in 2018.

At an institutional level, Barclays takes into consideration the unique needs of colleagues, clients and all associates. Led by this objective, all service centres served by the bank are equipped to aid the mobility of disabled people through such facilities as ramps, accommodative washrooms and special counters.

#15toSaveALife

In partnership with the Kenya National Blood Transfusion Services, we launched a campaign dubbed #15toSaveALife with the objective of driving awareness to the need for blood donations. This is in a bid to actualise our Force for Good narrative that a 'healthier nation means a prosperous Barclays'. We rolled out the campaign in 29 of our branches across the country, and we surpassed our target of 1 000 units of blood, by raising more than 1 700 pints. The donation came at a time when more than 2 500 Kenyan mothers are reported to die from bleeding after delivery every year. Overall, Kenya needs 400 000 pints of blood every year, according to the World Health Organisation, but the country only raises 149 000 pints annually, leaving a massive shortfall of 241 000 pints. We plan to continue such drives in future in a bid to plug the gap.

Kenya Open

Barclays in partnership with the Government of Kenya aims to encourage local and international sports tourism in the country. The bank invested Shs 150mn in the Kenya Open golf tournament. This generated publicity for the country worth Shs 855 million. Overall, our engagement in the tournament for the past decade has helped elevate the country's position as a sport-tourism hub. This is especially after the tournament attained European Tour status, which translates to more media coverage and global interest. As in past years, in 2018, we leveraged the platform to host existing clients in networking sessions, while creating new opportunities for young businesses to benefit from the events surrounding the Kenya Open.

Environmental impact

In 2018, we upheld our pursuit of practices and operations that are favourable for our environment. In this regard, we took steps towards reducing our overall carbon footprint, starting with a review of the bank's energy management processes. The calculated carbon footprint from our current installations totalled 4 065 tonnes of greenhouse gas (GHG) emissions per annum. Our ring-fenced gains from closed branches were 528 tonnes of avoided GHG emissions per annum.

Reduction in carbon emissions

A review of carbon emissions confirmed that one third of the offenders were responsible for 53% of the emissions. Guided by this information, we developed an energy conservation plan, with initial focus on the top eight offenders. The strategy, now in its early stages of implementation, includes the installation of solar energy infrastructure, LED retrofitting, and space reduction and/or exits.

Energy conservation

We recognise that the way to achieve the most meaningful impact is by embedding a culture of energy conservation across our networks. Consequently, we now have in place an energy management policy, which, from the outset, shows the parameters that define acceptable energy usage.

Correspondingly, we are now moving forward to install energy champions across our networks, who will review energy practices and advice on the best interventions to curtail wastage.

Water management

We are planning to install onsite water purification systems in our offices, starting with the two buildings (Bishops Gate and Westend) that host more than 50% of our full time staff. Initially, we regard the arrangement as being cost-neutral when placed against our bottled water resourcing and dispenser management budgets. But it is an important option for reducing our overall emissions from, for example, the diesel expended by trucks presently equipping our offices.

Waste management

In the same way, we are in the process of developing a partnership that will allow us to buy toilet paper at subsidised rates from a local manufacturer, by trading off some of the costs with our shredded paper waste, which is in turn recycled.

Going forward

As we now head into a new future under the Absa brand, we hope to embed a corporate sustainability model that is aligned to the United Nations' Sustainable Development Goals. Ultimately, we seek to remain relevant to our key stakeholders by pursuing ideas and projects that keep the bank future proof.

For this, we will pursue partnerships with like-minded organizations to amplify our presence and impact in the society as we seek to be an active force for good. Similarly we plan to develop solutions that address some of the biggest societal challenges, with particular focus on the youth and women.


absa
We’re passionate about our youth.
Ask over 219 000 of them.
Imagine if every young person in Africa had the opportunity to fulfil their potential and weren’t limited by their financial background. Just think of the possibilities. We do.
That’s why in 2017 alone, we invested over US$24 million into education, supported over 3 600 students with scholarships, provided 1 200 students with workplace experience and prepared over 215 000 students for work via our ReadyToWork online platform – across Africa. And this is only the beginning.
www.absa.africa
Absa Group, serving Kenya as Barclays.
BARCLAYS
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Our Board Governance and Board Committees

Statement of Compliance

The Bank has strong governance structures and processes which support full compliance with applicable laws and regulations as well as prudent management and oversight of the business in the interests of customers, shareholders and other stakeholders. The Board's mandate complies with the provisions of the Companies Act, 2015, the CMA Code of Corporate Governance Practices for Issuers of Securities to the Public, 2015 and the Bank's Articles of Association. As part of our ongoing commitment to ensuring that the company operates on sound corporate governance principles as well as transparency with our stakeholders, the Company in 2018 subjected itself to a corporate governance audit conducted by an independent and certified corporate governance auditor as per the requirements of the CMA Code of Corporate Governance. A disclosure of the key governance matters is summarized on page 14. The Bank continues to apply the principles of the Code which adopts an "apply or explain" approach requiring that the Bank provides a reasonable explanation in instances where a principle or recommendation is not applied. The Board and Management of the Bank also continue to comply with the Prudential Guideline on Corporate Governance prescribed by the Central Bank of Kenya as the bank's primary Regulator, Schedule 5 of the Capital Markets (Securities) (Public Offers, Listing and Disclosures) Regulations, 2002 relating to the Continuing Listing Obligations of Issuers as well as the Board's stringent standards of corporate governance as set out in its Board Charter in line with the Absa Group standards.

The CMA published its first ever Report on the State of Corporate Governance of Issuers of Securities to the Public in Kenya where a total of 56 issuers were assessed out of which 14 were from the banking sector. When assessing the overall weighted performance of the issuers, the report found that 5 Banks were ranked as being in "Leadership" and "Good" categories, which was a commendable performance for the industry given that most of the issuers on the stock exchange were in the "Fair" category. The Leadership rating was given where the CMA observed the highest level of corporate governance which is a demonstration of the issuers' commitment to good governance. The report also identified several areas of improvement for issuers, with the weakest area being the failure to conduct annual governance audits. That said, it was noted that the banking sector needed improvement in some areas like stakeholder relations and transparency and disclosure; areas in which Barclays is keen to undertake focused initiatives in the coming year even as the Separation to Absa progresses in Kenya.

Company Secretary

The Company Secretary is a member of good standing of the Institute of Certified Secretaries (ICS) and serves as the Secretary to the Board and all the Board Committees. The Company Secretary advises the Board and individual directors on their fiduciary duties, corporate governance requirements and practices. Each Director has direct access to the Company Secretary. In conjunction with the Chairman, the Company Secretary is responsible for developing and implementing processes that promote and sustain the highest standards of corporate governance including formulating and delivering a comprehensive induction programme for new directors and suitable ongoing training for all directors.

Our Board Charter

The Board has a Board Charter that outlines the Bank's governance principles and practices, roles, responsibilities, authorities and processes of the Board. Our Board revised the Board Charter in 2018 to enhance provisions on governance in line with international standards including King IV guidelines on corporate governance.

Key Board deliberations in 2018

During the year, the key activities of the Board included the following:

- Approving the Board's calendar of meetings and Work Plan which sets out the Board's objectives for the year against which performance is measured.
- Reviewing the Bank's short and medium term strategic plans in light of the internal as well as macroeconomic environment. This includes the strategic decisions that continue to be made in respect of the ongoing divestiture of Barclays Bank PLC. from the Absa Group Limited (for example in respect of outsourcing).
- Receiving regular updates from each of the key management functions on their progress made against the agreed financial and nonfinancial strategic objectives of the Bank.
- Reviewing regular reports on the economic and regulatory environment prevailing in the country and impacting the banking industry e.g. in respect of the ongoing impact of the Banking (Amendment) Act 2016.
- Reviewing and approving new/refreshed policies of the Bank.
- Reviewing and approving business propositions and strategic initiatives e.g. in respect of the Bank's Branch and Channels strategy.
- Exercising the Board's oversight over Management e.g. in respect of new appointments to Senior Management.
- Regular review of the Bank's subsidiaries e.g. in respect of the capital and governance structures of its active subsidiaries.

2018 Board and Committee Attendance

During the year, the Board convened and held four (4) ordinary meetings and four (4) special meetings. All the meetings convened had sufficient quorum. The attendance of individual Directors at Board meetings during the year is tabulated below:

Name	Board	Audit and risk committe	Credit committee	Corporate governance & nominations committee	Totals	% scheduled meetings
Number of Meetings	8/8[1]	8/8	4/4	4/4	24/24	100
Charles Muchene[1]	8/8			4/4	12/12	100
Jeremy Awori	8/8		3/4	3/4	14/16	87.5
Yusuf Omari	8/8				8/8	100
Ashok Shah[2]	8/8	7/8	4/4	4/4	23/24	95.8
Laila Macharia	3/8	5/8	3/4		11/20	55
Winnie Ouko[3]	7/8	8/8	4/4		19/20	95
Norah Odwesso	8/8	5/8		2/4	15/20	75
Patricia Ithau	7/8			4/4	11/12	91.6
Japheth Olende[4]	5/5				5/5	100
Louis Otieno[5]	5/5	7/7			12/12	100
Total	**67/74**	**32/39**	**14/16**	**17/20**	**122/141**	
Total (%)	**(90.5%)**	**(82%)**	**(87.5%)**	**(85%)**	**(86.5%)**	

Where a Director misses a Board meeting an acceptable apology with a valid reason is sent to the Chairman in advance of the meeting. During the meetings, the Board regularly received reports from Management on the Bank's financial performance and the status of execution of the Bank's strategic plans by the key functions namely; Corporate Banking including the performance of Treasury and Markets, Retail & Business Banking, Operations and People functions.

[1] Chairs the Corporate Governance and Nominations Committee
[2] Chairs the Credit Committee
[3] Chairs the Audit and Risk Committee
[4] Joined the Board effective March, 2018.
[5] Joined the Board effective March, 2018.

Report from the Chairperson of the Board Corporate Governance and Nominations Committee

"The Committee is responsible for considering matters relating to the composition of the Board, including the appointment of new Directors and making appropriate recommendations to the Board and reviewing succession plans to maintain an appropriate balance of skills on the Board."

Charles Muchene
Chairperson of The Board Corporate Governance and Nominations Committee

The Role of the Corporate Governance and Nominations Committee

The Committee is responsible for considering matters relating to the composition of the Board, including the appointment of new Directors and making appropriate recommendations to the Board and reviewing succession plans to maintain an appropriate balance of skills on the Board. The Committee's responsibilities also include corporate governance issues such as overseeing the annual Board effectiveness reviews, reviewing the Board's remuneration, the Board Charter, Conflicts of Interest Register and ensuring appropriate ongoing training for the Board. The Committee is further responsible for monitoring effective strategic implementation of key aspects of People Resource management in the Bank.

Committee members

As at December 31, 2018 the Committee's membership comprised of four (4) independent Non-Executive Directors and one (1) Executive member namely;

1. Charles Muchene : Chairperson
2. Ashok Shah
3. Norah Odwesso
4. Patriciah Ithau

From Management, the Committee's membership comprises the:

5. Chief Executive Officer

Achievements in 2018

Our key achievements during the year included:

- Revamped the Board Calendar of Events and Work Plan (including the Calendar of Events for the Main Board as well as each Board Committee), to ensure they were fit for purpose.

Our Bank >>
Value Proposition >>
Value Creating Strategy >>
Delivering Value >>
Protecting Value >>
Financial Review

- Reviewed the Board Skills Matrix as well as the composition of the Board, its Committees and the Boards of the Bank's subsidiaries and ensuring appropriate reporting by the subsidiaries to the Bank's board.
- Facilitated the Legal, Compliance and Governance audits of the Bank in compliance with the CMA requirements.
- Review of HR matters including among others, succession planning for Board and senior management, talent planning, staff engagement and Union matters.
- Organised corporate governance training and continuing development for the directors of the Board and the Boards of the Bank's subsidiaries and associated companies facilitated by an external service provider.
- Reviewed the format for Directors declaration of Independence to align with the CMA Code of Corporate Governance Practices for Issuers of Securities to the Public 2015 as well as enhancement of the Conflicts of Interest declaration.
- Commenced the process for review of the effectiveness of the Board for the year 2018 as well as follow up on implementation of remedial actions from the previous board evaluation.

Directors' Shareholding and Conflicts of Interest

The Board, Management and all colleagues are required to comply with Conflict of Interest Policy as well as its code of conduct titled 'The Barclays Way'. The Barclays Way builds on our values and provides guidance on how those values are implemented in our everyday work. Directors are required to declare any actual or potential conflicts of interest between their personal engagements and duties to the Bank. These conflicts of interest must be reported immediately when the Directors become aware of their existence, and/or at least once every quarter when the Register of Directors' Interests is tabled by the Company Secretary before the Board at each ordinary Main Board meeting. Independence is also considered during the Board's annual performance review. Directors are required to refrain from contributing to or voting on matters on which they have such conflicts. On an ongoing basis, Directors are required to notify the Company Secretary in advance of any potential conflicts through other directorships or shareholdings, or conflicts arising from specific transactions.

No member of the Board holds shares in his or her personal capacity that exceeds 1% of the total equity of the Bank. A breakdown of the Directors personal shareholding in the company as at December 31, 2018 is shown below.

Director	Shareholding in BBK	%
Charles Muchene	-	-
Patricia Ithau	-	-
Ashok Shah	**544,380**	0.10
Jeremy Awori	**57,300**	0.01
Yusuf Omari	**100,000**	0.02
Laila N. Macharia	-	-
Winnie Ouko	-	-
Norah Chieng' Odwesso	-	-
Japheth O. Olende	-	-
Louis Otieno	-	-

Report from the Chairperson of the Board Credit Committee

"It assesses the credit quality and risk profile of the Bank's lending book by sector and by product and makes recommendations to the Board on remedial actions or on matters that may enhance the quality of the lending book."

Ashok Shah
Chairperson of The Board Credit Committee

Mandate of the Credit Committee

The Credit Committee plays a critical role in the formulation and review of lending policies and ensures that such policies are in compliance with regulatory requirements. It assesses the credit quality and risk profile of the Bank's lending book by sector and by product and makes recommendations to the Board on remedial actions or on matters that may enhance the quality of the lending book.

Committee members

The Committee's membership currently comprises of 3 Independent Non-Executive Directors namely;

1. **Ashok Shah : Chairperson**
2. Laila Macharia
3. Winnie Ouko

From Management, the Committee's membership comprises the:

4. Chief Executive Officer
5. Head of Retail and Business Banking
6. Head of Business Banking
7. Country Credit Director
8. Head of Corporate Credit Risk and Retail Credit Risk or their respective authorised representatives
9. Head of Business Support and Recoveries

Achievements in 2018

Our key achievements during the year included the following:

- Reviewed the Bank's retail lending policies and policy initiatives aimed at ensuring continued growth in the retail lending book taking into account any mitigating relevant risks.
- Continued to monitor the status of the top 20 exposures on the Bank's balance sheet.
- Closely monitored the Bank's Impairment risk throughout the year and initiated a deep dive into the impairment arising from 'Timiza' to ensure sufficient controls were in place.
- Assessed the Bank's risk appetite for significant new business deals.
- Regularly reviewed the Bank's concentration risk by industry and portfolio segments and ensured an appropriate balance was maintained.
- Advised and supported Management in unlocking high value debts and reaching workable solutions with customers who found themselves in difficult financial circumstances.
- Recommended approval of the Kenya Retail Credit Policy Enhancements 2018 by the Board.
- Undertook a deep dive into the lending to county governments and parastatals.
- Reviewed and recommended the approval of various Credit policies, including Distressed Assets policy and Financial Distress Policy.

Reviewed the implementation of IFRS 9 including its Day One impact.

Report from the Chairperson of the Board Audit and Risk Committee

"I convene private sessions with the Committee members in the absence of Management and separate private sessions amongst Committee Members, the External Auditors and the Internal Auditors."

Winnie Ouko
Chairperson of The Board Audit and Risk Committee

Mandate of the Audit and Risk Committee

The Audit and Risk Committee has direct access to the External Auditors, Barclays Internal Audit function, the Company Secretary as well as the authority to engage external professional advisors. The Board has delegated authority to undertake the following activities:

- Review the contents of interim and final financial reports to ensure that the Board is satisfied with the integrity of the financial statements and particularly the key financial judgements within them.
- Monitor the effectiveness of the internal control systems and regularly receive reports from the internal and external auditors as well as Management's Executive Risk Committee.
- Determine the scope and adequacy of audit assignments carried out by the external and internal auditors.
- Monitor the level and control of the Bank's risk profile and risk monitoring in relation to financial and business risks. The Committee pays particular attention to the risks identified in the Bank, challenges management on the appropriateness of mitigating actions and monitors their implementation.
- Review reports from Management on changes in the regulatory environment and expected impact of the changes on the Bank's operations.

Committee members

As at December 31, 2018 the Committee's membership comprised of 5 independent Non-Executive Directors namely;

1. **Winnie Ouko : Chairperson**
2. Ashok Shah
3. Norah Odwesso
4. Laila Macharia
5. Louis Otieno

From Management, the Committee's membership comprises the:

6. Chief Executive Officer
7. Chief Internal Auditor
8. Chief Financial Officer

9. Chief Operating Officer

10. Chief Risk Officer

11. Head of Compliance

12. Audit Partner from our External Auditors are regular invitees to Audit and Risk Committee meetings.

Chairperson's responsibilities

As Chairperson, it is my responsibility to ensure that the Committee provides appropriate assurance to the Board on issues within its terms of reference. In line with this, I ensure that at every Board meeting I provide a report to the Board on the work of the Committee including matters of concern and identification of solutions to the issues and concerns identified by the Committee. It is also my obligation to ensure that members of the Committee are kept up to date with international financial and accounting best practice developments. I do this with the assistance of the External Auditors.

I meet regularly with the Audit Partner of the External Auditors to discuss their audit work and any issues of concern. I also meet regularly with the Chief Internal Auditor to receive briefings on internal audit work and to provide support where necessary to ensure that the independence and integrity of the internal audit function is beyond reproach. Outside formal Committee meetings, I convene private sessions with the Committee members in the absence of Management and separate private sessions amongst Committee Members, the External Auditors and the Internal Auditors. The private sessions give the members and auditors the opportunity to raise any issues of concern warranting discussions in the absence of the Members of the Executive Management and to follow up on any actions requiring the Committee's intervention.

In accordance with the Committee's forward agenda for each meeting, the Committee received and deliberated on reports and presentations from Management on the Bank's financial statements, principal risks, regulatory compliance, whistle blowing incidences from colleagues and external persons, tax issues, regulatory changes impacting the Bank and significant litigation. In addition, the Committee reviewed reports from the internal and external auditors on audit work carried out during the year.

Achievements in 2018

Our key achievements during the year were as follows:

- Reviewed the integrity of the Bank's financial statements before recommending them to the Board for approval.
- Approved the external audit plan for the year end audit.
- Approved the revised Audit Charter which guides the internal audit function of the Bank.
- Reviewed and approved the internal audit plan for the year.
- Reviewed and approved the Operational Risk Management Framework and Management Control Approach Standard.
- Received and reviewed reports on the Bank's operational readiness with regard to IFRS 9.
- Reviewed and recommended the approval of various Compliance policies, including Research policy, Customers in Vulnerable Circumstances policy, and Market Conduct Policy.
- Initiated a deep dive into 'Timiza', so as to identify areas of risk and ensure effective management of the same.
- Reviewed the status of various compliance requirements and recommended appropriate actions to ensure continued full compliance in a dynamic environment.

Reviewed reports on the management of various risks that the business faces on an ongoing basis, including: impairment, operational risk, capital, liquidity, market risk and conduct/reputational risk and approved various recommendations by Management intended to enhance the management of these risks.

Barclays Bank of Kenya People Director Geneva Musau and colleagues create a painting during the 2018 Absa Day at the Westend offices, in Westlands, Nairobi. The exercise was among team activities carried out during the launch of our **'People Culture'** transformation.

Remuneration outcomes and changes for 2019

Directors' remuneration report

This report aims at fulfilling the disclosure requirements under IFRS and the Companies (General Amendment) No.2 Regulations 2017. It covers the remuneration governance arrangements and the outcomes for the Executive Directors and Non Executive Directors.

Shareholder engagement

The Directors remuneration report and policy as at 31 December 2017 was subjected to approval by shareholders during the annual general meeting held on 25 May 2018. The shareholders unanimously approved the Directors remuneration report.

Fair and responsible remuneration

Remuneration must be both externally competitive and internally equitable.

Fair remuneration is:

- impartial, free from discrimination, prejudice, favouritism or self-interest;
- rational (not subject to emotion); and
- purposeful in addressing unfair remuneration differentials.

We consider executive remuneration alongside the broader colleague population remuneration to ensure fairness and consistency across the Bank. Where practical, we monitor the remuneration paid by our third-party service providers to ensure that it is fair.

Responsible remuneration is:

- approved within appropriate levels of authority;
- subject to independent oversight;
- linked to positive outcomes and value creation; and
- sustainable.

We seek to ensure appropriate and reasonable alignment between reward, risk and conduct, and that remuneration is in line with our Values and does not encourage inappropriate risk.

In support of fair and responsible remuneration:

- our Remuneration Review Panel, a sub-committee of the Executive Committee at Absa Group makes recommendations for approval to the Remuneration Committee on adjustments to incentive pools, individual awards as well as malus adjustments and clawback in the event of conduct or ethical issues arising that impact or are impacted by remuneration; and
- we analyse pay differentials across the colleague population and establish the reasons for these. Where disparities exist that are not based on objective criteria (such as seniority, role content, experience, performance), we take steps to address these.

Our reward philosophy underpins our growth strategy, entrepreneurial culture and risk management approach. Its objective is to direct the efforts of our colleagues in delivering our strategy of creating sustainable value for all our stakeholders in a fair and responsible way.

Our reward principles

1. Attract, retain and engage high calibre individuals who have the skills, ambition, and talent to deliver our strategy.
2. Support the realisation of our stakeholder promises, with specific focus on rewarding our colleagues for the achievement of our strategy within our risk appetite relative to performance and shareholder returns.
3. Align the long-term interests of our executives and shareholders, by ensuring remuneration outcomes are aligned to the value we create in the short and long term and are transparent. This entails a specific emphasis on the contribution of longer- term incentives for senior and executive colleagues, aligned to market practice.
4. Pay for performance – by aligning incentive outcomes to performance and value created. Within this, we apply deferrals, and malus and clawback provisions to ensure effective alignment of risk and reward within the context of Group performance outcomes and to discourage inappropriate behaviour.
5. Drive our culture of being entrepreneurial, while taking ownership and accountability for responsible, sustainable business growth and success. We aim to achieve this by:
   - ensuring that colleagues share in the Group's success, differentiated on the basis of their contribution, in both the short and long term;
   - ensuring that our colleagues' ethical behaviour, values and adherence to our risk management principles are recognised in their individual performance ratings.
6. Continuously build confidence and trust in our reward outcomes through high quality reward governance, engagement on our disclosure with shareholders, as well as internal transparency and effective communication.
7. Deliver fair and responsible remuneration, through annual reviews of pay gap metrics, and appropriate decisions that influence our most junior colleagues to ensure dignified standards of living. This includes a concerted emphasis on addressing differentials in reward considering diversity.

Remuneration outcomes and changes for 2019

(continued)

Performance management

Performance management must be fair and have a strong developmental focus. Each colleague agrees a set of objectives and measures of success against which they are assessed, taking into account both what is delivered and how it is delivered. This ensures a balance between the achievement of performance objectives, and conduct, culture and values. Rating outcomes are subject to a consistency review process to ensure fairness, and alignment with overall business performance. Performance ratings for our Executive Committee are subject to oversight by the Remuneration Committee.

Individual performance ratings are used as a key input to both fixed remuneration and short-term incentive decisions. Where in a full-year individual performance falls below expectations, colleagues are ineligible to receive short-term incentive awards.

We aim to continuously improve our colleagues' performance management experience and to build on the success of performance coaching initiatives to assist with colleague development.

Executive Directors' Contracts and Termination Arrangements

The Appointment dates for current executive directors are as follows:

Name	Date of Appointment	Type of Contract	Notice Period
Jeremy Awori	1st February 2013	Permanent	Six (6) months
Yusuf Omari	1st June 2009	Permanent	One (1) month

2018 elements of remuneration

We deliver on our growth strategy and create shareholder value by ensuring retention and high performance of top-quality colleagues.

We aim to apply a common remuneration framework and structure across the Bank.

While targeting a market median position on total remuneration, we aim to pay above the market median for our top performers and critical skills. Market positioning is reviewed relative to appropriate market benchmarks, to ensure that outliers, either above or below the overall target market positioning receive attention. This is in line with our commitment to competitive, fair and responsible remuneration and to improve overall consistency in our remuneration practice.

Remuneration that is not aligned to market levels can be addressed over time by, among other actions, above-average increases in fixed remuneration or slowing or stopping fixed pay progression for above market positioning.

Our remuneration mix post regulatory deconsolidation and the removal of role based pay comprises fixed remuneration (total guaranteed package), short-term incentives (cash and deferred, where deferral applies) and long-term incentives (where applicable) in the form of performance shares.

	Base Salary	**Reflects an individual's skills and experience and provides the basis for a competitive remuneration package.**
Fixed Remuneration: Referred to as total guaranteed package This forms the basis for a competitive total remuneration package. We aim to position fixed remuneration generally at the market median. We do however, target above the market median to attract and retain top performers and holders of critical or scarce skills, talented individuals with outstanding track records.	**Salary**	The cash element of fixed remuneration.
	Benefits	Competitive benefits (including pension, life insurance, medical aid and other risk and lifestyle-related benefits appropriate to colleague's role and location.
Short-term incentives Subject to the achievement of Group, business or functional unit, team and individual objectives.	**Cash**	Settled in cash in March of the following year.
	Deferred short-term incentive	Deferral, in terms of the defined deferral thresholds, is currently delivered 50% in shares and 50% into cash deferred over three years, vesting 33.3% per annum. Participants have the option to receive their deferred short-term incentive delivered 100% in shares, deferred over three years vesting 33.3% per annum.
Long-term incentives Subject to Group performance targets	**Share-based incentives**	Setting appropriate performance measures with sufficiently stretching targets is a critical element of our reward principles (pay for performance, supporting the realisation of all our stakeholder promises and aligning the long-term interests of our executives and shareholders).

2018 Short-term incentives

We introduced a revised short-term incentive pool methodology which incorporates a hybrid top-down, middle-up and bottom-up approach to the determination of short-term incentivisation.

Top-down determines the overall Group and business unit/ function affordability, whereas the bottom-up reflects the colleague demand against the Group and business unit/ function pools in light of individual performance.

This revised methodology is primarily formulaic, but retains an element of the Remuneration Committee discretion at Group level for affordability and risk considerations and, in respect of the Executive Committee, at an individual level to mitigate unintended outcomes.

Management discretion may also apply in respect of other individual outcomes. The revised approach is informed by market practice, to provide a more explicit pay for performance link between the Group, business units functions' and colleagues' objectives and performance and incentive outcomes.

Under the revised approach, increased leverage to Group performance is achieved through the application of a performance modifier which references both financial and non-financial performance measures.

Group short-term incentive pool (Top-down)

The top-down Group pool is determined by adjusting the on-target pool (agreed and approved by the Remuneration Committee) by a performance modifier. This modifier is determined by applying a range of weighted leveraged performance outcomes from threshold achievement (80% modifier) to stretch achievement (120% modifier) against pre-defined financial (revenue, headline earnings, profit after regulatory capital charge – a risk-adjusted measure) and non-financial (customer franchise health) measures.

Business unit and functional area incentive pool (Middle-up)

The demand of the business units'/ functional areas' pools against the Group incentive pool and, in turn, the bottom-up demand of individual awards on the business unit/function pools is determined using a similar framework as the Group incentive pool.Where the business unit/functional areas' demand exceeds the determined Group top down pool, a discretionary modifier will be applied by the Remuneration Committee to maintain affordability.

Discretion is also specifically applied when performance is below threshold or above stretch and if any material control environment issues arise.

Individual awards based on colleagues' performance outcomes (Bottom-up)

The on-target individual short-term incentive award is determined with reference to a market related award outcome Individual awards are determined based on the colleague's performance rating, in the context of the overall Group and business unit/functional pool made available, and affordability.

In 2018, the approach set out was applied in respect of awards made to Executive Committee members, previous role based pay recipients and other material risk takers, together with the application of executive and Remuneration Committee discretion.

Step 1 > Group (top-down) **Step 2 > Business unit or function (middle-up)**

Performance short-term incentive pool = On-target performance pool × Performance modifier

	Measures
Performance measures	**Weight %**
Revenue	20
Headline earnings	50
Profit after regulatory capital charge	20
Organisational health (currently customer franchise health)	10

Step 3 > Individual (bottom-up)

Individual's short-term incentive award = On-target individual award × Business unit/ function modifier × Personal modifier

Performance rating	Personal modifier On-target award %
Outstanding	200
Very strong	115 – 185
Strong	85 – 115
Good	35 – 85
Improvement needed	Ineligible for short-term incentive
Underperforming	Ineligible for short-termincentive

Remuneration outcomes and changes for 2019

(continued)

Long-term incentives

Long-term incentive awards, in the form of performance shares, may be awarded to eligible senior colleagues based on criteria set by the Remuneration Committee and in accordance with the Policy from time to time. These awards are subject to Group performance conditions which apply over a minimum performance period of three financial years, and a continued employment condition.

2017 long-term incentives

In 2017, we focused on reducing the unvested long-term share-based remuneration gap that had emerged between ourselves and our regional competitors as a result of regulatory constraints regarding Our Remuneration Policy continued our short- and long-term incentives that existed between 2014 and 2016. Concurrently, we sought to address retention risks for key colleagues during the Separation.

This included a performance share based long-term incentive award in 2017 and grants of restricted share awards in 2016 and 2017.

The details of the structure of and conditions to our 2017 performance share-based long-term incentive are outlined below.

The performance conditions were set cognisant of the need to provide participants with a level of confidence that achievement of these was possible, after a number of years without long-term incentives in place, and relatively low vesting outcomes before this.

Restricted share awards made in 2016 and 2017 were subject to a minimum standard of individual performance. These also included general reference to a minimum required level of Group performance and progress on the Separation for vesting to occur.

2018 long-term incentives

There were no long-term performance share awards made in 2018.

2017 long-term incentive

Number of shares awarded × Performance share modifier = Number of shares vesting

July 2017

Financial performance period
1 Jan 2017 to 31 Dec 2019

July 2020

	Percentage of shares vesting
Performance measures	**Weight %**
Compound annual growth in normalised headline earnings per share	30
Average normalised return on equity	30
Transformation	20
Separation from Barclays	20

Our Bank >>
Value Proposition >>
Value Creating Strategy >>
Delivering Value >>
Protecting Value >>
Financial Review

2019 long-term incentives

The performance conditions for the 2019 long-term incentive award granted in March are based on the Group's medium-term financial targets:

1. Grow our revenue faster, on average, than the Kenyan banking sector from 2019 to 2021, with an improving trend over time and within appropriate risk appetite parameters;
2. Given this growth and continued cost management, we aim to consistently reduce our normalised cost-to-income ratio to reach the low 50s by 2021; and
3. We aim to achieve a normalised Group return on equity of 18% to 20% by 2021, while maintaining an unchanged dividend policy.

In developing the performance conditions the following was considered:

- Creating a strong link between long-term incentives and our medium-term market commitments, and in turn to long-term investor returns.
- Linking incentives to overall organisational health covering people, customer and control.
- Applying long-term remuneration principles comparable to our peers and
- Promoting a balance between colleagues and shareholder value.

Awards made in 2019 will vest subject to fulfilment of the performance conditions and continued employment

(i) in equal proportions on the 3rd, 4th and 5th anniversaries from the date of grant for Executive Committee members, and

(ii) on the 3rd anniversary from the date of grant for other participants.

Dividend equivalents on unvested long-term incentive awards (to the extent that these are included in the awards) will not be paid until, and to the extent that, awards vest. These will be included into the original award at time of vesting.

Through the application of these principles and by setting appropriately stretching targets, we have aligned to our pay for performance philosophy, ensuring the promotion of shareholder value creation. Awards will only vest at stretch levels in cases of significant outperformance relative to the financial targets.

2019 long-term incentive

Number of shares awarded × Performance share modifier = Number of shares vesting

Mar 2019

Performance period
1 Jan 2019 to 31 Dec 2021

Executive Committee:
33% each Mar of 2022; 2023; and 2024
Other participants: Q2 2022 (100%)

	Measures
Metric performance measures	**Weight %**
Normalised return on equity measured on a simple annual average basis over the three year performance period 2019 - 2021	30
Normalised headline earnings per share (in constant currency), measured on a compound annual growth basis over the three-year performance period 2019 – 2021	30
Normalised cost-to-income ratio as reported in the 2021 full year annual financial statements	30
Organisation health (People, Customer and Control)	10

Remuneration outcomes and changes for 2019

(continued)

Implementation of Remuneration Policy for Financial Year 2018

Overall, the total executive directors' remuneration adjustments in 2018 were informed by the overall performance and external market competitiveness.

Jeremy Awori, Chief Executive Officer	2018 Shs	2017 Shs
Base Salary	**34 263 621**	33 427 875
Retirement Benefits (Pension Contribution by Employer)	**3 449 847**	3 365 700
Other Colleague Benefits	**26 396 639**	25 631 715
Total Fixed Remuneration	**64 110 107**	62 425 290
Cash Bonus Award (Non-deferred)	**24 557 733**	18 600 000
Deferred Cash Value Plan (CVP) Award	**6 200 000**	4 449 498
Deferred Share Value Plan (SVP) Award	**6 200 969**	4 045 648
Total Variable Remuneration	**36 958 702**	27 095 146
Total Remuneration (Cost to Company)	**101 068 809**	89 520 436

Yusuf Omari, Chief Financial Officer	2018 Shs	2017 Shs
Base Salary	**22 884 129**	20 102 505
Retirement Benefits (Pension Contribution by Employer)	**2 304 098**	2 059 400
Other Colleague Benefits	**7 407 185**	7 470 684
Total Fixed Remuneration	**32 595 412**	29 632 589
Cash Bonus Award (Non-deferred)	**14 750 966**	13 613 914
Deferred Cash Value Plan (CVP) Award	**-**	1 533 098
Deferred Share Value Plan (SVP) Award	**3 388 458**	1 393 888
Total Variable Remuneration	**18 139 424**	16 540 900
Total Remuneration (Cost to Company)	**50 734 836**	46 173 489

Long-term Incentive Plan and Restricted Share Awards

The following table details the Long-term Incentive Plan and restricted share awards made to executive directors in previous year and the Special Incentive Award in 2018:

	Special Incentive		Restricted Share Awards		Long Term Incentive Plan	
	2018	2017	2018	2017	2018	2017
Jeremy Awori	9 302 218	-	-	18 354 840	-	55 172 409
Yusuf Omari	-	-	-	-	-	13 240 283

Section C: Non-Executive Directors' Fees

Non-executive directors do not have employment contracts with the company and therefore do not participate in any of the company's incentive plans. Non-executive directors are subject to retirement by rotation and re-election by shareholders.

The annual fees payable to non-executive directors were revised in the year as follows:

	2018		2017	
Capacity	**Chairman Shs**	**Member Shs**	**Chairman Shs**	**Member Shs**
Board of directors	**7 392 000**	**2 464 000**	6 600 000	2 200 000
Audit committee	**985 600**	**492 800**	880 000	440 000
Credit committee	**739 200**	**369 600**	660 000	330 000
Corporate governance and nominations committee	**N/A***	**369 600**	N/A*	220 000

*The Corporate Governance and Nominations Committee is chaired by the Chairman of the Board and there are no additional fees paid for this responsibility.

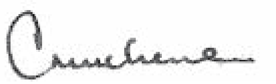
Non-Executive Directors	Date of Appoinment	2018 Emoluments Shs	2017 Emoluments Shs
Charles Muchene	22 August 2016	**7 392 000**	6 600 000
Ashok Shah	July 2011	**4 065 600**	3 520 000
Winnie Ouko	August 2014	**3 819 200**	3 410 000
Norah Odwesso	August 2014	**3 326 400**	2 860 000
Laila Macharia	August 2014	**3 326 400**	2 970 000
Patricia Ithau	23 February 2016	**4 346 100**	2 420 000
Japheth Olende	7 March 2018	**3 514 500**	-
Louis Otieno	7 March 2018	**2 310 000**	-
Total		**32 100 200**	21 780 000

Statement regarding compliance with remuneration policy

The Corporate and Governance Nomination Committee has satisfied itself that the remuneration policy as detailed in the 2018 remuneration report was complied with, and there were no substantial deviations from the policy during the year.

Approval of remuneration report by the Board of directors

This remuneration report was approved by the Board of directors on 8 March 2019.



Charles Muchene
Chairman

Glossary of Terms, abbreviations and acronyms

AFMI	- African Financial Markets Index
AFS	- Annual Financial Statements
AGM	- Annual General Meeting
ARC	- Audit and Risk Committee
ARO	- Africa Regional Operations
ATM	- Automated Teller Machine
BB	- Business Banking
BBK	- Barclays Bank of Kenya
BFSL	- Barclays Financial Services Limited
BigTech	- Big Technology (Company)
BKO	- Barclays Kenya Open
BTR	- Be The Reason
CAGR	- Compound Annual Growth Rate
CBK	- Central Bank of Kenya
CBR	- Central Bank Rate
CC	- Credit Committee
CEM	- Customer Experience Measurement
CEO	- Chief Executive Officer
CGNC	- Corporate Governance andamp; Nominations Committee
CIB	- Corporate and Investment Banking
CIR	- Cost Income Ratio
CMA	- Capital Markets Authority
COO	- Chief Operating Officer
CPA	- Certified Public Accountant
CPA	- Critical Process Assessment
CPMP	- Certified People Manager Programme
CRO	- Chief Risk Officer
CVP	- Cash Value Plan
DNI	- Diversity and Inclusion
ED	- Executive Director
EPS	- Earnings per Share
ERM	- ERM Enterprise Risk Management
ESD	- Enterprise and Supply Chain Development
ESG	- Environmental and Social Governance
ETF	- Exchange Traded Fund
FinTechs	- Financial Technology
GDP	- Gross Domestic Product
GHG	- Greenhouse Gas
GTR	- Growth, Transformation and Returns
HIV	- Human Immunodeficiency Virus
HR	- Human Resources
iATMs	- Intelligent Automated Teller Machine
ICAAP	- Internal Capital Adequacy Assessment Process
ICS	- Institute of Certified Secretaries
ICT	- Information and Communication Technology
IFRS	- International Financial Reporting Standards
IT	- Information Technology
ITC	- International Trade Center
IVR	- Integrated Voice Recorder
JSE	- Johannesburg Stock Exchange
KEPSA	- Kenya Private Sector Alliance
KNBS	- Kenya National Bureau of Statistics
LPO	- Local Purchase Order
LTIP	- Long Term Incentive Plan
MandA	- Mergers and Acquisitions
MPC	- Monetary Policy Committee
MSAMO	- My Shoes Are My Office
NED	- Non Executive Director
NII	- Non Interest Income
NIR	- Non Interest Revenue
NPL	- Non Performing Loan
NPS	- Net Promoter Score
NSE	- Nairobi Securities Exchange
OMFIF	- Official Monetary and Financial Institutions
PARCC	- Profit After Regulatory Cost of Capital
PAT	- Profit After Tax
P/B	- Price to Book
PBT	- Profit Before Tax ratio
P/E	- Price to Earnings ratio
PLC	- Public Listed Company
POS	- Point of Sale
PSP	- Payment Service Provider
REMCO	- Remuneration Committee
RBB	- Retail and Business Banking
ROE	- Return on Equity
RTW	- Ready To Work
SDGs	- Sustainable Development Goals
SME	- Small and Mediumsized Enterprises
SVP	- Share Value Plan
TAT	- Turnaround Time
TCF	- Treating Customers Fairly
USD	- United States Dollar
USSD	- Unstructured Supplementary Service Data
VES	- Voluntary Exit Scheme
YOY	- Year on Year

Consolidated and separate financial statements

Directors' responsibilities and approval

for the year ended 31 December 2018

The directors are responsible for overseeing the preparation, integrity and objectivity of the annual financial statements that fairly present the state of the affairs of Barclays Bank of Kenya Limited ("the Bank"/ "the company") and its subsidiaries (together the "Group") at the end of the financial year and the net income and cash flows for the reporting period, and other information contained in this report.

To enable the directors to meet these responsibilities:

- All directors and colleagues endeavour to maintain the highest ethical standards in ensuring the company's business is conducted in a manner that in all reasonable circumstances is above reproach;
- The board sets standards and management implements systems of internal control and accounting and information systems aimed at providing reasonable assurance that both on and off statement of financial position assets are safeguarded and the risk of error, fraud or loss is reduced in a cost effective manner. These controls, contained in established policies and procedures, include the proper delegation of responsibilities and authorities within a clearly defined framework, effective accounting procedures and adequate segregation of duties;
- The board and management identify all key areas of risk across the company and endeavour to mitigate or minimise these risks by ensuring that appropriate infrastructure, controls, systems and discipline are applied and managed within predetermined procedures and constraints;
- The internal audit function, which operates unimpeded and independently from operational management, appraises, evaluates and, when necessary, recommends improvements to the systems of internal control and accounting practices, based on audit plans that take cognisance of the relative degrees of risk of each function or aspect of the business; and
- The internal auditors play an integral role in matters relating to financial and internal control, accounting policies, reporting and disclosure.

To the best of their knowledge and belief, based on the above, the directors are satisfied that no material breakdown in the operation of the systems of internal control and procedures has occurred during the year under review.

The Kenyan Companies Act, 2015 requires the directors to prepare the financial statement for each financial year which give a true and fair view of the financial position of the Group at the end of the financial year and its profit or loss for the year then ended. The directors are responsible for ensuring that the Group keeps proper accounting records that are sufficient to show and explain the transactions of the Group; disclose with reasonable accuracy at any time the financial position of the Group; and that enables them to prepare financial statements of the Group and Company that comply with prescribed financial reporting standards and the requirements of the Kenyan Companies Act, 2015. They are also responsible for safeguarding the assets of the Group and for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Bank consistently adopts appropriate and recognised accounting policies and these are supported by reasonable and prudent judgements and estimates on a consistent basis. The financial statements of the company have been prepared in accordance with the provisions of the Kenyan Companies Act, 2015 and comply with International Financial Reporting Standards (IFRS) and all applicable legislation.

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

They also accept responsibility for:

i. designing, implementing and maintaining internal controls as they determine necessary to enable the preparation of financial statements that are free from material misstatements, whether due to fraud or error;

ii. selecting suitable accounting policies and then applying them consistently; and

iii. making judgements and accounting estimates that are reasonable in the circumstances

The directors have no reason to believe that the company will not be a going concern in the reporting period ahead, based on forecasts and available cash resources. These financial statements have accordingly been prepared on this basis.

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

The Group and Company financial statements as indicated above were approved and authorised for issue by the board of directors. The directors' report on pages 92 to 93 and the financial statements of the Group and company which appear on pages 99 to 196 were approved and authorized for issue by the board of directors on 08 March 2019.

Charles Muchene
Chairman

Jeremy Awori
Chief Executive Officer

Directors' report
for the year ended 31 December 2018

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 Section 650(1) of the Kenyan Companies Act 2015 which discloses the state of affairs of Barclays Bank of Kenya Limited (the "Company"/"Bank") and its subsidiaries (together the "Group").

Company registration number	C.18208
Country of incorporation and domicile	Kenya
Nature of business and principal activities	The Company is registered as a bank under the Banking Act. The Group is engaged in the business of banking and the provision of related services.
Directors	The directors who served during the year and to date of this report are

C K Muchene	Chairman
JH Awori*	Chief Executive Officer
YK Omari*	Chief Financial Officer
AKM Shah	
WA Ouko	
LN Macharia	
NC Odwesso	
PE Ithau	
JO Olende	(Appointed March 7, 2018)
LO Otieno	(Appointed March 7, 2018)

*Executive directors

Registered office	The West End Building Waiyaki Way P.O. Box 30120 code 00100 Nairobi
Parent company	Absa Group Limited
Auditors	KPMG Kenya 8th Floor, ABC Towers Waiyaki Way P.O. Box 40612 code 00100 Nairobi
Acting company secretary	Stella Gacharia

Directors' report *(continued)*
for the year ended 31 December 2018

Our Bank >>
Value Proposition >>
Value Creating Strategy >>
Delivering Value >>
Protecting Value >>

Business review

	Group		Bank	
	2018	2017	**2018**	2017
Summary results	**Shs'million**	Shs'million	**Shs'million**	Shs'million
Profit for the year	**7 416**	6 926	**7 144**	6 679
Total comprehensive income	**7 711**	7 231	**7 437**	6 984
Taxation	**(3 230)**	(3 435)	**(3 106)**	(3 326)
Dividends declared and paid				
Interim declared and paid	**(1 086)**	(1 086)	**(1 086)**	(1 086)
Final proposed	**(4 888)**	(4 345)	**(4 888)**	(4 345)
Net assets	**44 206**	44 098	**43 393**	43 558

The financial results of the Group and the Bank are as set out within this document. A summary has been included above. The principle risks and uncertainties facing the Group and Bank as well as the risk management framework are outlined in Note 45 of the Consolidated and Bank financial statements.

Dividend

An interim dividend of Shs 0.20 (2017: Shs 0.20) was paid during the year amounting to Shs. 1 086 million (2017 Shs 1 086 million). The directors recommend the approval of a final dividend for the year ended 31 December 2018 of Shs 0.90 (2017: Shs 0.80) for every ordinary share amounting to Shs 4 888 million (2017: Shs 4 345 million) to be paid on or about 29 May 2019.

Authorised and issued share capital

There were no changes to the authorised or issued share capital for the year under review. The share capital is disclosed in Note 35.

Events after the reporting date

No event, material to the understanding of these financial statements, has occurred in the period between the financial year end and the date of this report.

Auditors

The Company's auditors, KPMG Kenya, have indicated their willingness to continue in office in accordance with Section 721(2) of the Kenyan Companies Act, 2015 and Section 24(1) of the Banking Act.

Going concern

The annual financial statements have been prepared on the basis of accounting policies applicable to a going concern.

Relevant audit information

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

(i) There is no relevant audit information of which the Company's auditor is unaware; and

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

Approval of financial statements

The financial statements were approved and authorized for issue by the Board of Directors on 08 March 2019.

Stella Gacharia
Acting Company Secretary

KPMG

Independent auditors' report

to the shareholders of Barclays Bank of Kenya Limited

Report on the audit of the consolidated and separate financial statements

Opinion

We have audited the financial statements of Barclays Bank of Kenya Limited (the group and bank) set out on pages 99 to 196, which comprise the consolidated and separate statements of financial position as at 31 December 2018, and the consolidated and separate statement of 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 Barclays Bank of 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 bank in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements that are relevant to our audit of the financial statements in Kenya, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the 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.

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

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

- Note 2.14 – Expected credit losses on financial assets (pages 118 to 120)
- Note 4 – IFRS 9 transition note (pages 125)
- Note 10 – Provisions for impairment losses on loans and advances (pages 127)
- Note 45.2 – Credit risk (pages 155 to 169)

Report on the audit of the consolidated and separate financial statements *(continued)*

Key audit matters *(continued)*

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

The key audit matter	How the matter was addressed
Subjective estimate IFRS 9 was implemented by the group and bank on 1 January 2018. This new and complex standard requires the group and bank to recognise expected credit losses ("ECL") on financial instruments which involves significant judgement and estimates and resulted in an increase in credit loss provisions from Shs 7.5 billion as at 31 December 2017 under IAS 39 to Shs 10.5 billion as at 1 January 2018 under IFRS 9. The key areas where we identified greater levels of management judgement and therefore increased levels of audit focus in the group's and bank's implementation of IFRS 9 are: • ***Economic scenarios*** – IFRS 9 requires the group and bank to measure ECLs on a forward-looking basis reflecting a range of future economic conditions. Significant management judgment is applied to determining the economic scenarios used and the probability weightings applied to them especially for the corporate portfolios. • ***Significant increase in credit risk ("SICR")*** – for the retail and corporate portfolios the criteria selected to identify a significant increase in credit risk is a key area of judgement within the group's and bank's ECL calculation as these criteria determine whether a 12 month or lifetime provision is recorded.	**Our audit procedures in this area included among others:** • ***Controls testing:*** Performing end to end process walkthroughs to identify the key systems, applications and controls used in the ECL processes. As applicable, testing the general IT applications controls over key systems used in the ECL process. • ***Our financial risk modelling expertise:*** For the retail and corporate portfolios we involved our own financial risk modelling specialists in evaluating the appropriateness of the group's and bank's IFRS 9 impairment methodologies (including the SICR criteria used). Using our experience to independently assess probability of default, loss given default and exposure at default assumptions. For a sample of models assessing the reasonableness of the model predictions by comparing them against actual results. • ***Our economic scenario expertise:*** Involving our own economic specialists to assist us in assessing the appropriateness of the group's and bank's methodology for determining the economic scenarios Assessing key economic variables used as well as the overall reasonableness of the economic forecasts by comparing the group's and bank's forecasts to our own modelled forecasts with a focus on the retail and corporate portfolios. As part of this work assessing the reasonableness of the group's and bank's considerations of the ECL impact of economic uncertainty.
• ***Model estimations:*** inherently judgemental modelling is used to estimate ECL which involves determining probabilities of default ("PD"), loss given default ("LGD"), and exposures at default ("EAD"). The PD models used in the retail and corporate portfolios are the key drivers of the group's and bank's ECL results and are therefore the most significant judgemental aspect of the group's and bank's ECL modelling approach.	• ***Tests of details:*** key aspects of our testing involved: - sample testing over key inputs and assumptions impacting ECL calculations to assess the reasonableness of economic forecasts, weights, and PD assumptions applied; - testing key aspects of the group's SICR determinations; - assessing model predictions against actual results; and - selecting a sample of post model adjustments, considering the size and complexity of management overlays, in order to assess the reasonableness of the adjustments by challenging key assumptions, inspecting the calculation methodology and tracing a sample back to source data.

Independent auditors’ report *(continued)*

to the shareholders of Barclays Bank of Kenya Limited

Report on the audit of the consolidated and separate financial statements *(continued)*

Key audit matters *(continued)*

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

The key audit matter	How the matter was addressed
• ***Qualitative adjustments:*** adjustments to the model driven ECL results are raised by management to address known impairment model limitations or emerging trends. Such adjustments are inherently uncertain and significant management judgement is involved in estimating these amounts especially in relation to the retail and corporate portfolios. The effect of these matters is that, as part of our risk assessment, we determined that the impairment of loans and advances to customers has a high degree of estimation uncertainty, with a potential range of reasonable outcomes, greater than our materiality for the financial statements as a whole. • ***Disclosure quality:*** the disclosures regarding the group’s and bank’s application of IFRS 9 are key to understanding the change from IAS 39 as well as explaining the key judgements and material inputs to the IFRS 9 ECL results.	• ***Assessing transparency:*** Assessing whether the disclosures appropriately disclose and address the uncertainty which exists when determining the expected credit losses. As a part of this, assessing the reasonableness of the credit risk analysis that is disclosed. In addition, assessing whether the disclosure of the key judgements and assumptions made was sufficiently clear.

Information systems and controls over financial reporting

The key audit matter	How the matter was addressed
We identified the group’s IT systems, and automated and IT dependent manual controls over financial reporting as an area of focus and an area that required more effort. The purpose of the work was to support our ability to rely on controls for the purpose of this report, as the Group’s financial accounting and reporting systems are heavily dependent on complex systems. In particular, the calculation, recording and financial reporting of transactions and balances related to interest income, interest costs, fees and commissions, loans and advances, investments in securities and customers deposits are significantly dependent on IT automated systems and processes. There is a risk that automated accounting procedures and related IT dependent manual controls are not designed and operating effectively. A particular area of focus related to logical access management including privileged access and developer access to the production environment.	Our audit procedures in this area included, among others: • ***General IT controls:*** testing the governance and other higher controls operating over the information technology environment across the Group, including system access and system change management, program development and computer operations. • ***Application controls:*** testing the design and operating effectiveness of automated controls critical to finance reporting. – For any identified deficiencies, testing the design and effectiveness of compensating controls and, where necessary, extending the scope of our substantive audit procedures. – Considering the appropriateness of the access rights granted to applications relevant to financial accounting and reporting systems and the operating effectiveness of controls over granting, removal and appropriateness of access rights. – Where we identify the need to perform additional procedures, placing reliance on manual compensating controls, such as reconciliations between systems and other information sources or performing additional testing such as extending the size of our sample to obtain sufficient appropriated audit evidence over balances impacted.

Our Bank >>
Value Proposition >>
Value Creating Strategy >>
Delivering Value >>
Protecting Value >>
Financial Review

KPMG

Independent auditors' report *(continued)*

to the shareholders of Barclays Bank of Kenya Limited

Report on the audit of the consolidated and separate financial statements *(continued)*

Key audit matters *(continued)*

Other information

The Directors are responsible for the other information. The other information comprises the Director's report, Corporate Governance report, the Directors' remuneration report and the Directors' responsibilities and approval which we obtained prior to the date of this auditors' report, and the other information to be included in the Integrated Report, which is expected to be made available to us after that date.

Our opinion on the consolidated and separate financial statements does not cover the other information and we do not and will 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 identified above 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 that 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 91, 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 bank's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the group or to cease operations, or has no realistic alternative but to do so. The directors are responsible for overseeing the group's and bank'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 bank's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

KPMG

Independent auditors' report *(continued)*

to the shareholders of Barclays Bank of Kenya Limited

Report on the audit of the consolidated and separate financial statements *(continued)*

Auditors' responsibilities for the audit of the consolidated and separate 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 bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our 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 bank to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the 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 in the report of the directors on pages 92 and 93 is consistent with the financial statements;

(ii) The auditable part of the directors' remuneration report on pages 81 to 87 has been properly prepared in accordance with the Kenyan Companies Act, 2015; and

(iii) We have issued an unqualified audit opinion on the annual financial statements.

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

KPMG Kenya

KPMG Kenya

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

Date: 08 March, 2019

Our Bank >>
Value Proposition >>
Value Creating Strategy >>
Delivering Value >>
Protecting Value >>
Financial Review

Consolidated statement of comprehensive income

For the year ended 31 December 2018

	Notes	2018 Shs'million	2017 Shs'million
Effective interest income	5	**29 061**	27 171
Effective interest expense	6	**(7 069)**	(5 370)
Net interest income		**21 992**	21 801
Fee and commission income	7	**6 711**	6 137
Fee and commission expense	7	**(1 086)**	(865)
Net fee and commission income		**5 625**	5 272
Net trading income	8	**4 045**	3 215
Other operating income/(expense)	9	**32**	(30)
Total income		**31 694**	30 258
Impairment losses on financial instruments	10	**(3 871)**	(3 115)
Net operating income		**27 823**	27 143
Colleague benefits	11	**(9 921)**	(10 255)
Infrastructure costs	12	**(1 263)**	(1 339)
Administration and general expenses	13	**(4 794)**	(3 956)
Depreciation of property and equipment	26	**(792)**	(767)
Amortisation of intangible assets	27	**(407)**	(465)
Operating expenses		**(17 177)**	(16 782)
Profit before tax		**10 646**	10 361
Income tax expense	14	**(3 230)**	(3 435)
Profit for the year		**7 416**	6 926
Other comprehensive income			
Items that will not be reclassified subsequently to profit or loss:			
Remeasurement of defined benefit	29	**23**	(139)
Deferred income tax	30	**(7)**	42
		16	(97)
Items that may be reclassified subsequently to profit or loss:			
Available-for-sale financial assets			
Net gain on available-for-sale financial assets during the year	19	**-**	575
Deferred income tax	30	**-**	(173)
			402
Movement in fair value of debt instruments designated at FVOCI			
Fair value gains arising during the reporting period	20	**398**	-
Deferred income tax	30	**(119)**	-
		279	**-**
Total other comprehensive inco;me for the year, net of tax		**295**	305
Total comprehensive income for the year, net of tax		**7 711**	7 231
Earnings per share			
Basic (Shillings per share)	15	**1.37**	1.28

Bank statement of comprehensive income

For the year ended 31 December 2018

	Notes	2018 Shs'million	2017 Shs'million
Effective interest income	5	**29 052**	27 166
Effective interest expense	6	**(7 092)**	(5 391)
Net interest income		**21 960**	21 775
Fee and commission income	7	**6 191**	5 687
Fee and commission expense	7	**(1 086)**	(865)
Net fee and commission income		**5 105**	4 822
Net trading income	8	**4 045**	3 215
Other operating income/(expense)	9	**32**	(30)
Total income		**31 142**	29 782
Impairment losses on financial instruments	10	**(3 871)**	(3 115)
Net operating income		**27 271**	26 667
Colleague benefits	11	**(9 794)**	(10 153)
Infrastructure costs	12	**(1 242)**	(1 339)
Administration and general expenses	13	**(4 786)**	(3 938)
Depreciation of property and equipment	26	**(792)**	(767)
Amortisation of intangible assets	27	**(407)**	(465)
Operating expenses		**(17 021)**	(16 662)
Profit before tax		**10 250**	10 005
Income tax expense	14	**(3 106)**	(3 326)
Profit for the year		**7 144**	6 679
Other comprehensive income			
Items that will not be reclassified subsequently to profit or loss:			
Remeasurement of defined benefit	29	**23**	(139)
Deferred income tax	30	**(7)**	42
		16	(97)
Items that may be reclassified subsequently to profit or loss:			
Available-for-sale financial assets			
Net gain on available-for-sale financial assets during the year	19	**-**	575
Deferred income tax	30	**-**	(173)
		-	402
Movement in fair value of debt instruments designated at FVOCI			
Fair value gains arising during the reporting period	20	**396**	-
Deferred income tax	30	**(119)**	-
		277	-
Total other comprehensive income for the year, net of tax		**293**	305
Total comprehensive income for the year, net of tax		**7 437**	6 984
Earnings per share			
Basic (Shillings per share)	15	**1.32**	1.23

Our Bank >>
Value Proposition >>
Value Creating Strategy >>
Delivering Value >>
Protecting Value >>
Financial Review

Consolidated statement of financial position
as at 31 December 2018

	Notes	2018 Shs'million	2017 Shs'million
Assets			
Cash and balances with Central Bank of Kenya	16	**23 531**	16 354
Financial assets at fair value through profit or loss	17	**29 708**	9 608
Derivative financial instruments	18	**473**	395
Financial assets available-for-sale	19	**-**	58 476
Financial assets at fair value through other comprehensive income	20	**63 230**	-
Loans and advances to banks	21	**6 572**	1 818
Due from group companies	49	**9 126**	3 465
Loans and advances to customers	22	**177 354**	168 397
Other assets and prepaid expenses	23	**9 879**	8 001
Current income tax	38	**-**	415
Noncurrent assets held for sale	25	**65**	-
Property and equipment	26	**2 272**	2 741
Other intangible assets	27	**878**	1 159
Deferred income tax	30	**2 180**	697
Prepaid operating lease rentals	28	**45**	46
Total assets		**325 313**	271 572
Equity and liabilities			
Liabilities			
Derivative financial liabilities	18	**1 019**	454
Deposits from banks	32	**5 308**	3 059
Due to group companies	49	**51 938**	23 658
Deposits from customers	33	**207 408**	185 977
Borrowings	34	**5 096**	5 172
Current income tax	38	**25**	-
Other liabilities and accrued expenses	31	**10 313**	9 150
Retirement benefit liability	29	**-**	4
Total liabilities		**281 107**	227 474
Capital and reserves			
Share capital	35	**2 716**	2 716
Fair value reserve	36	**529**	250
Share-based payment reserve	36	**188**	195
Retained earnings	36	**35 885**	36 592
Proposed dividends	50	**4 888**	4 345
Total equity		**44 206**	44 098
Total equity and liabilities		**325 313**	271 572

The financial statements on pages 99 to 196 were approved and authorised for issue by the Board of Directors on 08 March 2019 and signed on its behalf by:

Charles Muchene
Chairman

Jeremy Awori
Chief Executive Officer

Yusuf Omari
Chief Financial Officer

Stella Gacharia
Acting Company Secretary

Bank statement of financial position
as at 31 December 2018

	Notes	2018 Shs'million	2017 Shs'million
Assets			
Cash and balances with Central Bank of Kenya	16	**23 531**	16 354
Financial assets at fair value through profit or loss	17	**29 708**	9 608
Derivative financial instruments	18	**473**	395
Financial assets available-for-sale	19	**-**	58 376
Financial assets at fair value through other comprehensive income	20	**63 120**	-
Loans and advances to banks	21	**6 572**	1 818
Due from group companies	49	**9 541**	3 465
Loans and advances to customers	22	**177 354**	168 397
Other assets and prepaid expenses	23	**9 806**	8 356
Investment in subsidiaries	24	**363**	363
Current income tax	38	**-**	336
Non-current assets held for sale	25	**65**	-
Property and equipment	26	**2 272**	2 741
Other intangible assets	27	**831**	1 135
Deferred income tax	30	**2 155**	683
Prepaid operating lease rentals	28	**45**	46
Total assets		**325 836**	272 073
Equity and liabilities			
Liabilities			
Derivative financial liabilities	18	**1 019**	454
Deposits from banks	32	**5 308**	3 059
Due to group companies	49	**52 891**	23 658
Deposits from customers	33	**207 726**	186 245
Borrowings	34	**5 096**	5 172
Current income tax	38	**96**	-
Other liabilities and accrued expenses	31	**10 307**	9 923
Retirement benefit liability	29	**-**	4
Total liabilities		**282 443**	228 515
Capital and reserves			
Share capital	35	**2 716**	2 716
Fair value reserve	36	**529**	250
Share-based payment reserve	36	**188**	195
Retained earnings	36	**35 072**	36 052
Proposed dividends	50	**4 888**	4 345
Total equity		**43 393**	43 558
Total equity and liabilities		**325 836**	272 073

The financial statements on pages 99 to 196 were approved and authorised for issue by the Board of Directors on 08 March 2019 and signed on its behalf by:

Charles Muchene
Chairman

Jeremy Awori
Chief Executive Officer

Yusuf Omari
Chief Financial Officer

Stella Gacharia
Acting Company Secretary

Consolidated statement of changes in equity

For the year ended 31 December 2018

	Share Capital Shs'million	Fair value Reserve Shs'million	Share-based Payment Reserve Shs'million	Retained Earnings Shs'million	Proposed Dividends Shs'million	Total Equity Shs'million
Balance at 1 January 2017	2 716	(152)	285	35 194	4 345	42 388
Profit for the year	-	-	-	6 926	-	6 926
Other comprehensive income for the year	-	402	-	(97)	-	305
Total comprehensive income for the year	-	402	-	6 829	-	7 231
Recognition of share-based payments	-	-	(90)	-	-	(90)
Final dividend for 2016 paid	-	-	-	-	(4 345)	(4 345)
Interim dividend 2017 paid	-	-	-	(1 086)	-	(1 086)
Proposed final for 2017	-	-	-	(4 345)	4 345	-
Balance at 31 December 2017	2 716	250	195	36 592	4 345	44 098

	Share Capital Shs'million	Fair value Reserve Shs'million	Share-based Payment Reserve Shs'million	Retained Earnings Shs'million	Proposed Dividends Shs'million	Total Equity Shs'million
Balance at 1 January 2018	**2 716**	**250**	**195**	**36 592**	**4 345**	**44 098**
Impact of adopting IFRS 9, net of tax (Note 4)	-	-	-	(2 142)	-	(2 142)
Restated opening balance under IFRS 9	**2 716**	**250**	**195**	**34 450**	**4 345**	**41 956**
Profit for the year	-	-	-	7 416	-	7 416
Other comprehensive income for the year	-	279	-	16	-	295
Total comprehensive income for the year	-	279	-	7 432	-	7 711
Recognition of share-based payments (Note 36)	-	-	(7)	-	-	(7)
Final dividend for 2017 paid	-	-	-	-	(4 345)	(4 345)
Interim dividend 2018 paid	-	-	-	(1 086)	-	(1 086)
Proposed final for 2018	-	-	-	(4 888)	4 888	-
Prior year adjustment (Note 30)	-	-	-	(23)	-	(23)
Balance at 31 December 2018	**2 716**	**529**	**188**	**35 885**	**4 888**	**44 206**

Bank statement of changes in equity

For the year ended 31 December 2018

	Share Capital Shs'million	Fair value Reserve Shs'million	Share-based Payment Reserve Shs'million	Retained Earnings Shs'million	Proposed Dividends Shs'million	Total Equity Shs'million
Balance at 1 January 2017	2 716	(152)	285	34 901	4 345	42 095
Profit for the year	-	-	-	6 679	-	6 679
Other comprehensive income for the year	-	402	-	(97)	-	305
Total comprehensive income for the year	-	402	-	6 582	-	6 984
Recognition of share-based payments (Note 36)	-	-	(90)	-	-	(90)
Final dividend for 2016 paid	-	-	-	-	(4 345)	(4 345)
Interim dividend 2017 paid	-	-	-	(1 086)	-	(1 086)
Proposed final for 2017	-	-	-	(4 345)	4 345	-
Balance at 31 December 2017	2 716	250	195	36 052	4 345	43 558
Balance at 1 January 2018	**2 716**	**250**	**195**	**36 052**	**4 345**	**43 558**
Impact of adopting IFRS 9, net of tax (Note 4)	-	-	-	(2 142)	-	(2 142)
Restated opening balance under IFRS 9	**2 716**	**250**	**195**	**33 910**	**4 345**	**41 416**
Profit for the year	-	-	-	7 144	-	7 144
Other comprehensive income for the year	-	277	-	16	-	293
Total comprehensive income for the year	-	277	-	7 160	-	7 437
Recognition of share-based payments (Note 36)	-	-	(7)	-	-	(7)
Final dividend for 2017 paid	-	-	-	-	(4 345)	(4 345)
Interim dividend 2018 paid	-	-	-	(1 086)	-	(1 086)
Proposed final for 2018	-	-	-	(4 888)	4 888	-
Prior year adjustment (Note 30)	-	2	-	(24)	-	(22)
Balance at 31 December 2018	**2 716**	**529**	**188**	**35 072**	**4 888**	**43 393**

Consolidated statement of cash flows

For the year ended 31 December 2018

	Notes	2018 Shs'million	2017 Shs'million
Cash flows from operating activities			
Cash used in operations	37	**(28 483)**	(12 136)
Interest received	42	**27 222**	25 210
Interest paid	41	**(5 615)**	(4 098)
Income taxes paid	38	**(3 504)**	(4 464)
Net cash (used in)/generated from operating activities		**(10 380)**	4 512
Cash flows from investing activities			
Payments for property and equipment	26	**(428)**	(449)
Proceeds from disposal of property and equipment	39	**4**	11
Payments for intangible assets	27	**(126)**	(44)
Net cash used in investing activities		**(550)**	(482)
Cash flows from financing activities			
Dividends paid to owners of the company	40	**(5 431)**	(5 431)
Net cash used in financing activities		**(5 431)**	(5 431)
Net decrease in cash and cash equivalents		**(16 361)**	(1 401)
Cash and cash equivalents at the beginning of the year		**(10 330)**	(8 929)
Cash and cash equivalents at the end of the year	**43**	**(26 691)**	(10 330)

Bank statement of cash flows

For the year ended 31 December 2018

	Notes	2018 Shs'million	2017 Shs'million
Cash flows from operating activities			
Cash used in operations	37	**(29 163)**	(11 950)
Interest received	42	**27 212**	25 205
Interest paid	41	**(5 615)**	(4 118)
Income taxes paid	38	**(3 378)**	(4 220)
Net cash (used in)/generated from operating activities		**(10 944)**	4 917
Cash flows from investing activities			
Payments for property and equipment	26	**(428)**	(449)
Proceeds from disposal of property and equipment	39	**4**	11
Payments for intangible assets	27	**(103)**	(44)
Net cash used in investing activities		**(527)**	(482)
Cash flows from financing activities			
Dividends paid to owners of the company	40	**(5 431)**	(5 431)
Net cash used in financing activities		**(5 431)**	(5 431)
Net decrease in cash and cash equivalents		**(16 902)**	(996)
Cash and cash equivalents at the beginning of the year		**(10 344)**	(9 348)
Cash and cash equivalents at the end of the year	43	**(27 246)**	(10 344)

Summary of accounting policies
for the year ended 31 December 2018

1. General information and statement of compliance

Barclays Bank of Kenya Limited (the "Bank"/"the Group") is a public limited company, incorporated and domiciled in Kenya. Its shares are listed on the Nairobi Securities Exchange. The address of its registered office is:

The West End Building
Waiyaki Way
P.O. Box 30120 – 00100 ,
Nairobi, Kenya.

The annual financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and the interpretations issued by the International Financial Reporting Interpretations Committee of the IASB (IFRIC) and the requirements of the Kenyan Companies Act, 2015, as amended.

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

On initial recognition, all transactions are recorded in the functional currency (the currency of the primary economic environment in which the Group operates) which is the Kenya Shilling.

The consolidated and separate financial statements are presented in millions of Kenya Shilling (Shs'million), the presentation currency of the Group.

2. Significant accounting policies

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

2.1 Adoption of new and revised accounting standards

During the current year, the Group has adopted all of the new and revised standards and interpretations issued by the IASB and the IFRIC that are relevant to its operations and effective for the annual reporting period beginning on 1 January 2018. This is the first set of the Group's annual financial statements in which IFRS 9 Financial Instruments and IFRS 15 Revenue from Contracts with Customers have been applied. For details of the new and revised accounting policies refer to note 51.

2.2 Basis of preparation

Apart from certain items that are carried at revalued and fair valued amounts, as explained in the accounting policies below, the consolidated financial statements have been prepared on the historical cost basis. The principal accounting policies are set out below.

The annual financial statements have been prepared on the basis of accounting policies applicable to a going concern.

2.3 Basis of consolidation

The financial statements incorporate the financial statements of the Bank and its subsidiaries (together the "Group"). Control is achieved when the Bank is exposed, 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. The Bank will only consider potential voting rights that are substantive when assessing whether it controls another entity. In order for the right to be substantive, the holder must have the practical ability to exercise that right.

Subsidiaries (including controlled structured entities) are fully consolidated from the date on which control is transferred to the Bank. They are deconsolidated from the date that control ceases.

Income and expenses of subsidiaries acquired or disposed during the year are included in the statement of profit or loss from the effective date of acquisition and up to the effective date of disposal, as appropriate. Total comprehensive income of subsidiaries is attributed to the owners of the Bank and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

Summary of accounting policies *(continued)*

for the year ended 31 December 2018

2. Significant accounting policies *(continued)*

2.3 Basis of consolidation *(continued)*

All intragroup transactions, balances, income and expenses are eliminated in full on consolidation.

Changes in ownership interests in subsidiaries are accounted for as equity transactions if they occur after control has already been obtained and they do not result in loss of control.

2.4 Non-current assets held for sale

Non-current assets (or disposal group's comprising assets and liabilities) that are expected to be recovered primarily through sale rather than through continuing use, are classified as held for sale. This condition is regarded as met only when the sale is highly probable and the non-current asset (or disposal group) is available for immediate sale in its present condition. Management must be committed to the sale and an active programme to locate a buyer and complete the plan must have been initiated. The sale should be expected to qualify for recognition as a completed sale within one year from the date of classification. Immediately before classification as held for sale, the assets (or components of a disposal group) are remeasured in accordance with the Group's accounting policies. Thereafter the assets (or disposal group) are measured at the lower of their carrying amount or fair value, less cost to sell. Any impairment loss on a disposal group is first allocated to reduce goodwill and then to remaining assets and liabilities on a pro rata basis, except that no loss is allocated to financial assets, deferred tax assets, investment properties, insurance assets and colleague benefit assets, which continue to be measured in accordance with the Group's accounting policies.

Impairment losses on initial classification as held for sale and subsequent gains or losses on remeasurement are recognised in profit or loss. Gains are not recognised in excess of any cumulative impairment loss until finally sold.

Property, equipment and intangible assets, once classified as held for sale, are not depreciated or amortised.

When the Group is committed to a sale plan involving loss of control of a subsidiary, all of the assets and liabilities of that subsidiary are classified as held for sale when the criteria described above are met, regardless of whether the Group will retain a non-controlling interest in its former subsidiary after the sale.

Non-current assets (and disposal groups) classified as held for sale are measured at the lower of their previous carrying amount and fair value less costs to sell.

2.5 Revenue recognition

Net interest income

Interest revenue and interest charges which are calculated using the effective interest method are separately presented in the statement of comprehensive income. Effective interest on loans and advances at amortised cost, availableforsale debt investments (2017) and debt instruments at fair value through other comprehensive income (2018), as well as the interest expense on financial liabilities held at amortised cost, are calculated using the effective interest rate method. This results in the allocation of interest, and direct and incremental fees and costs, over the expected lives of the assets and liabilities.

The effective interest method requires the Group to estimate future cash flows, in some cases based on its experience of customers' behaviour, considering all contractual terms of the financial instrument, as well as the expected lives of the assets and liabilities. Due to the large number of products and types (both assets and liabilities), there are no individual estimates that are material to the results or financial position.

The Group also presents as part of net interest income, albeit separate from effective interest income and effective interest expense, other interest income and other interest charges, which are not calculated on the effective interest method.

Revenue from contracts with customers (2018)

Revenue from contracts with customers is measured based on the consideration specified in a contract with a customer and excludes amounts on behalf of third parties. The Group recognises the revenue from contracts with customer when it transfers control over to the customers.

Revenue from contracts with customers is presented in "fee and commission income".

Our Bank >>
Value Proposition >>
Value Creating Strategy >>
Delivering Value >>
Protecting Value >>
Financial Review

2. Significant accounting policies *(continued)*

2.5 Revenue recognition *(continued)*

Net trading income

Trading positions are held at fair value and the resulting gains and losses are included in profit or loss, together with interest and dividends arising from long and short positions and funding costs relating to trading activities.

Income arises from both the sale and purchase of trading positions, margins which are achieved through market-making and customer business and from changes in fair value caused by movements in interest and exchange rates, equity prices and other market variables.

Gains or losses on assets or liabilities reported in the trading portfolio are included in profit or loss under net trading income together with interest and dividends arising from long and short positions and funding costs relating to trading activities.

Net fee and commission income (2018)

Consulting, administration and similar service fees

Fee income received by the Group for administration, consulting and similar services is recognised as revenue as the service is provided. The service is billed and the cash is received on a monthly basis.

Credit-related fees and commissions

Banking fees such as bundled service fees, transactional fees and account management fees are recognised over the period over which the underlying service is provided to the customer. Transactional fees such as cash withdrawal fees, deposit fees, debit order fees etc. are recognised at the point in time of transactions with customers and payment is received monthly. The performance obligation on bundled services is satisfied on a monthly basis.

Commitment fees

Commitment fees relate to loan commitments where it is not probable that the loan will be drawn. Such fees are regarded as a return for the provision of a service and are amortised over the commitment period. These fees may be received upfront or on a monthly basis.

2.6 Foreign currencies

Transactions and balances in foreign currencies are translated into millions of Kenyan Shillings at the rate ruling on the date of the transaction. Foreign currency balances are translated into millions of Kenyan Shillings at the reporting period end exchange rates. Exchange gains and losses on such balances are taken to profit or loss.

In preparing the consolidated annual financial statements, transactions in currencies other than the functional currency (foreign currencies) are recognised at the rates of exchange prevailing at the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

2.7 Colleagues benefits

Staff costs

Short-term colleagues benefits, including salaries, accrued performance costs, salary deductions and taxes are recognised over the reporting period in which the colleagues provide the services to which the payments relate. Performance costs are recognised to the extent that the Group has a present obligation to its colleagues that can be measured reliably and are recognised on an undiscounted basis over the period of service that colleagues are required to work to qualify for the services.

Summary of accounting policies *(continued)*

for the year ended 31 December 2018

2. Significant accounting policies *(continued)*

2.7 Colleague benefits *(continued)*

Defined benefit scheme

The Group recognises its obligation (determined using the projected unit credit method) to members of the scheme at the reporting date, less the fair value of the scheme assets. Scheme assets are stated at fair value as at the reporting date. Costs arising from regular pension cost, interest on net defined benefit liability or asset, past service cost settlements or contributions to the plan are recognised in profit or loss.

All actuarial gains and losses are recognised immediately through OCI in order for the net defined benefit scheme asset or liability recognised in the statement of financial position to reflect the full value of the plan surplus or deficit, taking into account the asset ceiling.

Remeasurements comprise experience adjustments (differences between previous actuarial assumptions and what has actually occurred) and the effects of changes in actuarial assumptions.

Interest is calculated by applying the discount rate to the opening net defined liability or asset, taking into account any changes in the net defined liability or asset during the period as a result of contribution and benefit payments.

Gains and losses on curtailments are recognised when the curtailment occurs, which may be when a demonstrable commitment to a reduction in benefits, or reduction in eligible colleagues, occurs. The gain or loss comprises any change in the present value of the obligation and the fair value of the assets. Where a scheme's assets exceed its obligation, an asset is recognised to the extent that it does not exceed the present value of future contribution holidays or refunds of contributions.

Defined contribution scheme

The Group operates a defined contribution scheme for majority of its colleagues. The assets of the scheme are held in a separate trustee administered fund which is funded by contribution from both the Group and colleagues. The Group and its colleagues also contribute to the National Social Security Fund as determined by local statutes.

The Group recognises contributions due in respect of the reporting period in profit or loss. Any contributions unpaid at the reporting date are included as a liability.

2.8 Share-based payments

The Group operates equity-settled and cash-settled share-based payment plans.

Colleague services settled in equity instruments

The cost of colleague services received in respect of the shares or share options granted is recognised in profit or loss, with a corresponding increase in equity, over the period that colleague provide services, generally the period in which the award is granted or notified and the vesting date of the shares or options. The overall cost of the award is calculated using the number of shares and options expected to vest and the fair value of the shares or options at the date of grant.

The number of shares and options expected to vest takes into account the likelihood that performance and service conditions included in the terms of the awards will be met. Failure to meet the non-vesting condition is treated as a cancellation, resulting in an acceleration of recognition of the cost of the colleague services.

The fair value of shares is the market price ruling on the grant date, in some cases adjusted to reflect restrictions on transferability. The fair value of options granted is determined using option pricing models to estimate the numbers of shares likely to vest. These take into account the exercise price of the option, the current share price, the risk-free interest rate, the expected volatility of the share price over the life of the option and other relevant factors. Market conditions that must be met in order for the award to vest are also reflected in the fair value of the award, as are any other non-vesting conditions.

Colleague services settled in cash

The fair value of the amount payable to colleagues in terms of a cash-settled share-based payment is recognised as an expense, with a corresponding increase in liabilities, over the vesting period. The liability is remeasured at each reporting date and at settlement date. Any changes in the fair value of the liability are recognised as staff costs in profit or loss. No amount is recognised for services received if the awards granted do not vest because of a failure to satisfy a vesting condition.

Our Bank >>
Value Proposition >>
Value Creating Strategy >>
Delivering Value >>
Protecting Value >>
Financial Review

2. Significant accounting policies *(continued)*

2.9 Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

Current taxation

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the consolidated statement of comprehensive income because of items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible.

Income tax payable on taxable profits ("current taxation") is recognised as an expense in the reporting period in which the profits arise.

Income tax recoverable on tax allowable losses is recognised as a current tax asset only to the extent that it is regarded as recoverable by offset against taxable profits arising in the current or prior reporting period. Current tax is measured using tax rates and tax laws that have been enacted or substantively enacted at the reporting date.

Deferred taxation

Deferred income tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences.

Deferred income tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such deferred income tax assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

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

Deferred income tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred income tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred income tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Current and deferred tax

Current and deferred tax are recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

Summary of accounting policies *(continued)*
for the year ended 31 December 2018

2. Significant accounting policies *(continued)*

2.10 Property and equipment

Property and equipment is stated at cost, which includes direct and incremental acquisition costs less accumulated depreciation and provisions for impairment, if required. Subsequent costs are capitalised if these result in an enhancement to the asset.

Depreciation is recognised so as to write off the cost of assets less their residual values over their useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

An item of property and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

Estimated useful lives are set out in Note 3 (Judgements and estimates). Land and buildings comprise mainly of branches and offices. Freehold land is not depreciated.

2.11 Intangible assets

Intangible assets acquired separately

Intangible assets with finite useful lives that are acquired separately are carried at cost less accumulated amortisation and accumulated impairment losses. Amortisation is recognised on a straight-line basis over their estimated useful lives. The estimated useful life and amortisation method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis. Intangible assets with indefinite useful lives that are acquired separately are carried at cost less accumulated impairment losses.

Derecognition of intangible assets

An intangible asset is derecognised on disposal, or when no future economic benefits are expected from use or disposal. Gains or losses arising from derecognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset, are recognised in profit or loss when the asset is derecognised.

2.12 Impairment of tangible and intangible assets (excluding goodwill)

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment at least annually, and whenever there is an indication that the asset may be impaired.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss.

When an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss.

2.13 Provisions, contingent liabilities and undrawn commitments

Provisions

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

Our Bank >>
Value Proposition >>
Value Creating Strategy >>
Delivering Value >>
Protecting Value >>
Financial Review

2. Significant accounting policies *(continued)*

2.13 Provisions, contingent liabilities and undrawn commitments *(continued)*

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pretax rate that reflects current market assessments of the time value of money and the risks specific to the obligation.

Contingent liabilities

Contingent liabilities are possible obligations whose existence will be confirmed only by uncertain future events, and present obligations where the transfer of economic resources is uncertain or cannot be reliably measured. Contingent liabilities are not recognised on the statement of financial position but are disclosed unless the outflow of economic resources is remote.

Undrawn commitments

Provision is made for undrawn loan commitments if it is probable that the facility will be drawn and therefore results in the recognition of an asset at an amount less than the amount advanced.

2.14 Financial instruments

IFRS 9 Financial Instruments (IFRS 9) has been adopted by the Group on 1 January 2018, and replaces IAS 39 Financial Instruments: Recognition and Measurement (IAS 39). As permitted under IFRS 9, the Group has elected not to restate comparative periods on the basis that it is not possible to do so without the application of hindsight. The comparative financial information for the 2017 reporting period has therefore been prepared under the framework for financial instrument accounting within IAS 39.

The following section sets out the accounting policies that were applied in the 2017 reporting period together with those that are applied under IFRS 9 (2018). Significant changes have been made to certain accounting policies, owing to the revised classification and measurement framework for financial instruments, as well as changes in the impairment scope and methodology. Where there have been changes in accounting policies, those applied in 2017 have been clearly distinguished from the current reporting period. Refer to the disclosure on the classification categories in Note 44.

Initial recognition of financial assets and financial liabilities

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are capitalised to the initial carrying amount of the financial asset/liability, as appropriate on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

The Group recognises financial assets and liabilities when it becomes a party to the terms of the contract, which is the trade date or the settlement date.

On initial recognition, it is presumed that the transaction price is the fair value unless there is observable information available in an active market to the contrary. The best evidence of an instrument's fair value on initial recognition is typically the transaction price. However, if fair value can be evidenced by comparison with other observable current market transactions in the same instrument, or is based on a valuation technique whose inputs include only data from observable markets then the instrument should be recognised at the fair value derived from such observable market data.

For valuations that have made use of significant unobservable inputs, the difference between the model valuation and the initial transaction price (Day One profit) is recognised in profit or loss either on a straight-line basis over the term of the transaction, or over the reporting period until all model inputs will become observable where appropriate, or released in full when previously unobservable inputs become observable.

Classification and measurement of financial instruments (2018)

On initial recognition, the Group classifies its financial assets into the following measurement categories:

- Amortised cost;
- Fair value through other comprehensive income; or
- Fair value through profit or loss

Our Bank >>
Value Proposition >>
Value Creating Strategy >>
Delivering Value >>
Protecting Value >>

Summary of accounting policies *(continued)*

for the year ended 31 December 2018

2. Significant accounting policies *(continued)*

2.14 Financial instruments *(continued)*

Classification and measurement of financial instruments (2018) *(continued)*

The classification and subsequent measurement of financial assets depends on:

- The business model within which the financial assets are managed; and
- The contractual cash flow characteristics of the asset (that is, whether the cash flows represent solely payments of principal and interest).

Business model assessment:

The business model reflects how the Group manages the financial assets in order to generate cash flows and returns.

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

The factors considered in determining the business model include:

(i) how the financial assets' performance is evaluated and reported to management,

(ii) how the risks within the portfolio are assessed and managed and

(iii) the frequency, volume, timing for past sales, sales expectations in future periods, and the reasons for such sales.

The Group reclassifies debt instruments when, and only when, the business model for managing those assets changes. Such changes are highly unlikely and therefore expected to be very infrequent.

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

In making the assessment of whether the contractual cash flows have SPPI characteristics, the Group considers whether the cash flows are consistent with a basic lending arrangement. That is, the contractual cash flows recovered must represent solely the payment of principal and interest. Principal is the fair value of the financial asset on initial recognition. Interest typically includes only consideration for the time value of money and credit risk but may also include consideration for other basic lending risks and costs, such as liquidity risk and administrative costs, together with a profit margin. Where the contractual terms include exposure to risk or volatility that is inconsistent with a basic lending arrangement, the cash flows would not be considered to be SPPI and the assets would be mandatorily measured at fair value through profit or loss, as described below. In making the assessment, the Group considers, inter alia, contingent events that would change the amount and timing of cash flows, prepayment and extension terms, leverage features, terms that limit the Group's claim to cash flows from specified assets (e.g. non-recourse asset arrangements), and features that modify consideration of the time value of money (e.g. tenor mismatch). Contractual cash flows are assessed against the SPPI test in the currency in which the financial asset is denominated.

Debt Instruments:

Debt instruments are those instruments that meet the definition of a financial liability from the issuer's perspective, such as loans and government and corporate bonds. The Group classifies its debt instruments as follows:

- ***Amortised cost:*** Financial assets are classified within this measurement category if they are held within a portfolio whose primary objective is the collection of contractual cash flows, where the contractual cash flows on the instrument are SPPI, and that are not designated at fair value through profit or loss. These financial assets are subsequently measured at amortised cost where interest is recognised as effective interest within interest and similar income using the effective interest rate method. The carrying amount is adjusted by the cumulative expected credit losses recognised.
- ***Fair value through other comprehensive income:*** This classification applies to financial assets which meet the SPPI test, and are held within a portfolio whose objectives include both the collection of contractual cash flows and the selling of financial assets.

Our Bank >>
Value Proposition >>
Value Creating Strategy >>
Delivering Value >>
Protecting Value >>
Financial Review

2. Significant accounting policies *(continued)*

2.14 Financial instruments *(continued)*

These financial assets are subsequently measured at fair value with movements in the fair value recognised in other comprehensive income, with the exception of interest income, expected credit losses and foreign exchange gains and losses that are recognised within profit or loss. When the financial asset is derecognised, the cumulative gain or loss previously recognised in other comprehensive income is reclassified from equity to net trading income in profit or loss. Interest income from these financial assets is included as effective interest within Interest and similar income using the effective interest rate method.

- ***Fair value through profit or loss:*** Financial assets that do not meet the criteria for amortised cost or fair value through other comprehensive income are mandatorily measured at fair value through profit or loss. Gains and losses on these instruments are recognised in gains and losses from banking and trading activities in profit or loss. The Group may also irrevocably designate financial assets that would otherwise meet the requirements to be measured at amortised cost or at fair value through other comprehensive income, as at fair value through profit or loss, if doing so would eliminate or significantly reduce an accounting mismatch that would otherwise arise. These will be subsequently measured at fair value through profit or loss with gains and losses recognised as gains and losses from banking and trading activities or gains and losses from investment activities in profit or loss.

Financial liabilities

Most financial liabilities are held at amortised cost. That is, the initial fair value (which is normally the amount borrowed) is adjusted for premiums, discounts, repayments and the amortisation of coupon, fees and expenses to represent the effective interest rate of the liability. Most financial liabilities are held at amortised cost, in accordance with the effective interest rate method.

Financial liabilities classified as held for trading are subsequently measured at fair value through profit or loss, with changes in fair value being recognised in profit or loss.

A financial liability may be designated at fair value through profit or loss if :

- measuring the instrument at fair value 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; or
- if the instrument belongs to a group of financial assets or financial liabilities that are managed on a fair value basis, in accordance with a documented risk management or investment strategy. Own credit gains or losses arising from the valuation of financial liabilities designated at fair value through profit or loss are recognised in other comprehensive income and are not subsequently recognised in profit or loss.

Expected credit losses on financial assets (2018)

The Group uses a mixed approach to impairment where parameters are modelled at an individual financial instrument level or on a portfolio basis when they are only evident at this higher level. A collective approach will only be carried out when financial instruments share similar risk characteristics, which could include factors such as instrument type, collateral type, industry, geography and credit risk ratings.

The Group recognises expected credit losses based on unbiased forward-looking information. Expected credit losses are recognised on:

- financial assets at amortised cost
- debt instruments at fair value through other comprehensive income
- loan commitments not measured at fair value
- financial guarantee contracts not measured at fair value

Summary of accounting policies *(continued)*
for the year ended 31 December 2018

2. Significant accounting policies *(continued)*

2.14 Financial instruments *(continued)*

Impairment is recognised based on a three-stage approach:

Stage 1: Exposures where there has not been a significant increase in credit risk since origination. For these exposures an expected credit loss is recognised based on the credit losses expected to result from default events that are possible within 12 months of the reporting date. Interest income is calculated based on the gross carrying value of these instruments.

Stage 2: Exposures for which the credit risk has increased significantly since initial recognition. For these exposures lifetime expected credit losses should be recognised (i.e. credit losses from default events that are possible over the life of the instrument). The Group will assess whether a significant increase in credit risk has occurred based on (i) qualitative drivers including being marked as high risk or reflected on management's watch list; and (ii) quantitative drivers such as the change in the asset's cumulative weighted average lifetime probability of default (PD). Any exposure that is more than 30 days past due will also be included in this stage. Interest income is calculated based on the gross carrying value of these instruments.

Stage 3: Exposures which are credit impaired. For these exposures, expected credit losses are based on lifetime losses. Assets are considered to be credit impaired when they meet the regulatory definition of default which includes unlikeliness to pay indicators as well as any assets that are more than 90 days past due. Interest income is calculated based on the carrying value net of the loss allowance.

Lifetime expected credit losses will no longer be recognised when there is evidence that the criteria are no longer met. This could include a history of timely payment performance. The low credit risk exemption in IFRS 9 has not been adopted by the Group.

The measurement of expected credit losses must reflect:

- an unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes;
- the time value of money (represented by the effective interest rate); and
- reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

Expected credit losses comprise the unbiased probability-weighted credit losses determined by evaluating a range of possible outcomes and considering future economic conditions. Expected credit losses are calculated (for both 12 months and lifetime losses) as a function of the exposure at default (EAD); PD and loss given default (LGD).

These terms are interpreted as follows per the requirements of IFRS 9:

- EAD is the estimated amount at risk in the event of a default (before any recoveries) including behavioral expectation of limit usage by customers in the various stages of credit risk.
- PD is the probability of default at a particular point in time, which may be calculated, based on the defaults that are possible to occur within the next 12 months; or over the remaining life; depending on the stage allocation of the exposure.
- LGD is the difference between the contractual cash flows due and the cash flows expected to be received, discounted to the reporting date at the effective interest rate. The expectation of cash flows take into account cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms. The estimate reflects the amount and timing of cash flows expected from the enforcement of collateral less the costs of obtaining and selling the collateral. The collection of any cash flows expected beyond the contractual maturity of the contract is also included.

Lifetime of financial instruments

For exposures in stage 2 and stage 3, the maximum lifetime over which expected credit losses should be measured, is the maximum contractual period over which the Group is exposed to credit risk. The Group estimates cash flows by considering all contractual terms of the financial instrument (for example, prepayment, extension, call and similar options) through the expected life of that financial instrument. In rare cases when it is not possible to reliably estimate the expected life of a financial instrument, the Group use the remaining contractual term of the financial instrument.

2. Significant accounting policies *(continued)*

2.14 Financial instruments *(continued)*

Lifetime of financial instruments (continued)

Certain credit exposures include both a drawn and an undrawn component and the Group's contractual ability to demand repayment and cancel the undrawn commitment does not limit the exposure to credit losses to the contractual notice period. In this case, expected credit losses are measured over the period that the Group is exposed to credit risk, even if that period extends beyond the maximum contractual period. Within the Group, this applies to overdrafts, credit cards and other revolving products. These contracts are cancellable at very short notice and they have no fixed term but credit may continue to be extended for a longer period and may only be withdrawn after the credit risk of the borrower increases, which could be too late to prevent losses. For these types of products the expected life is based on the behavioral life, i.e. the period over which there is exposure to credit risk which is not expected to be mitigated by credit actions (e.g. limit decreases) even though the contract permits immediate limit decrease.

Forward-looking information

Forward-looking information is factored into the measurement of expected losses through the use of multiple expected macroeconomic scenarios that are either reflected in estimates of PD and LGD for material portfolios; or adjusted through expert credit judgement where the effects could not be statistically modelled.

Write off

Loans and debt securities are written off when there is no realistic prospect of recovery.

Financial assets and financial liabilities

The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. All regular way purchases or sales of financial assets are recognised and derecognised on a trade or settlement date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

Financial liabilities are either measured at amortised cost or classified as at fair value through profit or loss, which may occur when the financial liability is either held for trading or it is designated as at fair value through profit or loss.

Financial instruments at fair value through profit or loss ("FVTPL")

Financial assets are measured as at FVTPL when they are either held for trading or designated as at FVTPL.

A financial instrument is classified as held for trading if:

- it is a financial asset that has been acquired principally for the purpose of selling it in the near term, or it is a financial liability that has been acquired principally for the purpose of repurchasing it in the near term; or
- on initial recognition it is part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- is a derivative that is not designated and effective as a hedging instrument.

A financial instrument other than one that is held for trading may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial instrument forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and IAS 39

  Financial Instruments: Recognition and Measurement permits the entire combined contract (asset or liability) to be designated as at FVTPL.

Our Bank >>
Value Proposition >>
Value Creating Strategy >>
Delivering Value >>
Protecting Value >>

Summary of accounting policies *(continued)*
for the year ended 31 December 2018

2. Significant accounting policies *(continued)*

2.14 Financial instruments *(continued)*

Financial assets and financial liabilities *(continued)*

Financial instruments at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognised in profit or loss. The net gain or loss recognised in profit or loss incorporates any dividend or interest earned on the financial asset.

Available-for-sale (AFS) financial assets

AFS financial assets are non-derivatives that are either designated as AFS or are not classified as loans and receivables or financial assets at fair value through profit or loss.

AFS financial assets include both debt and equity instruments and are stated at fair value at the end of each reporting period.

Subsequent changes in the carrying amount of AFS monetary financial assets relating to changes in foreign currency rates, interest income calculated using the effective interest method and dividends on AFS equity investments are recognised in profit or loss. Other changes in the carrying amount of AFS financial assets are recognised in other comprehensive income and accumulated under the heading of Available –for sale reserve. Where the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously accumulated in the Available –for sale reserve is reclassified to profit or loss.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables are measured at amortised cost using the effective interest method, less any impairment.

Interest income is recognised by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the debt instrument, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Financial liabilities

Most financial liabilities are held at amortised cost. That is, the initial fair value (which is normally the amount borrowed) is adjusted for premiums, discounts, repayments and the amortisation of coupon, fees and expenses to represent the effective interest rate of the liability.

Impairment of financial assets (2017)

Amortised cost instruments

Impairment on financial assets measured at amortised cost is recognised in accordance with IAS 39, the Group assesses at each reporting date whether there is objective evidence that financial assets at amortised cost will not be recovered in full and, wherever necessary, recognises an impairment loss in profit or loss. An impairment loss is recognised if there is objective evidence of impairment as a result of events that have occurred and these have adversely impacted the estimated future cash flows from the assets.

Objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- breach of contract, such as a default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial reorganisation; or
- the disappearance of an active market for that financial asset because of financial difficulties.

2. Significant accounting policies *(continued)*

2.14 Financial instruments *(continued)*

Impairment of financial assets (2017)

For financial assets carried at amortised cost, the amount of the impairment loss recognised is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

For financial assets carried at cost, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss will not be reversed in subsequent periods.

For financial assets measured at amortised cost, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the financial asset, at the date the impairment is reversed, does not exceed what the amortised cost would have been had the impairment not been recognised.

Following impairment, interest income continues to be recognised at the original effective interest rate on the restated carrying amount, representing the unwind of the discount of the expected cash flows, including the principal due on non-accrual loans.

Uncollectable loans are written off against the related allowance for loan impairment on completion of the Group's internal processes and all recoverable amounts have been collected. Subsequent recoveries of amounts previously written off are credited to profit or loss.

Identified impairment

Impairment allowances are calculated on an individual basis and all relevant considerations that have a bearing on the expected future cash flows of that instrument being assessed are taken into account, for example, the business prospects for the customer, the fair value of collateral, the Group's position relative to other claimants, the reliability of customer information and the likely cost and duration of the workout process. Subjective judgements are made in this process by management.

Furthermore, judgements change with time as new information becomes available or as workout strategies evolve, resulting in revisions to the impairment allowance as individual decisions are taken case by case. Once a financial asset or a group of similar financial assets have been written down as a result of an impairment loss, interest income is thereafter recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised, are not included in a collective assessment of impairment.

Unidentified impairment

An impairment allowance is recognised when observable data indicates there is a measurable decrease in the estimated future cash flows from a group of financial assets since the original recognition of those assets, even though the decrease cannot yet be identified for the individual assets in the group. The purpose of collective assessment of impairment is to test for latent losses on a portfolio of loans that have not been individually evidenced.

In cases where the collective impairment of a portfolio cannot be individually evidenced, the Group sets out to prove that a risk condition has taken place that will result in an impairment of assets (based on historic experience), but the losses will only be identifiable at an individual borrower level at a future date.

The emergence period concept is applied to ensure that only impairments that exist at the reporting date are captured. The emergence period is defined as the time lapse between the occurrence of a trigger event and the impairment being identified at an individual account level. The probability of default for each exposure class is based on historical default experience, scaled for the emergence period relevant to the exposure class. This probability of default is then applied to the total population for which specific impairments have not been recognised. The resulting figure represents an estimation of the impairment that occurred during the emergence period and therefore has not specifically been identified by the Group at the reporting date.

Summary of accounting policies *(continued)*
for the year ended 31 December 2018

2. Significant accounting policies *(continued)*

2.14 Financial instruments *(continued)*

Impairment financial assets (2017) (continued)

The impairment allowance also takes into account the expected severity of loss at default, or the loss-given default (LGD), which is the amount outstanding when default occurs that is not subsequently recovered. Recovery varies by product and depends, for example, on the level of security held in relation to each loan, and the Group's position relative to other claimants. The LGD estimates are based on historical default experience.

Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that do not affect the period on which historical loss experience is based and to remove the effects of conditions in the historical period that do not currently exist.

Available-for-sale debt instruments

Debt instruments are assessed for impairment in the same way as loans. If impairment is deemed to have occurred, the cumulative decline in the fair value of the instrument that has previously been recognised in other comprehensive income is removed from other comprehensive income and recognised in profit or loss. This may be reversed through the profit or loss, if there is evidence that the circumstances of the issuer have improved.

Derecognition of financial instruments

Derecognition of financial assets

Full derecognition only occurs when the rights to receive cash flows from the asset have been discharged, cancelled or have expired, or the Group transfers both its contractual right to receive cash flows from the financial assets (or retains the contractual rights to receive the cash flows, but assumes a contractual obligation to pay the cash flows to another party without material delay or reinvestment) and substantially all the risks and rewards of ownership, including credit risk, prepayment risk and interest rate risk. When an asset is transferred, in some circumstances, the Group may retain an interest in it (continuing involvement) requiring the Group to repurchase it in certain circumstances for other than its fair value on that date.

Derecognition of financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged, cancelled or expires. Where an existing financial liability is replaced by another from the same party on substantially different terms, or the terms of an existing liability are substantially modified (taking into account both quantitative and qualitative factors), such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in profit or loss. Where the terms of an existing liability are not substantially modified, the liability is not derecognised. Costs incurred on such transactions are treated as an adjustment to the carrying amount of the liability and are amortised over the remaining term of the modified liability.

On derecognition of a financial instrument, any difference between the carrying amount thereof and the consideration received is recognised in profit or loss.

Financial guarantee contracts

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due in accordance with the terms of a debt instrument. Financial guarantee contracts are initially recognised in the financial statements at fair value at the date that the guarantee was given.

Other than where the fair value option is applied subsequent to initial recognition, the entity's liabilities under such contracts are measured:

- Under IFRS 9 (2018) at the higher of the initial measurement, less amortisation calculated to recognise in profit or loss any fee income earned over the reporting period, and the amount of the loss allowance expected from the guarantee at the reporting date. Any increase in the liability relating to guarantees is recognised in profit or loss. For financial guarantee contracts the cash shortfalls are future payments to reimburse the holder for a credit loss that it incurs less any amounts that the entity would expect to receive from the holder, the debtor or any other party

2. Significant accounting policies *(continued)*

2.14 Financial instruments *(continued)*

Financial guarantee contracts (continued)

- Under IAS 39 (2017) at the higher of the initial measurement, less amortisation of the cumulative fee income recognised within profit or loss, and the best estimate of the expenditure required to settle any financial obligation arising as a result of the guarantees at the reporting date.

Loan commitments

The Group enters into commitments to lend to its customers subject to certain conditions. Such loan commitments are made either for a fixed period, or are cancellable by the Group subject to notice conditions.

In 2018, loan commitments are measured at the amount of expected credit losses per IFRS 9. Expected credit losses on undrawn loan commitments are cash shortfalls for future expected drawdowns at the date of default. Loan commitments provided at a belowmarket interest rate to be recognised at the higher of the expected credit losses, and the amount initially recognised less accumulative amortisation over the commitment period.

Under IAS 39 (2017), provision is made for undrawn loan commitments to be provided at below market interest rates and for similar facilities, if it is probable that the facility will be drawn and results in recognition of an asset at an amount less than the amount advanced.

2.14.1Derivative financial instruments

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

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

Derivatives embedded in non-derivative host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of the host contracts and the host contracts are not measured at FVTPL.

2.15 Ordinary share capital

Proceeds are included in equity, net of transaction costs. Dividends and other returns to equity holders are recognised when declared by the board.

2.16 Offsetting

In accordance with IAS 32 Financial Instruments: Presentation, the Group reports financial assets and financial liabilities on a net basis on the statement of financial position only if there is a current legally enforceable right to set off the recognised amounts and there is intention to settle on a net basis, or to realise the asset and settle the liability simultaneously.

2.17 Cash and cash equivalents

For the purposes of the statement of cash flows, cash comprises cash on hand and demand deposits and cash equivalents comprise highly liquid investments that are convertible into cash with an insignificant risk of changes in value with original maturities of three months or less.

2.18 Earnings per share

The calculation of basic earnings per share is based on the profit attributable to ordinary equity holders of the Group and the number of basic weighted average number of ordinary shares excluding treasury shares held in colleague benefit trusts or held for trading. When calculating the diluted earnings per share, the weighted average number of shares in issue is adjusted for the effects of all dilutive potential ordinary shares held.

Summary of accounting policies *(continued)*
for the year ended 31 December 2018

2. Significant accounting policies *(continued)*

2.19 Segmental reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decisionmaker. The chief operating decisionmaker who is responsible for allocating resources and assessing the performance of the operating segments has been identified as the Country Management Committee that makes strategic decisions.

All transactions between business segments are conducted on an arm's length basis, with intra-segment revenue and costs being eliminated in head office. Income and expenses directly associated with each segment are included in determining business segment performance. In accordance with IFRS 8, the Group has the following business segments: Consumer banking and Corporate banking.

2.20 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 declared, in accordance with the Kenyan Companies Act, 2015.

2.21 Leases

Leases are divided into finance leases and operating leases.

(a) The Group is the lessee

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

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

- Finance lease
  Lease of assets where the Group has substantially all the risks and rewards of ownership are classified as finance leases. These are capitalised at lease's commencement at the lower of the fair value of the leased property and the present value of the minimum lease payments. Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding.

  The corresponding rental obligations, net of finance charges, are included in deposits from banks or deposits from customers depending on the counter party. The interest element of the finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

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

(b) The Group is the lessor

When assets are held subject to a finance lease, the present value of the lease payments is recognised as a receivable. The difference between the gross receivable and the present value of the receivable is recognised as unearned finance income. Lease income is recognised over the term of the lease using the net investment method (before tax), which reflects a constant periodic rate of return.

(c) Fees paid in connection with arranging leases

The Group makes payments to agents for services in connection with negotiating lease contracts with the Group's lessees. For operating leases, the letting fees are capitalised within the carrying amount of the related asset and depreciated over the life of the lease.

Notes to the annual financial statements
for the year ended 31 December 2018

3. Judgements and estimates

In the preparation of the annual financial statements, management is required to make judgements, estimates and assumptions that affect reported income, expenses, assets, liabilities and disclosure of contingent assets and liabilities. Use of available information and the application of judgement is inherent in the formation of estimates. Actual results in the future could differ from these estimates, which may be material to the financial statements within the next financial period.

Judgements made by management that could have a significant effect on the amounts recognised in the financial statements include:

Impairment losses on loans and advances

The Group reviews its loan portfolios to assess impairment at least on a monthly basis. In determining whether an impairment loss should be recorded in profit or loss, the Group makes judgements as to whether there is any observable data indicating an impairment trigger followed by measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a Group, or national or local economic conditions that correlate with defaults on assets in the Group. The directors use estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

Applicable to 2018 only:

- Note 2, Note 4 and Note 44: 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.
- Note 45: establishing the criteria for determining whether credit risk on the financial asset has increased significantly since initial recognition, determining methodology for incorporating forwardlooking information into measurement of ECL and selection and approval of models used to measure ECL.

Fair value of financial instruments

The fair value of financial instruments where no active market exists or where quoted prices are not otherwise available are determined by using valuation techniques. In these cases, the fair values are estimated from observable data in respect of similar financial instruments or using models. Where market observable inputs are not available, they are estimated based on appropriate assumptions. Where valuation techniques (for example, models) are used to determine fair values, they are validated and periodically reviewed by qualified personnel independent of those that sourced them. All models are certified before they are used, and models are calibrated to ensure that outputs reflect actual data and comparative market prices. To the extent practical, models use only observable data; however, areas such as credit risk (both own credit risk and counterparty risk), volatilities and correlations require management to make estimates. Changes in assumptions about these factors could affect the reported fair value of financial instruments. The fair value hierarchy for these financial instruments is shown in Note 46.

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 current income tax and deferred tax provisions in the period in which such determination is made. Refer to the disclosure on contingent tax liabilities in Note 50.

Significant judgement has also been exercised in determining the likelihood of liability crystallising in respect of disputes with the tax authority.

Retirement benefits

The present value of the retirement benefit obligations depends on a number of factors that are determined on an actuarial basis using a number of assumptions. Any changes in these assumptions will impact the carrying amount of pension obligations. The assumptions used in determining the net cost (income) for pensions are disclosed in Note 29. The Group determines the appropriate discount rate at the end of each year.

Notes to the annual financial statements *(continued)*

for the year ended 31 December 2018

3. Judgement and estimates *(continued)*

***Retirement benefits** (continued)*

This is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the pension obligations. In determining the appropriate discount rate, the Group considers the interest rates of government bonds that are denominated in Kenya Shillings in which the benefits will be paid and that have terms to maturity approximating the terms of the related pension liability. Through its defined benefit pension plans, the Group is exposed to a number of risks, the most significant of which are detailed below:

(i) Asset volatility and changes in bond yields

The plan liabilities are calculated using a discount rate set with reference to government bond yields; if plan assets underperform this yield, this will create a deficit. As the plan matures, the Group intends to reduce the level of investment risk by investing more in assets that better match the liabilities. A decrease in corporate bond yields will increase plan liabilities, although this will be partially offset by an increase in the value of the plan's bond holdings.

(ii) Inflation risk

The majority of the plan's benefit obligations are linked to inflation, and higher inflation will lead to higher liabilities. The majority of the plan's assets are either unaffected by (fixed interest bonds) or loosely correlated with (equities) inflation, meaning that an increase in inflation will also increase the deficit.

(iii) Life expectancy

The majority of the plan's obligations are to provide benefits for the life of the member, so increases in life expectancy will result in an increase in the plans' liabilities.

(iv) Investment risk

The actuarial funding valuations make assumptions about the returns that may be available on invested assets. If the return on pension plan assets is below this rate, it may lead to a strain on the fund, which over time, may result in a pension plan deficit. Typically the funds have a relatively balanced investment in equity securities, debt securities and real estate to mitigate any concentration risk. Due to the longterm nature of the pension plan liabilities, the boards of the pension funds consider it appropriate that a reasonable portion of the plan assets should be invested in equity securities and in real estate to improve the return generated by the fund. This may in turn result in improved discretionary benefits to members or reduced costs for the sponsoring entity.

Other key assumptions for pension obligations are based in part on current market conditions and are discussed in Note 29 of these financial statements.

Useful lives of property and equipment	Useful lives (Years)
Property and equipment	
Buildings;	
Leases over 50 years	**50**
Leases under 50 years	**Over the remaining life**
Rented premises	**6**
Freehold buildings	**50**
Leasehold improvements	**Over the remaining lease period**
Fixtures, fittings and equipment	**5**
Motor vehicles	**5**
Intangible assets	
Flexcube (Core banking application)	**10**
Other	**5**

4. IFRS 9 transition note

4.1 Classification and measurement of financial assets

Group and Bank	IAS 39 carrying amount as at 31 December 2017 Shs'million	Re-measurement due to adoption of IFRS 9 impairment model Shs'million	IFRS 9 carrying amount as at 1 January 2018 Shs'million	IFRS 9 measurement categories: Amortised cost Shs'million	IFRS 9 measurement categories: FVOCI Shs'million	IFRS 9 measurement categories: FVTPL Shs'million
Financial assets IAS 39 classification						
Cash and balances with central banks at amortised cost-designated	16 354	(3)	**16 351**	16 351	-	-
Investment securities: AFS designated	58 476	(40)	**58 436**	-	58 436	-
Investment securities: FVTPL designated	9 608	-	**9 608**	-	-	9 608
Loans and advances to banks at amortised cost-designated	3 465	(1)	**3 464**	3 464	-	-
Loans and advances to customers at amortised cost-designated	168 397	(3 016)	**165 381**	165 381	-	-
	256 300	(3 060)	**253 240**	185 196	58 436	9 608

4.2 Impact of transition to IFRS 9 on retained earnings

	Group Retained earnings Shs'million	Bank Retained earnings Shs'million
Closing balance under IAS 39 (31 December 2017)	**36 592**	**36 052**
Impact of adopting IFRS 9	**(2 142)**	**(2 142)**
Recognition of expected credit losses (ECL) under IFRS 9	**(3 060)**	**(3 060)**
Deferred tax in relation to the above	**918**	**918**
Opening balance under IFRS 9 (1 January 2018)	**34 450**	**33 910**

4.3 Reconciliation of loss allowances

	IAS 39 Impairment allowance as at 31 December 2017 Shs'million	Re measurement of loss allowance Shs'million	Expected credit losses as at 1 January 2018 Shs'million
IAS 39 measurement categories			
Cash and balances with central banks	-	(3)	**(3)**
Loans and advances to banks	-	(1)	**(1)**
Loans and advances to customers	(7 461)	(3 016)	**(10 477)**
Investment securities	-	(40)	**(40)**
	(7 461)	(3 060)	**(10 521)**

Notes to the annual financial statements *(continued)*

for the year ended 31 December 2018

5. Effective interest income

	Group 2018 Shs'million	Group 2017 Shs'million	Bank 2018 Shs'million	Bank 2017 Shs'million
Financial assets held at fair value through OCI	**7 382**	5 775	**7 373**	5 770
Loans and advances to banks and group companies	**151**	117	**151**	117
Loans and advances to customers	**21 528**	21 259	**21 528**	21 259
Other interest Income	**-**	20	**-**	20
Total interest income	**29 061**	27 171	**29 052**	27 166

6. Effective interest expense

	Group 2018 Shs'million	Group 2017 Shs'million	Bank 2018 Shs'million	Bank 2017 Shs'million
Deposits from banks and group companies	**(691)**	(336)	**(714)**	(357)
Customer accounts	**(6 127)**	(4 835)	**(6 127)**	(4 835)
Subordinated debt	**(251)**	(199)	**(251)**	(199)
Total interest expense	**(7 069)**	(5 370)	**(7 092)**	(5 391)

7. Net fee and commission income

	Group 2018 Shs'million	Group 2017 Shs'million	Bank 2018 Shs'million	Bank 2017 Shs'million
Fee and commission income				
Service fees	**5 146**	5 043	**5 136**	5 036
Credit related fee and commissions	**1 055**	636	**1 055**	636
Insurance agency commissions	**510**	458	**-**	15
Fee and commission income	**6 711**	6 137	**6 191**	5 687
Fee and commission expense				
Fee and commission expense	**(1 086)**	(865)	**(1 086)**	(865)
Net fee and commission income	**5 625**	5 272	**5 105**	4 822

8. Net trading income

	Group and Bank 2018 Shs'million	Group and Bank 2017 Shs'million
Fixed income	**765**	351
Foreign exchange	**3 280**	2 864
Net trading income	**4 045**	3 215

9. Other operating income

	Group and Bank 2018 Shs'million	Group and Bank 2017 Shs'million
Gain on disposal of property and equipment (Note 39)	**4**	11
Rental income	**12**	20
Sundry income/(loss)	**16**	(61)
Total other operating income	**32**	(30)

The sundry income relates to income not earned in the normal course of business while the sundry loss relates to funds refunded to Absa Group Limited.

Notes to the annual financial statements *(continued)*
for the year ended 31 December 2018

10. Impairment losses on financial instruments

	Group and Bank	
	2018 Shs'million	2017 Shs'million
Stage 1 expected losses	**(1 000)**	-
Stage 2 expected losses	**550**	-
Stage 3 expected losses	**(3 656)**	-
Impairment raised during the reporting period	**(4 106)**	-
Recoveries of loans and advances previously written off	**235**	-
Statement of comprehensive income charge	**(3 871)**	-
Identified impairment	**-**	(3 457)
Unidentified impairment	**-**	152
Impairment raised during the previous reporting period on loans and advances to customers	**-**	(3 305)
Recoveries of loans and advances previously written off	**-**	190
Statement of comprehensive income charge	**-**	(3 115)

11. Colleagues benefits

	Group		Bank	
	2018 Shs'million	2017 Shs'million	2018 Shs'million	2017 Shs'million
Salaries and allowances	**(8 343)**	(8 460)	**(8 242)**	(8 450)
Share-based payments	**(81)**	(81)	**(81)**	(81)
Training costs	**(93)**	(72)	**(92)**	(72)
Staff medical costs	**(440)**	(550)	**(435)**	(550)
Post-employment benefits:				
Defined contribution benefits scheme	**(668)**	(690)	**(661)**	(598)
Defined benefit plan (Note 29)	**(27)**	(27)	**(27)**	(27)
Social security cost	**(7)**	(8)	**(7)**	(8)
Other	**(262)**	(367)	**(249)**	(367)
Total staff cost	**(9 921)**	(10 255)	**(9 794)**	(10 153)
Other includes temporary staff salaries and fringe benefit tax.				
Average number of colleagues during the year	2 128	2 268	2 112	2 268
Average number of direct sales during the year	737	684	737	684

11.1 Deferred cash and share-based payments

	Group and Bank	
	2018 Shs'million	2017 Shs'million
The statement of comprehensive income charge for share-based payments comprises the following:		
Equity-settled arrangements: (refer to Note 36.3)	**(55)**	(62)
Cash-settled arrangements:		
Deferred cash		
Absa Group Limited Cash Value Plan ("CVP")	**(26)**	(19)
Total deferred cash and sharebased payments	**(81)**	(81)

Cash-settled share-based payment schemes are measured with reference to the statement of financial position date and the Absa Group Limited share price.

Our Bank >>
Value Proposition >>
Value Creating Strategy >>
Delivering Value >>
Protecting Value >>

Notes to the annual financial statements *(continued)*

for the year ended 31 December 2018

12. Infrastructure costs

	Group 2018 Shs'million	Group 2017 Shs'million	Bank 2018 Shs'million	Bank 2017 Shs'million
Property cost	**(493)**	(386)	**(472)**	(386)
Operating lease rentals	**(770)**	(953)	**(770)**	(953)
	(1 263)	(1 339)	**(1 242)**	(1 339)

13. Administrative and general expenses

	Group 2018 Shs'million	Group 2017 Shs'million	Bank 2018 Shs'million	Bank 2017 Shs'million
Auditors' remuneration:				
Local statutory audit	**(24)**	(22)	**(24)**	(22)
Group audit	**(8)**	(8)	**(8)**	(8)
Information systems technology audit	**-**	(10)	**-**	(10)
	(32)	(40)	**(32)**	(40)
Consultancy, legal and professional fees	**(182)**	(140)	**(182)**	(140)
Subscription, publications, stationary and communications	**(658)**	(715)	**(658)**	(715)
Marketing, advertising and sponsorship	**(487)**	(370)	**(487)**	(370)
Travel and accommodation	**(183)**	(123)	**(181)**	(123)
	(1 510)	(1 348)	**(1 508)**	(1 348)
Other administrative and general expenses	**(3 252)**	(2 568)	**(3 246)**	(2 550)
Total administrative and general expenses	**(4 794)**	(3 956)	**(4 786)**	(3 938)

Other administrative and general expenses mainly consists of group recharges, security costs, cash in transit expenses, insurance costs, deposit protection fund and motor vehicle expenses.

14. Income taxes

	Group 2018 Shs'million	Group 2017 Shs'million	Bank 2018 Shs'million	Bank 2017 Shs'million
14.1 Income tax recognised in profit or loss				
Current income tax	**(4 014)**	(3 644)	**(3 885)**	(3 526)
Current income tax-prior year adjustments	**70**	-	**75**	-
	(3 944)	(3 644)	**(3 810)**	(3 526)
Deferred income tax (Note 30)				
Current year credit	**631**	265	**621**	256
Deferred income tax-prior year adjustments	**83**	(56)	**83**	(56)
	714	209	**704**	200
Total income tax expense for the year	**(3 230)**	(3 435)	**(3 106)**	(3 326)

14. Income taxes *(continued)*

	Group 2018 Shs'million	Group 2017 Shs'million	Bank 2018 Shs'million	Bank 2017 Shs'million

The effective tax rate for the year ended 31 December 2018 is 30.3% (2017: 33.2%)

	Group 2018 Shs'million	Group 2017 Shs'million	Bank 2018 Shs'million	Bank 2017 Shs'million
Profit for the year	**10 646**	10 361	**10 250**	10 005
Income tax expense calculated at 30% (2017: 30%)	**3 194**	3 108	**3 075**	3 002
Effect of income that is exempt from taxation	**(103)**	(8)	**(103)**	(8)
Effect of expenses that are not deductible in determining taxable profit	**(14)**	279	**(24)**	276
Adjustments recognised in the current year in relation to the current tax of prior years	**70**	-	**75**	-
Adjustments recognised in the current year in relation to the deferred tax of prior years	**83**	56	**83**	56
Income tax expense recognised in profit or loss	**3 230**	3 435	**3 106**	3 326

Deferred income tax on fair value gains or losses on fair value through other comprehensive income (FVOCI) financial assets has been recorded in other comprehensive income.

15. Earnings per share

	Group 2018 Shs'million	Group 2017 Shs'million	Bank 2018 Shs'million	Bank 2017 Shs'million
Net profit attributable to shareholders	**7 416**	6 926	**7 144**	6 679
Number of ordinary shares in issue	**5 432**	5 432	**5 432**	5 432
Basic earnings per share	**1.37**	1.28	**1.32**	1.23

There were no potentially dilutive shares outstanding as at 31 December 2018 or 2017. Diluted earnings per share are therefore the same as basic earnings per share.

16. Cash and balances at central banks

	Group and Bank 2018 Shs'million	Group and Bank 2017 Shs'million
Cash in hand	**5 815**	4 720
Balances with Central Bank of Kenya	**17 718**	11 634
Impairment charge	**(2)**	-
	23 531	16 354

17. Financial assets at fair value through profit or loss

Debt securities : Government treasury bills and bonds	**29 708**	9 608

All financial assets at fair value through profit or loss are current

Notes to the annual financial statements *(continued)*
for the year ended 31 December 2018

18. Derivative financial instruments

Derivative financial instruments are entered into in the normal course of business to manage various financial risks. The derivative instrument contract value is derived from one or more underlying financial instruments or indices defined in the contract. They include swaps and forward rate agreements.

At the reporting date, the Bank did not have any compound financial instruments with multiple embedded derivatives in issue. The Bank only trades the following derivative instrument:

Foreign exchange derivatives

The Bank's principal exchange rate-related contracts are forward foreign exchange contracts, and currency swaps. Forward foreign exchange contracts are agreements to buy or sell a specified quantity of foreign currency, usually on a specified future date at an agreed rate. A currency swap generally involves the exchange, or notional exchange, of equivalent amounts of two currencies and a commitment to exchange interest periodically until the principal amounts are re-exchanged on a future date. As compensation for assuming the option risk, the option writer generally receives a premium at the start of the option period.

The Bank trades foreign exchange forwards and swaps (forward contracts). These are binding contracts locking in the exchange rate for the purchase or sale of a currency on a future date. The Bank's forward book is marked to market on a daily basis.

	Group and Bank		
2018	Notional Contract Amount Shs'million	Assets Shs'million	Liabilities Shs'million
Foreign exchange derivatives			
Forward foreign exchange	**(996)**	**128**	**686**
Currency swap	**(135)**	**345**	**333**
Total derivatives	**(1 131)**	**473**	**1 019**
2017			
Foreign exchange derivatives			
Forward foreign exchange	(369)	69	136
Currency swap	97	326	318
Total derivatives	(272)	395	454

19. Available-for-sale investments

	Group		Bank	
	2018 Shs'million	2017 Shs'million	2018 Shs'million	2017 Shs'million
Debt: Government treasury bills and bonds				
Maturing within 90 days	-	5 640	-	5 640
Maturing after 90 days	-	52 836	-	52 736
	-	58 476	-	58 376

Treasury bills are debt securities issued by the Government of Kenya and are classified as available-for-sale. The weighted average effective interest rate on the Government securities at 31 December 2017 was 11.1%.

In 2017, a fair value profit of Shs 402 million (Gross: Shs 575 million gain less deferred income tax saving of Shs 173 million) has been recognised in other comprehensive income.

Notes to the annual financial statements *(continued)*
for the year ended 31 December 2018

20. Financial assets at fair value through other comprehensive income

	Group		Bank	
	2018 Shs'million	2017 Shs'million	2018 Shs'million	2017 Shs'million
Debt: Government treasury bills and bonds				
Maturing within 90 days	3 258	-	3 258	-
Maturing after 90 days	60 030	-	59 920	-
Expected credit loss	(58)	-	(58)	-
	63 230	-	63 120	-

Treasury bills are debt securities issued by the Governement of Kenya and are classified as fair value through other comprehensive income. The weighted average effective interest rate on the Government securities interest rate on the Government securities at 31 December 2018 was 10.6%.

Group: in 2018, a fair value profit of Shs 279 million (Gross: Shs 398 million gain less deferred income tax saving of Shs 119 million) has been recognised in other comprehensive income.

Bank: in 2018, a fair value profit of Shs 277 million (Gross: Shs 396 million gain less deferred income tax saving of Shs 119 million) has been recognised in other comprehensive income.

21. Loans and advances to banks

	Group and Bank	
	2018 Shs'million	2017 Shs'million
Loans and advances to banks	6 572	1 818

The weighted average effective interest rate on deposits and balances due from banking institutions at 31 December 2018 was 7.3% (2017: 3.8%).

Loans and advances to banks are current.

Notes to the annual financial statements *(continued)*
for the year ended 31 December 2018

22. Loans and advances to customers

	Group and Bank 2018 Shs'million	Group and Bank 2017 Shs'million
Commercial loans	**140 502**	133 876
Bills discounted	**21 584**	18 778
Instalment credit agreements	**11 088**	9 629
Unearned finance charges	**(448)**	(115)
Gross instalment credit agreements	**11 536**	9 744
Overdrafts	**14 406**	13 575
Gross loans and advances to customers	**187 580**	175 858
Impairment losses raised during the reporting period		
Stage 1 expected credit losses	**(3 024)**	-
Stage 2 expected credit losses	**(1 399)**	-
Stage 3 expected credit losses	**(9 668)**	-
Amounts written off during the year as uncollectible	**3 865**	-
Impairments raised during the previous reporting period on loans and advances to customers		
Identified impairments	**-**	(6 416)
Unidentified impairments	**-**	(1 045)
Allowance for impairment	**(10 226)**	(7 461)
Net loans and advances to customers	**177 354**	168 397

22.1 Instalment credit arrangements

	2018 Shs'million	2017 Shs'million
Less than one year	**4 715**	3 960
Between one and five years	**6 313**	5 645
More than five years	**60**	24
	11 088	9 629

The Group enters into instalment credit arrangements in respect of motor vehicles and equipment. Under the terms of the lease agreements, no contingent rentals are payable.

22.2 Economic sector risk concentrations

	Group 2018 Shs'million	2018 (%)	2017 Shs'million	2017 (%)
Manufacturing	**26 451**	**14**	23 799	14
Wholesale and retail trade	**30 588**	**16**	26 600	15
Transportation and communications	**6 096**	**3**	3 755	2
Agricultural	**9 768**	**5**	8 781	5
Private individuals	**95 737**	**51**	93 255	53
Other	**18 940**	**11**	19 668	11
	187 580	**100**	175 858	100

Notes to the annual financial statements *(continued)*
for the year ended 31 December 2018

23. Other assets and prepaid expenses

	Group		Bank	
	2018 Shs'million	2017 Shs'million	2018 Shs'million	2017 Shs'million
Prepaid expenses	**350**	459	**350**	459
Items in course of collection from banks	**1 150**	787	**1 150**	787
Staff loan marked to market	**1 953**	2 369	**1 953**	2 369
Electronic banking	**4 702**	1 660	**4 702**	1 660
Other	**1 724**	2 726	**1 651**	3 081
	9 879	8 001	**9 806**	8 356

Other assets mainly consist of suspense accounts.

All other assets are current.

24. Investment in subsidiaries

	Proportion of ownership interest and voting power held		Carrying amount	
	2018	2017	Shs'million 2018	Shs'million 2017
Name of subsidiary				
Barclays Financial Services Limited	**100%**	100%	**363**	363
Barclays (Kenya) Nominees Limited	**100%**	100%	**-**	-
Barclays Credit Limited	**100%**	100%	**-**	-
Barclays Bank Insurance Agency Limited	**100%**	100%	**-**	-
Barclays Pension Services Limited	**100%**	100%	**-**	-
			363	363

Barclays (Kenya) Nominees Limited, Barclays Pension Services Limited and Barclays Credit Limited are dormant companies. Barclays Financial Services Limited and Barclays Bank Insurance Agency Limited operate in the business of brokerage services and insurance agency respectively.

The subsidiaries, all of which are unlisted, are incorporated in Kenya and have the same year end as the Bank.

25. Non-current assets held for sale

As at 31 December 2018, the Group continued to recognise in its financial statements items of property and equipment from its closed branches (Bamburi, Maragua and Supplies). A sale of the items had not been completed at the balance sheet date but the Bank expects a sale to be completed in the following year, 2019.

	Group and Bank	
	2018 Shs'million	2017 Shs'million
Property and equipment	**65**	-
	65	-

Notes to the annual financial statements *(continued)*

for the year ended 31 December 2018

26. Property and equipment

Group and Bank	Freehold buildings Shs'million	Leasehold improvements Shs'million	Fixtures fittings and equipment Shs'million	Motor vehicles Shs'million	WIP Shs'million	Total Shs'million
Cost or valuation – 2018						
Balance at beginning of the year	178	3 818	8 191	47	-	12 234
Additions	-	50	378	-	-	428
Transfer to assets held for sale	(44)	(83)	-	-	-	(127)
Disposals	-	(169)	-	(13)	-	(182)
Balance at end of the year	134	3 616	8 569	34	-	12 353
Accumulated depreciation- 2018						
Balance at beginning of the year	(94)	(2 580)	(6 787)	(32)	-	(9 493)
Depreciation	(1)	(226)	(559)	(6)	-	(792)
Transfer to assets held for sale	13	49	-	-	-	62
Disposals	-	129	-	13	-	142
Balance at end of the year	(82)	(2 628)	(7 346)	(25)	-	(10 081)
Net book value at end of year	52	988	1 223	9	-	2 272
Cost or valuation- 2017						
Balance at beginning of the year	178	4 112	7 778	52	32	12 152
Additions	-	32	401	-	16	449
Other transfers	-	22	12	-	(34)	-
Disposals	-	-	-	(5)	-	(5)
Retirement of assets	-	(356)	-	-	-	(356)
Reclassification	-	-	-	-	(14)	(14)
Reclassification from prepaid operating lease rentals	-	8	-	-	-	8
Balance at end of the year	178	3 818	8 191	47	-	12 234
Accumulated depreciation- 2017						
Balance at beginning of the year	(92)	(2 757)	(6 192)	(30)	-	(9 071)
Depreciation	(2)	(163)	(595)	(7)	-	(767)
Disposals	-	-	-	5	-	5
Retirement of assets	-	340	-	-	-	340
Balance at end of the year	(94)	(2 580)	(6 787)	(32)	-	(9 493)
Net book value at end of year	84	1 238	1 404	15	-	2 741

Included in property and equipment at 31 December 2018 are assets with a gross value of Shs 7,163 million (2017: Shs 6,577 million) which are fully depreciated but still in use. The notional depreciation charge on these assets for the year would have been Shs 1,433 million (2017: Shs 1,272 million).

27. Intangible assets

Group	Computer Software Shs'million	WIP Shs'million	Total Shs'million
Cost- 2018			
At start of year	**5 616**	**4**	**5 620**
Acquisitions	**40**	**86**	**126**
Transfer from WIP	**3**	**(3)**	**-**
Balance at end of the year	**5 659**	**87**	**5 746**
Amortisation and impairment losses- 2018			
At start of year	**(4 461)**	**-**	**(4 461)**
Amortisation	**(407)**	**-**	**(407)**
Balance at end of the year	**(4 868)**	**-**	**(4 868)**
Net book value at end of year	**791**	**87**	**878**
Cost- 2017			
At start of year	5 566	20	5 586
Acquisitions	13	31	44
Reclassification	-	(10)	(10)
Transfer from WIP	37	(37)	-
Balance at end of the year	5 616	4	5 620
Amortisation and impairment losses- 2017			
At start of year	(3 994)	-	(3 994)
Amortisation	(465)	-	(465)
Reclassification	(2)	-	(2)
Balance at end of the year	(4 461)	-	(4 461)
Net book value at end of year	1 155	4	1 159

Included in intangible assets at 31 December 2018 are assets with a gross value of Shs 1,956 million (2017: Shs 1,919 million) which are fully depreciated but still in use. The notional depreciation charge on these assets for the year would have been Shs 391 million (2017: Shs 384 million).

Notes to the annual financial statements *(continued)*
for the year ended 31 December 2018

27. Intangible assets *(continued)*

Bank	Computer Software Shs'million	WIP Shs'million	Total Shs'million
Cost- 2018			
At start of year	5 591	4	5 595
Acquisitions	40	63	103
Transfer from WIP	3	(3)	-
Balance at end of the year	5 634	64	5 698
Amortisation and impairment losses- 2018			
At start of year	(4 460)	-	(4 460)
Amortisation	(407)	-	(407)
Balance at end of the year	(4 867)	-	(4 867)
Net book value at end of year	767	64	831
Cost- 2017			
At start of year	5 541	20	5 561
Acquisitions	13	31	44
Reclassification	-	(10)	(10)
Transfer from WIP	37	(37)	-
Balance at end of the year	5 591	4	5 595
Amortisation and impairment losses- 2017			
At start of year	(3 993)	-	(3 993)
Amortisation	(465)	-	(465)
Reclassification	(2)	-	(2)
Balance at end of the year	(4 460)	-	(4 460)
Net book value at end of year	1 131	4	1 135

Included in intangible assets at 31 December 2018 are assets with a gross value of Shs 1,956 million (2017: Shs 1,919 million) which are fully depreciated but still in use. The notional depreciation charge on these assets for the year would have been Shs 391 million (2017: Shs 384 million)

28. Prepaid operating lease rentals

Leasehold land is disclosed as prepaid operating lease rentals and carried at cost less amortisation over the period of the lease.

	Group and Bank 2018 Shs'million	2017 Shs'million
At start of year	46	55
Amortisation charge for the year	(1)	(1)
Reclassification to leasehold improvements	-	(8)
At end of the year	45	46

Our Bank >>
Value Proposition >>
Value Creating Strategy >>
Delivering Value >>
Protecting Value >>
Financial Review

29. Retirement benefit (liability) /asset

The Barclays Bank of Kenya Limited Staff Pension Fund ("the Fund") is a defined benefit pension fund. Prior to 1 January 2010 the Fund consisted of both a Defined Benefit ("DB") and a Defined Contribution ("DC") component. On 1 January 2010, the Fund was split into two separate legal entities, with the liabilities of the DB section remaining in the Fund, and the DC liabilities being transferred to the Barclays Bank of Kenya Limited Staff Retirement Benefits (Defined Contribution) Scheme 2009 ("the DC Fund").

The operation of the Fund is regulated by the Retirement Benefits Authority ("RBA") and subject to the provisions of the Retirement Benefits Act, 1997. The Fund is governed by the Trust Deed and Rules set out in the Fourteenth Deed of Amendment dated 12 February 2010 ("Rules").

Membership data

The membership data used for the valuation is summarised in the table below:

Category	Number	Annual Salary / Pension Shs'million
Defined Benefit		
Active members	3	15
Deferred pensioners	861	75
Pensioners	1 494	522

Summary of benefit and contribution structure

Eligibility	Existing Members who opt to remain Members of the Fund on the terms applying to DB Members.
Final Pensionable Salary	(i) If the Member has been in service for 20 years or more as, the annual pensionable salary at the date of leaving. (ii) If the Member has been in service for less than 20 years, the average annual salary paid to the member during the last five years of service.
Normal Retirement Age	Males 60 Females 55 (60 for some females).
Service	Continuous service with Bank or with Barclays Bank DCO or Barclays Bank International Limited, immediately prior to the establishment of Barclays Bank of Kenya Limited. For those colleagues who joined the Fund aged 17 or less, service will count from the member's 17th birthday.
Normal Retirement and Late Retirement Pension	If service is 20 years or more then 1/720 of Final Pensionable Salary for each month of service to 31 December 2009. Thereafter, benefits accrue at a rate of 1/960 per month. If service is lower than 20 years 1/960 of Final Pensionable Salary for each month of service. This pension is reduced by an amount in respect of the social security pensions as described below and cannot exceed 2/3 of his or her pensionable salary at the date of retirement.
Ill-health retirement*	Pension based on potential service to Normal Retirement Age and Final Pensionable Salary at the date of ill-health retirement. This pension will be paid only if service is 5 years or more.
Retirement due to unsatisfactory service	Deferred pension payable from the later of the date the Member attains age 50 or retires from Service.
Commutation	Up to ¼ of pension (calculated on the advice of the Actuary).

Notes to the annual financial statements *(continued)*

for the year ended 31 December 2018

29. Retirement benefit (liability) / asset *(continued)*

Summary of benefit and contribution structure (continued)

Death in service	Lump sum equal to three year's annual pensionable salary, if the member has been in service for more than five years, otherwise ¼ of the member's rate of Pensionable Salary at the date of death. Death in deferement lump sum equal to five times deferred pension amount
Death after retirement	Lump sum equal to the remaining pension payable within 5 years of retirement age.
Withdrawal	Deferred Pension payable at Normal Retirement Age calculated as follows:

Service	Fraction of Pensionable Salary for each month of service to 31 December 2009
Less than 20 years	**1/960**
20 to 30 years	**1/840**
30 years and over	**1/720**

Benefits accrue at a rate of 1/960 per month for service post 1 January 2010.

In no case shall a deferred pension exceed the amount which could have been paid to the Member if he or she had stayed in service until Normal Retirement Age.

This pension is reduced by an amount in respect of the social security pensions as described below and cannot exceed 2/3 of his or her pensionable salary at the date of retirement.

A cash lump sum** equal to 1/3 of the deferred pension may be taken prior to normal retirement age, with a reduced pension being payable from normal retirement age.

Pension Increases	The Scheme Trustees may, with the consent of the Principal Employer, review pensions in payment and subject to there being sufficient funds for the purpose or the Employers paying a special additional contribution as determined by the Actuary, may increase such pensions.
Contributions	Members are not required to contribute to the Fund, although they can elect to pay voluntary contributions. The Bank contributes to the Fund, the balance of the cost of providing the benefits.
Government Pensions	If a member has completed 40 years' service a deduction is made equal to ½ of any government pension payable to a single person (for members with less than 40 years' service a percentage of this pension is deducted). In addition, a deduction equal to the pension equivalent of any sum paid by the Bank to a DB member under any statutory enactment, order, directive, or under any agreement with a trade union or similar body.

Notes to the annual financial statements *(continued)*
for the year ended 31 December 2018

29 Retirement benefit (liability) / asset *(continued)*

29.1 Defined benefit plan

The principal assumptions used for the purposes of the actuarial valuations were as follows:

	Valuation at (Shs'million) 2018	2017
Discount rate	**12.50%**	13.00%
Expected rate of salary increase	**9.00%**	9.50%
Inflation	**7.00%**	7.50%
Mortality rate	**PA (90)**	PA (90)
Change in pensions	**4.00%**	4.50%

Amounts recognised in profit or loss in respect of these defined benefit plans are as follows:	2018 Shs'million	2017 Shs'million
Current service cost	**27**	27
Interest on obligation	**(2)**	(11)
	25	16

Amounts recognised in other comprehensive income in respect of these defined benefit plans are as follows:

	2018 Shs'million	2017 Shs'million
Actuarial gains financial assumptions	**22**	-
Experience adjustment	**36**	129
Return on plan assets	**(273)**	170
Adjustments for restrictions on the defined benefit asset	**238**	(438)
	23	(139)

The expected return on plan assets is determined by considering the expected returns available on the assets underlying the current investment policy. Expected yields on fixed interest investments are based on gross redemption yields as at the end of the reporting period. Expected returns on equity and property investments reflect long-term real rates of return experienced in the respective markets.

The amount included in the statement of financial position arising from the Bank's obligation in respect of its defined benefit plans is as follows:

	2018 Shs'million	2017 Shs'million
Present value of funded defined benefit obligation	**(4 633)**	(4 678)
Fair value of plan assets	**4 894**	5 119
Deficit	**261**	441
Restrictions on asset recognised	**(261)**	(445)
Net asset arising from defined benefit obligation	**-**	(4)

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Value Proposition >>
Value Creating Strategy >>
Delivering Value >>
Protecting Value >>

Notes to the annual financial statements *(continued)*

for the year ended 31 December 2018

29. Retirement benefit (liability) / asset *(continued)*

Movements in the present value of the defined benefit obligation in the current year were as follows:

	Group and Bank	
	2018 Shs'million	2017 Shs'million
Opening defined benefit obligation	**(4 678)**	(4 776)
Current service cost	**(27)**	(27)
Interest expense	**(567)**	(581)
Actuarial losses financial assumption	**57**	129
Benefits paid	**582**	577
Closing defined benefit obligation	**(4 633)**	(4 678)

Movements in the present value of the plan assets in the current year were as follows:

	Group and Bank	
	2018 Shs'million	2017 Shs'million
Opening fair value of plan assets	**5 119**	4 845
Interest income	**628**	592
Contributions from the employer	**2**	89
Benefits paid	**(582)**	(577)
Actuarial gain/(loss) OCI	**(273)**	170
Closing fair value of plan assets	**4 894**	5 119

Cash flows

The cash flows in the current and expected in the next valuation period are shown below:

	2019 Next valuation (expected) Shs'million	2018 Current Valuation (estimated) Shs'million
Company contributions normal	**2**	2
Company contributions expenses	**31**	
Pension payments	**594**	540
Other benefit payments	**11**	23
Expense payments	**19**	18

Notes to the annual financial statements *(continued)*
for the year ended 31 December 2018

29. Retirement benefit (liability) / asset *(continued)*

Sensitivity analysis

The effect of certain changes to the financial and demographic assumptions is analysed below:

2018	Basis Shs'million	Discount rate 1.00% Shs'million	Discount rate +0.50% Shs'million	Inflation 0.50% Shs'million	PA(90) 1 year Shs'million
Active members	63	72	59	68	65
Deferred members	538	586	516	564	548
Pensions in payment	4 032	4 275	3 920	4 169	4 140
Total liability	**4 633**	**4 933**	**4 495**	**4 801**	**4 753**
Gross service cost (excluding interest)	**21**	**21**	**21**	**21**	**21**
2017					
Active members	91	104	86	97	93
Deferred members	530	580	508	557	540
Pensions in payment	4 056	4 305	3 942	4 197	4 162
Total liability	4 677	4 989	4 536	4 851	4 795
Gross service cost (excluding interest)	24	24	24	24	24

The above sensitivity analysis is based on a change in an assumption while holding all other assumptions constant. In practice, this is unlikely to occur, and changes in some of the assumptions may be correlated. When calculating the sensitivity of the retirement benefit obligation to significant actuarial assumptions the same method (present value of the obligation calculated with the projected unit credit method at the end of the reporting period) has been applied as when calculating the pension liability recognised within the statement of financial position.

The weighted average duration of the defined benefit obligation is 50 years. The figure is not very sensitive to the precise time horizon given the high net discount rate.

30. Deferred income tax

Deferred tax balances

The analysis of the deferred tax assets and deferred tax liabilities is as follows:

	Group		Bank	
	2018 Shs'million	2017 Shs'million	2018 Shs'million	2017 Shs'million
Deferred tax assets	**2 415**	879	**2 390**	865
Deferred tax liabilities	**(235)**	(182)	**(235)**	(182)
Net deferred tax asset at the end of the year	**2 180**	697	**2 155**	683

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

Notes to the annual financial statements *(continued)*

for the year ended 31 December 2018

30. Deferred income tax *(continued)*

Deferred tax balances *(continued)*

Consolidated deferred income tax assets and liabilities are attributable to the following:

Group	Balance at 1 January Shs'million	Recognised in profit or loss Shs'million	Recognised in other comprehensive income Shs'million	Recognised in retained earnings Shs'million	Balance at 31 December Shs'million
2018					
Property and equipment	(103)	66	-	-	(37)
Financial assets at FVOCI	(79)	-	(119)	-	(198)
Unrealised gains and losses	26	17	-	-	43
Impairment losses on financial instruments	655	124	-	-	779
Tax losses	13	8	-	-	21
Derivatives	5	159	-	-	164
Share-based payment transactions	25	48	-	-	73
Provisions	44	209	-	-	253
Remeasurement of defined benefit liability/(asset)	103	-	(7)	-	96
Prior year adjustment	8	83	-	(23)	68
IFRS 9 day one impact	-	-	-	918	918
	697	714	(126)	895	2 180
2017					
Property and equipment	(241)	138	-	-	(103)
Financial assets available-for-sale	94	-	(173)	-	(79)
Unrealised gains and losses	-	26	-	-	26
Provision for impairment of loans and advances	636	19	-	-	655
Tax losses	5	8	-	-	13
Derivatives	-	5	-	-	5
Share-based payment transactions	-	25	-	-	25
Provisions	-	44	-	-	44
Remeasurement of defined benefit liability/(asset)	61	-	42	-	103
Prior year adjustment	64	(56)	-	-	8
	619	209	(131)	-	697

Notes to the annual financial statements *(continued)*
for the year ended 31 December 2018

30 Deferred income tax *(continued)*

Deferred tax balances *(continued)*

Consolidated deferred income tax assets and liabilities are attributable to the following:

Bank 2018	Balance at 1 January Shs'million	Recognised in profit or loss Shs'million	Recognised in other comprehensive income Shs'million	Recognised in retained earnings Shs'million	Balance at 31 December Shs'million
Property and equipment	(103)	66	-	-	(37)
Financial assets at FVOCI	(79)	-	(119)	-	(198)
Unrealised gains and losses	26	17	-	-	43
Impairment losses on financial instruments	655	124	-	-	779
Derivatives	5	159	-	-	164
Share-based payment transactions	25	48	-	-	73
Provisions	43	207	-	-	250
Remeasurement of defined benefit liability/(asset)	103	-	(7)	-	96
Prior year adjustment	8	83	-	(24)	67
IFRS 9 day one impact	-	-	-	918	918
	683	704	(126)	894	2 155
2017					
Property and equipment	(241)	138	-	-	(103)
Financial assets available-for-sale	94	-	(173)	-	(79)
Unrealised gains and losses	-	26	-	-	26
Provision for impairment of loans and advances	636	19	-	-	655
Derivatives	-	5	-	-	5
Share-based payment transactions	-	25	-	-	25
Provisions	-	43	-	-	43
Remeasurement of defined benefit liability/(asset)	61	-	42	-	103
Prior year adjustment	64	(56)	-	-	8
	614	200	(131)	-	683

Notes to the annual financial statements *(continued)*

for the year ended 31 December 2018

31. Other liabilities and accrued expenses

	Group		Bank	
	2018 Shs'million	2017 Shs'million	2018 Shs'million	2017 Shs'million
Accrued expenses	**533**	480	**533**	480
Items in the course of collection due to other banks	**2 194**	1 913	**2 194**	1 913
Outstanding bankers cheques	**246**	428	**246**	428
Trade finance margins	**445**	1 778	**445**	1 778
Card settlements	**1 122**	518	**1 122**	518
Impairment losses on off-balance sheet financial instruments	**239**	-	**239**	-
Other payables	**5 534**	4 033	**5 528**	4 806
	10 313	9 150	**10 307**	9 923

Other payables include items relating to excise duties payable, interchange payable, uncleared payments and trade payables.

Other liabilities and accrued expenses are current.

32. Deposits from banks

	Group and Bank	
	2018 Shs'million	2017 Shs'million
Due to local banks	**4 700**	2 062
Due to foreign banks	**608**	997
	5 308	3 059

The weighted average effective interest rate on deposits and balances due to banking institutions at 31 December 2018 was 14.9% (2017: 9.2%).

Deposits and balances due to banking institutions are current.

33. Deposits from customers

	Group		Bank	
	2018 Shs'million	2017 Shs'million	2018 Shs'million	2017 Shs'million
Call deposits	**112 626**	108 333	**112 944**	108 601
Savings and transmission accounts	**38 236**	33 897	**38 236**	33 897
Fixed deposits	**56 546**	43 747	**56 546**	43 747
	207 408	185 977	**207 726**	186 245

The weighted average effective interest rate on customer deposits at 31 December 2018 was 3% (2017: 2.6%).

The carrying value of customer deposits approximates their fair value.

Notes to the annual financial statements *(continued)*
for the year ended 31 December 2018

34. Borrowings

	Group and Bank 2018 Shs'million	2017 Shs'million
Subordinated debt	**5 096**	5 172
	5 096	5 172

The US$50million subordinated loan from Absa Group Limited was obtained on 26 March 2015 and has a maturity date of 26 March 2020. Interest is paid quarterly in arrears at a rate of 270bps above USD Libor which resets every three months. The carrying value of borrowings approximates their fair value.

The Group did not have any defaults of principal or interest or other breaches with respect to its subordinated liabilities during the years ended 31 December 2018 and 2017

35. Share capital

The authorised share capital of Barclays Bank of Kenya Limited is Shs 2,716 million comprising 5,432 million ordinary shares with a par value of Shs 0.50 per share. The issued share capital comprises 5,432 million ordinary shares with a par value of Shs 0.50 each.

	2018 Shs'million	2017 Shs'million
5 432 (2017: 5 432) shares of stated capital.	**2 716**	2 716

36. Reserves

36.1 Fair value reserve

The fair value reserve comprises the cumulative net change in the fair value of financial assets classified at fair value through other comprehensive income until the instrument is derecognised or impaired; in which case the cumulative amount recognised in other comprehensive income is released to profit or loss.

36.2 Retained earnings

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

36.3 Share-based payment reserve

The Bank's senior management participate in the following Absa Group share based payment arrangement:

(a) Absa Group Limited LongTerm Incentive Plan

The Long-Term Incentive Plan (LTIP) is an equity-settled share-based payment arrangement. Qualifying participants are entitled to Absa Group Limited ordinary shares either by way of a share award or a cash award that must be used to purchase Absa Group Limited ordinary shares. The award will be issued by the employing entity or subsidiary in the Group. In order for the participant to be entitled to these awards, the participant needs to render three years of service and meet requisite performance conditions.

Our Bank >>
Value Proposition >>
Value Creating Strategy >>
Delivering Value >>
Protecting Value >>

Notes to the annual financial statements *(continued)*
for the year ended 31 December 2018

36. Reserves *(continued)*

36.3 Share-based payment reserve *(continued)*

(b) Absa Group Limited Joiners Share Value Plan

The Joiners Share Value Plan (JSVP) enables the Group to attract and motivate new colleague by buying out the "in the money" portion of a participant's shares or options under their previous employers' share scheme by offering the colleagues Absa Group Limited awards. There is no consideration payable for the grant of an award and the vesting of the award is not subject to performance conditions. Dividends accumulate and are reinvested over the vesting period, which can be over one to five years.

(c) Absa Group Limited Share Value Plan

The Share Value Plan (SVP) awards (and any associated notional dividends) are awarded at no cost to the participants. The awards vest in equal tranches after one, two and three years, with each tranche subject to its own independent nonmarketrelated performance condition on vesting. The amount that is paid to the cashsettled participants is equal to the market value of a number of Absa Group Limited ordinary shares, as determined on the vesting date, to the extent that the nonmarketrelated conditions attached to the awards are met. If the Group fails to meet the minimum performance criteria, the awards made in that tranche are forfeited in total. Dividends accumulate and are reinvested over the period.

(d) Absa Group Limited Retention Share Value Plan

The Share Value Retention Plan (SVP Cliff) awards (and any associated notional dividends) are awarded at no cost to the participants. The awards vest after three years, subject to their own independent non-market related performance condition on vesting. The amount that is paid to the cash-settled participants is equal to the market value of a number of Absa Group Limited's ordinary shares, as determined on the vesting date, to the extent that the non-market related conditions attached to the awards are met. On vesting, equity-settled participants are awarded Absa Group Limited ordinary shares in settlement of their awards. If the Group fails to meet the minimum performance criteria, the awards made in that tranche are forfeited in total. Dividends accumulate and are reinvested over the vesting period.

(e) Deferred cash

Absa Group Limited Cash Value Plan

The Cash Value Plan ("CVP") is a deferred cash settled payment arrangement. The award will vest in three equal tranches over a period of three years, subject to the Rules which includes a ten percent service credit for the third anniversary of the CVP award date. The service credit for awards granted in 2018 is 10% (2017: 10%) of the initial value of the award that vests.

The movement in share based payment reserve was as follows:

	2018 Shs'million	2017 Shs'million
At start of year	**195**	285
Granted in the year	**-**	62
Forfeited options	**-**	-
Options exercised	**(7)**	(152)
At end of year	**188**	195

Notes to the annual financial statements *(continued)*

for the year ended 31 December 2018

37. Cash used in operations

	Group		Bank	
	2018 Shs'million	2017 Shs'million	2018 Shs'million	2017 Shs'million
Profit before tax for the year	**10 646**	10 361	**10 250**	10 005
Adjustments for:				
Interest paid (Note 41)	**5 615**	4 098	**5 615**	4 118
Interest received (Note 42)	**(27 222)**	(25 210)	**(27 212)**	(25 205)
Gain on disposal of property, plant and equipment (Note 39)	**(4)**	(11)	**(4)**	(11)
Impairment loss recognised (Note 10)	**3 871**	3 115	**3 871**	3 115
Depreciation (Note 26)	**792**	767	**792**	767
Amortisation – intangible assets (Note 27)	**407**	465	**407**	465
Amortisation – prepaid operating lease rentals (Note 28)	**1**	1	**1**	1
Share-based payments (Note 11)	**81**	81	**81**	81
Pension asset (Note 29)	**25**	16	**25**	16
Other noncash movements	**52**	(324)	**59**	(261)
Cash used in operations before working capital changes	**(5 736)**	(6 641)	**(6 115)**	(6 909)
Changes in working capital				
Increase in derivative assets held for risk management	**(78)**	(369)	**(78)**	(369)
(Increase)/decrease in other assets	**(1 878)**	2 133	**(1 450)**	1 775
Increase in derivative liabilities held for risk management	**565**	385	**565**	385
Increase/(decrease) in other liabilities	**1 163**	(1 268)	**384**	(456)
Increase in loans and advances to customers	**(15 567)**	(3 003)	**(15 567)**	(3 003)
Increase in FVOCI securities maturing after 90 days	**(7 158)**	(8 439)	**(7 158)**	(8 439)
Increase in CBK cash reserve requirement	**(1 125)**	(409)	**(1 125)**	(409)
Increase in financial assets at FVTPL	**(20 100)**	(2 323)	**(20 100)**	(2 322)
Increase in customer deposits	**21 431**	7 798	**21 481**	7 797
Total changes in working capital	**(22 747)**	(5 495)	**(23 048)**	(5 041)
Cash used in operations	**(28 483)**	(12 136)	**(29 163)**	(11 950)

38. Taxation paid

Tax receivable/(payable) at start of year	**415**	(504)	**336**	(375)
Current income tax expense (Note 14.1)	**(4 014)**	(3 644)	**(3 885)**	(3 526)
Withholding tax utilisation	**-**	99	**-**	17
Prior year adjustment	**70**	-	**75**	-
Tax payable/(receivable) at the end of the year	**25**	(415)	**96**	(336)
Total income taxes paid	**(3 504)**	(4 464)	**(3 378)**	(4 220)

39. Proceeds on disposal of equipment and leased assets

	Group and Bank	
	2018 Shs'million	2017 Shs'million
Proceeds on disposal of equipment and leased assets	**4**	11

Our Bank >>
Value Proposition >>
Value Creating Strategy >>
Delivering Value >>
Protecting Value >>

Notes to the annual financial statements *(continued)*

for the year ended 31 December 2018

40. Dividends paid

	Group and Bank 2018 Shs'million	Group and Bank 2017 Shs'million
Dividends payable at start of the year (2017 final proposed)	**4 345**	4 345
Interim dividend paid	**1 086**	1 086
Total dividends paid	**5 431**	5 431

41. Finance costs paid

	Group 2018 Shs'million	Group 2017 Shs'million	Bank 2018 Shs'million	Bank 2017 Shs'million
Interest paid	**(5 615)**	(4 098)	**(5 615)**	(4 118)

42. Finance income received

Interest received	**27 222**	25 210	**27 212**	25 205

43. Cash and cash equivalents

For the purposes of the statement of cash flow, cash and cash equivalents comprise balances with less than 90 days maturity from the date of acquisition as follows:

	Group 2018 Shs'million	Group 2017 Shs'million	Bank 2018 Shs'million	Bank 2017 Shs'million
Cash in hand (Note 16)	**5 815**	4 720	**5 815**	4 720
Non-cash reserve ratio balances with CBK	**6 828**	1 871	**6 811**	1 857
FVOCI securities maturing within ninety days (Note 19 and 20)	**3 258**	5 640	**3 258**	5 640
Items in the course of collection from banks (Note 23)	**1 150**	787	**1 150**	787
Due from group companies (Note 49)	**9 126**	3 465	**9 541**	3 465
Deposit and balances due from banking institutions (Note 21)	**6 572**	1 818	**6 572**	1 818
Items in the course of collection to banks (Note 31)	**(2 194)**	(1 913)	**(2 194)**	(1 913)
Due to group companies (Note 49)	**(51 938)**	(23 659)	**(52 891)**	(23 659)
Deposits and balances due to banking institutions (Note 32)	**(5 308)**	(3 059)	**(5 308)**	(3 059)
	(26 691)	(10 330)	**(27 246)**	(10 344)

Banks are required to maintain a prescribed minimum cash balance with the Central Bank of Kenya that is not available to finance the Bank's day-to-day activities.

The amount is determined as percentage of the average outstanding customer deposits over a cash reserve cycle period of one month. At the end of year, the cash reserve ratio was 5.25% (2017: 5.25%).

Notes to the annual financial statements *(continued)*
for the year ended 31 December 2018

44. Financial instruments

44.1 Categories of financial instruments

Group	Fair Value through Profit/Loss Shs'million	Fair Value through OCI-Debt instruments Shs'million	Amortised Cost-Debt instruments Shs'million	Amortised cost financial liabilities Shs'million	Total Assets and Liabilities Shs'million
Assets as per Statement of Financial Position- 2018					
Cash and balances with Central Bank of Kenya	-	-	23 531	-	23 531
Derivative financial instruments	473	-	-	-	473
Loans and advances to customers	-	-	177 354	-	177 354
Debt instruments	29 708	63 230	-	-	92 938
Loans and advances to banks	-	-	6 572	-	6 572
Due from group companies	-	-	9 126	-	9 126
Other assets	-	-	9 529	-	9 529
	30 181	63 230	226 112	-	319 523
Liabilities as per Statement of Financial Position- 2018					
Derivative financial instruments	1 019	-	-	-	1 019
Borrowings	-	-	-	5 096	5 096
Deposits from banks	-	-	-	5 308	5 308
Deposits from customers	-	-	-	207 408	207 408
Due to group companies	-	-	-	51 938	51 938
Other liabilities	-	-	-	10 313	10 313
	1 019	-	-	280 063	281 082
Interest income	765	7 382	21 679	-	29 826
Interest expense	-	-	-	(7 069)	(7 069)
	765	7 382	21 679	(7 069)	22 757

Notes to the annual financial statements *(continued)*
for the year ended 31 December 2018

44. Financial instruments *(continued)*

44.1 Categories of financial instruments *(continued)*

Group	Fair Value through Profit/Loss – Held for trading Shs'million	Available-for-sale Debt instruments Shs'million	Amortised Cost-Debt instruments Shs'million	Amortised cost financial liabilities Shs'million	Total Assets and Liabilities Shs'million
Assets as per Statement of Financial Position- 2017					
Cash and balances with Central Bank of Kenya	-	-	16 354	-	16 354
Derivative financial instruments	395	-	-	-	395
Loans and advances to customers	-	-	168 397	-	168 397
Debt instruments	9 608	58 476	-	-	68 084
Deposits due from banking institutions	-	-	1 818	-	1 818
Due from group companies	-	-	3 465	-	3 465
Other assets	-	-	7 542	-	7 542
	10 003	58 476	197 576		266 055
Liabilities as per Statement of Financial Position- 2017					
Derivative financial instruments	454	-	-	-	454
Borrowings	-	-	-	5 172	5 172
Deposits from banks	-	-	-	3 059	3 059
Customer deposits	-	-	-	185 977	185 977
Due to group companies	-	-	-	23 658	23 658
Other liabilities	-	-	-	9 150	9 150
	454	-	-	227 016	227 470
Interest income	351	5 775	21 376	-	27 502
Interest expense	-	-	-	(5 370)	(5 370)
	351	5 775	21 376	(5 370)	22 132

Notes to the annual financial statements *(continued)*
for the year ended 31 December 2018

44. Financial instruments *(continued)*

44.1 Categories of financial instruments *(continued)*

Bank	Fair Value through Profit/Loss Shs'million	Fair Value through OCI-Debt instruments Shs'million	Amortised Cost-Debt instruments Shs'million	Amortised cost financial liabilities Shs'million	Total Assets and Liabilities Shs'million
Assets as per Statement of Financial Position- 2018					
Cash and balances with Central Bank of Kenya	-	-	23 531	-	23 531
Derivative financial instruments	473	-	-	-	473
Loans and advances to customers	-	-	177 354	-	177 354
Debt instruments	29 708	63 120	-	-	92 828
Loans and advances to banks	-	-	6 572	-	6 572
Due from group companies	-	-	9 541	-	9 541
Other assets	-	-	9 456	-	9 456
	30 181	63 120	226 454	-	319 755
Liabilities as per Statement of Financial Position- 2018					
Derivative financial instruments	1 019	-	-	-	1 019
Borrowings	-	-	-	5 096	5 096
Deposits from banks	-	-	-	5 308	5 308
Deposits from customers	-	-	-	207 726	207 726
Due to group companies	-	-	-	52 891	52 891
Other liabilities	-	-	-	10 307	10 307
	1 019	-	-	281 328	282 347
Interest income	765	7 373	21 679	-	29 817
Interest expense	-	-	-	(7 092)	(7 092)
	765	7 373	21 679	(7 092)	22 725

Notes to the annual financial statements *(continued)*

for the year ended 31 December 2018

44. Financial instruments *(continued)*

44.1 Categories of financial instruments (continued)

Bank	Fair Value through Profit/Loss – Held for trading Shs'million	Available-for-sale Debt instruments Shs'million	Amortised Cost-Debt instruments Shs'million	Amortised cost financial liabilities Shs'million	Total Assets and Liabilities Shs'million
Assets as per Statement of Financial Position- 2017					
Cash and balances with Central Bank of Kenya	-	-	16 354	-	16 354
Derivative financial instruments	395	-	-	-	395
Loans and advances to customers	-	-	168 397	-	168 397
Debt instruments	9 608	58 376	-	-	67 984
Loans and advances to banks	-	-	1 818	-	1 818
Due from group companies	-	-	3 465	-	3 465
Other assets	-	-	7 897	-	7 897
	10 003	58 376	197 931	-	266 310
Liabilities as per Statement of Financial Position- 2017					
Derivative financial instruments	454	-	-	-	454
Borrowings	-	-	-	5 172	5 172
Deposits from banks	-	-	-	3 059	3 059
Customer deposits	-	-	-	186 245	186 245
Due to group companies	-	-	-	23 658	23 658
Other liabilities	-	-	-	9 923	9 923
	454	-	-	228 057	228 511
Interest income	351	5 770	21 376	-	27 497
Interest expense	-	-	-	(5 391)	(5 391)
	351	5 770	21 376	(5 391)	22 106

Notes to the annual financial statements *(continued)*
for the year ended 31 December 2018

45. Risk management

45.1 Financial risk management objectives

Effective risk management and control are essential for sustainable and profitable growth

The role of risk management is to evaluate, respond to and monitor risks (the ERM process) that arise in the execution of the strategy 'to bring possibilities to life'. It is essential that business growth plans are properly supported by an effective risk management infrastructure. Risk culture is closely aligned to that of the business, whilst retaining independence in analysis and objective decisionmaking. The Group's business involves taking on risks in a targeted manner and managing them professionally.

The core functions of the Group's risk management are to identify all key risks for the Group, measure these risks, manage the risk positions and determine capital allocations. The Group regularly reviews its risk management policies and systems to reflect changes in markets, products and best market practice.

The main sources of financial risk that the Group faces arise from financial instruments, which are fundamental to the Group's business, and constitute the core of its operations.

Financial instruments create, modify or reduce the liquidity, credit, market and operational risks of the Group's statement of financial position and constitute the most significant sources of risk. Consequently, the Group devotes considerable resources to maintain effective controls to manage, measure and mitigate each of these risks and regularly reviews its risk management procedures and systems to ensure that they continue to meet the needs of business. This note presents information about the Group's exposure to each of the above risks, and the Group's objectives, policies and processes for measuring and managing risk.

The Group has clear risk management objectives and a wellestablished strategy to deliver them, through core risk management processes. At a strategic level, the Group's risk management objectives are to:

- Identify the Group's significant risks;
- Formulate the Group's risk appetite and ensure that business profile and plans are consistent with it;
- Optimise risk/return decisions by taking them as closely as possible to the business, while establishing strong and independent review and challenge structures;
- Ensure that business growth plans are properly supported by effective risk infrastructure;
- Manage risk profile to ensure that specific financial deliverables remain possible under a range of adverse business conditions; and
- Help executives improve the control and coordination of risk taking across the business

The Group's approach is to provide direction on:

- understanding the principal risks to achieving Group strategy;
- establishing risk appetite; and
- establishing and communicating the risk management framework.

Notes to the annual financial statements *(continued)*
for the year ended 31 December 2018

45. Risk management *(continued)*

45.1 Financial risk management objectives *(continued)*

The process is then broken down into five steps: identify, assess, control, report and manage/challenge. Each of these steps is broken down further, to establish end-to-end activities within the risk management process and the infrastructure needed to support it (see panel below). The Bank's aim is to achieve an appropriate balance between risk and return and minimise potential adverse effects on the Bank's financial performance. The Bank defines risk as the possibility of losses or profits foregone, which may be caused by internal or external factors.

Steps	Activity
Identify	Establish the process for identifying and understanding business level risks
Assess	Agree and implement measurement and reporting standards and methodologies.
Control	Establish key control processes and practices, including limit structures, impairment allowance. Criteria and reporting requirements Monitor the operation of the controls and adherence to risk direction and limits Provide early warning of control or appetite breaches Ensure that risk management practices and conditions are appropriate for the business environment
Report	Interpret and report on risk exposures, concentrations and risk-taking outcomes Interpret and report on sensitivities and key risk indicators Communicate with external parties
Manage and challenge	Review and challenge all aspects of the Bank's risk profile Assess new risk-return opportunities Advise on optimising the Bank's risk profile Review and challenge risk management practices

Risk responsibilities

The Group achieves its risk management objectives by keeping risk management at the centre of the executive agenda and building a culture that combines risk management with everyday business decision making. The risks arising from financial instruments to which the Bank is exposed are:

Financial risks

(a) Credit risk;
(b) Liquidity risk;
(c) Market risk.

On a day-to-day basis risks are managed through a number of management committees. Through this process the Bank monitors compliance within the overall risk policy framework and ensures that the framework is kept up to date.

Our Bank >>
Value Proposition >>
Value Creating Strategy >>
Delivering Value >>
Protecting Value >>
Financial Review

Notes to the annual financial statements *(continued)*
for the year ended 31 December 2018

45. Risk management *(continued)*

45.1 Financial risk management objectives *(continued)*

Risk responsibilities *(continued)*

The Board approves risk appetite and the Board Audit and Risk Committee (BARC) monitors the Bank's risk profile against this appetite. In more detail:

- The BARC has responsibility for ensuring effective risk management and control.
- Business Heads are responsible for the identification and management of risk in their businesses.
- Business risk teams are responsible for assisting Business Heads in the identification and management of their business risk profiles for implementing appropriate controls.
- Internal Audit is responsible for the independent review of risk management and the control environment.
- The Asset and Liability Committee (ALCO) is tasked with managing financial risk, specifically liquidity, interest rates, market risk, capital management and balance sheet structure.

The Committee meets at least once a month and is instrumental in ensuring that sustainable and stable returns are obtained from the deployment of the Bank's assets within a framework of financial risks and controls. ALCO is chaired by the Chief Executive Officer and its membership comprises the Chief Financial Officer, Country Treasurer, Head of Corporate Banking, Head of Consumer Banking, the Chief Operating Officer and the Chief Risk Officer.

45.2 Credit risk

Credit risk is the risk of suffering financial loss should any of the Group's customers, clients or market counterparties fail to fulfil their contractual obligations to the Group. The credit risk that the Group faces arises mainly from wholesale and retail loans and advances together with the counterparty credit risk arising from derivative contracts entered into with our clients. Other sources of credit risk arise from trading activities, including debt securities; settlement balances with market counterparties, fair value through other comprehensive income (FVOCI) assets and reverse repurchase loans. Credit risk furthermore arises from the granting of financial guarantees or making loan commitments.

Credit risk management objectives are to:

- establish a framework of controls to ensure credit risk-taking is based on sound credit risk management principles;
- identify, assess and measure credit risk clearly and accurately across the Group and within each separate business, from the level of individual facilities up to the total portfolio;
- control and plan credit risk-taking in line with external stakeholder expectations and avoiding undesirable concentrations;
- monitor credit risk and adherence to agreed controls; and
- ensure that risk-reward objectives are met.

The Group manages credit risk by:

- Defining clear risk appetite thresholds and triggers, using applicable stress test measures.
- Ensuring maximum exposure guidelines are in place relating to the exposures to any individual customer or counterparty.
- Controlling concentrations of credit risk wherever they are identified in particular, to individual counterparties and groups of borrowers, countries, and to industry segments.
- Clearly understanding the target market.
- Establishing risk acceptance criteria.
- Undertaking sound credit origination, monitoring and account management.
- Ensuring appropriate risk infrastructure and controls.

Our Bank >>
Value Proposition >>
Value Creating Strategy >>
Delivering Value >>
Protecting Value >>

Notes to the annual financial statements *(continued)*

for the year ended 31 December 2018

Our Bank >>
Value Proposition >>
Value Creating Strategy >>
Delivering Value >>
Protecting Value >>
Financial Review

45. Risk management (continued)

45.2 Credit risk *(continued)*

The Group has an established framework, and related processes, which govern its approach to credit risk management and any resultant impairment of loans and advances. The governance process includes the existence of the AGL Models Committee (MC) (a board committee), Relationship Banking Models Forum, Corporate and Investment Bank Models Forum, Home loans Models Forum, Retail Unsecured Models Forum and AVAF portfolio quality Review Committee whose remit includes:

- the development, implementation and evaluation of risk and impairment models;
- periodic assessment (at least annually) of the accuracy of the models against actual results; and
- approval of new models or changes to models, in line with the model validation framework.

The aforementioned committees also approve post model adjustments applied to models. Retail impairment allowances are subject to quarterly impairment adequacy reviews and approval by the Retail Impairment Adequacy Forum. Wholesale impairment allowances are subject to monthly impairment adequacy reviews and approval by the Wholesale Impairment Governance Forum.

The consideration of credit risk is a fundamental process for the Group as it ultimately determines the impairment losses recognised from an accounting perspective. This section describes the processes and assumptions applied in estimating impairment under IAS 39 (2017) and under IFRS 9 (2018).

Approach to credit modelling/internal ratings

The principal objective of credit measurement is to produce the most accurate possible quantitative assessment of credit risk to which the Group is exposed from the level of individual facilities up to the total portfolio level. Integral to this is the calculation of internal credit parameters which are used for credit risk management purposes and in the calculation of regulatory capital, economic capital and impairment requirements.

The key credit parameters used in this process are:

- *probability of default (PD):* the likelihood of a customer defaulting on its obligations within the appropriate outcome period;
- *exposure at default (EAD):* an estimate of the level of credit exposure should the customer default during the appropriate outcome period; and
- *loss given default (LGD):* an estimate of the percentage of EAD that will not be recovered on a particular credit facility should the customer default during the outcome period. LGD recognises credit risk mitigation, such as collateral or credit derivatives.

Internal and vendor-supplied credit models are used to estimate the key credit parameters of PD, LGD and EAD. The Group uses different modelling methodologies, ranging from pure statistical models and cash flow models to expert-based models, taking into account quantitative and qualitative risk drivers. PD, LGD and EAD estimates can be calculated to represent different views of the credit cycle, which are used in different applications. For example, PD estimates can be calculated on a through-the-cycle (TTC) basis, reflecting the predicted default frequency in an average 12-month period across the credit cycle, or on a point-in-time (PIT) basis, reflecting the predicted default frequency in the next 12 months for a particular period in the credit cycle. EAD and LGD estimates can be calculated as down-turn measures, reflecting behaviour observed under stressed economic conditions, or as business-as-usual measures, reflecting behaviour under normal conditions.

These parameters are used for the following credit risk management purposes:

- *Credit approval:* PD models are used in the approval process in both retail and wholesale portfolios. In high volume retail portfolios, application and behaviour scorecards are frequently used as decision making tools. In wholesale and certain retail portfolios, PD models are used to direct applications to an appropriate credit sanctioning level.
- *Risk-reward and pricing:* PD, EAD and LGD metrics are used to assess the profitability of deals and portfolios and to allow for risk adjusted pricing and strategy decisions.
- *Risk appetite:* Regulatory capital, economic capital and earnings volatility measures are used in the Group's risk appetite framework.
- *Economic capital calculations:* Credit economic capital calculations use PD, LGD and EAD inputs.
- *Risk profile reporting:* Credit risk reports for senior management make use of model outputs to describe the Group's credit risk profile.

Notes to the annual financial statements *(continued)*

for the year ended 31 December 2018

45. Risk management *(continued)*

45.2 Credit risk *(continued)*

Validation of models

Models undergo independent validation when new models have been developed (initial validation) and on an annual basis (ongoing validation). Models are approved by the respective Chief Risk Officers supported by either the Relationship Banking Models Forum or the Corporate and Institutional Banking (CIB) Credit Models Forum. The most material models require approval by the AGL Models Committee (MC).

Default grades

The Group uses two types of PDs, namely:

- The through-the-cycle (TTC) PD, which reflects the Group's assessment of the borrower's long-run average propensity to default in the next year; and
- The point-in-time (PIT) PD, which calculated factoring the current economic, industry and borrower circumstances.

Both types of PDs are used extensively in the Group's decision making processes. For communication and comparison purposes, the Group's 21 default grades (DGs), were mapped to external agency rating equivalents as well as the South African Reserve Bank's (SARB) 26 grade PD scale used for regulatory reporting purposes. DG grading represents a TTC view of the distribution of the book at a specific point in time. The indicative mapping of the DG buckets to the equivalent international rating agency and regulatory PD bands are described below:

Rating	Description of the Grade
DG 1 – 9	Assets falling within these DG buckets are regarded as 'investment grade' and, when converted to a rating agency equivalent, correspond to a BBB rating or better.
DG 10 – 19	Financial assets in these grades typically require more detailed management attention where clear evidence of financial deterioration or weakness exists. Assets in this category, although currently protected, are potentially weaker credits. These assets contain some credit deficiencies. When converted to a rating agency equivalent, these ratings correspond to a BB+ to B rating.
DG 20 – 21	The PD of financial assets in these grades have deteriorated to such an extent that they are included for regular review. Assets so classified must have well defined weaknesses that exacerbate the PD. These assets are characterised by the distinct possibility that the borrower will default, and should the collateral pledged be insufficient to cover the asset, the Group will sustain some loss when default occurs.

The table below references the internal credit risk ratings to observable external ratings

Barclays Bank Rating	Description of the Grade	External Rating S&P equivalent
DG 1 – 11	Investment Grade	AAA, AA+, AA, A+, A
DG 12 – 19	Standard Monitoring	BBB+, BBB, BBB, BB+, BB, BB, B+, B, B
DG 20 – 21	Special Monitoring	CCC to C

Notes to the annual financial statements *(continued)*

for the year ended 31 December 2018

45. Risk management *(continued)*

45.2 Credit risk *(continued)*

Approach to impairment of credit exposures (2018)

The measurement of ECL involves a significant level of complexity and judgement, including estimation of probabilities of default, loss given default, a range of unbiased future economic scenarios, estimation of expected lives, and estimation of exposures at default and assessing significant increases in credit risk.

The calculation of ECL incorporates the probability that a credit loss will occur, as well as the probability that no credit loss occurs, even if the most likely outcome is no credit loss. The estimate reflects an unbiased and probability weighted amount that is determined by evaluating a range of possible outcomes. In some cases, relatively simple modelling is considered to be sufficient, without the need to consider the outcome under different scenarios. For example, the average credit losses of a large group of financial instruments with shared risk characteristics may be a reasonable estimate of the probability weighted amount. In other situations, the identification of scenarios that specify the amount and timing of the cash flows for particular outcomes and the estimated probability of those outcomes will be needed.

Under IFRS 9, the Group recognises ECL based on a stage allocation methodology, with such categorisation informing the level of provisioning required. The ECL allowance calculated on stage 1 assets reflects the lifetime losses associated with events of default that are expected to occur within 12 months of the reporting date (12 month ECL). Assets classified within stage 2 and stage 3 carry an ECL allowance calculated based on the lifetime losses associated with defaults that are expected to occur over the lifetime of the exposure (lifetime ECL). The assessment of whether an exposure should be transferred from stage 1 to stage 2, is based on whether there has been a significant deterioration in credit risk. This is a relative measure, where the credit risk at the reporting date is compared to the risk that existed upon initial recognition of the instrument. Exposures are classified within stage 3 if they are credit impaired.

For the purposes of credit modelling under IFRS 9, the PD is calculated on a Point-in-time (PIT) basis and reflects the likelihood of default assessed on the prevailing economic conditions at the reporting date, adjusted to take into account estimates of future economic conditions that are likely to impact the risk of default. PIT PDs do not equate to a long run average. This is a key distinction between the IFRS 9 ECL models and the Group's Basel III models. Under Basel III, the PD is the average of default within the next 12 months, calculated based on the long-run historical average over the full economic cycle (that is, TTC). For IFRS 9 purposes, two distinct PD estimates are required:

- *Lifetime PD:* the likelihood of accounts entering default during the remaining life of the asset.
- *12 month PD:* the likelihood of accounts entering default within 12 months of the reporting date.

The general approach to the IFRS 9 LGD models has been to leverage the Basel LGD models with bespoke IFRS 9 adjustments to ensure unbiased estimates. In calculating LGD, losses are discounted to the reporting date using the effective interest rate (EIR) determined at initial recognition or an approximation thereof. For debt instruments, such as loans and advances, the discount rate applied is the EIR calculated on origination or acquisition date. For financial guarantee contracts or loan commitments for which the EIR cannot be determined, losses are discounted using a rate that reflects the current market assessment of the time value of money and the risks that are specific to the cash flows (to the extent that such risks have not already been taken into account by adjusting the cash shortfalls).

The EAD model estimates the exposure that an account is likely to have at any point of default in future. This incorporates both the amortising profile of a term loan, as well as behavioral patterns such as the propensity of the client to draw down on unutilised facilities in the lead up to a default event.

Expert credit judgement may, in certain instances be applied to account for situations where known or expected risk factors have not been considered in the ECL assessment or modelling process, or where uncertain future events have not been incorporated into the modelled approach. Adjustments are intended to be short term measures and will not be used to incorporate any continuous risk factors. The Group has a robust policy framework which is applied in the estimation and approval of management adjustments.

Notes to the annual financial statements *(continued)*
for the year ended 31 December 2018

45. Risk management *(continued)*

45.2 Credit risk *(continued)*

Retail portfolio

Ratings assigned across each retail portfolio are based on automated application and behavioral scoring systems. The underlying rating is calculated at point of application and updated monthly thereafter. The rating is used in decisions concerning underwriting and account management, and is used to calculate RC, EC and IFRS 9 ECL.

The methodology and data employed in the risk estimation and the rating processes can be summarised as follows:

(i) Internal risk estimates of PD, EAD and LGD are grounded in historical experience and are reliant on historical data.

(ii) PDs are assigned at account level, and consist of three elements namely:

- a term structure, capturing typical default behaviour by the months since observation;
- a behavioral model which incorporates client level risk characteristics; and
- a macroeconomic model that incorporates forward looking macroeconomic scenarios.

(iii) EADs are assigned at an account level and are based on the EAD pool to which the account has been assigned. EAD estimates incorporate all relevant data and information including account balances as well as utilised and unutilised limits, if present.

(iv) LGDs are assigned at account level and are based on the LGD pool to which the account has been assigned. Relevant historical data used in LGD estimates include observed exposure at the point of default, recovery strategies, redefaults, cure and writeoff rates. The models make use of risk drivers such as loan-to-value (LTV) and attributes that describe the underlying asset.

Wholesale portfolio

The wholesale rating process relies both on internally developed PD, EAD and LGD rating models and vendor provided solutions. The wholesale rating process relies on quantitative and qualitative assessments that could be manual or automated. Wholesale PDs and LGDs are modelled using the parameters from regulatory models as starting point. Parameters are adjusted for differences between requirements under Basel III and IFRS 9.

PD ratings are assigned on a customer level. Information used in the calculation of customer PD ratings includes financial statements, projected cash flows, equity price information, behavioral information; and qualitative assessments on strength of support, management, operating environment, industry, etc. In converting Basel III compliant PDs to PDs appropriate for the purposes of IFRS 9, the main adjustments effected comprise:

- a macroeconomic adjustment that changes the paradigm from a long-run average default rate to a PD that reflects the prevailing macroeconomic conditions, thereby adjusting the PD from a seven year historical average to a PD reflective of the macroeconomic environment at the reporting date; and
- an adjustment to the regulatory PD to convert it from a PD over 12 months, to a PD over the lifetime of an exposure, to be able to assess significant increases in credit risk and estimate lifetime provisions for stage 2.

LGD estimates depend on the key drivers of recovery such as collateral value, seniority and costs involved as part of the recovery process. LGD models are based on internal and external loss data and the judgement of credit experts. EAD models aim to replicate the expected utilisation of a customer's facility should a default occur. EADs are assigned for each facility using models incorporating internal and external default data as well as the experience of credit experts in relation to particular products or customer groups.

The main adjustments to LGD comprise a macroeconomic adjustment that changes the long-run LGD to reflect a given macroeconomic scenario. Lifetime projections of LGD take into account the expected balance outstanding on a loan at the time of default, as well as the value of associated collateral at that point in time.

Our Bank >>
Value Proposition >>
Value Creating Strategy >>
Delivering Value >>
Protecting Value >>

Notes to the annual financial statements *(continued)*
for the year ended 31 December 2018

45. Risk management *(continued)*

45.2 Credit risk *(continued)*

Wholesale portfolio (continued)

Critical areas of judgement with regards to IFRS 9

Definition of a significant increase in credit risk:

The Group uses various quantitative, qualitative and back stop measures as indicators of a significant increase in credit risk. The thresholds applied for each portfolio will be reviewed on a regular basis to ensure they remain appropriate. Where evidence of a significant increase in credit risk is not yet available at an individual instrument level, instruments that share similar risk characteristics are assessed on a collective basis.

Key drivers of a significant increase in credit risk include:

- Where the weighted average probability of default (PD) for an individual exposure or group of exposures as at the reporting date evidences a material deterioration in credit quality, relative to that determined on initial recognition;
- Adverse changes in payment status and where accounts are more than 30 days in arrears at reporting date. In certain portfolios a more conservative arrears rule is applied where this is found to be indicative of increased credit risk (e.g. 1 day in arrears);
- Accounts in the Retail portfolio which meet the portfolio's impairment high risk criteria; and
- The Group's watch list framework applied to the Wholesale portfolio, which is used to identify customers facing financial difficulties or where there are grounds for concern regarding their financial health.

Definition of credit impaired

Assets classified within stage 3 are considered to be credit impaired and applies when an exposure is in default. Important to the Group's definition of default, is the treatment of exposures which are classified as within forbearance. Forbearance is a concession granted to counterparty for reasons of financial difficulty that would not otherwise be considered by the Group. The definition of forbearance is not limited to measures that give rise to an economic loss (that is, a reduction in the counterparty's financial obligation).

Default within Wholesale and Retail is aligned with the regulatory definition, and therefore assets are classified as defaulted when either:

- The Group considers that the obligor is unlikely to pay its credit obligations without recourse by the Group to actions such as realising security. Elements to be taken as indications of unlikeliness to pay include the following:
- The Group consents to a distressed restructuring / forbearance of the credit obligation where this is likely to result in a diminished financial obligation caused by the material forgiveness of principal, interest or fees;
- The customer is under debt review, business rescue or similar protection; or,
- Advice is received of customer insolvency or death.
- The obligor is past due 90 days or more on any credit obligation to the Group.

In addition, within the Retail portfolios:

- All forms of forbearance are treated as in default, regardless of whether the restructure has led to a diminished financial obligation or not; and

The Group requires an exposure to reflect at least 12 consecutive months of performance, in order to be considered to have been cured from stage 3. This probation period applies to all exposures, including those that may have been classified as defaulted for reasons other than forbearance and debt review (e.g. owing to the fact that they become more than 90 days past due).

Notes to the annual financial statements *(continued)*
for the year ended 31 December 2018

45. Risk management *(continued)*

45.2 Credit risk *(continued)*

Determination of the lifetime of a credit exposure:

The determination of initial recognition and asset duration (lifetime) are critical judgements in determining quantum of lifetime losses that apply. The date of initial recognition reflects the date that a transaction (or account) was first recognised on the statement of financial position. The PD recorded at this time provides the baseline used for subsequent determination of a significant increase in credit risk.

When determining the period over which the entity is expected to be exposed to credit risk, but for which the ECL would not be mitigated by the entity's normal credit risk management actions, the Group considers factors such as historical information and experience about:

- the period over which the entity was exposed to credit risk on similar financial instruments;
- the length of time for related defaults to occur on similar financial instruments following a significant increase in credit risk; and
- the credit risk management actions that an entity expects to take once the credit risk on the financial instrument has increased, such as the reduction or removal of undrawn limits.

For asset duration, the approaches which are applied (in line with IFRS 9 requirements) are:

- **Term lending**: the contractual maturity date, reduced for behavioral trends where appropriate (such as, expected settlement and amortisation); and
- **Revolving facilities:** for Retail portfolios, asset duration is based on behavioral life and this is normally greater than contractual life. For Wholesale portfolios, a sufficiently long period to cover expected life modelled and an attrition rate is applied to cater for early settlement.

Incorporation of forward-looking information into the IFRS 9 modelling:

The Group's IFRS 9 impairment models consume macroeconomic information to enable the models to provide an output that is based on forward looking information. The macroeconomic variables and forecast scenarios are sourced from one of the world's largest research companies, and are reviewed and approved in accordance with the Group's macroeconomic governance framework. This review includes the testing of forecast estimates, the appropriateness of variables and probability weightings, as well as the incorporation of these forecasts into the ECL allowance.

The Group has adopted the use of three economic scenarios: a base scenario, a mild upside scenario, and a mild downside scenario.

Approach to impairment of loans and advances (2017)

The Bank establishes, through charges against profit, impairment allowances and other credit provisions for the incurred loss inherent in the lending book. Under IFRS, impairment allowances are recognised where there is objective evidence of impairment as a result of one or more loss events that have occurred after initial recognition, and where these events have had an impact on the estimated future cash flows of the financial asset or portfolio of financial assets. Impairment of loans and receivables is measured as the difference between the carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate. If the carrying amount is less than the discounted cash flows, then no further allowance is necessary.

The Group has an established governance process with respect to its approach to credit risk and any resultant impairment of loans and advances. The governance process includes the existence of Retail and Wholesale Credit Risk Technical Committees, whose remit includes:

- the development, implementation and evaluation of risk and impairment models;
- periodic assessment (at least annually) of the accuracy of the models against actual results; and
- approval of new models or changes to models, in line with the model validation framework.

Notes to the annual financial statements *(continued)*
for the year ended 31 December 2018

45. Risk management *(continued)*

45.2 Credit risk *(continued)*

Approach to impairment of loans and advances (2017) *(continued)*

The Group uses statistical modelling techniques throughout its business in its credit rating systems. These systems assist the Group in front line credit decisions on new commitments and in managing portfolios of existing exposures. They enable the application of consistent risk measurement across all credit exposures, retail and corporate.

The principal objective of credit measurement is to produce the most accurate possible quantitative assessment of credit risk to which the Group is exposed from the level of individual facilities up to the total portfolio level. Integral to this is the calculation of internal ratings that is used in numerous aspects of credit risk management. The key building blocks in the measurement system are:

(i) Probability of Default (PD)

PD measures the likelihood of a customer defaulting on its obligations within the next 9 months and is a primary component of the internal risk rating for customers. The Group assesses the PD of individual counterparties using internal rating tools tailored to the various categories of counterparty. They have been developed internally and combine statistical analysis with credit officer judgement, in line with group policy. The rating methods are subject to annual validation and recalibration so that they reflect the latest projection in the light of the actually observed defaults.

(ii) Exposure at default (EAD)

EAD represents the expected level of utilization of the credit facility when default occurs. At default the customer may not have drawn the loan fully or may already have repaid some of the principal, so that exposure is typically less than the approved loan limit. For example, for a loan, the EAD is the face value. For a commitment, the Group includes any amount already drawn, plus the further amount that may be drawn at the time of default, should it occur.

(iii)Loss given default (LGD)

LGD represents the Group's expectation of the extent of loss on a claim should default occur. The severity of the loss is measured as a percentage of the EAD. For derivative instruments, EAD is the estimated costs of replacing contracts with a positive value if counterparties should fail to perform their obligations. LGD typically varies by type of counterparty, type and seniority of claim and availability of collateral or other credit support. Impairment allowances are measured individually for assets that are individually significant, and collectively where a portfolio comprises homogenous assets and where appropriate statistical techniques are available. In terms of individual assessment, the principal trigger point for impairment is the missing of a contractual payment which is evidence that an account is exhibiting serious financial problems, and where any further deterioration is likely to lead to failure. Two key inputs to the cash flow calculation are the valuation of all security and collateral, as well as the timing of all asset realisations, after allowing for all attendant costs. This method applies mainly in the corporate portfolios.

For collective assessment, the principal trigger point for impairment is the missing of a contractual payment which is the policy consistently adopted across all credit cards, unsecured loans, mortgages and most other retail lending. The calculation methodology relies on the historical experience of pools of similar assets; hence the impairment allowance is collective. The impairment calculation is based on a rollrate approach, where the percentage of assets that move from the initial delinquency to default is derived from statistical probabilities based on historical experience. Recovery amounts and contractual interest rates are calculated using a weighted average for the relevant portfolio. This method applies mainly to the Group's retail portfolios and is consistent with Barclay's policy of raising an allowance as soon as impairment is identified.The impairment allowance in the retail portfolios is mainly assessed on a collective basis and is based on the drawn balances adjusted to take into account the likelihood of the customer defaulting at a particular point in time (PD) and the amount estimated as not recoverable (LGD).

The basic calculation is:

Impairment allowance = Total exposure x Probability of Default (PD) x Loss Given Default (LGD)

Impairment in the wholesale portfolios is generally calculated by valuing each impaired asset on a case by case basis, i.e. on an individual assessment basis. A relatively small amount of wholesale impairment relates to unidentified or collective impairment; in such cases impairment is calculated using modelled PD x LGD x EAD (Exposure at default) adjusted for an emergence period.

Our Bank >> Value Proposition >> Value Creating Strategy >> Delivering Value >> Protecting Value >> Financial Review

Notes to the annual financial statements *(continued)*
for the year ended 31 December 2018

45. Risk management *(continued)*

45.2 Credit risk *(continued)*

Approach to impairment of loans and advances (2017) (continued)

Unidentified impairment allowances are also raised to cover losses which are judged to be incurred but not yet specifically identified in customer exposures at the balance sheet date, and which, therefore, have not been specifically reported.

The incurred but not yet reported calculation is based on the asset's probability of moving from the performing portfolio to being specifically identified as impaired within the given emergence period and then on to default within a specified period. This is calculated on the present value of estimated future cash flows discounted at the financial asset's original effective interest rate.

The emergence periods vary across businesses and are based on actual experience and are reviewed on an annual basis. This methodology ensures that the Group captures the loss incurred at the correct balance sheet date. These impairment allowances are reviewed and adjusted at least quarterly by an appropriate charge or release of the stock of impairment allowances based on statistical analysis and management judgement.

Risk limit control and mitigation policies

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

The Group structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or banks of borrowers, and to geographical and industry segments. Such risks are monitored on a revolving basis and subject to an annual or more frequent review, when considered necessary.

Limits on the level of credit risk by product, industry sector and country are approved quarterly by the Board of Directors.

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

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

Collateral

The Group routinely obtains collateral and security to mitigate credit risk. The Group ensures that any collateral held is sufficiently liquid, legally effective, enforceable and regularly reassessed.

Before attaching value to collateral, business holding approved collateral must ensure that they are legally perfected devoid of any encumbrances. Security structures and legal covenants are subject to regular review, at least annually, to ensure that they remain fit for purpose and remain consistent with accepted local market practice.

The principal collateral types held by the Group for loans and advances are:

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

Valuation of collateral taken will be within agreed parameters and will be conservative in value. The valuation is performed only on origination or in the course of enforcement actions. Within the corporate sectors, collateral for impaired loans including guarantees and insurance is reviewed regularly and at least annually to ensure that it is still enforceable and that the impairment allowance remains appropriate given the current valuation.

The Group will consider all relevant factors, including local market conditions and practices, before any collateral is realized.

Notes to the annual financial statements *(continued)*
for the year ended 31 December 2018

45. Risk management *(continued)*
45.2 Credit risk *(continued)*
45.2.1 Maximum credit risk exposure

2018	Gross maximum exposure	12 months expected credit losses stage 1			Lifetime expected credit losses- stage 2		Credit impaired stage 3
		DG1 – 9	DG10 – 19	DG 20 – 21	DG 20 – 21	DG10 – 19	DG 20 – 21
Balances with Central Bank of Kenya	17 718	16 951	767	-	-	-	-
Investment securities designated at fair value through other comprehensive income	63 289	64 138	(849)	-	-	-	-
Loans and advances to banks	6 572	1 938	4 634	-	-	-	-
Balances due from group companies	9 126	9 126	-	-	-	-	-
Other assets	9 879	9 879	-	-	-	-	-
Loans and advances to customers	187 580	5 013	158 056	1 467	3 516	8 685	10 843
Total gross maximum exposure to credit risk	**294 164**	**107 045**	**162 608**	**1 467**	**3 516**	**8 685**	**10 843**
Expected credit losses	(10 286)	(152)	(2 905)	(27)	(403)	(996)	(5 803)
Total financial assets per the statement of financial position	**283 878**	**106 893**	**159 703**	**1 440**	**3 113**	**7 689**	**5 040**
Off statement of financial position exposure	**93 009**	**12 369**	**63 243**	**119**	**14 226**	**2 251**	**801**

45. Risk management *(continued)*

45.2 Credit risk *(continued)*

45.2.1 Maximum credit risk exposure

31 December 2017	Gross maximum exposure	Neither past due nor impaired: DG 1 – 11	Neither past due nor impaired: DG 12 – 19	Neither past due nor impaired: DG 20 – 21	Impaired	Impairment allowance: Identified	Impairment allowance: Unidentified	Total carrying value	Credit risk mitigation: Cash	Credit risk mitigation: Physical	Credit risk mitigation: Letter of credit	Credit risk mitigation: Other	Net credit exposure
Balances with Central Bank of Kenya	11 634	11 634	-	-	-	-	-	11 634	-	-	-	-	11 634
Items in course of collection	787	787	-	-	-	-	-	787	-	-	-	-	787
Available for sale investments	58 476	58 476	-	-	-	-	-	58 476	-	-	-	-	58 476
Loans and advances to banks	1 818	1 818	-	-	-	-	-	1 818	-	-	-	-	1 818
Financial assets designated at FVTPL	9 608	9 608	-	-	-	-	-	9 608	-	-	-	-	9 608
Balances due from group companies	3 465	3 465	-	-	-	-	-	3 465	-	-	-	-	3 465
Loans and advances to customers	175 858	-	167 945	992	6 921	(6 416)	(1 045)	168 397	(1 109)	(84 305)	(1 942)	(48 858)	32 183
Total credit risk exposure	261 646	85 788	167 945	992	6 921	(6 416)	(1 045)	254 185	(1 109)	(84 305)	(1 942)	(48 858)	117 971

Our Bank >>
Value Proposition >>
Value Creating Strategy >>
Delivering Value >>
Protecting Value >>

Notes to the annual financial statements *(continued)*

for the year ended 31 December 2018

45. Risk management *(continued)*

45.2 Credit risk *(continued)*

45.2.2 Analysis of credit risk mitigation and collateral

2018	Exposure relating to on SOFP Shs' million	Undrawn facility/ Loan commitment Shs' million	Collateral credit impaired financial assets: Guarantees credit insurance and credit derivatives Shs' million	Physical collateral Shs' million	Cash collateral Shs' million	Other Shs' million	Unsecured Shs' million	Collateral All other financial assets: Guarantees credit insurance and credit derivatives Shs' million	Physical collateral Shs' million	Cash collateral Shs' million	Other Shs' million	Unsecured Shs' million	Total Shs' million
Balances with Central Bank of Kenya	17 719	-	-	-	-	-	-	-	-	-	-	17 719	17 719
Investment securities designated at FVOCI	63 289	-	-	-	-	-	-	-	-	-	-	63 289	63 289
Loans and advances to banks	6 572	-	-	-	-	-	-	-	-	-	-	6 572	6 572
Other assets	9 879	-	-	-	-	-	-	-	-	-	-	9 879	9 879
Loans and advances to customers	187 580	13 285	7	519	3	365	10 726	435	12 871	135	2 917	146 317	187 580
Credit exposures relating to Offbalance sheet items	28 372	-	-	14	-	10	4	278	4 598	205	108	23 155	28 372
Balances due from group companies	3 582	-	-	-	-	-	-	-	-	-	-	3 582	3 582
	316 993	**13 285**	**7**	**533**	**3**	**375**	**10 730**	**713**	**17 469**	**340**	**3 025**	**270 513**	**316 993**

Our Bank >> Value Proposition >> Value Creating Strategy >> Delivering Value >> Protecting Value >> Financial Review

45. Risk management *(continued)*

45.2 Credit risk *(continued)*

45.2.3 Movement in loss allowances

45.2.3.1 Cash and balances with Central Bank of Kenya

	Stage 1 12 month ECL Shs'million	Stage 2 Lifetime ECL Shs'million	Stage 3 Lifetime ECL Shs'million	Total Shs'million
Balance at 1 January 2018	3	-	-	3
Transfer to Stage 1	-	-	-	-
Transfer to Stage 2	-	-	-	-
Transfer to Stage 3	-	-	-	-
Financial assets that have been derecognised	(8)	-	-	(8)
Write-offs	-	-	-	-
New financial assets originated	7	-	-	7
Balance at 31 December 2018	2	-	-	2

45.2.3.2 Financial assets at FVOCI

Balance at 1 January 2018	40	-	-	40
Transfer to Stage 1	-	-	-	-
Transfer to Stage 2	-	-	-	-
Transfer to Stage 3	-	-	-	-
Financial assets that have been derecognised	(22)	-	-	(22)
Write-offs	-	-	-	-
New financial assets originated	40	-	-	40
Balance at 31 December 2018	58	-	-	58

45.2.3.3 Loans and advances to customers

Balance at 1 January 2018	1 914	2 836	5 728	10 478
Transfer to Stage 1	544	(342)	(202)	-
Transfer to Stage 2	(127)	138	(11)	-
Transfer to Stage 3	(50)	(682)	732	-
Financial assets that have been derecognised	(505)	(1 585)	(329)	(2 419)
Recoveries of amounts previously written off	-	-	(253)	(253)
Writeoffs	-	-	(3 865)	(3 865)
New financial assets originated	1 487	1 034	4 003	6 524
Balance at 31 December 2018	3 263	1 399	5 803	10 465

Notes to the annual financial statements *(continued)*

for the year ended 31 December 2018

45. Risk management *(continued)*

45.2 Credit risk *(continued)*

45.2.3 Movement in loss allowances *(continued)*

45.2.3.3 Loans and advances to customers *(continued)*

	Identified provision	Unidentified provision	Total
	Shs'million	Shs'million	Shs'million
Balance at 1 January 2017	5 968	1 198	7 166
New impairment provision	3 342	45	3 387
Increase in impairment provisions	133	-	133
Recoveries and impairment provisions no longer required	(18)	(197)	(215)
Increase in impairment provision	3 457	(152)	3 305
Amounts written off during the year as uncollectible	(3 010)	-	(3 010)
Balance at 31 December 2017	6 415	1 046	7 461
Net increase in impairment provision	3 457	(152)	3 305
Accounts recovered previously written off	(190)	-	(190)
Net impairment charge (Note 10)	3 267	(152)	3 115

The weighted average effective interest rate on loans and advances at 31 December 2018 was 11.7% (2017: 12.7%).

45.2.4 Credit exposures relating to off balance sheet position items

For financial guarantees, the maximum exposure to credit risk is the maximum amount the Group would have to pay if the guarantee was called upon. For loan commitments and other credit related commitments that are irrevocable over the life of the respective facilities, the maximum exposure to credit risk is the full amount of the committed facilities

	Group and Bank	
	2018	2017
	Shs'million	Shs'million
Financial guarantee contracts	**14 680**	16 430
Irrevocable debt facilities	**64 638**	44 527
Letters of credit	**13 691**	7 652
	93 009	68 609

Our Bank >>
Value Proposition >>
Value Creating Strategy >>
Delivering Value >>
Protecting Value >>
Financial Review

45. Risk management *(continued)*

45.2 Credit risk *(continued)*

45.2.5 Credit risk 2017

	Shs'million
Maximum credit risk	
Deposits and balances due from banking institutions	1 818
Loans and advances to customers	168 397
Cash balances at Central Bank of Kenya	11 635
Financial assets designated at fair value through profit or loss	9 608
Loans and advances to group companies	3 465
Financial assets availableforsale	58 476
Items in course of collection	787
	254 186

45.3 Market risk

Market risk is the risk that the Group's earnings, capital or business objectives will be adversely impacted by changes in the level or volatility of market rates or prices such as interest rates, foreign exchange rates, equity prices, commodity prices and credit spreads and comprises:

Traded market risk

The risk of the Group being impacted by changes in the level or volatility of positions in its trading books, primarily in the Investment Bank.

The risk arises primarily as a result of client facilitation in wholesale markets. This involves market making, risk management solutions and execution of syndications. Mismatches between client transactions and hedges result in market risk. Trading risk is measured for the trading book, as defined for regulatory purposes and certain banking books. Interest rate risk in the banking book is subjected to the same rigorous measurement and control standards as in the trading book, but the associated sensitivities are reported separately as "interest rate risk in the banking book".

Non-traded market risk:

The risk of the Group being exposed to interest rate risk arising from loans, deposits and similar instruments held for longer term strategic purposes rather than for the purpose of profiting from changes in interest rates. Nontrading portfolios also consist of foreign exchange and equity risks arising from the Bank's heldtomaturity and availableforsale financial assets.

Market risk measurement techniques

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

Furthermore it includes the protection and enhancement of the statement of financial position and statement of comprehensive income and facilitating business growth within a controlled and transparent risk management framework.

Notes to the annual financial statements *(continued)*
for the year ended 31 December 2018

45. Risk management *(continued)*

45.3 Market risk *(continued)*

Market risk measurement techniques *(continued)*

(a) Value at risk

The Bank applies a 'value at risk' (VAR) methodology to its FX trading to estimate the market risk of positions held and the maximum losses expected, based upon a number of assumptions for various changes in market conditions. The Board sets limits on the value of risk that may be accepted for the Bank, which are monitored on a daily basis by Bank Treasury.

VAR is a statistically based estimate of the potential loss on the current portfolio from adverse market movements. It expresses the 'maximum' amount the Bank might lose, but only to a certain level of confidence (95%). There is therefore a specified statistical probability (5%) that actual loss could be greater than the VAR estimate. The VAR model assumes a certain 'holding period' until positions can be closed (1 day). It also assumes that market moves occurring over this holding period will follow a similar pattern to those that have occurred over 1 day periods in the past. The Bank's assessment of past movements is based on data for the past five years. The use of this approach does not prevent losses outside of these limits in the event of more significant market movements.

As VAR constitutes an integral part of the Bank's market risk control regime, VAR limits are established by the Board annually for all trading portfolio operations and allocated to business units. Actual exposure against limits is reviewed daily by Bank Treasury. Average daily VAR for the Bank was Shs 10.8 million (2017: Shs 15 million).

(b) Stress tests

The Bank applies a 'Stress test' methodology to its nontrading book. Interest rate risk in the nontrading book is measured through the use of interest rate repricing gap analysis. Stress tests provide an indication of the potential size of losses that could arise in extreme conditions. The results of the stress tests are reviewed by heads of business unit and by the Board of Directors. The stress testing is tailored to the business and typically uses scenario analysis.

45.4 Foreign currency risk

The Group takes on exposure to the effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. The Board sets limits on the level of exposure by currency and in aggregate for both overnight and intraday positions, which are monitored daily. The table below summarises the Bank's exposure to foreign exchange risk at 31 December. Included in the table are the Bank's financial instruments at carrying amounts, categorised by currency (all amounts expressed in millions of Kenyan Shillings):

Our Bank >>
Value Proposition >>
Value Creating Strategy >>
Delivering Value >>
Protecting Value >>
Financial Review

45. Risk management *(continued)*

45.4 Foreign currency risk *(continued)*

The carrying amounts of the Bank's foreign currency denominated monetary assets and monetary liabilities at the end of the reporting period are as follows:

	Group and Bank	
	Assets	Liabilities
	Shs'million	Shs'million
2018		
USD	**68 326**	**(63 199)**
GBP	**2 371**	**(2 675)**
Euro	**7 416**	**(7 766)**
Other	**2 203**	**(1 277)**
	80 316	**(74 917)**
2017		
USD	40 478	(43 882)
GBP	1 417	(1 913)
Euro	7 050	(6 904)
Other	2 041	(1 379)
	50 986	(54 078)

Foreign currency sensitivity analysis

The following table details the Bank's sensitivity to a 10% increase and decrease in the Kenyan Shilling against the relevant foreign currencies. 10% is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the period end of a 10% change in foreign currency rates. The sensitivity analysis includes external loans as well as loans to foreign operations within the Group where the denomination of the loan is in a currency other than the currency of the lender or the borrower. A positive number below indicates an increase in profit and other equity where the Shilling strengthens 10% against the relevant currency. For a 10% weakening of the Shilling against the relevant currency, there would be a comparable impact on the profit and other equity, and the balance below would be negative.

Our Bank >>
Value Proposition >>
Value Creating Strategy >>
Delivering Value >>
Protecting Value >>

Notes to the annual financial statements *(continued)*
for the year ended 31 December 2018

45. Risk management *(continued)*

45.4 Foreign currency risk *(continued)*

Foreign currency sensitivity analysis *(continued)*

	2018 Profit or loss Shs'million	2017 Profit or loss Shs'million
Assets		
USD	**6 833**	4 048
GBP	**237**	142
Euro	**742**	705
Other	**220**	204
Liabilities		
USD	**(6 320)**	(4 388)
GBP	**(267)**	(191)
Euro	**(777)**	(690)
Other	**(128)**	(138)
	540	(308)
Income tax effect at 30%	**(162)**	92
After tax profit/(loss) effect	**378**	(216)

As at 31 December 2018 if the Shilling had weakened / strengthened by 10% against the major trading currencies listed above, with all other variables remaining constant, the after tax profit would have been Shs 378 million (Loss 2017: Shs 216 million) lower / higher net of tax.

45.5 Interest rate risk

The Group is exposed to various risks associated with the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. The responsibility of managing risk lies with the Assets and Liabilities Committee ("ALCO"). Through this process the Group monitors compliance within the overall risk policy framework and ensures that the framework is kept up to date. Risk management information is provided on a regular basis to the Country Management Committee (CMC) and the Board.

Interest rate risk arises from the variability of income from noninterest bearing products, managed variable rate products and equity. Interest rate exposures and other market risks may be managed through the use of derivatives.

45. Risk management *(continued)*

45.5 Interest rate risk *(continued)*

Interest rate sensitivity analysis *(continued)*

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

Group 2018	Up to 1 month Shs' million	1 -3 months Shs' million	3 -12 months Shs' million	1 5yrs Shs' million	Not interest bearing Shs' million	Total Shs'million
Assets						
Cash and balances with Central Bank of Kenya	-	-	-	-	23 531	23 531
Financial assets at fair value through profit or loss	2 558	7 905	19 245	-	-	29 708
Financial assets at fair value through other comprehensive income	2 500	758	37 025	22 947	-	63 230
Deposits and balances due from banking institutions	6 572	-	-	-	-	6 572
Due from group companies	9 126	-	-	-	-	9 126
Loans and advances to customers	125 110	16 411	26 711	9 122	-	177 354
Derivative financial assets	473	-	-	-	-	473
Other assets and prepaid expenses	-	-	-	-	9 879	9 879
Property and equipment	-	-	-	-	2 272	2 272
Intangible assets	-	-	-	-	878	878
Deferred income tax	-	-	-	-	2 180	2 180
Noncurrent asset held for sale	-	-	-	-	65	65
Prepaid operating lease rentals	-	-	-	-	45	45
Total assets	146 339	25 074	82 981	32 069	38 850	325 313
Liabilities						
Deposits and balances due to banking institutions	5 308	-	-	-	-	5 308
Items in the course of collection due to other banks	2 194	-	-	-	-	2 194
Due to group companies	51 938	-	-	-	-	51 938
Customer deposits	161 443	15 289	19 503	11 173	-	207 408
Derivative financial liabilities	1 019	-	-	-	-	1 019
Borrowings	-	5 096	-	-	-	5 096
Current income tax	-	-	-	-	25	25
Other liabilities and accrued expenses	-	-	-	-	8 119	8 119
Shareholders' equity	-	-	-	-	44 206	44 206
Total liabilities and equity	221 902	20 385	19 503	11 173	52 350	325 313
Interest rate sensitivity gap	(75 563)	4 689	63 478	20 896	(13 500)	-

Notes to the annual financial statements *(continued)*

for the year ended 31 December 2018

45. Risk management *(continued)*

45.5 Interest rate risk *(continued)*

Interest rate sensitivity analysis *(continued)*

Group 2017	Up to 1 month Shs'million	1- 3 months Shs'million	3 - 12 months Shs'million	1 5yrs Shs'million	Not interest bearing Shs' million	Total Shs'million
Assets						
Cash and balances with Central Bank of Kenya	-	-	-	-	16 354	16 354
Financial assets at fair value through profit or loss	-	-	9 608	-	-	9 608
Financial assets available-for-sale	4 663	1 729	19 212	32 872	-	58 476
Deposits and balances due from banking institutions	1 818	-	-	-	-	1 818
Due from group companies	3 465	-	-	-	-	3 465
Loans and advances to customers	22 461	5 790	13 689	126 457	-	168 397
Derivative financial assets	395	-	-	-	-	395
Other assets and prepaid expenses	-	-	-	-	8 001	8 001
Property and equipment	-	-	-	-	2 741	2 741
Intangible assets	-	-	-	-	1 159	1 159
Current income tax	-	-	-	-	415	415
Deferred income tax	-	-	-	-	697	697
Prepaid operating lease rentals	-	-	-	-	46	46
Total assets	32 802	7 519	42 509	159 329	29 413	271 572
Liabilities						
Deposits and balances due to banking institutions	3 059	-	-	-	-	3 059
Items in the course of collection due to other banks	1 913	-	-	-	-	1 913
Due to group companies	23 658	-	-	-	-	23 658
Customer deposits	153 244	17 619	14 689	425	-	185 977
Retirement benefit liabilities	-	-	-	-	4	4
Borrowings	-	5 172	-	-	-	5 172
Other liabilities and accrued expenses	-	-	-	-	7 237	7 237
Derivative financial liabilities	454	-	-	-	-	454
Shareholders' equity	-	-	-	-	44 098	44 098
Total liabilities and equity	182 328	22 791	14 689	425	51 339	271 572
Interest sensitivity gap	(149 526)	(15 272)	27 820	158 904	(21 926)	-

45. Risk management *(continued)*

45.5 Interest rate risk *(continued)*

Interest rate sensitivity analysis *(continued)*

The sensitivity analyses below have been determined based on the exposure to interest rates for both derivative and nonderivative instruments at the end of the reporting period. For floating rate liabilities, the analysis is prepared assuming the amount of the liability outstanding at the end of the reporting period was outstanding for the whole year. A 100 basis point increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

Interest rate sensitivity analysis

Group	1% Increase in interest rate 2018 Shs'million	1% Decrease in interest rates 2018 Shs'million	1% Increase in interest rate 2017 Shs'million	1% Decrease in interest rates 2017 Shs'million
Changes in interest				
Increase/(decrease) in interest received	2 860	(2 860)	2 418	(2 418)
Increase/(decrease) in interest paid	(2 210)	2 210	(1 966)	1 966
Increase/(decrease) in profit before taxation	650	(650)	452	(452)
(Decrease)/increase in income tax	(195)	195	(136)	136
Increase/(decrease) in profit after tax	455	(455)	316	(316)

As at 31 December 2018 if interest rates were to increase / decrease by 1%, with all other variables remaining constant, the after tax profit would have been Shs 455 million (2017: Shs 316 million) higher / lower with other components of equity remaining the same.

45.6 Liquidity risk

Confidence in an organization, and hence liquidity, can be affected by a range of institution specific and marketwide events including, amongst others, market rumours, credit events, payment system disruptions, systemic shocks, and even natural disasters.

The definition of liquidity risk is the risk that the Bank is unable to meet its obligations as they fall due as a result of a sudden, and potentially protracted, increase in net cash outflows. Such outflows would deplete available cash resources for client lending, trading activities and investments. These outflows could be principally through customer withdrawals, wholesale counterparties removing financing, collateral posting requirements or loan drawdowns. This risk is inherent in all banking operations and can be affected by a range of Bankspecific and marketwide events which can result in:

- an inability to support normal business activity;
- a failure to meet liquidity regulatory requirements.

During periods of market dislocation, the Group's ability to manage liquidity requirements may be impacted by a reduction in the availability of wholesale term funding as well as an increase in the cost of raising wholesale funds. Asset sales, balance sheet reductions and the increasing costs of raising funding will affect the earnings of the Bank. In illiquid markets, the Bank may decide to hold assets rather than securitising, syndicating or disposing of them. This could affect the Bank's ability to originate new loans or support other customer transactions as both capital and liquidity are consumed by existing or legacy assets.

Notes to the annual financial statements *(continued)*
for the year ended 31 December 2018

45. Risk management *(continued)*

45.6 Liquidity risk *(continued)*

The efficient management of liquidity is essential to the Bank in retaining the confidence of the financial markets and ensuring that the business is sustainable. Liquidity risk is managed through the Liquidity Risk Framework, which is designed to meet the following objectives:

- To maintain liquidity resources that are sufficient in amount and quality and a funding profile that is appropriate to meet the liquidity risk framework as expressed by the Board;
- To maintain market confidence in the Bank's name;
- To set limits to control liquidity risk within and across lines of business;
- To accurately price liquidity costs, benefits and risks and incorporate those into product pricing and performance measurement;
- To set early warning indicators to identify immediately the emergence of increased liquidity risk or vulnerabilities including events that would impair access to liquidity resources;
- To project fully over an appropriate set of time horizons cash flows arising from assets, liabilities and offbalance sheet items; and
- To maintain a contingency funding plan ("CFP") that is comprehensive and proportionate to the nature, scale and complexity of the business and that is regularly tested to ensure that it is operationally robust.

Liquidity risk management process

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

- Liquidity stress testing;
- Liquidity planning (funding plans, contingency funding plans, recovery and resolution planning);
- Reporting and behavioral balance sheet analysis;
- Funds transfer pricing; and – Defined management actions to mitigate risk.

Stress and scenario testing:

Under the Liquidity Risk Framework, the Group has established the Liquidity Risk Appetite ("LRA"), which is the level of liquidity risk the Group chooses to take in pursuit of its business objectives and in meeting its regulatory obligations.

It is measured with reference to anticipated stressed net contractual and contingent outflows for a variety of stress scenarios and is used to size the liquidity pool. Stress testing is undertaken to assess and plan for the impact of various scenarios which may put the Group's liquidity at risk. Stress tests consider both institutionspecific and marketwide scenarios separately and on a combined basis. Treasury develops and monitors stress tests on the Group's projected cash flows.

These stress scenarios include the Group's specific scenarios such as unexpected operational problems and external sources such as country crises, payment system disruption and macroeconomic shocks. Stress testing also allows the Group to identify appropriate responses to crises, setting liquidity limits, sources of stress funding and liquidity buffers as well as formulating a funding strategy designed to minimise liquidity risk. The results of the stress tests are therefore used to develop the CFP (Contingency Funding Plan) and are taken into account when setting limits for the management of liquidity risk and the business planning process.

The Group maintains a range of early warning indicators ("EWIs"). These assist in informing management on deciding whether the CFP should be invoked. Each operation must adopt and conform to the Company CFP and establish local processes and procedures for managing local liquidity stresses that are consistent with the Group's level plan. The CFPs set out the specific requirements to be undertaken locally in a crisis situation. This could include monetising the liquidity pool, slowing the extension of credit, increasing the tenor of funding and securitising or selling assets.

Our Bank >>
Value Proposition >>
Value Creating Strategy >>
Delivering Value >>
Protecting Value >>
Financial Review

45. Risk management *(continued)*

45.6 Liquidity risk *(continued)*

Stress and scenario testing: *(continued)*

The Group CFP is regularly tested and updated so as to ensure that it is operationally robust. Diversification Sources of liquidity are regularly reviewed by a separate team within Treasury to maintain a wide diversification by provider, product and term. In addition, to avoid reliance on a particular group of customers or market sectors the distribution of sources and the maturity profile of deposits are also carefully managed. Important factors in assuring liquidity are strength of relationships and the maintenance of depositors' confidence. Such confidence is based on the Group's reputation and relationship with those clients, the strength of earnings and the Group's financial position.

Assets held for managing liquidity risk

The Group maintains a portfolio of highly marketable assets, which includes a diverse portfolio of cash and high quality liquid securities to support payment obligations and contingent funding in a stressed market environment. The Group's assets that may be held for managing liquidity risk may comprise cash deposits with the Central bank/ monetary authority and/or holdings of high quality eligible liquid assets, such as, for example, government bonds or other securities that would be readily acceptable in repurchase agreements.

Funds transfer pricing:

Liquidity costs, benefits and risk should be clearly and transparently attributed to business lines and understood by business line management. The Group Treasury and ALCO are responsible for implementing a "funds transfer pricing" mechanism as a means of communicating and disseminating the cost of liquidity risk.

Group deploys liquidity risk funds transfer pricing processes as a means of controlling the behavioral profile of the Group's balance sheet. Funds transfer pricing incentivises business units to manage assets and liabilities in accordance with the Group liquidity risk appetite.

Structural liquidity:

An important source of structural liquidity is provided by core deposits; mainly current accounts and savings accounts. Although current accounts are repayable on demand and savings accounts on short notice, the Group's broad base of customers numerically and by depositor type helps to protect against unexpected fluctuations. Such accounts form a stable funding base for the Group's operations and liquidity needs.

Sources of liquidity risk

Group has material liquidity risk exposure arising from the following sources:

i) Wholesale secured and unsecured funding risk

Wholesale funding providers are a key source of liquidity funding for the Group operations. A disruption to wholesale markets could impact the Group's ability to effectively fund certain business activities.

ii) Retail funding risk

Most retail loans and advances are funded by customer deposits. A material loss of retail deposit funding could arise through a lack of confidence in the Group name or credit worthiness; and could impact the Group's ability to effectively fund retail banking operations.

iii) Contingent liquidity risks

The Group could experience material cash outflows arising from contingent events such as rating downgrade triggers, off balance sheet transactions, drawdowns of unused credit facilities and the early termination of derivative transactions.

iv) Concentration risk

Concentrations in the sources of funding utilized by the Group can give rise to liquidity risk if access to any of these sources is disrupted. Other funding source represent risk to the Group when these sources are subject to material counterparties, markets, currencies, tenors or instrument types. The table below represents the undiscounted cash flows payable by the Bank under non – derivative financial liabilities by remaining contractual liabilities at the balance sheet date.

Our Bank >>
Value Proposition >>
Value Creating Strategy >>
Delivering Value >>
Protecting Value >>

Notes to the annual financial statements *(continued)*
for the year ended 31 December 2018

45. Risk management *(continued)*

45.6 Liquidity risk *(continued)*

Group and Bank	Undiscounted maturity					Discounted maturity
	On demand Shs' million	Within 1 year Shs' million	1-5 years Shs' million	More than 5 years Shs' million	Total Shs' million	Total Shs'million
2018						
Non derivative financial assets						
Cash and balances with Central Bank of Kenya	23 531	-	-	-	23 531	23 531
Financial assets at fair value through profit or loss	-	32 974	-	-	32 974	29 708
Financial assets at fair value through other comprehensive income	-	44 711	32 956	-	77 667	63 230
Deposits and balances due from banking institutions	6 572	-	-	-	6 572	6 572
Due from group companies	9 126	-	-	-	9 126	9 126
Loans and advances to customers	125 110	47 862	13 101	-	186 073	177 354
Total non-derivative financial assets	164 339	125 547	46 057	-	335 943	309 521
Non-derivative financial liabilities						
Amounts owing to related parties	51 938	-	-	-	51 938	51 938
Deposits from customers	161 443	38 616	16 046	-	216 105	207 408
Deposits and balances due to banking institutions	5 308	-	-	-	5 308	5 308
Other liabilities and accrued expenses	4 007	6 999	-	-	11 005	10 313
Total non-derivative financial liabilities	222 696	45 615	16 046	-	284 356	274 967
2017						
Non derivative financial assets						
Cash and balances with Central Bank of Kenya	16 354	-	-	-	16 354	16 354
Financial assets at fair value through profit or loss	-	10 664	-	-	10 664	9 608
Financial assets available-for-sale	-	28 418	47 210	-	75 628	58 476
Deposits and balances due from banking institutions	1 818	-	-	-	1 818	1 818
Due from group companies	3 465	-	-	-	3 465	3 465
Loans and advances to customers	17 241	28 400	142 390	59 696	247 727	168 397
Total non-derivative financial assets	38 878	67 482	189 600	59 696	355 656	258 118
Non-derivative financial liabilities						
Amounts owing to related parties	23 658	-	-	-	23 658	23 658
Customer deposits	153 244	35 859	610	-	189 713	185 977
Deposits and balances due to banking institutions	3 059	-	-	-	3 059	3 059
Other liabilities and accrued expenses	8 769	487	348	11 685	21 289	14 780
Total non-derivative financial liabilities	188 730	36 346	958	11 685	237 719	227 474

45. Risk management *(continued)*

45.6 Liquidity risk *(continued)*

The Group's expected cash flows on some financial assets and financial liabilities vary significantly from the contractual cash flows. The principal differences are as follows:

- demand deposits from customers are expected to remain stable or increase;
- unrecognised loan commitments are not all expected to be drawn down immediately.

As part of the management of liquidity risk arising from financial liabilities, the Group holds liquid assets comprising cash and cash equivalents, and other financial securities, which can be readily sold to meet liquidity requirements.

	On demand Shs'million	Within 1 year Shs'million	1 – 5 years Shs'million	Total Shs'million
2018				
Cash and balances with Central Bank of Kenya	**23 531**	**-**	**-**	**23 531**
Financial assets at fair value through other comprehensive income	**2 500**	**37 783**	**22 947**	**63 230**
Assets held for managing liquidity	**26 031**	**37 783**	**22 947**	**86 761**
2017				
Cash and balances with Central Bank of Kenya	16 354	-	-	16 354
Financial assets available-forsale	-	30 759	27 717	58 476
Assets held for managing liquidity	16 354	30 759	27 717	74 830

Derivative liabilities

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

31 December 2018	Notional amount	On demand	Within 1 year	More than 5 years
Derivative liabilities held for trading	**(1 131)**	**-**	**-**	**-**
Outflow	**-**	**(1 131)**	**-**	**-**
	(1 131)	**(1 131)**	**-**	**-**

31 December 2017				
Derivative liabilities held for trading	(272)	-	-	-
Outflow	-	(272)	-	-
	(272)	(272)	-	-

Our Bank >>
Value Proposition >>
Value Creating Strategy >>
Delivering Value >>
Protecting Value >>

Notes to the annual financial statements *(continued)*
for the year ended 31 December 2018

45. Risk management *(continued)*

45.7 Capital risk management

The risk weighted assets are measured using the risk weights prescribed under the Central Bank prudential guidelines.

Capital risk is the risk that the Bank is unable to maintain adequate levels of capital which could lead to an inability to:

- support business activity;
- a failure to meet regulatory requirements;
- changes to credit ratings, which could also result in increased costs or reduced capacity to raise funding.

Our objectives are achieved through well embedded capital management practices:

Primary objectives and core practices:

- Provide a viable and sustainable business offering by maintaining adequate capital to cover the Bank's current and forecast business needs and associated risks
- Monitor internal targets for capital demand and ratios
- Meet minimum regulatory requirements
- Ensure the Group maintains adequate capital to withstand the impact of the risks that may arise under the stressed conditions
- Perform internal and regulatory stress tests
- Maintain capital buffers over regulatory minimum
- Develop contingency plans for severe (stress management actions)
- Support the Bank's growth and strategic options
- Maintain a capital plan on a shortterm and medium term basis aligned with strategic objectives

We adopt a forwardlooking, risk based approach to Capital Risk Management. Capital demand and supply is actively managed taking into account the regulatory, economic and commercial environment in which Barclays operates.

Capital planning

Capital forecasts are managed through both Short Term (Year 1 monthly) and Medium Term (3 year) financial planning cycles. The capital plan is developed with the objective of maintaining capital that is adequate in quantity and quality to support our risk profile and business needs. Local management ensures compliance with an entity's minimum regulatory capital requirements by reporting to Asset and Liability Committee (ALCO).

Regulatory Capital

The Bank maintains a ratio of total regulatory capital to its riskweighted above a minimum level prescribed by the Central Bank of Kenya. The Bank's regulatory capital is managed by its Treasury and comprises two tiers:

(i) Tier 1 capital:

- Share capital,
- Retained earnings, excluding unrealised gains arising on the fair valuation of fair value through other comprehensive income investments; and

(ii) Tier 2 capital:

- Statutory reserve;
- Medium term note; and
- Subordinated loan capital

Our Bank >>
Value Proposition >>
Value Creating Strategy >>
Delivering Value >>
Protecting Value >>
Financial Review

45. Risk management *(continued)*

45.7 Capital risk management *(continued)*

Capital adequacy ratios

Bank	Regulatory minimum	As at 31 Dec 2018	As at 31 Dec 2017
Tier 1	10.5%	**14.6%**	15.9%
Total capital	14.5%	**16.6%**	18.0%
	Shs'million	Shs'million	Shs'million
Tier 1 Capital	1 000	**37 788**	38 768
Ordinary share capital		**2 716**	2 716
Retained earnings		**35 072**	36 052
Tier 2 capital		**5 096**	5 172
Subordinated debt		**5 096**	5 172
Total regulatory capital	1 000	**42 884**	43 940
Total risk weighted assets		**261 752**	243 728
Total shareholders' equity / capital resources		**43 393**	43 559
Core capital / total deposit liabilities	8.0%	**18.2%**	20.8%
Liquidity ratio	20.0%	**35.7%**	33.4%

Notes to the annual financial statements *(continued)*

for the year ended 31 December 2018

46. Fair value hierarchy of assets and liabilities held at fair value

46.1 Fair value hierarchy

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable.

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

Level 2: fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

Level 3: fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

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

Process of determination and use of estimates, assumptions and judgements

Loans and advances

The fair value of loans and advances to banks and customers is determined by discounting contractual cash flows. Discount factors are determined using the relevant forward base rates (as at valuation date) plus the originally priced spread. Where a significant change in credit risk has occurred, an updated spread is used to reflect valuation date pricing. Behavioral cash flow profiles, instead of contractual cash flow profiles, are used to determine expected cash flows where contractual cash flow profiles would provide an inaccurate fair value.

Deposits, debt securities in issue and borrowed funds

Deposits, debt securities in issue and borrowed funds are valued using discounted cash flow models, applying rates currently offered for issuances with similar characteristics. Where these instruments include embedded derivatives, the embedded derivative component is valued using the methodology for derivatives.

The fair value adjustments on amortised cost financial liabilities held in a fair value hedging relationship are taken through profit and loss in the statement of comprehensive income.

The fair value of amortised cost deposits repayable on demand is considered to be equal to their carrying value. For other financial liabilities at amortised cost the disclosed fair value approximates the carrying value because the instruments are shortterm in nature or have interest rates that reprice frequently.

Our Bank >>
Value Proposition >>
Value Creating Strategy >>
Delivering Value >>
Protecting Value >>
Financial Review

46. Fair value hierarchy of assets and liabilities held at fair value *(continued)*

46.1 Fair value hierarchy *(continued)*

Group

2018	Level 1	Level 2	Level 3	Total
Recurring fair value measurements	Shs'million	Shs'million	Shs'million	Shs'million
Financial assets				
Fair value through profit or loss:				
Trading securities	-	29 708	-	29 708
Derivatives financial assets	-	473	-	473
Financial liabilities				
Fair value through profit or loss:	-	-	-	-
Derivatives financial liabilities	-	(1 019)	-	(1 019)
	-	29 162	-	29 162
Financial assets				
Fair value through OCI:				
Government securities	-	63 230	-	63 230
	-	63 230	-	63 230

2017				
Financial assets				
Fair value through profit or loss -Held for trading:				
Trading securities	-	9 608	-	9 608
Derivatives financial assets	-	395	-	395
Financial liabilities				
Fair Value Through Profit and Loss- Designated as at Fair Value Through Profit and Loss:				
Derivatives financial liabilities	-	(454)	-	(454)
Retirement benefit liability	-	(4)	-	(4)
	-	9 545	-	9 545
Financial assets				
Available for sale:				
Government securities	-	58 476	-	58 476
	-	58 476	-	58 476

Notes to the annual financial statements *(continued)*

for the year ended 31 December 2018

46. Fair value hierarchy of assets and liabilities held at fair value *(continued)*

46.2 Assets and liabilities carried at amortised cost

The following table summarises the carrying amounts and fair value of those assets and liabilities not held at fair value.

The carrying amount of assets and liabilities held at amortised costs is considered to approximate the fair value of the assets and liabilities.

Group 2018	Carrying amount Shs'million	Fair value Shs'million	Level 1 Shs'million	Level 2 Shs'million	Level 3 Shs'million
Assets at amortised cost					
Cash and cash equivalents	**23 531**	**23 531**	**23 531**	**-**	**-**
Loans and advances to banks	**6 572**	**6 572**	**-**	**-**	**6 572**
Due from group companies	**9 126**	**9 126**	**-**	**-**	**9 126**
Loans and advances to customers	**177 354**	**177 354**	**-**	**-**	**177 354**
Total	**216 583**	**216 583**	**23 531**	**-**	**193 052**
Liabilities at amortised cost					
Deposits from banks	**5 308**	**5 308**	**-**	**-**	**5 308**
Due to group companies	**51 938**	**51 938**	**-**	**-**	**51 938**
Customer deposits	**207 408**	**207 408**	**-**	**-**	**207 408**
Borrowings	**5 096**	**5 096**	-	**-**	**5 096**
Total	**269 750**	**269 750**	**-**	**-**	**269 750**
2017					
Assets at amortised cost					
Cash and cash equivalents	16 354	16 354	16 354	-	-
Loans and advances to banks	1 818	1 818	-	-	1 818
Due from group companies	3 465	3 465	-	-	3 465
Loans and advances to customers	168 397	168 397	-	-	168 397
Total	190 034	190 034	16 354	-	173 680
Liabilities at amortised cost					
Deposits from banks	3 059	3 059	-	-	3 059
Due to group companies	23 658	23 658	-	-	23 658
Customer deposits	185 977	185 977	-	-	185 977
Borrowings	5 172	5 172	-	-	5 172
Total	217 866	217 866	-	-	217 866

46. Fair value hierarchy *(continued)*

46.3 Valuation techniques for the level 2 fair value measurement of assets and liabilities held at fair value

The table below sets out information about the valuation techniques applied at the end of the reporting period in measuring assets and liabilities whose fair value is categorised as Level 2 in the fair value hierarchy. A description of the nature of the techniques used to calculate valuations based on observable inputs and valuations is set out in the table below:

Category of asset/liability	Valuation technique applied	Significant observable inputs
Government debt instruments	Discounted cash flow valuation technique	Quoted yields and 13.5bps bid offer adjustment that management has estimated as the reasonable basis for applying the adjustment
Foreign exchange derivatives	Discounted cashflow valuation technique	Spot price, interest rate and/or volatility

46.4 Valuation techniques for the levels1, 2 or 3 fair value measurement of assets and liabilities held at amortised cost

For assets or liabilities held at amortised cost and disclosed in levels1, 2 or 3 of the fair value hierarchy, the discounted cash flow valuation technique is used. Interest rates and money market curves are considered unobservable inputs for items which mature after five years. However, if the items mature in less than five years, these inputs are considered observable.

47. Segmental reporting

47.1 Statement of financial position

The Group has two main business segments:

- Consumer banking – incorporating private customer current accounts, savings, deposits, credit and debit cards, consumer loans and mortgages; and
- Corporate banking –the business model centres on delivering specialist investment banking, financing, risk management and advisory solutions across asset classes to corporates, financial institutions and government clients.

Given the majority of the Group revenues are derived from interest and dealing activities and the Country Management Committee (CMC) relies primarily on net interest revenue and dealing income to assess the performance of the segments, the total interest income and expense for all reportable segments is presented on a net basis. There were no changes in the reportable segments during the year. The revenue from external parties reported to the CMC is measured in a manner consistent with that in the consolidated statement of profit or loss. Funds are ordinarily allocated between segments, resulting in funding cost transfers disclosed in intersegment net interest income. Revenuesharing agreements are used to allocate external customer revenues to a business segment on a reasonable basis.

The Group's management reporting is based on a measure of operating profit comprising net interest income, loan impairment charges, net fee and commission income, other income and noninterest expenses. This measurement basis excludes the effects of nonrecurring expenditure from the operating segments such as restructuring costs, legal expenses. The information provided about each segment is based on the internal reports about segment profit or loss, assets and other information, which are regularly reviewed by the CMC. Segment assets and liabilities comprise operating assets and liabilities, being the majority of the consolidated statement of financial position, but exclude items such as taxation, property and equipment.

Notes to the annual financial statements *(continued)*
for the year ended 31 December 2018

47. Segmental reporting *(continued)*

47.2 Consolidated statement of comprehensive income

Group 2018	Corporate Banking Shs'million	Consumer Banking Shs'million	Total Shs'million
Interest income-External	13 438	15 623	29 061
Interest expense-External	(2 136)	(4 933)	(7 069)
Net interest income	11 302	10 690	21 992
Fee and commission income-External	903	5 808	6 711
Fee and commission expense-External	(145)	(941)	(1 086)
Net fee and commission income	758	4 867	5 625
Net trading income-External	2 277	1 003	3 280
Other income-Internal	765	32	797
Total income	15 102	16 592	31 694
Credit impairment charge and other provisions	(500)	(3 371)	(3 871)
Net operating income	14 602	13 221	27 823
Administrative expenses	(2 246)	(13 732)	(15 978)
Depreciation and amortisation	-	(1 199)	(1 199)
Operating expenses	(2 246)	(14 931)	(17 177)
Profit before tax	12 356	(1 710)	10 646
Taxation	(3 743)	513	(3 230)
Profit for the year	8 613	(1 197)	7 416
2017			
Interest income-External	11 467	15 704	27 171
Interest expense-External	(1 455)	(3 915)	(5 370)
Net interest income	10 012	11 789	21 801
Fee and commission income-External	887	5 250	6 137
Fee and commission expense-External	(118)	(747)	(865)
Net fee and commission income	769	4 503	5 272
Net trading income-External	1 829	1 035	2 864
Other income-Internal	333	(12)	321
Total income	12 943	17 315	30 258
Credit impairment charge and other provisions	(259)	(2 856)	(3 115)
Net operating income	12 684	14 459	27 143
Administrative expenses	(2 977)	(12 573)	(15 550)
Depreciation and amortisation	-	(1 232)	(1 232)
Operating expenses	(2 977)	(13 805)	(16 782)
Profit before tax	9 707	654	10 361
Taxation	(2 912)	(523)	(3 435)
Profit for the year	6 795	131	6 926

47. Segmental reporting *(continued)*

47.3 Consolidated statement of financial position

2018	Corporate Banking Shs'million	Consumer Banking Shs'million	Total Shs'million
Assets			
Loans and advances to customers	**68 206**	**109 148**	**177 354**
Other assets	**77 649**	**70 310**	**147 959**
	145 855	**179 458**	**325 313**
Liabilities			
Deposits from customers	**35 497**	**171 911**	**207 408**
Trade and other payables	**63 742**	**9 957**	**73 699**
	99 239	**181 868**	**281 107**
2017			
Assets			
Loans and advances to customers	63 217	105 180	168 397
Other assets	44 322	58 853	103 175
	107 539	164 033	271 572
Liabilities			
Deposits from customers	31 533	154 444	185 977
Trade and other payables	33 957	7 540	41 497
	65 490	161 984	227 474

Notes to the annual financial statements *(continued)*
for the year ended 31 December 2018

48. Offsetting financial assets and financial liabilities

Financial assets and liabilities are offset and the net amount reported in the statement of financial position (SOFP) where the Bank has a legally enforceable right to offset the recognised amounts, and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously. The Bank has also entered into arrangements that do not meet the criteria for offsetting but still allow for the related amounts to be set off in certain circumstances, such as bankruptcy or the termination of a contract.

The following table presents the recognised financial instruments that are offset, or subject to enforceable master netting arrangements and other similar agreements but not offset, as at 31 December 2019 and 31 December 2018. The column 'net amount 'shows the impact on the Bank's statement of financial position if all setoff rights were exercised. There were no gross amounts set off in the statement of financial position at 31 December 2018 (2017: Nil).

Group and Bank 2018	Effects of offsetting in the SOFP	Related amounts not offset		
	Amounts presented in the SOFP Shs'million	Amounts subject to master netting agreement Shs'million	Financial instrument collateral Shs'million	Net amount Shs'million
Financial assets				
Cash and balances with Central Bank of Kenya	23 351	-	-	23 351
Financial assets at FVTPL	29 708	-	-	29 708
Derivative financial assets	473	-	-	473
Financial assets at fair value through OCI	63 230	-	-	63 230
Loans and advances to banks	6 572	-	-	6 572
Due from group companies	9 126	(9 126)	-	-
Loans and advances to customers	177 354	-	(136)	177 218
Items in the course of collection from banks	1 150	(1 150)	-	-
	310 964	(10 276)	(136)	300 552
Liabilities				
Derivative financial liabilities	1 019	-	-	1 019
Deposits from banks	5 308	-	-	5 308
Due to group companies	51 938	(9 126)	-	42 812
Deposits from customers	207 408	-	(136)	207 272
Borrowings	5 096	-	-	5 096
Items in the course of collection to banks	2 194	(1 150)	-	1 044
	272 963	(10 276)	(136)	262 551

48. Offsetting financial assets and financial liabilities *(continued)*

Group and Bank 2017	Effects of offsetting in the SOFP Amounts presented in the SOFP Shs'million	Related amounts not offset Amounts subject to master netting agreement Shs'million	Financial instrument collateral Shs'million	Net amount Shs'million
Financial assets				
Cash and balances with Central Bank of Kenya	16 354	-	-	16 354
Financial assets at fair value through profit or loss	9 608	-	-	9 608
Financial assets availableforsale	395	-	-	395
Loans and advances to banks	58 476	-	-	58 476
Due from group companies	1 818	-	-	1 818
Derivative financial assets	3 465	(3 465)	-	
Loans and advances to customers	168 397	-	(69 219)	99 178
Items in the course of collection from banks	787	(787)	-	-
	259 300	(4 252)	(69 219)	185 829
Liabilities				
Derivative financial liabilities	454	-	-	454
Deposits from banks	3 059	-	-	3 059
Due to group companies	23 658	(3 465)	-	20 193
Deposits from customers	185 977	-	(69 219)	116 758
Borrowings	5 172	-	-	5 172
Items in the course of collection to banks	1 913	(787)	-	1 126
	220 233	(4 252)	(69 219)	146 762

Master netting arrangements

Under the terms of these arrangements, only where certain credit events occur (such as default), the net position owing/receivable to a single counterparty in the same currency will be taken as owing and all the relevant arrangements terminated. As the Bank does not presently have a legally enforceable right of setoff, these amounts have not been offset in the statement of financial position, but have been presented separately in the table above.

Our Bank >>
Value Proposition >>
Value Creating Strategy >>
Delivering Value >>
Protecting Value >>

Notes to the annual financial statements *(continued)*
for the year ended 31 December 2018

49. Related parties

Barclays Bank of Kenya is a subsidiary of Absa Group Limited, which is listed on the Johannesburg Stock Exchange. The ultimate parent of the Group is Absa Group Limited. There are other companies which are related to Barclays Bank of Kenya Limited through common shareholdings or common directorships.

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operation decisions, or one other party controls both. In the normal course of business, placings of foreign currencies are made with the parent company and other companies at interest rates in line with the market. The relevant balances are as shown below:

a) Statement of comprehensive income

2018	Interest received Shs'million	Interest paid Shs'million	Recharges Shs'million
Shareholders			
Absa Bank Limited	4	914	1 009
Other Group companies	2	416	5
	6	1 330	1 014
2017			
Shareholders			
Absa Bank Limited	5	547	632
Other Group companies	1	10	(24)
	6	557	608

In the normal course of business, placings of foreign currencies are made with the parent company and other companies at interest rates in line with the market.

The weighted average effective interest rate at 31 December 2018 on amounts due from group companies was 0.1% (2017:0.1%) and on amounts due to group companies was 3.5% (2017: 1.8%).

Group companies provide support services from time to time for which they recharge the costs incurred at the country of origin.

The value of the services provided has been debited to the profit or loss and is included in total expenditure of the Group.

Barclays Bank of Kenya Limited Staff Pension Fund and Barclays Bank of Kenya Limited Staff Retirement Benefits (DC) Scheme 2009 (the "Funds") are sponsored by Barclays Bank of Kenya Limited. The Funds' foreign investments are managed by Barclays Private Banking and Trust Limited, which is a related entity to the Fund by virtue of shareholding.

49. Related parties *(continued)*

b) Statement of financial position

Group

2018	**Due from Shs'million**	**Due to Shs'million**
Shareholders		
Absa Bank Limited	8 864	(38 938)
Other Group companies	262	(13 000)
	9 126	(51 938)
2017		
Shareholders		
Absa Bank Limited	2 082	(21 947)
Other Group companies	1 383	(1 711)
	3 465	(23 658)

Bank

2018	**Due from Shs'million**	**Due to Shs'million**
Shareholders		
Absa Bank Limited	8 864	(38 938)
Other Group companies	677	(13 953)
	9 541	(52 891)
2017		
Shareholders		
Absa Bank Limited	2 082	(21 947)
Other Group companies	1 383	(1 711)
	3 465	(23 658)

At 31 December 2018 advances to directors or companies controlled by directors or their families amounted to Shs 41 million (2017: Shs 44 million). All loans to Directors,

(a) were made in the ordinary course of business,

(b) were made on substantially the same terms, including interest rates and collateral, as those prevailing at the same time for comparable transactions with other persons and

(c) did not involve more than a normal risk of collectability or present other unfavourable features. No allowances for impairment were recognised in respect of loans to Directors. (2017: Nil).

During the year the directors maintained various deposit accounts with the Bank which included current, savings and fixed deposit accounts. At 31 December 2018 balances relating to directors deposits amounted to Shs 115 million (2017: Shs 115 million).

Our Bank >>
Value Proposition >>
Value Creating Strategy >>
Delivering Value >>
Protecting Value >>

Notes to the annual financial statements *(continued)*
for the year ended 31 December 2018

49. Related parties *(continued)*

c) Short term colleague benefits

	2018 Shs'million	2017 Shs'million
Senior Management	437	368
Executive Directors	152	136
	589	504
The compensation paid to directors was in respect of:		
Services rendered as directors of the Bank	32	22
	32	22

50. Commitments and contingencies

Commitments to lend are agreements to lend to a customer in future subject to certain conditions. Such commitments are normally made for a fixed period. The bank may withdraw from its contractual obligation for the undrawn portion of agreed overdraft limits by giving reasonable notice to the customer. Undelivered spot transactions represent commitment either to buy or sell foreign currency and are recognised at cost on the trade date.

50.1 Commitments

	2018 Shs'million	2017 Shs'million
Forwards, swaps and spots	69 777	44 527
Undrawn overdraft facilities	16 303	7 390
	86 080	51 917

50.2 Contingent liabilities

	2018 Shs'million	2017 Shs'million
Acceptances and letters of credit	13 691	7 652
Guarantee and performance bonds	14 680	16 430
Undrawn overdraft facilities	16 303	7 390
Unutilised lines of credit	33 700	
	78 374	31 472

Pledged assets in amounted to Shs 1 250 million (2017: Shs 1 250 million). The class of asset pledged in both years was a bond issue. The purpose of the pledge was to create an ILF with the Central Bank of Kenya.

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

An acceptance is an undertaking by a bank to pay a bill of exchange drawn on a customer. The group expects most acceptances to be presented and reimbursement by the customer is normally immediate. Letters of credit commit the bank to make payments to third parties on production of documents, which are subsequently reimbursed by customers.

50. Commitments and contingencies *(continued)*

50.2 Contingent liabilities *(continued)*

Guarantees and assets pledged as security are generally written by a bank to support the performance of a customer to third parties. The group will only be required to meet these obligations in the event of the customers' default. At year end, the bank has obtained undertakings from Absa Group Limited in respect of bonds, guarantees and indemnities facility and letters of credit of Shs 8 960 million (2017: Shs 7 879 million).

Commitments to lend are agreements to lend to a customer in future subject to certain conditions. Such commitments are normally made for a fixed period. The Bank may withdraw from its contractual obligation for the undrawn portion of agreed overdraft limits by giving reasonable notice to the customer. Undelivered spot transactions represent commitment either to buy or sell foreign currency and are recognised at cost on the trade date.

	Group and Bank	
	2018	2017
50.3 Operating lease contingent liabilities	Shs'million	Shs'million
Less than one year	735	814
Between one and five years	1 412	1 753
Total non-cancellable operating lease rentals	**2 147**	2 567

The Group leases a number of branch and office premises under operating lease rentals. Lease payments are escalted per individual contracts and are taken into consideration in the above analysis.

50.4 Contingent tax liabilities

The Bank has unresolved tax disputes with the Kenya Revenue Authority currently pending at the Court of Appeal. Based on professional advice and the previous High Court rulings, the directors are of the opinion that no significant loss will arise from these matters.

50.5 Dividends per share

At the Annual General Meeting to be held on 29 May 2019, a final dividend in respect of the year ended 31 December 2018 of Shs 0.90 (2017: Shs 0.80) amounting to Shs 4 888 million (2017: Shs 4 345 million) will be proposed for approval. An interim dividend of Shs 0.20 (2017: Shs 0.20) was paid during the year amounting to Shs 1 086 million (2017: Shs 1 086 million). This will bring the total dividend for the year to Shs 1.10 (2017: Shs 1.00) per share amounting to Shs 5 974 million (2017: Shs 5 432 million).

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

Notes to the annual financial statements *(continued)*
for the year ended 31 December 2018

51. New accounting pronouncements

Adoption of new and revised Standards

During the current year, the Bank has adopted all of the new and revised standards and interpretations issued by the IASB and the IFRIC that are relevant to its operations and effective for annual reporting periods beginning on 1 January 2018. Apart from the detail included in note 4 the adoption of these new and revised standards and interpretations has not resulted in material changes to the Bank's accounting policies.

The Bank adopted the following standards, interpretations and amended standards during the year:

IFRS 9 Financial Instruments

IFRS 9 is effective from 1 January 2018 and introduces significant changes to three fundamental areas of the accounting for financial instruments, namely:

- the classification and measurement of financial instruments;
- the scope and calculation of credit losses, which has moved from an incurred loss, to an expected credit loss (ECL) approach; and
- the hedge accounting model.

IFRS 9 prescribes the classification of financial assets on the basis of an entity's business model for managing the instrument as well as the contractual cash flow characteristics. The accounting for financial liabilities remains largely unchanged, except for financial liabilities designated at fair value through profit or loss (FVPTL). Gains and losses on such financial liabilities are required to be presented in OCI, to the extent that they relate to changes in own credit risk.

The Bank has elected to not restate its comparative information as permitted by IFRS 9. Accordingly, the impact of IFRS 9 has been applied retrospectively with an adjustment to the Bank's opening retained earnings on 1 January 2018. Therefore comparative information in the prior period annual financial statements have not been amended for the impact of IFRS 9.

In accordance with the transition options allowable under IFRS 9, the Bank will continue to apply the hedge accounting requirements set out in IAS 39 Financial Instruments: Recognition and Measurement (IAS 39). It has however implemented the amended hedge accounting disclosures, as required by IFRS 7 Financial Instruments: Disclosures (IFRS 7).

Amendment to IAS 1 Presentation of Financial Statements

Amendments requiring interest revenue, which is calculated using the effective interest method, to be presented separately on the face of the statement of comprehensive income. This only includes interest earned on financial assets measured at amortised cost or at FVOCI.

IFRS 15 Revenue from Contracts with Customers

IFRS 15 is effective from 1 January 2018 and replaces the previous revenue recognition standards and interpretations, including IAS 18 Revenue and IFRIC 13 Customer Loyalty Programmes. IFRS 15 establishes a single approach for the recognition and measurement of revenue, and requires an entity to recognise revenue as performance obligations are satisfied. It applies to all contracts with customers except for transactions specifically scoped out, which includes interest, dividends, leases, and insurance contracts.

Amendment to IAS 1 and IAS 8 Presentation of Financial Statements and Accounting Policies Changes in Estimates and Errors

The defimition of material has been amended in order to clarify how the concept of materiality should be applied as well as to align to the definition of materiality across IFRS. The new definition states that information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the praimary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity.

51. New accounting pronouncements *(continued)*

Adoption of new and revised Standards *(continued)*

Amendment to IAS 1 and IAS 8 Presentation of Financial Statements and Accounting Policies Changes in Estimates and Errors (continued)

The amendments to the definition:

- Explain that information is obscured if it is communicated in a way that would have a similar effect as omitting or misstating the information, and include examples of circumstances that may result in material information being obscured;
- Clarify that assessing materiality needs to take into account how primary users could reasonably be expected to be influenced in making economic decisions; and
- Refer to primary users in order to respond to concerns that the term users may be interpreted too widely.

The amendments are effective for reporting periods beginning 1 January 2020 and are required to be applied prospectively. The Bank has however elected to early adopt the amendments as they allow for an enhanced understanding of the materiality requirements.

IFRIC22 Foreign Currency Transactions and Advance Consideration

The interpretation addresses foreign currency transactions 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 assets, expense or income. It does not apply when an entity measures the related asset, expense or income on initial recognition at fair value or at the fair value consideration received or paid at a date other than the date of initial recognition of the non-monetary asset or non-monetary liability. In addition, the interpretation need not be applied to income taxes, insurance contracts or reinsurance contracts. IFRIC 22 is effective 1 January 2018. Adoption did not have a material impact on the Group.

New standards and interpretations not yet adopted

A number of new standards and amendments to existing standards have been issued not yet effective for the reporting period and have not been applied in preparing these annual financial statements.

IFRS 16 Leases

IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases. One of the key changes brought by IFRS 16 is the elimination of the classification of leases as either operating leases or finance leases for a lessee, and the introduction a single lessee accounting model. Applying the revised model, a lessee is required to recognise a right of use asset for leased property together with a lease liability representing the future lease payments for all leases (unless the lease term is shorter than 12 months or the underlying asset is of low value and the related exemptions are elected); and depreciation of lease assets separately from interest on lease liabilities in the statement of comprehensive income.

The standard provides revised guidance in defining what constitutes a lease and how the lease term is determined as well as enhanced disclosure requirements for both lessees and lessors about its leasing activities and how exposures are managed.

During 2018, the joint leases programme (incorporating corporate real estate services and finance) has focused its efforts on implementing the IT solution, which will ensure that leases are recognised and disclosed in terms of the requirements of IFRS 16, collating the required lease data, designing and testing new processes, and ensuring appropriate financial disclosures.

The effective date of IFRS 16 is 1 January 2019. The Group intends to apply the modified retrospective approach on adoption, with right of use assets measured retrospectively using the Group's transition date incremental borrowing rate. The implementation of IFRS 16 will give rise to an increase in property, plant and equipment (rightofuse assets) and liabilities with the difference between the two being recognised in retained earnings. Capital supply will be impacted to the extent of the retained earnings adjustment which is expected to be in the range of Shs 150 to 250 million decrease in retained earnings (net of deferred tax and the release of IAS 17 straight line reserves). Right of use assets will be risk weighted in line with the nature of the underlying assets.

Notes to the annual financial statements *(continued)*

for the year ended 31 December 2018

51. New accounting pronouncements *(continued)*

New standards and interpretations not yet adopted *(continued)*

IFRIC 23 Uncertainty Over Income Tax Treatments

IFRIC 23 is effective on or after 1 January 2019, clarifies how the recognition and measurement requirements of IAS 12 are applied where there is uncertainty over income tax treatments. The interpretation applies to all aspects of income tax accounting where there is an uncertainty regarding the treatment of an item, including taxable profit or loss, the tax bases of assets and liabilities, tax losses and credits tax rates. The adoption of IFRIC 23 is not expected to have a significant impact on the Group.

Amendments to IAS 19 Colleagues Benefits

This amendment aims to clarify the determination of current service cost and net interest in the instance that a defined benefit plan amendment, curtailment or settlement takes place, as well as the effect on the asset ceiling of a plan amendment, curtailment or settlement. The amendments are effective for periods beginning on, or after 1 January 2019, with earlier application permitted. It is effective prospectively and does not impact the Group's previously reported results. The accounting for any plan amendments, curtailments or settlements being considered after the effective date would need to take into account the impact of these amendments.

Amendments to IFRS 3 Business Combinations

The amendments, which apply to business combinations for which the acquisition date is on or after 1 January 2020, revise the definitions included in the appendix to IFRS 3 in order to assist entities in determining whether an acquisition made is of a business or a group of assets. The amended definition emphasises that the output of a business is to provide goods and services to customers, whereas the previous definition focused on returns in the form of dividends, lower costs or other economic benefits to investors and others.

Amendments resulting from Annual Improvements 2015–2017 Cycle

The following changes are effective for annual periods beginning on or after 1 January 2019:

- ***IFRS 3 Business Combinations:*** The amendments to IFRS 3 clarify that when an entity obtains control of a business that is a joint operation, it remeasures previously held interests in that business.
- ***IFRS 11 Joint Arrangements:*** The amendments to IFRS 11 clarify that when an entity obtains joint control of a business that is a joint operation, the entity does not remeasure previously held interests in that business.
- ***IAS 12 Income Taxes:*** This amendment clarifies that the income tax consequences of the distribution of profits (i.e. dividends), including payments on financial instruments classified as equity, should be recognised when a liability to pay dividend is recognised. The income tax consequences should be recognised in profit or loss, other comprehensive income or equity according to where the past transactions or events that generated distributable profits were originally recognised.
- ***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.

Shareholders Information

Notice of the annual general meeting

Notice is hereby given that the Fortieth Annual General Meeting of the Shareholders of Barclays Bank of Kenya Limited will be held at the Barclays Sports Club, Ruaraka, Nairobi on Wednesday, May 29, 2019 at 10:00 a.m. to transact the following business:-

Agenda:

1. Constitution of the Meeting

The Secretary to read the notice convening the meeting and determine if a quorum is present

2. Confirmation of Minutes

To confirm the minutes of the Thirty-Ninth (39th) Annual General Meeting held on May 25, 2018.

3. Ordinary Business

i. Annual Report, Financial Statements, Directors' and Auditors' reports for the year ended 31 December 2018:

To receive, consider and if thought fit, adopt the Annual Report and Financial Statements for the year ended 31st December 2018 together with the Directors' and Auditors' reports thereon.

ii. Declaration of a Final Dividend

To confirm the interim dividend of Shs. 0.20 per ordinary share paid on October 12, 2018 and to declare a final dividend of Shs. 0.90 per ordinary share payable net of withholding tax, on May 29, 2019 to shareholders on the Register of Members as at the close of business on April 30, 2019.

iii. Directors retiring by rotation

In accordance with Articles 94, 95 and 96 of the Company's Articles of Association, the following Directors are due for retirement by rotation and being eligible, offer themselves for re-election:

- i. Ms. Patricia Ithau
- ii. Mr. Jeremy Awori
- iii. Mr. Yusuf Omari

iv. Director above the age of 70 years

Pursuant to paragraph 2.5.1 of the Code of Corporate Governance Practises for Issuers of Securities to the Public 2015, to approve the continuation in office as a Director of Mr. Ashok Shah, who has attained the age of seventy (70) years until he next comes up for retirement by rotation.

v. Board Audit Committee members

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

- i. Winnie Ouko (Chair)
- ii. Ashok Shah
- iii. Norah Odwesso
- iv. Laila Macharia
- v. Louis Onyango Otieno

vi. Directors' Remuneration Report

To receive, consider and if thought fit approve the Directors' Remuneration Report and to authorize the Board to fix the remuneration of the Directors

vii. Appointment of Auditors

The Company having received special notice in this regards, to consider and if thought fit pass the following as an ordinary resolution: "That Ernst & Young LLP be appointed as the new auditors of the Company in place of KPMG Kenya (whose term expires at the end of this meeting), with effect from the end of this meeting until the end of the next Annual General Meeting" and to authorize the Board to fix the remuneration of the Auditors.

4. Any Other Business

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

By order of the Board

Loise W. Gakumo
Company Secretary

April 30, 2019

Note 1: A member entitled to attend and vote at the meeting is entitled to appoint a proxy to attend on his or her behalf. A proxy need not be a member of the Company. To be valid, a form of proxy which is provided with this report must be duly completed by the member and must either be lodged with the Registrar of the Company at Custody and Registrars Services, 6th Floor, Bruce House, Standard Street, Nairobi or be posted to Custody and Registrars Services, P. O. Box 8484-00100 Nairobi, so as to reach the Registrar not later than 11.00 a.m. on Monday May 23, 2019 or emailed to proxy@candrgroup.co.ke in pdf format. Duly completed form must be supported by a copy of ID/ valid Passport of the member.

Note 2: Physical registration of members and proxies at the Annual General Meeting will commence at 8.00 a.m. on May 29, 2019. Members and proxies should carry their national ID cards and a copy of a relevant share certificate, dividend warrant or a Central Depository and Settlement Corporation (CDSC) account statement for your share account for ease of the registration process. Members can also pre-register themselves (or their proxies) at the online portal http://sharehub.candrgroup.co.ke between May 7, 2019 and May 23, 2019 after a verification process. To pre-register a proxy the member will be required to upload a signed proxy nomination form and a copy of the proxy's national ID card onto the said online portal. For online registration support please contact telephone number +254 020 2230518 +254 20 2230493, +254 20 2230488 +254 791 086964 + 254 726 971 599 +254 737 095124 between 8.00am and 5.00pm, Monday to Friday.

Note 3: In accordance with Article 133 of the Company's Articles of Association summary, Financial Statements may be viewed from May 8, 2019 on the Company's website www.barclays.co.ke. A printed copy may be requested from the Company's Share Registrar, Custody and Registrars Services, 6th Floor, Bruce House, Standard Street, Nairobi from May 8, 2019 between 9.00AM to 3.00PM Monday to Thursday and Friday 8.30AM to 12.30PM.

Notes

Proxy form

Custody and Registrars Services Limited
Bruce House, 6th Floor, Standard Street
P. O Box 8484–00100, Nairobi

*I/We____

____of____

____being *a member/members of Barclays Bank of Kenya Limited, hereby appoint:

____

____

of (address) ____

____

____

or failing *him/her____

____

of (address) ____

____

____

____

and failing *him/her the Chairman of the meeting as *my/our proxy to vote for *me/us on *my/our behalf at the thirtyninth Annual General Meeting of the Company to be held on Wednesday, May 29, 2019 and at any adjournment thereof.

As witness *I/we affix *my/our *hand/hands this__________________________ day of ______________2019.

Signature(s)____

Unless otherwise instructed, the proxy will vote as *he/she thinks fit.

*Delete whichever is not applicable.

NOTE 1. A member entitled to attend and vote at the meeting is entitled to appoint a proxy on his or her behalf. A proxy need not be a member of the Company.

NOTE 2. In case of a member being a corporation this proxy must be executed under its common seal or signed on its behalf by an officer or attorney of the corporation duly authorised in writing.

NOTE 3. To be valid, this proxy form must be duly completed by the member and must either be lodged with the Registrar of the Company at Custody and Registrars Services Limited, 6th Floor, Bruce House, Standard Street, Nairobi or be posted to Custody and Registrars Services Limited, P.O. Box 8484 – 00100 Nairobi, so as to reach the Registrar not later than 11.00 a.m. on Monday, May 27, 2019. The duly completed form should be supported by a copy of the National ID of the member. Duly signed proxy forms and ID copies may also be emailed to proxy@candrgroup.co.ke in PDF format.

Fomu ya uwakilishi

Custody and Registrars Services Limited
Bruce House, 6th Floor, Standard Street
P.O. Box 8484-00100, Nairobi

*Mimi/Sisi____

Wa____

Kama *mwanachama/wanachama wa benki ya Barclays Bank of Kenya Limited, natmteua/tunamteua:-

____

____

wa (anwani) ____

____

au akikosa yeye ____

____

wa (anuani) ____

____

____

____

na akikosa yeye Mwenyekiti wa mukutano kama mwakilishi *wangu/wetu * anipigie/atupigie kura kwa niaba *yangu/yetu katika mkutano mkuu wa thelathini na tisa wa kampuni hii ambao utafanyika Jumatano tarehe 29 Mei, 2019 na katika ahirisho lolote litakalotokea baadaye.

Kama ushahidi *ninatia/tunatia saini *yangu/yetu

siku hii ya ______________________ya mwezi wa ______________________2019

Sahihi____

Labda kuwe na maagizo, mwakilishi atakuwa huru kupiga kura apendavyo

*Futa yasiyofaa

Maelezo ya 1. Mwanachama mwenye haki ya kuhudhuria na kupiga kura katika mkutano ana haki ya kumteua mwakilishi wake. Sio lazima mwakilishi awe mwanachama wa kampuni.

Maelezo ya 2. Iwapo mwanachama ni shirika fomu hii ya uwakilishi lazima ipigwe muhuri au iwe na saini ya afisa au mwanasheria wa shirika aliyeruhusiwa kwa maandishi.

Maelezo ya 3. Ili ikubalike, fomu hii lazima ijazwe kikamilifu na mwanachama na lazima iwasilishwe kwa msajili wa kampuni katika Custody and Registrars Services, 6th Floor, Bruce House, Standard Street, Nairobi au itumwe kwa njia ya posta kwa Custody and Registrars Services, S.L.P.8484-00100 Nairobi, ili imfikie msajili kabla ya au ifikiapo saa tano asubuhi siku ya Jumatatu tarehe 27 Mei, 2019.

Company information

Barclays Bank of Kenya Limited

Incorporated in the Republic Kenya

Registration number : C.18208

NSE share code : BBK

Registered office

Barclays Westend Building, Off Waiyaki Way

P.O. Box 30120 - 00100

Nairobi

Kenya

Telephone : +254 (20) 4254000

Email : barclays.kenya@barclays.com

Website : www.barclays.co.ke

Chief Financial Officer

Yusuf Omari

Barclays Westend Building, Off Waiyaki Way

P.O. Box 30120 - 00100

Nairobi, Kenya

Telephone : +254 (20) 4254000

Investor Relations

Moses Muthui

Barclays Westend Building, Off Waiyaki Way

P.O. Box 30120 - 00100

Nairobi, Kenya

Telephone : +254 (20) 4254000

Company Secretary

Loise Gakumo

Barclays Westend Building, Off Waiyaki Way

P.O. Box 30120 - 00100

Nairobi, Kenya

Telephone : +254 (20) 4254000

Share Registrar

Custody and Registrars Services Limited

Bruce House, 6th Floor

Standard Street

P.O. Box 8484 – 00100

Nairobi

Telephone : +254 20 2230518

E-mail : info@candrgroup.co.ke

Auditor

KPMG Kenya

ABC Towers, 8th Floor

P.O. Box 40612

Waiyaki Way

Telephone : +254 20 280 6000

Fax : +254 20 221 56 95

E-mail : info@kpmg.co.ke

Media Relations

Social media

Twitter : @Barclays_Kenya

Facebook : Barclays Bank of Kenya

Media Enquiries : Charles.wokabi@barclayscorp.com

Shareholders

The ten largest shareholders in the Company (ordinary share only) and the respective number of shares held as at 31 December 2018 are as follows:	%
Absa Group Limited	68.50%
Standard Chartered Nominees Non-Resd. A/C Ke8723	1.23%
Standard Chartered Nominees Resd A/C Ke11401	0.86%
Kenya Commercial Bank Nominees Limited A/C 915B	0.77%
Standard Chartered Kenya Nominees Ltd A/C Ke003830	0.71%
Standard Chartered Nominees Resd A/C Ke11450	0.70%
Standard Chartered Kenya Nominees Ltd A/C Ke23050	0.60%
Standard Chartered Kenya Nominees Ltd,A/C Ke20510	0.49%
Amarjeet Baloobhai Patel & Baloobhai Chhotabhai Patel	0.46%
Standard Chartered Nominees A/C 9230	0.45%
Others	25.23%
	100.00

Shareholders as at 31 December 2018 were as follows:

Shares Range	Number of Shareholders	No. of Shares Held	% Holding
1-500	12 370	3 329 726	0.06%
501-5 000	22 383	48 156 326	0.89%
5 001-10 000	6 827	49 961 057	0.92%
10 001-100 000	17 851	518 157 368	9.54%
100 001-1 000 000	991	272 419 565	5.02%
>1 000 000	161	4 539 511 958	83.58%
	60 583	**5 431 536 000**	**100.00%**

Notes

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Transfer Funds with Timiza
Dial *848#
BARCLAYS
Chapaa Bila Story
Dial *848#
BARCLAYS
Get instant loans on your phone with Timiza
BARCLAYS