4. FINANCIAL RISK MANAGEMENT (CONTINUED)

(a) Credit risk (continued)

ii) Spire Bank Limited (continued)

4.1.7 Collateral and other credit enhancements (continued)

Type of collateral or credit enhancement

31 December 2019 In KShs'000'	Maximum exposure to credit risk	Fair value of collateral and credit enhancements held					
		Cash	Property	Other	Total collateral	Net exposure	Associated ECLs
Financial assets							
Cash and balances with Central Bank of Kenya	83,787	-	-	-	-	83,787	-
Placements with other banks	59,647	-	-	-	-	59,647	-
Loans and advances to customers	3,311,899	390,195	5,867,268	294,827	6,552,290	(3,240,391)	962,540
Balances due from group companies	6,247	-	-	-	-	6,247	-
Other assets	466,254	-	-	-	-	466,254	-
Government securities held to maturity	2,065,044	-	-	-	-	2,065,044	-
Total financial assets at amortised cost	5,992,878	390,195	5,867,268	294,827	6,552,290	(599,412)	962,540
Financial guarantees	351,356	86,649	5,000	218,022	309,671	41,685	15,157
Letters of credit for customers	-	-	-	-	-	-	-
Other commitments	6,815	-	-	-	-	6,815	(3,924)
	358,171	86,649	5,000	218,022	309,671	48,500	11,233
	6,351,049	476,844	5,872,268	512,849	6,861,961	(510,912)	973,773

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

(a) Credit risk (continued)

ii) Spire Bank Limited (continued

4.1.7 Collateral and other credit enhancements (continued)

Type of collateral or credit enhancement		Fair value of collateral and credit enhancements held					
In KShs'000'	Maximum exposure to credit risk	Cash	Property	Other	Total collateral	Net exposure	Associated ECLs
Financial assets							
Cash and balances with Central Bank of Kenya	264,372	-	-	-	-	264,372	-
Placements with other banks	447,508	-	-	-	-	447,508	-
Loans and advances to customers	4,445,623	716,320	8,815,810	443,747	9,975,877	(5,530,254)	1,057,437
Balances due from group companies	68,061	-	-	-	-	68,061	-
Other assets	409,692	-	-	-	-	409,692	-
Government securities held to maturity	2,620,974	-	-	-	-	2,620,974	-
	8,256,230	716,320	8,815,810	443,747	9,975,877	(1,719,647)	1,057,437
Financial guarantees	718,391	98,654	34,071	307,365	440,090	278,301	3,286
Letters of credit for customers	-	-	-	-	-	-	-
Other commitments	1,530	-	-	-	-	1,530	-
	719,921	98,654	34,071	307,365	440,090	279,831	3,286
	8,976,151	814,974	8,849,881	751,112	10,415,966	(1,439,816)	1,060,723

4. FINANCIAL RISK MANAGEMENT (continued)

(b) Liquidity risk

Liquidity risk is defined as the risk that the group will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset. Liquidity risk arises because of the possibility that the group might be unable to meet its payment obligations when they fall due as a result of mismatches in the timing of the cash flows under both normal and stress circumstances. Such scenarios could occur when funding needed for illiquid asset positions is not available to the group on acceptable terms. To limit this risk, management has arranged for diversified funding sources in addition to its core deposit base and adopted a policy of managing assets with liquidity in mind and monitoring future cash flows and liquidity on a daily basis. The group has developed internal control processes and contingency plans for managing liquidity risk. This incorporates an assessment of expected cash flows and the availability of high grade collateral which could be used to secure additional funding if required.

Management of liquidity risk

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

Central Treasury receives information from other business units regarding the liquidity profile of their financial assets and liabilities and details of other projected cash flows arising from projected future business.

Central Treasury then maintains a portfolio of short-term liquid assets, largely made up of short-term liquid investment securities, loans and advances to Banks and other inter-Bank facilities, to ensure that sufficient liquidity is maintained within the Bank as a whole.

The daily liquidity position is monitored and regular liquidity stress testing is conducted under a variety of scenarios covering both normal and more severe market conditions. All liquidity policies and procedures are subject to review and approval by ALCO. Daily reports cover the liquidity position of the Bank. A summary report, including any exceptions and remedial action taken, is submitted regularly to ALCO.

Exposure to liquidity risk

The key measure used by the Bank for managing liquidity risk is the ratio of net liquid assets to deposits from customers. For this purpose, net liquid assets are considered as including cash and cash equivalents and investment grade debt securities for which there is an active and liquid market less any deposits from Banks, debt securities issued, other borrowings and commitments maturing within the next month.

Details of the reported Bank's ratios of net liquid assets to deposits from customers and other banking institutions at the reporting date and during the reporting period were as follows:

	2019	2018
At 31 December	8.27%	10.10%
Average for the period	6.35%	9.62%
Maximum for the period	9.69%	15.53%
Minimum for the period	0.27%	5.12%
Minimum statutory requirement	20.00%	20.00%

4. FINANCIAL RISK MANAGEMENT (continued)

(b) Liquidity risk (continued)

The table below summaries the maturity profile of the group's financial liabilities based on contractual undiscounted cash flows:

Group 31 December 2019:	On demand KShs'000	Due within 3 months KShs'000	Due between 12 KShs'00	Due between 1-5 years KShs'000	Total KShs'000
Liabilities					
Deposits from banking	-	1,888,52	-	-	1,888,527
Customer deposits	2,935,830	772,162	95,691	595,977	4,399,660
Loans and borrowings	608,108	-	-	-	608,108
Financial guarantees	351,356	-	-	-	351,356
Other liabilities	774,241	-	-	-	774,241
Total liabilities	4,669,535	2,660,68	95,691	595,977	8,021,892
31 December 2018:					
Liabilities					
Deposits from banking	-	2,805,45	-	-	2,805,453
Customer deposits	2,651,208	1,956,14	222,641	1,952,214	6,782,212
Loans and borrowings	1,423,207	-	-	-	1,423,207
Financial guarantees	206,182	87,549	355,028	69,632	718,391
Other liabilities	1,003,780	-	-	-	1,003,780
Total liabilities	5,284,377	4,849,15	577,669	2,021,84	12,733,04
Company					
31 December 2019					
Liabilities					
Other liabilities	260,585	-	-	-	260,585
Due to related parties	3,533,925	-	-	-	3,533,925
	3,794,510	-	-	-	3,794,510
31 December 2018					
Liabilities					
Other liabilities	266,200	-	-	-	266,200
Due to related parties	2,587,594	-	-	-	2,585,594
	2,853,794	-	-	-	2,853,794

4. FINANCIAL RISK MANAGEMENT (continued)

(c) Market risk

i) Interest rate risk management

The Group's operations are subject to the risk of interest rate fluctuations to the extent that interest earning assets and interest-bearing liabilities mature or reprice at different times or in differing amounts. Risk management activities are aimed at optimizing net interest income, given market interest rates levels that are consistent with the Group's business strategies.

The table below analyses the Bank's interest rate exposures on financial assets and liabilities. The Bank's assets and liabilities are included at carrying amount and categorised by earlier of contractual interest rate repricing and maturity dates:

31 December 2019:	Effective interest rate %	3 months or less KShs'000	Over 3 months KShs'000	Over 1 year KShs'000	Non-interest bearing KShs'000	Total KShs'000
ASSETS						
Cash and balances with Central Bank of Kenya	0.0%	-	-	-	140,385	140,385
Investments in Government securities	8.2%		206,008	1,859,036	-	2,065,044
Placements with other banks	1.3%	59,647	-	-	-	59,647
Loans and advances to customers	13.6%	649,008	28,441	2,634,450	-	3,311,899
Balance due from related companies	0.0%	-	-	-	6,247	6,247
Other assets	0.0%	-	-	-	466,254	466,254
TOTAL ASSETS		708,655	234,449	4,493,486	612,886	6,049,476
Deposits from banking institutions	7.9%	1,888,527	-	-	-	1,888,527
Customer deposits	5.9%	3,860,726	95,691	595,977	-	4,552,394
Lease liability	13.0%	-	109,617	274,275	-	383,892
Balances due to group companies	0.0%				29,169	29,169
Other liabilities - Bills payable	0.0%	-	-	-	49,580	49,580
Sundry creditors	0.0%	-	-	-	508,730	508,730
TOTAL LIABILITIES		5,749,253	205,308	870,252	587,479	7,412,292
Total interest sensitivity gap		(5,040,598)	29,141	3,623,234	25,407	(1,362,816)

4. FINANCIAL RISK MANAGEMENT (continued)

(c) Market risk (continued)

i) Interest rate risk management (continued)

31 December 2018:	Effective interest rate %	3 months or less KShs'000	Over 3 months KShs'000	Over 1 year KShs'000	Non-interest bearing KShs'000	Total KShs'000
ASSETS						
Cash and balances with Central Bank of Kenya	0.0%	-	-	-	410,561	410,561
Investments in Government securities	7.9%		306,086	2,314,887	-	2,620,973
Placements with other banks	1.3%	447,508	-	-	-	447,508
Loans and advances to customers	14.6%	641,145	227,143	3,577,335	-	4,445,623
Balance due from related companies	0.0%	-	-	-	68,061	68,061
Other assets	0.0%	-	-	-	409,692	409,692
TOTAL ASSETS		1,088,653	533,229	5,892,222	888,314	8,402,418
Deposits from banking institutions	8.92%	2,805,453	-	-	-	2,805,453
Customer deposits	6.44%	4,992,547	228,641	1,447,166	-	6,668,354
Borrowed funds	12.00%	300,000	100,000		-	400,000
Balances due to group companies	0.00%	-	-	-	96,424	96,424
Other liabilities - Bills payable	0.00%	-	-	-	118,324	118,324
Sundry creditors	0.00%	-	-	-	95,393	95,393
TOTAL LIABILITIES		8,098,000	328,641	1,447,166	310,141	10,183,948
Total interest sensitivity gap		(7,009,347)	204,588	4,445,056	578,173	(1,781,530)

4. FINANCIAL RISK MANAGEMENT (continued)

(c) Market risk

ii) Currency risk

The group is exposed to currency risk through transactions in foreign currencies. The group's transactional exposures give rise to foreign currency gains and losses that are recognised in the profit or loss. In respect of monetary assets and liabilities in foreign currencies, the group ensures that its net exposure is kept to an acceptable level by buying and selling foreign currencies at spot rates when considered appropriate.

The various currencies to which the group is exposed at 31 December 2019 and 2018 are summarised in the table below (all expressed in thousands Kenya Shillings thousands):

31 December 2019	USD	GBP	EURO	Total
ON BALANCE SHEET ITEMS				
ASSETS				
Cash and balances with Central Bank	23,706	831	4,216	28,753
Loans and advances to customers	71,723	104	84	71,911
Other assets	63	-	-	63
TOTAL ASSETS	95,492	935	4,300	100,727
Customer deposits	496,097	4,152	87,224	587,473
Other liabilities	41,638	146	54	41,839
TOTAL LIABILITIES	537,735	4,298	87,278	629,312
Net currency exposure - on balance sheet position	(442,243)	(3,363)	(82,978)	(528,585)
OFF BALANCE SHEET ITEMS - Contingent liabilities	(53,227)	-	-	(53,227)
31 December 2018				
ASSETS				
Cash and balances with Central Bank	207,918	8,896	14,604	231,418
Loans and advances to customers	413,724	80	58,034	471,838
Other assets	11,020	-	-	11,020
TOTAL ASSETS	632,662	8,976	72,638	714,276
Customer deposits	896,203	10,488	98,979	1,005,670
Other liabilities	4,823	237	56	5,117
TOTAL LIABILITIES	901,026	10,725	99,035	1,010,786
Net currency exposure - on balance sheet position	(263,364)	(1,749	(26,397)	(296,510
OFF BALANCE SHEET ITEMS - Contingent liabilities	(263,412)	-	-	(263,412)

4. FINANCIAL RISK MANAGEMENT (continued)

(c) Market risk (continued)

ii) Currency risk (continued)

The following exchange rates were applied during the year:

	Average rate		Closing rates	
	2019	2018	2019	2018
US Dollar	102.02	101.34	103.67	101.85
Sterling Pound	129.46	119.50	130.65	116.45
Euros	114.41	129.02	114.41	129.02

Sensitivity analysis

A 1 percent increase in the rate of the Kenya shilling against the following currencies at 31 December would have increased/ (decreased) profit or loss and equity as shown below. This analysis assumes that all other variables, in particular interest rates, remains constant. The analysis is performed on the same basis as for 2018.

Effect in Kenya shillings thousands	Profit or loss		Equity	
	2019	2018	2019	2018
As at 31 December				
US Dollar	4,422	2,690	3,096	1,883
Sterling pound	34	17	24	12
Euros	830	264	580	(185)
	5,286	2,971	3,700	1,710

A 1 percent decrease in the rate of the Kenya shilling against the above currencies at 31 December 2019 and 2018 would have had an equal but opposite effect on the profit or loss and equity, on the basis that all other variables remain constant.

4. FINANCIAL RISK MANAGEMENT (continued)

(d) Operational risk

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

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

The primary responsibility for the development and implementation of controls to address operational risk is assigned to senior management within each business unit.

This responsibility is supported by the development of overall Group standards for the management of operational risk in the following areas:

- requirements for appropriate segregation of duties, including the independent authorisation of transactions
- requirements for the reconciliation and monitoring of transactions
- compliance with regulatory and other legal requirements
- documentation of controls and procedures
- requirements for the yearly assessment of operational risks faced, and the adequacy of controls and procedures to address the risks identified
- requirements for the reporting of operational losses and proposed remedial action
- development of contingency plans
- training and professional development
- ethical and business standards
- risk mitigation, including insurance where this is effective.

Compliance with SASRA regulations is supported by a programme of regular reviews undertaken by the Internal Audit department. The results of Internal Audit reviews are discussed with the Board and senior management of the Group.

4. FINANCIAL RISK MANAGEMENT (continued)

(e) Financial assets and liabilities and their fair values

(i) Accounting classifications and fair values

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

	Carrying amount				Fair value hierarchy			
Group: At 31 December 2019	Financial assets at fair value through profit or loss KShs'000	Loans and receivables KShs'000	Financial assets at amortised cost KShs'000	Total KShs'000	Level 1 KShs'000	Level 2 KShs'000	Level 3 Khs'000	Total KShs'000
Financial assets measured at fair value	-	-	2,065,044	2,065,044	2,065,044	-		2,065,044
Investment Property	297,500	-	-	297,500	-	-	297,500	297,500
Loans and advances	-	3,311,899	-	3,311,899	-	3,311,899	-	3,311,899
Total	297,500	3,311,899	2,065,044	5,674,443	2,065,044	3,311,899	297,500	5,674,443

Group: At 31 December 2018								
Financial assets measured at fair value	-	-	2,830,929	2,830,929		2,830,929		2,830,929
Loans and advances	-	5,238,815	-	5,238,815	-	5,238,815	-	5,238,815
Total	-	5,238,815	2,830,929	8,069,744	-	8,069,744	-	8,069,744

4. FINANCIAL RISK MANAGEMENT (continued)

(e) Financial assets and liabilities and their fair values (continued)

(ii) Measurement of fair values

Valuation methods used in determining the fair value of assets and liabilities

Instrument	Applicable Level	Valuation methods	Inputs
Loans and advances to members and customers	2	Discounted cash flow model (DCF)	Average Market interest rates 14%
Due from related parties	2	Discounted cash flow model (DCF)	Average Market interest rates 14%
Equity investments at fair value through OCI	2	Net Asset Value	Current unit price of underlying unitised assets and interest rates.

The significant unobservable inputs used in the fair value measurements categorised in level 3 of the fair value hierarchy as at 31December 2019 are as shown below.

Asset	Level	Valuation basis	Rate	Significant unobservable Inputs	Sensitivity of input to the fair value
Investment properties	3	Discounted cash flow model (DCF)	13	Discount rate used, Net Annual Rent, Annual rent growth rate	Increase/(decrease) in discount by 5% would decrease/(increase) fair value by KShs 67 million

5. CAPITAL RISK MANAGEMENT

The Group maintains an efficient capital structure from a combination of shareholders' funds and borrowings, consistent with the Group's risk profile and the regulatory and market requirements of its business.

The Group's objectives in managing its capital are:

- to match the profile of its assets and liabilities, taking account of the risks inherent in the business;
- to maintain financial strength to support new business growth;
- to satisfy the requirements of its policyholders, regulators and rating agencies;
- to retain financial flexibility by maintaining strong liquidity and access to a range of capital markets;
- to allocate capital efficiently to support growth;
- to safeguard the Group's ability to continue as a going concern so that it can continue to provide returns for shareholders and benefits for other stakeholders; and,
- to provide an adequate return to shareholders by pricing the Group's products commensurately with the level of risk.

An important aspect of the Group's overall capital management process is the setting of target risk-adjusted rate of return which is aligned to performance objectives and ensures that the Group is focused on the creation of value for members.

The Group has a number of sources of capital available to it and seeks to optimise its debt to equity structure in order to ensure that it can consistently maximise returns to members. The Group considers not only the traditional sources of capital funding but also the alternative sources of capital as appropriate, when assessing its deployment and usage of capital. The Group manages as capital all items that are eligible to be treated as capital for regulatory purposes.

5. CAPITAL RISK MANAGEMENT (Continued)

Spire Bank Limited

Regulatory capital

The Central Bank of Kenya sets and monitors capital requirements for the bank. The bank's operations are directly supervised by local regulators.

In implementing current capital requirements, the Central Bank of Kenya requires the Bank to maintain a prescribed ratio of total capital to total risk-weighted assets. The Bank uses its internal grading as the basis for risk weightings for credit risk.

The Bank's regulatory capital is analysed into two tiers:

- Tier 1 capital, which includes ordinary share capital, share premium, perpetual bonds (which are classified as innovative Tier 1 securities), retained earnings, translation reserve and minority interests after deductions for goodwill and intangible assets, and other regulatory adjustments relating to items that are included in equity but are treated differently for capital adequacy purposes. A bank must maintain a minimum core capital of KShs 1 Billion.

- Tier 2 capital, which includes qualifying subordinated liabilities, statutory credit risk reserves and the element of the fair value reserve relating to unrealised gains on equity instruments classified as available-for-sale.

Various limits are applied to elements of the capital base. The amount of innovative Tier 1 securities cannot exceed 15 percent of total Tier 1 capital; qualifying Tier 2 capital cannot exceed Tier 1 capital; and qualifying term subordinated loan capital may not exceed 50 percent of Tier 1 capital. There also are restrictions on the amount of statutory credit risk reserve that may be included as part of Tier 2 capital. Other deductions from capital include the carrying amounts of investments in subsidiaries that are not included in the regulatory consolidation, investments in the capital of banks and certain other regulatory items.

Banking operations are categorised as either trading book or banking book, and risk-weighted assets are determined according to specified requirements that seek to reflect the varying levels of risk attached to assets and off-balance sheet exposures.

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

The Bank has complied with all externally imposed capital requirements throughout the period except as at 30 September 2017, 31 October 2017 and 31 December 2017 in which the Bank's capital adequacy ratio fell below the minimum ratio prescribed by the Central Bank of Kenya. Though the Bank regularized the position through conversion of some of its shareholders' loan into equity amounting to KShs 500 million in November 2017, the Bank remains non-compliant with the capital adequacy requirements due to accumulated losses. The non-compliance to the minimum ratio resulted in fines charged to the bank by the regulator.

5. CAPITAL RISK MANAGEMENT (continued)

Spire Bank Limited (continued)

The bank's regulatory capital position at 31 December was as follows:

	2019 KShs '000	2018 KShs '000
Core capital (Tier 1)		
Ordinary share capital	5,770,315	4,820,315
Share premium	3,203	3,203
Accumulated losses	(7,185,629)	(4,954,478)
	(1,412,111)	(130,960)
Supplementary capital (Tier 2)		
Statutory credit risk reserve	79,699	107,273
Subordinated debt	-	20,000
	79,699	127,273
Total regulatory capital	(1,332,412)	(3,687)
Risk-weighted assets		
On balance sheet risk weighted assets	6,309,732	8,531,876
Off balance sheet risk weighted assets	66,213	49,970
Total risk-weighted assets	6,375,945	8,581,846

Capital ratios

Percentage of total regulatory capital to		
Risk-weighted assets	(20.9%)	(22.01%)
Minimum requirement	14.50%	14.50%
Percentage of core capital to risk weighted assets	(22.15%)	(23.54%)
Minimum requirement	10.50%	10.50%
Percentage of core capital to deposits	(31.02%)	(25.06%)
Minimum requirement	8.00%	8.00%
Liquidity ratio	8.21%	10.10%
Minimum requirement	20.00%	20.00%

Capital allocation

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

Although maximisation of the return on risk-adjusted capital is the principal basis used in determining how capital is allocated within the Bank to particular operations or activities, it is not the sole basis used for decision making. Account also is taken of synergies with other operations and activities, the availability of management and other resources, and the fit of the activity with the bank's longer term strategic objectives. The Bank's policies in respect of capital management and allocation are reviewed regularly by the Board of Directors.

6. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the process of applying the Group's accounting policies, management has made estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The key sources of estimation uncertainty in applying the Group's accounting policies are dealt with below:

(a) Measurement of the expected credit loss allowance

The measurement of the expected credit loss allowance for financial assets measured at amortised cost and FVOCI is an area that requires the use of complex models and significant assumptions about future economic conditions and credit behaviour (e.g. the likelihood of customers defaulting and the resulting losses). A number of significant judgements are also required in applying the accounting requirements for measuring ECL, such as:

i. Determining criteria for significant increase in credit risk;
ii. Choosing appropriate models and assumptions for the measurement of ECL;
iii. Establishing the number and relative weightings of forward-looking scenarios for each type of product/market and the associated ECL; and
iv. Establishing groups of similar financial assets for the purposes of measuring ECL.

Further details of the ECL is highlighted on notes 13, 14, 17 and 20,

(b) Fair value of financial instruments

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or, in its absence, the most advantageous market to which the Group has access at that date. The fair value of a liability reflects its non-performance risk.

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

If there is no quoted price in an active market, then the Group uses valuation techniques that maximise the use of relevant observable inputs and minimise the use of unobservable inputs. The chosen valuation technique incorporates all of the factors that market participants would take into account in pricing a transaction. Judgments and estimates include considerations of liquidity and model inputs related to items such as credit risk (both own and counterparty), funding value adjustments, correlation and volatility.

(c) Depreciation on property and equipment

Critical estimates are made by the Directors in determining the useful lives of property and equipment (note 26).

(d) Amortization of intangible assets

Critical estimates are made by the Directors in determining the useful lives of intangible assets (note 24).

6. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (continued)

(e) Leases - Estimating the incremental borrowing rate

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

See note 36 for detailed disclosures

(f) Taxes

The Group is subject to income taxes in Kenya. Significant judgement is required in determining the Group's provision for income taxes and to determine the amount of deferred tax assets that can be recognised, based on the likely timing and the level of future taxable profits together with future tax planning strategies. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. Where the outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provision in the period in which such determination is made.

See note 12 and 21 for detailed disclosures

(g) Estimation of net realisable value for property inventory

NRV for completed property inventory is assessed by reference to market conditions and prices existing at the reporting date. NRV in respect of property inventory is assessed with reference to market prices at the reporting date, less estimated costs to complete the development and the estimated costs necessary to make the sale, taking into account the time value of money, if material.

7. INTEREST INCOME

	Group		Company	
	2019	2018	2019	2018
	KShs'000	Ksh'000	KShs'000	Ksh'000
Loans and advances to customers	320,931	510,157	-	-
Financial assets at amortised cost	189,847	216,159	-	-
Placements with other banks	6,335	4,459	301	607
	517,113	730,775	301	607

8. INTEREST EXPENSE

Customer deposits	457,011	455,511	-	-
Interest on lease liability	15,375	-	-	-
Deposits from banks and other financial institutions	368,880	665,378	-	-
	841,266	1,120,889	-	-

9. OTHER INCOME

	Group		Company	
	2019	2018	2019	2018
	KShs'000	Ksh'000	KShs'000	Ksh'000
Fees and commission income	123,158	148,244	-	-
Brokerage operating income	43,072	41,738	-	-
Foreign exchange trading income	17,401	12,963	-	-
Fair value gain on revaluation of investment property (note 25)	17,500	-	-	-
Gain on disposal of property and equipment	552	-	-	-
Bad debt recoveries	137,592	-	-	-
Gain on sale of associate	63,005	-	-	-
Other income	7,927	25,282	-	-
	410,207	228,227	-	-

10. ADMINISTRATIVE EXPENSES

	Group 2019	Group 2018	Company 2019	Company 2018
Salaries and employee benefits (note 10 (a))	368,020	342,085	-	-
Directors emoluments	11,000	11,000	-	-
Depreciation on property and equipment (note 26)	109,232	108,717	-	-
Amortisation on intangible assets (note 24)	40,882	28,116	-	-
Depreciation on right of use asset	87,817	-	-	-
Occupancy expenses	29,283	197,590	-	-
Deposit protection fund contribution	9,969	11,243	-	-
Insurance premiums	27,888	26,840	-	-
Write down of property inventory to net realisable value	328,749	71,457	-	-
Fines and penalties	18,609	438,358	-	-
Operational losses	3,669	21,925	-	-
Card processing fees	66,732	78,411	-	-
Advertising	81,384	103,039	-	-
Legal and professional fees	2,859	19,436	-	-
Printing and stationery	7,098	2,869	-	-
Other expenses	111,404	84,023	2,653	3,379
	1,304,595	1,545,109	2,653	3,379

10. SALARIES AND EMPLOYEE BENEFIT

	Group		Company	
	2019	2018	2019	2018
	KShs '000'	KShs '000'	KShs '000'	KShs '000'
(a) Staff expenses				
Salaries and wages	320,629	313,803	-	-
Contributions to defined contribution scheme	10,860	10,911	-	-
Social security contributions	432	445	-	-
Staff welfare	36,099	16,926	-	-
	368,020	342,085	-	-

The average number of employees engaged during the year were:

	Group 2019	Group 2018	Company 2019	Company 2018
Management staff	181	177	-	-
Unionisable	-	3	-	-
	181	180	-	-

11. NET IMPAIRMENT (WRITE BACK)/CHARGE ON FINANCIAL ASSETS

	Group		Company	
	2019	2018	2019	2018
	KShs	KShs '000'	KShs '000'	KShs
Loans and advances (note 20)	(98,182)	(467,465)	-	-
Cash & cash equivalents (note 13)	6,937	(167)	(141)	13
Placements with banking institutions (note 14)	2,956	-	-	-
Other assets (note 17)	1,223	22,702	(26)	-
Total	(87,066)	(450,421)	(167)	13

12. TAXATION

(a) LOSS BEFORE TAX

Loss before taxation is arrived at after charging /(crediting) the following:

	Group		Company	
	2019	2018	2019	2018
	KShs'000	Ksh'000	KShs'000	Ksh'000
Depreciation expense	109,232	108,717	-	-
Write off of property plant and equipment	402	19,067	-	-
Amortisation of intangible assets	40,882	28,116	-	-
Auditors remuneration	6,669	6,463	1,133	1,029
Directors' emoluments:				
Non-executives - Fees	11,000	11,000	140	2,557
Executives - Remuneration	14,038	30,716	-	-
Gain on sale of property and equipment	(602)	(310)	-	-

	Group		Company	
	2019	2018	2019	2018
	KShs'000	Ksh'000	KShs'000	Ksh'000
(b) Statement of profit or loss				
Current tax				
Current tax at 30% on adjusted profit for tax purposes	40,356	7,797	-	-
Prior year overprovision in tax charge	(32,357)	(2,275)	-	-
Deferred tax:				
Deferred tax movement (note 21)	(172,310)	(832)	(699)	(832)
De-recognition of deferred tax (note 21)	175,148	1,524,216	-	-
Prior year under/(over) provision of deferred tax (Note 21)	18,866	79,794	(470)	-
Income tax charge/(credit)	29,703	1,608,700	(1,169)	(832)

12. TAXATION (continued)

(c) Reconciliation of taxation expense to expected tax based on accounting loss:

	Group 2019 KShs'000	Group 2018 KShs'000	Company 2019 KShs'000	Company 2018 KShs'000
Accounting loss before tax	(1,131,475	(1,239,531)	(2,185)	(2,785)
Computed tax using the applicable tax rate of 30%	(339,442)	(371,859)	(656)	(836)
Non-deductible expenses*	207,488	378,694	(43)	4
De-recognition of deferred tax	175,148	1,524,216	-	-
Prior year under/(over) provision on deferred tax	18,866	79,924	(470)	-
Prior yearover provision on current tax	(32,357)	(2,275)	-	-
Income tax (credit)/charge	29,703	(1,608,700)	(1,169)	(832)

*The non-deductible expenses relate to expensed fringe benefit tax, director's emoluments, auditor's remuneration, stamp duty, write-down of inventory property, legal fees on sale of shares, excess pension, donations, valuation fees, increase in the loan loss provision, depreciation and amortisation.

(d) Statement of Financial Position

	Group 2019 KShs'000	Group 2018 Ksh'000	Company 2019 KShs'000	Company 2018 Ksh'000
At 1 January	15,407	14,616	1,673	1,641
Prior year under provision on current tax	32,357	2,275	-	-
Tax paid	6,970	6,313	-	32
Current tax at 30% on adjusted profit for tax purposes	(40,356)	(7,797)	-	-
At 31 December	14,378	15,407	1,673	1,673

13. CASH AND CASH EQUIVALENTS

	Group 2019 KShs'000	Group 2018 Ksh'000	Company 2019 KShs'000	Company 2018 Ksh'000
Cash on hand	92,675	146,189	17	1,243
Balances with Central Bank of Kenya				
- Cash reserve ratio	235,119	347,224	-	-
- Unrestricted balance available for use by the bank	(151,332)	(81,750)	-	-
Less: Allowance for expected credit losses	(8,160)	(1,223)	-	(141)
	168,302	410,440	17	1,102

Allowance for credit losses movement

	Group 2019	Group 2018	Company 2019	Company 2018
At 1 January	1,223	1,711	141	1,698
Impact of adopting IFRS 9	-	(321)	-	(1,570)
Provision/(recovery) of credit losses (note 11)	6,937	(167)	(141)	13
At 31 December	8,160	1,223	-	141

13. CASH AND CASH EQUIVALENTS (continued)

The table below shows the credit quality and the maximum exposure to credit risk based on the Group's and Company's internal credit rating system and year end classification. The amounts presented are gross of impairment allowances.

Group	Stage1 KShs'000	Stage 2 KShs'000	Stage3 KShs'000	Total KShs'000	2018 KShs'000
Grading					
Performing	151,002	-	-	151,002	410,440
Watch	-	17,300	-	17,300	-
Non-performing (Substandard, doubtful, loss)	-	-	8,160	8,160	1,223
Total	151,002	17,300	8,160	176,462	411,663

Company					
Grading					
Performing	17	-	-	17	1,102
Watch	-	-	-	-	-
Non-performing (Substandard, doubtful, loss)	-	-	-	-	141
Total	17	-	-	17	1,243

An analysis of changes in the gross carrying amount and the corresponding ECL allowances is as follows:

Group	Stage 1 KShs'000	Stage 2 KShs'000	Stage 3 KShs'000	Total KShs'000	2018 KShs'000
Gross carrying amount as at 1 January 2019	410,440	-	1,223	411,663	465,848
New assets originated or purchased	2,364,564	-	6,937	2,371,501	2,229,363
Assets derecognised or repaid	(2,606,702)	-	-	(2,606,702)	(2,283,548)
As at 31 December 2019	168,302	-	8,160	176,462	411,663

Company					
Gross carrying amount as at 1 January 2019	1,102	-	141	1,243	12,359
New assets originated or	5,708	-	(141)	5,567	516
Assets derecognised or repaid	(6,793)	-	-	(6,793)	(11,632)
As at 31 December 2019	17	-	-	17	1,243

13. CASH AND CASH EQUIVALENTS (continued)

Group	Stage 1 KShs'000	Stage 2 KShs'000	Stage 3 KShs'000	Total KShs'000
At 1 January 2019	-	-	1,223	1,223
Movements in expected credit loss	-	-	6,937	6,937
At 31 December 2019	-	-	8,160	8,160

Company	Stage 1 KShs'000	Stage 2 KShs'000	Stage 3 KShs'000	Total KShs'000
At 1 January 2019	-	-	141	141
Movements in expected credit loss	-	-	(141)	(141)
At 31 December 2019	-	-	-	-

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

The restricted balances are not considered as part of cash and cash equivalents from a statement of cash flow perspective as these do not meet the definition of cash and cash equivalents as these funds are not available for use by the bank in its day to day operations.

14. PLACEMENTS WITH FINANCIAL INSTITUTIONS

	2019		2018	
	Group KShs '000	Company KShs '000	Group KShs '000	Company KShs '000
Due within 90 days	186,045	-	574,883	4,872
Less: allowance for credit losses	(2,956)	-	-	-
	183,089	-	574,883	4,872
Allowance for credit losses movement				
At 1 January	-	-	-	-
Provision/(recovery) of credit losses (note 11)	2,956	-	-	-
At 31 December	2,956	-	-	-

The weighted average effective interest rate on placements with other banks for the year 2019 was 1.27% (2018 - 1.85%).

The Spire Bank Limited has pledged part of its short-term deposits as cash cover in order to fulfil the collateral requirements for the guarantee contract with The Co-operative Bank of Kenya. The weighted average effective interest rate on placements with other banks for the year 2019 was 1.27% (2018 - 1.35%).

The placements under lien are not considered as part of cash and cash equivalents for the purposes of the statement of cash flows as they do not meet the definition of cash and cash equivalents since they are not available for use by the Bank in its day to day operations.

15. PROPERTY INVENTORY

The group has constructed houses for sale at Kisaju in Kitengela. The housing project comprises of one, two, three bedroom and maisonettes.

	2019	2018
	KShs'000	KShs'000
At 1 January	3,587,105	4,506,240
Additions	-	234,735
Transfer to property and equipment (note 26)	-	(1,061,408)
Write down of property inventory to net realisable value	(328,749)	(92,462)
At 31 December	3,258,356	3,587,105

16. LAND INVENTORY

Branch		
Kisumu	4,724	6,495
Kakamega	3,000	3,000
Baringo/Koibatek	5,372	5,372
Uasin Gishu/Nandi	45,509	45,509
Kimilili	-	1,850
Kitui	12,067	37,280
Turkana	49,709	49,140
Nairobi	22,941	28,799
Teacher's Service Commission	22,990	22,000
Maragwa	6,933	7,075
Kirinyaga	5,576	5,577
Chwele	11,360	11,360
Nyandarua	6,811	6,810
Makueni/Wote	-	4,982
Thika/Muranga	33,685	33,685
Machakos	44,400	44,400
	275,077	313,334

17. OTHER RECEIVABLES

	Group		Company	
	2019	2018	2019	2018
	KShs '000	KShs '000	KShs '000	KShs '000
Advance deposits and prepayments	140,385	99,340	-	-
Premium receivables	13,978	15,795	-	-
Commission receivables	12,020	26,473	-	-
Other trade receivables	286,557	59,516	43,140	43,615
Items in transit	329,767	420,113	-	-
Less: Allowance for credit losses	(2,767)	(1,544)	(1,544)	(1,544)
	779,940	619,793	41,596	42,071

Allowance for credit losses movement

	Group 2019	Group 2018	Company 2019	Company 2018
At 1 January	1,544	28,791	1,570	1,699
Impact of adopting IFRS 9	-	(4,545)	-	12
Charge (recovery) of credit losses (note 11)	1,223	(22,702)	(26)	(141)
At 31 December	2,767	1,544	1,544	1,570

17. OTHER RECEIVABLES (continued)

Other receivables;
Advance deposit - relates to deposit for leased office space, the fee is refundable after termination of lease
Prepayments - refer to expenses/ contracts paid in advance but amortised over the term of the contract.
Items in transit – Un-cleared effects outstanding in settlement or clearing accounts.

The table below shows the credit quality and the maximum exposure to credit risk based on the Group's and Company's credit rating system and the year-end stage classification. The amounts presented are gross of impairment allowances.

Group	Stage1	Stage 2	Stage3	Total	2018
	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000
Grading					
Performing	665,599	-	-	665,599	498,810
Watch	-	114,341	-	114,341	120,983
Non-performing (Substandard, doubtful, loss)	-	-	2,767	2,767	1,544
Total	665,599	114,341	2,767	782,707	621,337

Company					
Grading					
Performing	3,242	-	-	3,242	42,045
Watch	-	38,354	-	38,354	-
Non-performing (Substandard, doubtful, loss)	-	-	1,544	1,544	1,570
Total	3,242	38,354	1,544	43,140	43,615

An analysis of changes in the gross carrying amount and the corresponding expected credit loss allowances is, as follows;

Group	Stage 1 KShs'000	Stage 2 KShs'000	Stage 3 KShs'000	Total KShs'000	2018 KShs'000
Gross carrying amount as at 1 January	619,793	-	1,544	621,337	495,626
New assets originated or purchased	1,038,270	-	-	1,038,270	328,146
Assets derecognised or repaid	(878,123)	-	1,223	(876,900)	(202,435)
As at 31 December	779,940	-	2,767	782,707	621,337

Company					
Gross carrying amount as at 1 January	42,045	-	1,570	43,615	42,045
New assets originated or purchased	81	-	-	81	3,140
Assets derecognised or repaid	(530)	-	(26)	(556)	(1,570)
As at 31 December	41,596	-	1,544	43,140	43,615

17. OTHER RECEIVABLES (continued)

Group	Stage 1 KShs'000	Stage 2 KShs'000	Stage 3 KShs'000	Total KShs'000
At 1 January 2019	-	-	1,544	1,544
Movements in expected credit loss	-	-	1,223	1,223
At 31 December 2019	-	-	2,767	2,767
Company				
At 1 January 2019	-	-	1,570	1,570
Movements in expected credit loss	-	-	(26)	(26)
At 31 December 2019	-	-	1,544	1,544

Terms and conditions of transactions with other trade receivables:

Outstanding balances at the year-end are unsecured and interest free and settlement occurs in cash. There have been no guarantees provided or received for any receivables or payables. For the year ended 31 December 2019, the group has recorded an impairment relating to other trade receivables of KShs 1,543,888 (2018: KShs Nil). This assessment is undertaken each financial year through examining the financial position of the counterparty and the market in which the counterparty operates.

18. RELATED PARTY DISCLOSURES

The Group has various related parties, most of whom are related by virtue of being shareholders, and partly due to common directorships. For the year ended 31 December 2019, the Group has not recorded any impairment relating to amounts due from related parties (2018: Nil). The amounts due to related parties are interest bearing (KShs 2.9 billion) and non- interest bearing (KShs 3.8 billion).

Amounts due to related companies	Group		Company	
	2019 KShs'000	2018 KShs'000	2019 KShs'000	2018 KShs'000
Mwalimu National Sacco Society Limited	3,533,844	2,587,594	3,533,844	2,587,594
Mwalimu Asset Management Limited	5,356,180	4,270,561	81	-
	8,890,024	6,858,155	3,533,925	2,587,594

Key management compensation	Company	
	2019 KShs'000	2018 KShs'000
Directors' fees		
Spire Bank - Non-executive fees	9,800	11,000
Spire Bank - executive renumeration	14,038	30,716
Mwalimu Asset Management Limited	1,617	1,544
	25,455	43,260

18. RELATED PARTY DISCLOSURES (continued)

Transactions with related parties during the year:	2019 KShs'000	2018 KShs'000
Receipts* from related party		
Mwalimu Asset Management Limited	-	85,000
Spire Bank Limited	65,289	24,568
Payments* from related party		
Mwalimu Asset Management Limited	1,085,620	896,911
Spire Bank Limited	-	15,160

* In helping to reduce the administration burden there will be situations where the parent company will pay expenses on behalf of its subsidiary and companies. Therefore, these transactions relate to the receipts to and payments from related parties to reimburse the parent company paying on behalf of the others.

19. FINANCIAL ASSETS AT AMORTISED COST (GOVERNMENT SECURITIES)

	2019 KShs'000	2018 KShs'000
Treasury bonds	2,065,044	2,620,974
Treasury bills	-	11
Total investments	2,065,044	2,620,985
Maturing within one year	206,008	306,098
Maturing after one year	1,859,036	2,314,887
	2,065,044	2,620,985

The weighted average effective interest rate on debt instruments (government securities) for the year 2019 was 8.22 % (2018 - 7.93%). The last bond held to maturity will mature on 7 February 2028 while treasury bonds worth KShs 1.9 billion (2018 - KShs 2.4 billion) have been pledged against the Central Bank of Kenya Repo as disclosed in note 34.

20. LOANS AND ADVANCES TO CUSTOMERS

	2019 KShs'000	2018 KShs'000
Overdrafts	240,670	627,822
Loans	1,106,723	1,728,770
Asset finance	177,297	327,322
Non - performing advances	2,631,582	2,686,049
Credit cards	91,390	133,097
Interest receivable	26,777	-
Gross loans and advances	4,274,439	5,503,060
Less: Allowance for credit losses	(962,540)	(1,060,722)
Net loans and advances	3,311,899	4,442,338
Receivable within 12 months	677,448	802,018
Receivable after 12 months	2,634,451	3,640,320
	3,311,899	4,442,338

Allowance for credit losses movement

	2019 KShs'000	2018 KShs'000
At 1 January	1,060,722	1,485,922
Impact of adopting IFRS 9	-	42,265
Write back of expected credit losses (note 11)	(98,182)	(467,465)
At 31 December	962,540	1,060,722

20. LOANS AND ADVANCES TO CUSTOMERS (continue)

The weighted average effective interest rate on loans and advances to customers for the year 2019 was 13.50% (2018 - 14.30%).

Gross loans and advances include an amount of KShs 2,63 billion (2018: KShs 2,67 billion which has been determined as impaired.

Group lending

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

	Stage1 KShs'000	Stage 2 KShs'000	Stage3 KShs'000	Total KShs'000	2018 KShs'000
Grading					
Performing	1,416,249	-	-	1,416,249	2,455,171
Watch	-	226,607	-	226,607	361,840
Non-performing (Substandard, doubtful, loss)	-	-	2,631,583	2,631,583	2,686,049
Total	1,416,249	226,607	2,631,583	4,274,439	5,503,060

An analysis of changes in the gross carrying amount and the corresponding ECL allowances in relation to the group lending is as follows:

	Stage 1 KShs'000	Stage 2 KShs'000	Stage 3 KShs'000	2019 KShs'000	2018 KShs'000
Gross carrying amount as at 1 January	2,455,171	361,839	2,686,049	5,503,060	6,724,737
Loans and advances originated in the year	-	-	-	-	-
Loans and advances repaid in the year	(1,038,922)	(135,232)	(54,466)	(1,228,621)	(1,221,677)
As at 31 December	1,416,249	226,607	2,631,583	4,274,439	5,503,060

	Stage 1 KShs'000	Stage 2 KShs'000	Stage 3 KShs'000	Total KShs'000
At 1 January 2019	168,019	32,130	860,573	1,060,722
Movements in expected credit loss	(55,955)	(12,867)	(29,360)	(98.182)
At 31 December 2019	112,064	19,263	831,213	962,540

20. LOANS AND ADVANCES TO CUSTOMERS (continued)

Breakdown of the Group's provision as per IFRS 9

	IMPAIRMENT	CBK KShs'000	IFRS 9 KShs'000
2019	Identified	1,525,317	831,213
	Unidentified	20,923	131,327
	Interest in suspense	276,420	-
		1,822,660	962,540
2018	Identified	1,465,723	860,573
	Unidentified	35,407	200,149
	Interest in suspense	197,673	-
		1,698,803	1,060,722

Loan Portfolio Credit Risk Exposure

The group's credit risk exposure from the loan portfolio before collateral held or other credit enhancements:

	Group 2019 KShs '000	2018 KShs '000
Neither past due nor impaired	4,274,440	5,503,060
Past due but not impaired:		
Past due up to 30 days	(1,394,282)	(1,712,624)
Past due over 31-180 days	135,232	937,702
Past due over 180 days	1,259,049	774,922
Impairment allowances	(962,540)	(1,060,722)
Carrying amount	3,311,899	4,442,338

Neither past due nor impaired
Credit quality of a customer is assessed based on an extensive credit rating scorecard and review of member deposit balances, and the individual credit limits are defined in accordance with this assessment. Outstanding customer receivables are monitored regularly.

21. DEFERRED TAX

Deferred tax asset is attributable to movements in temporary differences between calculations of certain items for accounting and for taxation purposes as specified below:

	Balance at 1 January KShs'000	Recognised In profit or KShs'000	Under Provision KShs'000	Balance at 31 December KShs'000
Company - 2019:				
Arising from:				
Carried forward tax loss	3,869	706	-	4,574
Provision	-	(7)	470	464
Carried forward tax loss	3,869	699	470	5,038
Company - 2018:				
Arising from:				
Carried forward tax loss	3,037	832	-	3,869

Group - 2019:	Balance at 1 January KShs'000	Prior year (over)/under provision KShs'000	Recognised in profit or loss KShs'000	Derecognized deferred tax KShs'000	Balance at 31 December KShs'000
Arising from:					
Property and equipment	231	(462)	(1,482)	-	(1,713)
Carried forward tax loss	3,869	-	(175,854)	175,148	3,162
Other provisions	8,857	(37,008)	(224)	-	(28,375)
	12,957	(37,470)	(177,560)	175,148	(26,925

Deferred tax asset not recognised at 31 December 2019 is comprised of;

	Mwalimu Asset Management Limited	Spire Bank Limited	Total
Deferred tax derecognized	143,760	31,388	175,148
Deferred tax for the year			
Property and equipment	-	-	-
General provisions for loans and advances	-	-	-
Other provisions	-	-	-
Carried forward tax loss	165,875	1,612,615	1,778,490
Prior year under-provision	-	-	-
Deferred tax for the year	165,875	1,612,615	1,778,490
	309,635	1,644,003	1,953,638
IFRS 9 adjustments	-	-	-
	309,635	1,644,003	1,953,638

21. DEFERRED TAX (Continued)

Group - 2018:

	Balance at 1 January KShs'000	Prior year (over)/under provision KShs'000	Recognised in profit or loss KShs'000	Derecognized deferred tax KShs'000	Balance at 31 December KShs'000
Arising from:					
Property and equipment	3,100	-	(1,159)	-	1,941
Carried forward tax loss	897,951	-	238,637	288	1,136,876
Unrealized losses	19,920	-	-	-	19,920
General provisions for loans and advances	225,402	-	220,977	-	446,379
Other provisions	9,792	1,400	(173)	-	11,019
	1,156,165	1,400	458,282	288	1,616,135

The recognition of deferred tax assets on taxable losses has been suspended until a sustainable annual taxable income has been established. As at 31 December 2019, Spire Bank had recognised an impairment of KShs 1.51 billion relating to deferred tax asset. This gave rise to a distortion of the Group's effective tax rate.

Spire Bank Limited had tax losses of KShs 4.4 billion (2018: KShs 3.9 billion) while Mwalimu Asset Management Limited has tax losses of KShs 13.2million (2018: Kshs 12.8 million)

Spire Bank Limited
At 31 December 2019, Spire Bank Limited had unused tax losses of KShs 4.4 billion that are available for offsetting against the bank's future taxable profits. The tax losses are due to operational losses and impairment of loans and advances.

The Finance Act, 2015 extended the limit of carrying forward tax losses from five years to ten years. However, in 2016, Spire Bank Limited obtained an approval from Kenya Revenue Authority (KRA) to carry forward the tax losses for 2010 - 2014 in accordance with the amendments to Section 15 (4) of the Income Tax Act contained in the 2015 Finance Act. The new expiry dates of the tax losses above will, therefore, be as follows:

a) 2011 tax losses amounting to KShs 210,851,741 expire on 31 December 2020
b) 2012 tax losses amounting to KShs 421,017,597 expire on 31 December 2021
c) 2013 Nil
d) 2014 Nil
e) 2015 tax losses amounting to KShs 146,079,192 expire on 31 December 2024
f) 2016 tax losses amounting to KShs 1,701,656,365 expire on 31 December 2025
g) 2017 tax losses amounting to KShs 932,690,025 expire by 31 December 2026
h) 2018 tax losses amounting to KShs 693,029,643 expire on 31 December 2027
i) 2019 tax losses amounting to KShs 862,680,872 expire on 31 December 2028

Mwalimu Asset Management Limited
As at 31 December 2019, the company had unused tax losses of KShs 13.2million that are available for offsetting against the company's future taxable profits, which expire by 31 December 2028.

22. INVESTMENTS IN ASSOCIATES

The ultimate parent is Mwalimu National Savings and Credit Co-operative Society which has 100% shareholding in Mwalimu National Holding Limited. Mwalimu National Holding Limited has a 75% shareholding in Equatorial Commercial Holdings Limited Equatorial Commercial Holdings Limited has a 95% shareholding in Spire Bank Limited. Spire Bank Limited has a 20% (2018: 20%) investment in Equatorial Investment Bank Limited and 23.86% (2018: 23.86%) in Fidelity Shield Insurance Company Limited, which have been accounted for as associates using the equity method in the Group's financial statements. The principal activity of the associates is providing financial services to individuals and corporates. The principal place of business is Mwalimu Towers, Upper Hill for Equatorial Investment Bank and Fidelity Centre for Fidelity Shield Insurance Company Limited.

Equatorial Investment Bank was wound up in 2011 with a provision of Ksh 16,947,550. The balances have been in the bank's books since with the settlement happening in 2019 against provisions.On 1 October 2016, the Group announced the decision of its Board of Directors to sell its investment in an associate, Fidelity Insurance Company Limited. At 31 December 2016, Fidelity Shield Insurance Company Ltd was classified as a non-current asset held for sale and a sale was expected to be completed within a year from that date. However, in 2017 the sale did not materialize as the buyer dropped out prematurely due to harsh economic times. The sale was finally completed in 2019.

The following is the movement of the group's investments in the associates:

2019	Fidelity Shield Insurance Company KShs'000'	Equatorial Investment Bank KShs'000'	Total KShs'000'
Balance as at 1 January	266,995	16,948	283,943
Gain on sale of associate (note 9)	63,005	-	63,005
Wind up	(330,000)	(16,948)	(346,948)
Net investment in associates as at 31 December 2019	-	-	-

2018	Fidelity Shield Insurance Company KShs'000'	Equatorial Investment Bank KShs'000'	Total KShs'000'
Balance as at 1 January	-	16,948	16,948
Share of profits of associates	-	-	-
Transfer from non-current asset held for sale (note 19)	266,995	-	266,995
Dividends received	-	-	-
Net investment in associates as at 31 December 2018	266,995	16,948	283,943

22. INVESTMENTS IN ASSOCIATES (continued)

The following is the movement in the Group's investment in the associates:

Summary financial information for equity accounted investees, not adjusted for the percentage ownership held by the Group:

	Fidelity Shield Insurance Company		Equatorial Investment Bank	
	2019	2018	2019	2018
Ownership	0%	23.86%	20%	20%
	KShs'000	KShs'000	KShs'000	KShs'000
Current assets	-	929,048	-	85,411
Non-current	-	2,260,864	-	-
Total assets	-	3,189,912	-	85,411
Current liabilities	-	109,036	-	671
Non-current liabilities	-	2,082,068	-	-
Total liabilities	-	2,191,104	-	671
Total equity	-	998,808	-	84,740
Revenue	-	587,054	-	-
Expenses	-	505,530	-	-
Profit/(loss)	-	81,524	-	-

Equatorial Investment Bank is dormant and not trading.

The table below shows the reconciliation of the summarised financial information presented to the carrying amount of the society's interest in the associates.

	Fidelity Shield Insurance Company		Equatorial Investment Bank	
	2019	2018	2019	2018
	KShs '000	KShs '000	KShs '000	KShs '000
Total equity consists;				
Share capital	600,000	600,000	84,740	84,740
Retained earnings	398,808	506,796	-	-
	998,808	1,106,796	84,740	84,740
Investment in associate				
Cost (Investment)	143,160	143,160	16,948	16,948
Accumulated share of profits	123,835	123,835	-	-
Wound up	(266,995)	-	(16,948)	-
	-	266,995	-	16,948
Percentage of ownership	0%	23.86%	0%	20.00%

23. INVESTMENT IN SUBSIDIARIES

The ultimate parent is Mwalimu National Savings and Credit Co-operative Society Limited which has 100% (2018: 100%) shareholding in Mwalimu National Holding Limited (MNH). The investment in subsidiaries represents the company's 75% holding in Equatorial Commercial Holdings Limited (ECH) and 100% in the Mwalimu Asset Management Limited (MAM). The companies are limited liability companies and domiciled in Kenya. The principal activities for MNH is to acquire and hold investments on behalf of Mwalimu National Savings and Credit Co-operative Society Limited and for Mwalimu Asset Management Limited (MAM) is that of asset management and investments. Their financial year end is 31 December.

2019	MAM	ECH	Total
	KShs'000	KShs'000	KShs'000
At 1 January and at 31 December	100,000	4,775,281	4,875,281
2018			
At 1 January and at 31 December	100,000	3,825,281	3,925,281

24. INTANGIBLE ASSETS

	2019	2018
	KShs'000	KShs'000
Cost		
At 1 January	196,070	191,650
Additions	-	4,449
Transfer from capital work-in-progress (note 26)	172,180	-
Write off	-	(29)
At 31 December	368,250	196,070
Amortisation		
At 1 January	151,204	123,088
Charge for the year	40,882	28,116
At 31 December	192,086	151,204
Carrying amount		
At 31 December	176,164	44,866

The intangible assets relate to computer software in use by the group.

25. INVESTMENT PROPERTY

Investment property relates to land parcel in Juja.

	2019 KShs'000	2018 KShs'000
As at start of the year	280,000	280,000
Fair value gain	17,500	-
At 31 December	297,500	280,000

The investment property was independently valued by Wamae Mureithi & Associates as at 31 December 2019. The valuer is a registered and licensed by the Valuers Registration Board of Kenya and has the relevant experience and knowledge of valuing this particular type of property.

In determining the market value of the investment property, the valuer used the market approach based upon direct comparison with other comparable properties which have been sold recently or are currently offered on sale. The market approach is based on the principle of substitution, which affirms that a prudent purchaser will not pay more for a property than the price of an equally desirable substitute property under similar conditions.

Valuations are performed on an annual basis and the fair value gains and losses are recorded in profit or loss. Fair value of investment property has been classified under level 3.

Significant unobservable valuation input:	Range
Price per acre	KShs 7.2 million - KShs 9 million

Significant increases (decreases) in estimated price per square metre in isolation would result in significantly higher (lower) fair value on a linear basis.

26. PROPERTY AND EQUIPMENT

	Building KShs 000	Leasehold improvements KShs 000	Motor vehicles KShs 000	Furniture, fixtures and fittings KShs 000	Computer hardware KShs 000	Office equipment KShs 000	Capital work-in-progress KShs 000	Total KShs 000
Cost:								
1 January 2019	745,161	336,058	3,971	56,185	124,949	400,414	126,376	1,793,114
Additions	-	-	-	101	834	1,841	91,936	94,712
Write off*	-	(18)	-	(208)	-	(68)	(359)	(653)
Transfer from WIP to Intangible (note 24)	-	2,066	-	-	10,635	1,369	(186,250)	(172,180)
Disposals	-	-	(2,341)	-	-	-	-	(2,341)
31 December 2019	745,161	338,106	1,630	56,078	136,418	403,556	31,703	1,712,652
Accumulated Depreciation:								
1 January 2019	18,629	124,685	3,211	40,782	101,968	106,184	-	395,459
Charge for the year	18,629	27,591	326	4,029	11,031	47,626	-	109,232
Write off*	-	(250)	-	-	-	-	-	(250)
Disposals	-	-	(2,341)	-	-	-	-	(2,341)
At 31 December 2019	37,258	152,026	1,196	44,811	112,999	153,810	-	502,100
Carrying amount								
31 December 2019	707,903	186,080	434	11,267	23,419	249,746	31,703	1,210,552

*IP refers to Investment Property.
** Write off relates to assets that were no longer in use and could not be restored for use, and those assets that could not be located during the fixed assets verification exercise. Write back represents items that had been expensed but have now been reversed

26. PROPERTY AND EQUIPMENT (continued)

	Building KShs '000'	Leasehold improvements KShs '000'	Motor vehicles KShs '000'	Furniture fittings KShs '000'	Computer hardware KShs	Office equipment KShs '000'	Capital work in progress* KShs '000'	Total KShs '000'
Cost								
At 1 January 2018	-	335,516	5,194	71,642	113,048	99,440	115,852	740,692
Additions	-	781	-	227	22,775	-	10,245	34,028
Write off*	-	(239)	227	(15,684)	(10,784)	(15,273)	279	(41,474)
Transfer from property inventory (note 15)	745,161	-	-	-		316,247	-	1,061,408
Disposals	-	-	(1,450)	-	(90)	-	-	(1,540)
At 31 December 2018	745,161	336,058	3,971	56,185	124,949	400,414	126,376	1,793,114
Accumulated Depreciation								
At 1 January 2018	-	96,879	4,339	44,788	97,922	67,259	-	311,187
Charge for the Year	18,629	27,556	369	4,424	9,453	48,286	-	108,717
Write off*	-	250	(168)	(8,430)	(5,407)	(9,361)	-	(23,116)
Disposals	-	-	(1,329)	-	-	-	-	(1,329)
At 31 December 2018	18,629	124,685	3,211	40,782	101,968	106,184	-	395,459
Carrying amount								
At 31 December 2018	726,532	211,373	760	15,403	22,981	294,230	126,376	1,397,655

*IP refers to Investment Property.
** Write off relates to assets that were no longer in use and could not be restored for use, and those assets that could not be located during the fixed assets verification exercise. Write back represents items that had been expensed but have now been reversed

27. DEPOSITS FROM BANKING INSTITUTIONS

	2019 KShs'000	2018 KShs'000
Central Bank of Kenya repo	1,887,923	2,383,536
Balance due to other banks	604	421,917
	1,888,527	2,805,453

The weighted average repo and inter bank borrowing was 9.47% and nil % p.a., respectively. (2018: repo 10.42% and interbank 10.94%).

28. CUSTOMER DEPOSITS

	2019 KShs'000	2018 KShs'000
Non-profit institutions and individuals	1,524,613	2,012,553
Private enterprises	2,287,574	3,901,561
Foreign currency accounts	578,473	868,098
	4,399,660	6,782,212
Maturity profile:		
Due within one year	3,956,417	5,221,188
Due after one year	443,243	1,561,024
	4,399,660	6,782,212

The weighted average cost of deposits was 5.98% (2018: 6.44%).

29. LOANS AND BORROWINGS

At 1 January	1,423,207	1,839,322
Additional loan from Diamond Trust Bank Kenya Limited	608,108	-
Repayment during the year	(1,423,207)	(416,115)
At 31 December	608,108	1,423,207
Due within one year	97,056	496,180
Due after one year	511,052	927,027

The CBR rate is dynamic as determined from time to time by the Central Bank of Kenya and thus it exposes the group's' cash flow to interest rate risk.

In 2017, the Mwalimu Asset Management obtained a loan from NCBA Bank Kenya PLC (formerly NIC Bank Kenya Limited) to finance the construction of Kisaju park housing project. The loan is priced at Central Bank Rate (currently 9%) plus a margin of 4% per annum, i.e. 13% per annum. The loan was secured by a fixed and floating debenture over the company's assets amounting to KShs 1.5 billion, a supplemental legal charge over the Kisaju project and adequate insurance over the developments being erected at Kisaju.

However, in December 2019, the company negotiated for a cheaper loan from Diamond Trust Bank Limited (DTB). The new loan of KShs 608 million (i.e the exact balance of NCBA bank loan at the time) was obtained at an interest rate 10.75% for five years which enabled the company to repay in full all the outstanding loan amount with NCBA bank Kenya PLC.

29. LOANS AND BORROWINGS (continued)

Changes in liabilities arising from financing activities of the group

2019	1 January KShs'000	Cash flows KShs'000	Other KShs'000	31 December KShs'000
Current Interest-bearing loans and borrowings	1,423,207	(1,423,207)	-	-
Non-current interest bearing loans and borrowings	-	608,108	-	608,108
Total liabilities from financing activities	1,423,207	(815,099)	-	608,108
2018				
Current Interest-bearing loans and borrowings	1,839,322	(416,116)	-	1,423,206
Total liabilities from financing activities	1,839,322	(416,116)	-	1,423,206

The 'Other' column includes the effect of reclassification of non-current portion of interest-bearing loans and borrowings to current due to passage of time as well as capitalisation of borrowings.

30. OTHER LIABILITIES

	Group		Company	
	2019 KShs'000	2018 KShs'000	2019 KShs'000	2018 KShs'000
Bills payable	49,784	118,234	-	-
Insurance premiums payable	11,727,	48,172	-	-
Unearned commission	-	9,752	-	-
Sundry creditors	491,916	291,532	-	-
Other liabilities	572,170	536,090	265,622	266,200
	1,125,597	1,003,780	265,622	266,200

Terms and conditions of transactions with other trade payables and sundry creditors:

Outstanding balances at the year-end are unsecured and interest free and settlement occurs in cash. There have been no guarantees provided or received for any receivables or payables. For the year ended 31 December 2019, the group has not recorded any impairment relating to other trade payables and sundry creditors (2018: KShs Nil). This assessment is undertaken each financial year through examining the financial position of the creditor and the market in which the creditor operates.

31. SHARE CAPITAL

	2019 KSh'000	2018 KShs'000
Authorised		
12,100,000 ordinary shares of KShs 100 each	1,210,000	1,210,000
Issued and fully paid up share capital:		
At 1 January and at 31 December	1,210,000	1,210,000

32. RESERVES

	Group		Company	
	2019 KShs'000	2018 KShs'000	2019 Kshs'000	2018 KShs'000
Statutory credit risk reserve	638,877	420,123	-	-
Accumulated losses	(6,706,880)	(5,626,676)	(85,942)	(84,926)
	(6,068,003)	(5,206,553)	(85,942)	(84,926)

Statutory credit risk reserve

Where impairment losses required by legislation or regulations exceed those computed under International Financial Reporting Standards (IFRSs), the excess is recognised as a statutory reserve and accounted for as an appropriation of retained profits. These reserves are not distributable.

The following is the movement in the Bank's statutory credit risk reserve during the year:

	IMPAIRMENT	CBK KShs'000	IFRS 9 KShs'000	Statutory Provisions KShs'000
2019	Identified	1,525,317	831,213	694,104
	Unidentified	20,923	131,327	(110,404)
	Interest in suspense	276,420	-	276,420
		1,822,660	962,540	860,120
2018	Identified	1,465,723	860,573	605,151
	Unidentified	35,407	200,149	(161,458)
	Interest in suspense	197,673	-	197,673
		1,698,803	1,060,722	641,366

Accumulated losses

The accumulated losses balance represents the amount available for dividend distribution to the shareholders of the Company.

33. NON-CONTROLLING INTEREST

The movement in the non-controlling interest is as follows:

	Group 2019 KShs '000	2018 KShs '000
At 1 January	(272,549)	313,789
Impact of adopting IFRS 9	-	(36,238)
Share of loss for the year	(80,974)	(550,100)
At 31 December	(353,523)	(272,549)

The following table summarises the financial information relating to Equatorial Commercial Holding Limited that has material NCI, domiciled in Kenya:

Equatorial Commercial Holding Limited - 25%

	2019 Kshs'000	2018 Kshs'000
Total current assets	2,790,494	4,113,262
Total non-current assets	4,124,433	5,168,834
Total current liabilities	1,097,087	596,202
Total non-current liabilities	6,290,920	9,735,611
Net assets including Underlying NCI	(473,080)	(1,049,717)
Underlying NCI	(7,218)	(15,825)
Net assets excluding underlying NCI	(465,862)	(1,033,892)
Revenue	486,884	278,157
Loss	(351,046)	(2,200,399)
Total comprehensive income	(351,046)	(2,200,399)
Accumulated balance of NCI	(353,523)	(272,549)
Profit or loss attributable to NCI	(80,974)	(550,100)
Dividends paid to NCI in the year	-	-
Cash flows from operating activities	(22,424)	(29,795)
Cash flows from financing activities	880,000	(62,983)
Cash flows from investing activities	(596,272)	(33,188)

34. ASSETS PLEDGED AS SECURITY

	Group 2019	2018
Cash pledged to Central Bank Domestic Foreign Currency clearing	USD 100,000	USD 100,000
Bonds pledged to secure Central Bank Repo	KShs 1,900,000	KShs 2,400,000

The above funds pledged as security are not available to finance the Group's day-to-day operations.

Bonds worth KShs. 1.9 billion have been pledged against the Central Bank of Kenya Repo disclosed in Note 26.

35. CONTINGENT LIABILITIES

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

Letters of credit and guarantees (including standby letters of credit) commit the Bank to make payments on behalf of customers in the event of a specific act, generally related to the import or export of goods. Guarantees and standby letters of credit carry a similar credit risk to loans.

The nominal values of such commitments are listed below:

	2019 KShs'000	2018 KShs'000
Commitments with respect to:		
Guarantees	351,356	718,391
Inward foreign documentary bills	6,815	
Others	754,842	1,530
	1,113,013	719,921

Impairment losses on guarantees and other commitments
An analysis of changes in the gross carrying amount and the corresponding allowance for impairment losses in relation to guarantees and other commitments is, as follows:

Outstanding exposure In KShs'000' Internal rating grade	2019 Stage 1	 Stage 2	 Stage 3	 Total	2018 Total
Stage 1	1,053,723	-	-	1,053,723	663,510
Stage 2	-	17,300	-	17,300	30,171
Stage 3	-	-	41,990	41,990	26,240
Total	1,053,723	17,300	41,990	1,113,013	719,921

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

In KShs'000'	Stage 1 Individual	Stage 2 Individual	Stage 3	POCI	Total
ECL allowance as at 1 January 2019	3,286	-	-	-	3,286
New exposures	9,659				9,659
Transfers to Stage 2		450			450
Transfers to Stage 3			1,762		1,762
Impact on year end ECL of exposures transferred between stages during the year	-	-	-	-	-
At 31 December 2019	12,945	450	1,762	-	15,157

Nature of contingent liabilities

Letters of credit, acceptances, guarantees and performance bonds are disclosed as contingent liabilities. Estimates of the outcome and the financial effect of contingent liabilities is made by management based on the information available up to the date the financial statements are approved for issue by the Directors. Any expected loss is recognised in profit or loss.

36. LEASES AS LESSEE (IFRS 16)

The Group's leases include office space. The leases typically run for a period of 5 years 3 months to 6 years, with an option to renew the lease after that date. Lease payments have an escalating clause to reflect market rentals. Some leases provide for additional rent payments that are based on changes in local price indices. For certain leases, the Group is restricted from entering into any sub-lease arrangements. Previously, these leases were classified as operating leases under IAS 17.

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

(a) Right of use assets

	Group 2019 KShs '000	Company 2019 KShs '000
At 1 January and at 31 December	502,159	-
Depreciation:		
As at 1 January	-	-
Charge for the year	131,253	-
As at 31 December	131,253	-
Carrying amount as at 31 December	370,906	-
Amounts recognised in profit or loss		
In thousands of KShs		
2019 - Leases under IFRS 16		
Interest on lease liabilities	15,375	-
Depreciation expense	131,253	-
Amounts recognised in statement of cash flows		
In thousands of KShs		
Total cash outflow for leases	133,642	-

(b) Lease liability

	Group 2019 KShs '000	Company 2019 KShs '000
As at 1 January	502,159	-
Accretion of interest	15,375	-
Payments	(133,642)	-
As at 31 December	383,892	-

Lease liability maturity analysis

2019	Due on demand KShs '000	Due within 3 months KShs '000	Due between 3 and 12 months KShs '000	Due between 1 and 5 years KShs '000	Due after 5 years KShs '000	Total KShs '000
Group						
Lease liabilities	-	-	109,617	264,193	10,082	383,892

36. LEASES AS LESSEE (IFRS 16) (CONTINUED)

Extension options

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

37. STATUS OF THE SUBSIDIARY AND AFFILIATE COMPANIES

Mwalimu National Holdings Limited

The Group incurred a loss of KShs 1.2 billion during the year ended 31 December 2019 (2018 - KShs 2.8 billion) and, as of that date, the group's accumulated losses amounted to KShs 6.7 billion (2018- KShs 5.6 billion) while its total liabilities exceeded total assets by KShs 5.2 billion (2018 - KShs 4.3 billion).

Mwalimu Asset Management Limited

The affiliate (100% owned by Mwalimu National Holdings Limited) incurred a loss of KShs 858 million during the year ended 31 December 2019 (2018 - KShs 605 million) and, as of that date, the subsidiary's total liabilities exceeded its total assets by KShs 1.3billion (2018: KShs 451 million). In addition, the subsidiary's accumulated losses amounted to KShs 1.4billion as at 31 December 2019 (2018: KShs 550 million).

Spire Bank Limited

The affiliate (96% owned by Equatorial Commercial Holdings which is in turn owned by Mwalimu National Holdings Limited 75%) reported a loss of KShs 472 million for the year ended 31 December 2019 (2018: KShs 2 billion). In addition, the affiliate's accumulated losses stood at KShs. 7.1 billion (2018: KShs 6.4 billion) as at 31 December 2019.

As discussed in the preceding paragraphs, the Subsidiary and affiliate companies have a history of making losses.

Mwalimu Asset Management and Spire bank Limited have been experiencing financial challenges but the directors are pursuing a financial rescue plan through strategic partners for equity acquisitions.

These conditions give rise to a material uncertainty which may cast significant doubt about the subsidiary and affiliated companies' ability to continue as a going concern and, therefore they may be unable to realise the assets and discharge the liabilities in the normal course of business.

The directors have assessed business outlook of the subsidiary and affiliate companies and they are confident that their financial performance will improve and will become profitable in the foreseeable future. The directors have no immediate plan to cease operations of the subsidiary and affiliate companies and/or liquidate them.

Therefore, the consolidated financial statements are prepared on the basis of accounting policies applicable to a going concern. This basis of preparation presumes that the Company and Group will realise their assets and discharge their liabilities in the ordinary course of business.

38. CAPITAL COMMITMENTS

There were no capital commitments outstanding as at 31 December 2019 (2018: Nil).

39. EVENTS AFTER THE REPORTING DATE

Apart from uncertainties arising from COVID-19 as discussed below, there are no events after the reporting date that would require adjustments to, or disclosure in, the financial statements.

Initial cases of Covid-19 infection were reported in China towards the end of 2019. The viral infection has spread to other regions in the world and on 11 March 2020 World Health Organization (WHO) declared the viral disease a pandemic. The first case of Covid-19 was reported in Kenya on 13 March 2020. Since then additional cases have been confirmed and the additional deaths confirmed, as at date of signing this report.

Because of the COVID - 19, the annual global GDP growth is projected to drop to 2.4% in 2020, from an already weak 2.9% in 2019, with growth possibly even being significantly negative in the first quarter of 2020. Before the Coronavirus outbreak, the Kenyan GDP had been projected to accelerate to 5.8% in the FY2020 up from 5.2% for the prior year, but the economy is likely to overheat from the effects of the pandemic as the contraction of output in China and other global majors will likely have devastating impact on commodity prices. Due to travel disruptions, the tourism industry in likely to feel the blunt of the pandemic and the anticipated longer recovery of the economies is likely to have a significant negative spill over on the financial systems around the globe. The Nairobi Securities Exchange index- NSE 20 share index has already dropped to a 17-year low as investors keep booking losses due to the havoc being wrecked around the world by the pandemic.

The Group anticipates increased likelihood of default in payment of loans and reduced income in year 2020 due to the outbreak of Covid-19 pandemic. The pandemic is projected to slow down economies of many markets, mainly due to lockdown of major cities which will curtail movement of capital and people. Measures such as governments seeking extension of repayment periods from financial institutions on financial instruments will also affect the group financial performance.

Management has put in place ample measures such as remote working for some employees, with an exception of those offering essential services to ensure continuity in business operations. Further, management has stepped up debt collection measures to minimize cases of default. Management is prudently investing in short term investments to avoid volatility in the market and they believe that these measures will mitigate any going concern uncertainties that may arise due to the outbreak.

Management assesses that it is not practicable to accurately estimate the financial impact on COVID-19 now as the effects are yet to fully materialise.