PARAMOUNT BANK

Enabling You To Reach Your Peak

ANNUAL REPORT & FINANCIAL STATEMENTS

2021

www.paramountbank.co.ke

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BRANCH NETWORK

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Our Strategic Framework

Aim

Our aim is to achieve and sustain a reputation for quality by offering banking products and services that exceed the requirements of our customers. We strive to remain the bank of first choice in all our product and services.

Vision

To be the most progressive Bank providing the highest quality products and services

Mission

To provide the ultimate customer centric banking Experience.

Corporate Information

DIRECTORS	Anwarali Padany Ayaz Merali (CEO) Noorez Padamshi Mercy Kamau Eunice Wamaitha	- Chairman - Chief Executive Officer
AUDIT COMMITTEE	Eunice Wamaitha Noorez Padamshi Mercy Kamau Henry Onkunya Deluxe Atanga	- Chairperson
CREDIT COMMITTEE	Mercy Kamau Eunice Wamaitha Anwarali Padany Ayaz Merali	- Chairperson
ASSET LIABILITY COMMITTEE	Ayaz Merali Nicholas Odera Fred Maina Kapil Deo Sharma	- Chairperson
RISK MANAGEMENT COMMITTEE	Eunice Wamaitha Anwarali Padany Noorez Padamshi Deluxe Atanga	- Chairperson
BOARD NOMINATIONS AND REMUNERATION COMMITTEE	Anwarali Padany Noorez Padamshi Eunice Wamaitha	- Chairperson
COMPANY SECRETARY	Winniefred Nyagoha Jumba Certified Public Secretary (Kenya) C/o Coulson Harney LLP - Bowmans 5th Floor, West Wing, ICEA Lion Centre Riverside Park, Chiromo Road, Nairobi P.O.Box 10643 Nairobi, GPO 00100	

Corporate Information
(Continued)

REGISTERED OFFICE	LR Plot No 1870/IX/140 4th Floor, Sound Plaza Woodvale Groove P.O.Box 14001- 00800 Nairobi, Westlands
AUDITORS	Deloitte & Touche Certified Public Accountants (Kenya) Deloitte Place, Waiyaki Way, Muthangari P.O.Box 40092 Nairobi, GPO 00100
LEGAL ADVISERS	Walker Kontos Hakika House, Bishops Road P.O.Box 60680 Nairobi, City Square 00200 Ngatia & Associates Advocates Bishop Garden Towers, 1st Ngong Avenue P.O.Box 56688 Nairobi, City Square 00200 Mwaniki Gachoka & Co Advocates Design Centre, 3rd Floor Office suite no. 1A & 3A P.O.Box 13439 Nairobi, GPO 00800
PRINCIPAL CORRESPONDENTS	Crown Agents Bank, UK Standard Bank of South Africa, Johannesburg HDFC Bank, India BMCE, Spain

Report Of The Directors

The directors submit their report together with the audited financial statements for the year ended 31 December 2021, in accordance with Section 653(1) of the Kenyan Companies Act, 2015, which discloses the state of affairs of Paramount Bank Limited (the "Bank) and its subsidiary (together the "Group).

INCORPORATION

The bank and its subsidiary, Parabank Bancassurance Intermediary (formerly Parabank Insurance Agency Limited), are both incorporated in the Republic of Kenya under the Companies Act, 2015, and are domiciled in Kenya.

PRINICIPAL ACTIVITIES

The principal activity of the bank, which is licensed under the Banking Act, is the provision of banking, financial and related services. The principal activity of the subsidiary is to provide bank assurance services through insurance agency services.

GROUP & BANK RESULTS

The following is the summary of the results for the year ended 31 December 2021:

	GROUP		BANK	
	2021 Sh'000	2020 Sh'000	2021 Sh'000	2020 Sh'000
Profit before taxation	153,987	97,063	152,679	96,554
Taxation (charge) /credit	(5,530)	36,387	(5,418)	36,527
Profit for the year	148,457	133,450	147,261	133,081

BUSINESS REVIEW

The Bank

Paramount Bank Ltd began operations under the name Combined Finance Ltd in 1993. The Bank's paid-up capital was Sh 25 million and the services offered were general deposits and minor personal lending. Over the years the institution grew into a fully-fledged bank offering almost all services that are provided in the banking industry today. The Bank has seven branches spread across major towns in Kenya. For more information on the Bank please visit the Bank's website at www.paramountbank.co.ke.

External Environment

The external environment improved due to relaxation of measures announced by the government to contain Covid -19. The measures whereas necessary had adversely affected business activities across the country. There were no new lock downs imposed by the government that covered closing schools, significant restrictions on travel and curfews etc and as such business activities resumed normally.

The macroeconomic environment however remained stable with inflation, interest rates and exchange rates remaining largely within acceptable limits.

REPORT OF THE DIRECTORS (Continued)

The Group's Performance

The Group's performance improved in the year as compared to the previous year. There has been a 29% increase in net interest income from Sh 441million in the previous year to Sh 570 million in the current year mainly due to increased investment in government securities. Net operating income increased by 29% from Sh 441 million in the previous year to Sh 570 million in the current year. There was a 17% decrease in impairment losses on loans and advances from Sh 108 million in the previous year to Sh 90 million in the current year mainly due to improvement in the business environment following the relaxation of Covid-19 restrictions. Overall the profit before tax increased 59% from Sh 97 million in the previous year to Sh 154 million in the current year.

On the balance sheet side total assets grew by 9% from Sh 11,377 million in the previous year to Sh 12,444 million at the end of the year. There was a 36% increase in investment in government securities and a 4% reduction in advances to customers as compared to the previous year. Customer deposits increased by 10% from Sh 9,258 million in the previous year to Sh 10,184 million in the current year. There was an 8% increase in shareholders' funds from Sh 1,913million in the previous year to Sh 2,061 million at the end of the reporting period.

Looking ahead

The macroeconomic variables like interest rates, inflation, exchange rates are expected to remain stable. The GDP is expected to grow by at least 5% to 6% mainly due to the continued heavy infrastructure led investment by the government, continued foreign investment in the country and improving general economy. There is however some uncertainty expected due to the general elections planned in August 2022. Globally there are expectations of some economic shocks due to the ongoing war between Ukraine and Russia.

DIVIDENDS

The directors do not recommend the payment of a dividend in respect of the year ended 31 December 2021 (2020: Sh nil).

DIRECTORS

The present members of the Board of Directors are as listed on page 5.

DIRECTORS' STATEMENT AS TO INFORMATION GIVEN TO AUDITORS

Each of the persons who is a director at the date of approval of this report confirms that:

- so far as the Director is aware, there is no relevant audit information of which the Group's auditors are unaware; and
- the Director has taken all the steps that he/she ought to have taken as a Director in order to make himself/herself aware of any relevant audit information and to establish that the Group's auditors are aware of that information.

AUDITORS

Deloitte & Touche, having expressed their willingness, continue in office in accordance provisions of section 719 (2) of the Kenyan Companies Act, 2015, and subject to approval by the Central Bank of Kenya in accordance with Section 24 of the Banking Act. The Directors monitor the effectiveness, objectivity and independence of the auditor. The Directors also approve the annual audit engagement contract, which sets out the terms of the auditor's appointment and the related fees.

BY ORDER OF THE BOARD

Winnie Fred Nyagoha Jumba
Secretary
Nairobi, Kenya
25th March 2022

Chairman's Report

It is once again a pleasure and honor to present the bank's Annual Financial Statements and Reports. The year was characterized by robust GDP growth of 7.5% compared to negative 0.3% in 2020 indicating how resilient Kenyans are. This was indeed very encouraging and we, as a bank together with all our stakeholders are proud to have made our contribution towards this economic recovery after the debilitating impact of Covid-19 in the previous year. On behalf of the entire Board of Directors, I would like to sincerely thank the management, staff, customers and all our stakeholders in enabling the bank attain various milestones.

The bank once again registered stable and encouraging financial results. The notable landmark is that the bank's share capital crossed the Kes 2 billion mark for the first time in its history. It has been a very challenging journey to get to this point and bodes well for the future and sustainability of the bank. I hope that this will fill our customers and partners with confidence that the bank has the capacity and resources to match their expectations. It is also an affirmation of the shareholders' commitment in ensuring that the bank continues to play its role in the economy effectively and efficiently. The bank also grew its after tax profits by 11% to Kes 147million compared to the previous year, total assets grew by 9% and now stands at over Kes 12.5 billion. The bank continues to grow steadily, and the focus of the Board is to ensure that it remains stable in the foreseeable future.

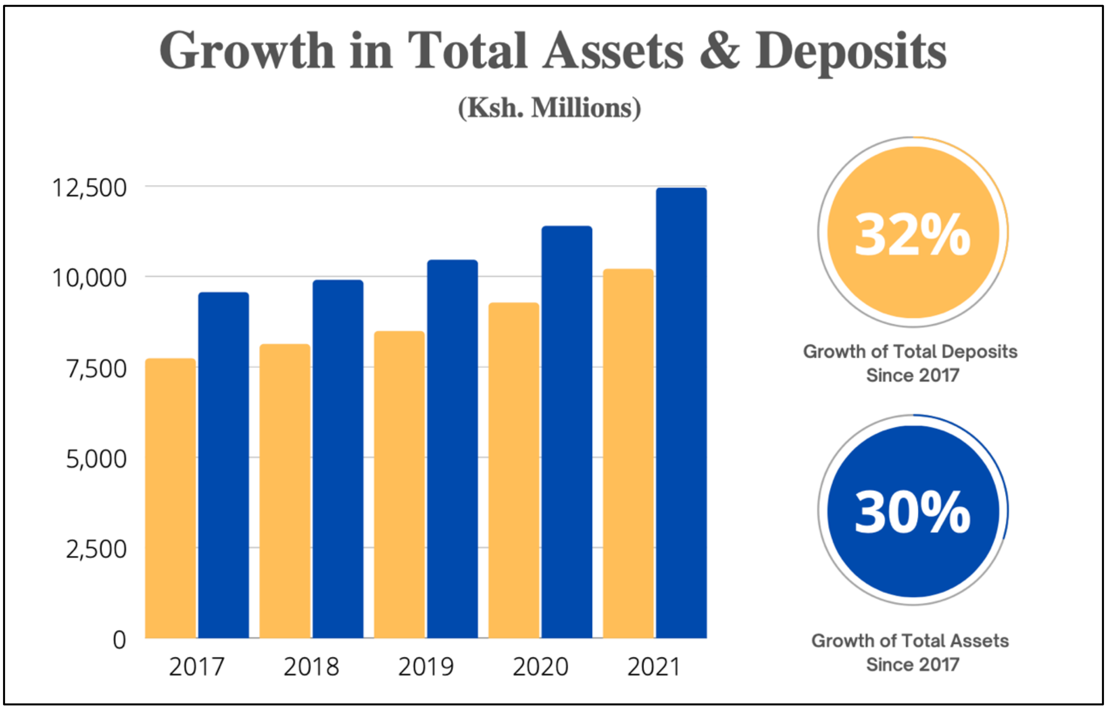
During the peak periods of the Covid pandemic, the bank renewed its commitment to customers by ensuring that its IT platforms remained robust and resilient. The bank's investment in technology was finally recognized by the industry as it won the …. Runners up award for the Best Internet Banking system among other awards. I therefore, take this opportunity to thank the management, staff, technology support partners and our esteemed customers for this achievement. Indeed, the Board will continue to support the management in ensuring that the bank continues to invest in technology that can further bring its services closer to customers.

Finally, it is my sincere hope that we will continue walking together on this journey to ensure that we have a prosperous bank and country. The operating environment continues to be challenging and demanding, but we at the bank will continue to strive in surmounting them by adapting through innovation. On behalf of the Board of Directors, I hope that you will have a prosperous year full of promise. Above all, we pray and hope for a peaceful political transition.

Thank you.

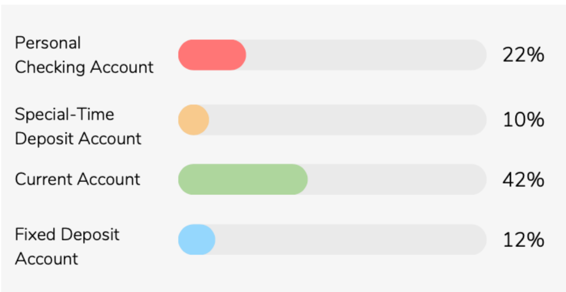
Anwarali Padany
Chairman
Paramount Bank Limited

Graphic Report



POPULAR ACCOUNTS HELD BY CUSTOMERS

(AS PER CUSTOMER SERVICE SURVEY 2021)



Personal Checking

Account designed for personal needs, with chequebook issuance, giving you easy access to your funds without notification or limit on withdrawals.

Special-Time

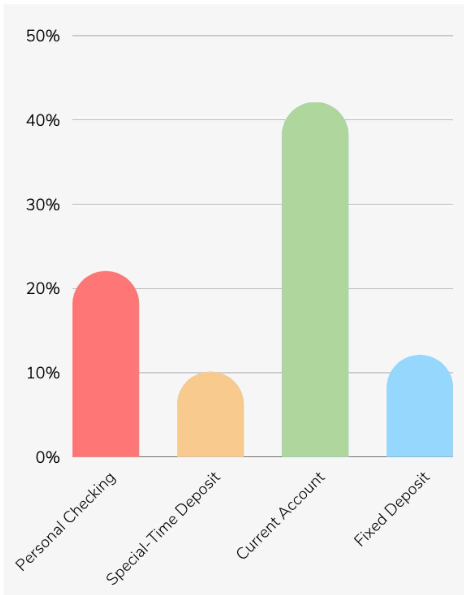
Savings account with flexibility to deposit/withdraw, no monthly charge, while earning interest at very competitive rates.

Current Account

Flexible and designed to suit individuals, companies, societies, NGO's, partnerships, clubs, churches, etc. Popular due to ease and speed of access.

Fixed Deposit

Tailored for the saver who wishes to have a continuous saving scheme. Grow your money at competitive interest rates, ideal for both individuals & businesses.



Statement on Corporate Governance

The bank's board of directors is responsible for the governance of the bank and is accountable to the shareholders for ensuring that the bank complies with the law, the highest standards of corporate governance and business ethics. The directors attach great importance to the need to conduct the business and operation of the bank with integrity and in accordance with generally accepted corporate practice and endorse the internationally developed principles of good corporate governance.

Board of Directors

The full board meets at least four times a year. The directors are given appropriate and timely information so that they can maintain full and effective control over strategic, financial, operational and compliance issues.

Except for direction and guidance on general policy, the board has delegated authority for conduct of day-to-day business to the Chief Executive Officer. The board nonetheless retains responsibility for establishing and maintaining the Group's overall internal control over financial, operational and compliance issues. Details of attendance for each member of board are as below.

Directors	No. Of Meetings Attended 2021
Anwarali Padany (Chairman)	4
Ayaz Merali	4
Noorez Padamshi	4
Mercy Kamau	4
Eunice Wamaitha	4

Directors' remuneration

One executive director is paid a monthly salary and is eligible for pension scheme membership. The other two non-executive directors are paid sitting allowance for Board meetings and Board sub-committee meetings. Directors' emoluments are shown in note 30.

Committees of the Board

Audit Committee

The board has constituted an audit committee that meets as required. Its responsibilities include review of financial information, budgets, development plans, compliance with accounting standards in financial reporting and liaison with the external auditors, remuneration of external auditors and overseeing internal control systems. Internal and external auditors and other executives attend audit committee meetings as required.

Credit Committee

The board has constituted a credit committee that meets as required. Its responsibilities include a review of the overall lending policy of the bank, ensuring that there are effective policies and procedures to effectively manage credit risk, monitor and review all matters, which may materially impact the present and future quality of the institution's credit risk management.

Assets Liability Committee

The board has constituted an Assets and Liabilities Committee (ALCO) that meets as required. Its responsibilities include deriving the most appropriate strategy in respect of the assets and liabilities of the bank given future expectations, changes and consequence of liquidity constraints, interest rate movements, changes in prices and foreign exchange exposures.

STATEMENT ON CORPORATE GOVERNANCE (Continued)

Committees of the Board (Continued)

Risk Management Committee

The board has constituted a Risk Management Committee that meets as required. Its responsibilities include carrying out risk assessment and putting in place risk indicators and monitoring the risk.

Board Nominations and Remuneration Committee

The board has constituted Nominations and Remuneration Committee.The committee deals with all aspects of appointment of an institution's directors, review the mix of skills and experience and other qualities in order to assess the effectiveness of the board. The committee is also responsible for overseeing the compensation system in place on behalf of the Board of Directors.

Statement on risk management

The bank recognises the responsibility to manage risks related to its business as a financial institution. The bank has built strong internal systems to ensure that sound banking practices results in income streams that are commensurate with the risks taken.

The Integrated Risk Management Policy of the bank is fully committed to adopting best practices in identifying, measuring, controlling and monitoring the risks faced.

Corporate Governance Statement on Conflict of Interest

The board of directors has approved a code of conduct that gives disclosure guidance on potential conflicts of interest situations. Reporting procedures are in place for this. The code of conduct has to be signed annually by all staff members.

The bank aims at:

- Integrating risk management into the culture of the organization.
- Eliminating or reducing risk to the lowest acceptable levels.
- Developing risk sensitivity as a core competency of all stakeholders.
- Continually identifying potential risks and pro-actively mitigating them.
- Focusing on key risks and controlling them cost-effectively.

The bank has developed a risk infrastructure that is appropriate to the size and volatility of the business. Decision making at all levels are inspired by the aspiration to be a risk intelligent organization. Risk management is used as an enabler to exploit the potential for increased business by taking informed risks with awareness and control.

Compliance

The bank operates within the requirements of the Banking Act, among other Acts, and adopts certain universally accepted principles in the areas of human rights, labour standards and environment in its commitment to best practice. Additionally, the Group prepares its financial statements in accordance with International Financial Reporting Standards (IFRS).

Anwarali Padany - Director
25th March 2022

Ayaz Merali - Director

Statement of Directors Responsibilities

The Kenyan Companies Act, 2015 requires the directors to prepare financial statements for each financial year that give a true and fair view of the financial position of the bank and of the group as at the end of the financial year and of their profit or loss for that year. It also requires the directors to ensure that the bank and its subsidiary maintains proper accounting records that are sufficient to show and explain the transactions of the bank and its subsidiary and disclose, with reasonable accuracy, the financial position of the company. The directors are also responsible for safeguarding the assets of the bank and its subsidiary, and for taking reasonable steps for the prevention and detection of fraud and error.

The directors accept responsibility for the preparation and presentation of these financial statements in accordance with the 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 such internal control as they determine necessary to enable the presentation of financial statements that are free from material misstatement, whether due to fraud or error;

II. selecting suitable accounting policies and applying them consistently; and

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

Having made an assessment of the ability of the bank and its subsidiary to continue as a going concern, the directors are not aware of any material uncertainties related to events or conditions that may cast doubt upon their ability to continue as a going concern.

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

Approved by the board of directors on ______ **25th March** ____ 2022 and signed on its behalf by:

Anwarali Padany - Director

Ayaz Merali - Director

Deloitte.

Deloitte & Touche Certified Public Accountants (Kenya)
Deloitte Place, Waiyaki way, Muthangari
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INDEPENDENT AUDITORS' REPORT
TO THE MEMBERS OF PARAMOUNT BANK LIMITED

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying financial statements of Paramount Bank Limited (the "Bank") and its subsidiary (together the "Group") set out on pages 12 to 74, which comprise the consolidated and bank statements of financial position as at 31 December 2021, and the consolidated and bank statements of profit or loss and other comprehensive income, the consolidated and bank statements of changes in equity and the consolidated and bank statements of cash flows for the year then ended, and the notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Group and of the Bank as at 31 December 2021 and of their financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of 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 in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code), together with the ethical requirements that are relevant to our audit of the financial statements in Kenya. We have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other information

The directors are responsible for the other information, which comprises the information included in the report of directors and the statement of corporate governance. The other information does not include the financial statements and our auditors' report thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon. In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work 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.

Responsibilities of the Directors for the Financial Statements

The directors are responsible for the preparation of financial statements that give a true and fair view in accordance with International Financial Reporting Standards, the requirements of the Kenyan Companies Act, 2015 and for such internal controls as directors determine are 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 ability of the Bank and its subsidiary to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the bank and its subsidiary or to cease operations, or have no realistic alternative but to do so. Those charged with governance are responsible for overseeing the Group's financial reporting process.

Report on the Audit of the Financial Statements (Continued)

Auditor's Responsibilities for the Audit of the Financial Statements

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

As part of an audit in accordance with ISAs, we exercise professional judgement 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 internal controls of the entities in the Group.

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

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the ability of the entities in the Group 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 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 entities in Group to cease to continue as a going concern. Refer to the going concern uncertainty included under key audit matters.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entity 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 responsible for our audit opinion.

We communicate with those charged with governance 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.

INDEPENDENT AUDITORS' REPORT
TO THE MEMBERS OF PARAMOUNT BANK LIMITED (Continued)

Report on the Audit of the Financial Statements (Continued)

Auditor's Responsibilities for the Audit of the Financial Statements (Continued)

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

Report on other matters prescribed by the Kenya Companies Act, 2015

In our opinion, the information given in the Report of the Directors on pages 7 to 8 is consistent with the financial statements.

The engagement partner responsible for the audit resulting in this independent auditor's report is
CPA Fred Aloo, Practising certificate No. **1537**.

Deloitte & Touche

For and on behalf of Deloitte & Touche LLP
Certified Public Accountants (Kenya)
Nairobi **26th March 2022**

CONSOLIDATED AND BANK STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2021

		GROUP		BANK	
	Note	2021 Sh'000	2020 Sh'000	2021 Sh'000	2020 Sh'000
INTEREST INCOME	4	1,275,459	1,113,752	1,275,459	1,113,752
INTEREST EXPENSE	5	(705,630)	(672,799)	(705,630)	(672,799)
NET INTEREST INCOME		569,829	440,953	569,829	440,953
FEES AND COMMISSION INCOME	6	42,870	79,490	37,301	75,541
TOTAL OPERATING INCOME		612,699	520,443	607,130	516,494
Gains on foreign exchange dealings	7	4,768	3,095	4,768	3,095
Other operating income	8	9,389	34,426	9,389	34,426
Impairment losses on financial assets	18(b)	(89,765)	(108,165)	(89,765)	(108,165)
NET OPERATING INCOME		537,091	449,799	531,522	445,850
Staff costs	10	(133,639)	(129,837)	(131,139)	(128,014)
Amortisation of right of use assets	16	(22,326)	(23,780)	(22,326)	(23,780)
Depreciation of property & equipment	20	(16,017)	(15,923)	(16,017)	(15,923)
Amortisation of intangible assets	21	(3,335)	(3,071)	(3,311)	(3,006)
Finance cost on lease liabilities	26	(7,245)	(8,250)	(7,245)	(8,250)
Other operating expenses	9	(200,542)	(171,875)	(198,805)	(170,323)
PROFIT BEFORE TAXATION		153,987	97,063	152,679	96,554
TAXATION (CHARGE)/ CREDIT	11(a)	(5,530)	36,387	(5,418)	36,527
PROFIT FOR THE YEAR		148,457	133,450	147,261	133,081
OTHER COMPREHENSIVE INCOME		-	-	-	-
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		148,457	133,450	147,261	133,081
EARNINGS PER SHARE – Basic and diluted	12	148.46	133.45	147.26	133.08

CONSOLIDATED AND BANK STATEMENTS OF FINANCIAL POSITION
AS AT 31 DECEMBER 2021

	Note	GROUP 2021 Sh'000	GROUP 2020 Sh'000	BANK 2021 Sh'000	BANK 2020 Sh'000
ASSETS					
Cash and balances with Central Bank of Kenya	13	878,402	753,170	878,402	753,170
Deposits and balances due from banking institutions	14	755,635	528,121	755,635	528,121
Government securities	15	3,846,965	2,829,031	3,846,965	2,829,031
Right of use asset	16	88,463	88,308	88,463	88,308
Advances to customers (net)	17	6,564,751	6,827,408	6,564,751	6,827,408
Other assets	19	116,502	138,589	110,167	130,856
Corporate tax recoverable	11(c)	1,377	17,633	1,091	17,418
Equipment	20	22,633	33,823	22,633	33,823
Intangible assets	21	4,447	5,903	4,410	5,842
Deferred taxation asset	22	165,267	154,341	165,263	154,354
Investment in subsidiary	23	-	-	10,000	10,000
TOTAL ASSETS		12,444,442	11,376,327	12,447,780	11,378,331
LIABILITIES					
Customer deposits	24	10,184,277	9,257,964	10,197,382	9,265,434
Other liabilities	25	98,178	106,070	91,208	102,205
Lease liability obligation	26	100,631	99,394	100,631	99,394
TOTAL LIABILITIES		10,383,086	9,463,428	10,389,221	9,467,033
SHAREHOLDERS' FUNDS					
Share capital	27	1,000,000	1,000,000	1,000,000	1,000,000
Retained earnings		1,061,356	912,899	1,058,559	911,298
TOTAL SHAREHOLDERS' FUNDS		2,061,356	1,912,899	2,058,559	1,911,298
TOTAL SHAREHOLDERS' FUNDS AND LIABILITIES		12,444,442	11,376,327	12,447,780	11,378,331

The financial statements on pages 17 to 79 were approved and authorised for issue by the board of directors on March 2022 and were signed on its behalf by:

Anwarali Padany - Director

Noorez Padamshi - Director

Ayaz Merali - Chief Executive Officer

Winnie Fred Jumba - Company Secretary

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2021

	Share capital Sh'000	Retained earnings Sh'000	Statutory reserve* Sh'000	Fair value reserve Sh'000	Total Sh'000
At 1 January 2020	1,000,000	779,449	-	-	1,779,449
Total comprehensive income for the year	-	133,450	-	-	133,450
At 31 December 200	1,000,000	912,899	-	-	1,912,899
At 1 January 2021	1,000,000	912,899	-	-	1,912,899
Total comprehensive income for the year	-	148,457	-	-	148,457
At 31 December 2021	1,000,000	1,061,356	-	-	2,061,356

*Any excess of loans provisions as computed as per the Central Bank of Kenya prudential guidelines over impairment of loans and receivables computed as per IFRS 9 is presented as a statutory reserve and is recorded as an appropriation of retained earnings. The statutory reserve is not distributable.

Retained earnings relate to the cumulative earnings from operations and are distributable.

BANK STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2021

	Share capital Sh'000	Retained earnings Sh'000	Statutory Reserve* Sh'000	Fair value reserve Sh'000	Total Sh'000
At 1 January 2020	1,000,000	778,217	-	-	1,778,217
Total comprehensive income for the year	-	133,081	-	-	133,081
At 31 December 2020	1,000,000	911,298	-	-	1,911,298
At 1 January 2020	1,000,000	911,298	-	-	1,911,298
Total comprehensive income for the year	-	147,261	-	-	147,261
At 31 December 2020	1,000,000	1,058,559	-	-	2,058,559

*Any excess of loans provisions as computed as per the Central Bank of Kenya prudential guidelines over impairment of loans and receivables computed as per IFRS 9 is presented as a statutory reserve and is recorded as an appropriation of retained earnings. The statutory reserve is not distributable.

Retained earnings relate to the cumulative earnings from operations and are distributable.

CONSOLIDATED AND BANK STATEMENTS OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2021

		GROUP		BANK	
		2021	2020	2021	2020
	Note	Sh'000	Sh'000	Sh'000	Sh'000
CASH FLOWS FROM OPERATING ACTIVITIES					
Cash generated/ (used in) from operations	28(a)	387,751	(6,785)	387,551	1,914
Tax paid during the year	11(c)	(200)	(299)	-	-
Net cash generated/ (used in) from operating activities		387,551	(7,084)	387,551	1,914
CASH FLOWS FROM INVESTING ACTIVITIES					
Purchase of equipment	20	(4,827)	(4,658)	(4,827)	(4,656)
Purchase of intangible assets	21	(1,879)	(1,524)	(1,879)	(1,524)
Proceeds from sale of motor vehicle		-	500	-	500
Investment in subsidiary		-	-	-	(9,000)
Net cash used in investing activities		(6,706)	(5,682)	(6,706)	(14,680)
CASH FLOWS FROM FINANCING ACTIVITIES					
Payment of lease liabilities	26	(28,489)	(27,550)	(28,489)	(27,550)
INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		352,356	(40,316)	352,356	(40,316)
CASH AND CASH EQUIVALENTS AT 1 JANUARY		1,270,366	1,310,682	1,270,366	1,310,682
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	28(b)	1,622,722	1,270,366	1,622,722	1,270,366

1 ACCOUNTING POLICIES

Statement of compliance

These financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and in compliance with the requirements of the Kenyan Companies Act (2015) and Banking Act (Cap 488).

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

Application of new and revised International Financial Reporting Standards (IFRSs)

i) New and amended IFRSs that are effective for the current year ended 31 December 2021

Several new and revised standards and interpretations became effective during the year. The Directors have evaluated the impact of their new standards and interpretations and none of them had a significant impact on the financial statements of the Group and the Bank.

The following revised IFRSs were effective in the current year and the nature and the impact of the relevant amendments are described below:

IFRS 16, 'Leases' COVID-19- Related Rent Concessions Amendment

This standard becomes effective for annual periods beginning on or after 1 June 2021.

The IASB has provided lessees (but not lessors) with relief in the form of an optional exemption from assessing whether a rent concession related to COVID-19 is a lease modification, provided that the concession meets certain conditions. Lessees can elect to account for qualifying rent concessions in the same way as they would if they were not lease modifications. In many cases, this will result in accounting for the concession as a variable lease payment.

The change did not have a material impact on the financial statements of the Group.

Impact of the initial application of Interest Rate Benchmark Reform

In September 2019, the IASB issued Interest Rate Benchmark Reform (Amendments to IFRS 9, IAS 39 and IFRS 7).

These amendments modify specific hedge accounting requirements to allow hedge accounting to continue for affected hedges during the period of uncertainty before the hedged items or hedging instruments affected by the current interest rate benchmarks are amended as a result of the on-going interest rate benchmark reforms.

The change did not have an impact on the financial statements of the Company.

Amendments to IFRS 9 'Financial Instruments', IAS 39 'Financial Instruments: Recognition and Measurement', IFRS 7 'Financial Instruments: Disclosures', IFRS 4 'Insurance Contracts' and IFRS 16 'Leases' – interest rate benchmark (IBOR) reform

These amendments become effective for Annual periods beginning on or after 1 January 2021.

The Phase 2 amendments address issues that arise from the implementation of the reform of an interest rate benchmark, including the replacement of one benchmark with an alternative one.

The change did not have a material impact on the financial statements of the Group.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

1 ACCOUNTING POLICIES (Continued)

Application of new and revised International Financial Reporting Standards (IFRSs) (continued)

ii) Impact of new and amended standards and interpretations in issue but not yet effective

At the date of authorization of these financial statements, the Group has not yet applied the following new and revised IFRS Standards that have been issued but are not yet effective:

New or revised Standards	Periods commencing after
IFRS 3 - Reference to the Conceptual Framework	1 Jan 2022
IAS 16 - Property, Plant and Equipment — Proceeds before Intended Use	1 Jan 2022
IAS 37 - Onerous Contracts - Cost of Fulfilling a Contract	1 Jan 2022
AIP IFRS 1 First-time Adoption of International Financial Reporting Standards – Subsidiary as a first-time adopter	1 Jan 2022
AIP IFRS 9 Financial Instruments – Fees in the '10 per cent' test for derecognition of financial liabilities	1 Jan 2022
AIP IAS 41 Agriculture – Taxation in fair value measurements	1 Jan 2022
IFRS 17 Insurance Contracts	1 Jan 2023
Classification of Liabilities as Current or Non-current - Amendments to IAS 1	1 Jan 2023
Annual Improvements to IFRS Standards 2018–2020 (May 2020)	1 Jan 2022
Disclosure of Accounting Policies - Amendments to IAS 1 and IFRS Practice Statement 2	1 Jan 2023
Definition of Accounting Estimates - Amendments to IAS 8	1 Jan 2023
Sale or Contribution of Assets between an Investor and its Associate or Joint Venture - Amendments to IFRS 10 and IAS 28	*

*In December 2015, the IASB postponed the effective date of this amendment indefinitely pending the outcome of its research project on the equity method of accounting.

The directors do not expect that the adoption of the Standards listed above will have a material impact on the financial statements of the Group in future periods.

iii) Early adoption of standards

The Group/Bank has not early-adopted any new or amended standards in the year ended 31 December 2021.

1 ACCOUNTING POLICIES (Continued)

(a) Basis of preparation

These financial statements have been prepared on the historical cost basis except for certain properties and financial instruments that are measured at revalued amounts or fair values at the end of each reporting period, as explained in the accounting policies below.

Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

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, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these financial statements is determined on such a basis.

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which is described as follows:

- Level 1: inputs are quoted in prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement dated.
- Level 2: inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly, and
- Level 3: inputs are unobservable inputs for the asset or liability.

(b) Basis of consolidation

These financial statements incorporate the financial statements of the Bank and its subsidiary, Parabank Bancassurance Intermediary. Control is achieved when the Bank:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

When the Group has less than a majority of the voting rights of an investee, it has power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally.

The Bank considers all relevant facts and circumstances in assessing whether or not the Bank's voting rights in an investee are sufficient to give it power over the investee, including:

- the size of the Bank's holding of voting rights relative to the size and dispersion of holdings of the other vote holders;
- potential voting rights held by the Bank, other vote holders or other parties;
- rights arising from other contractual arrangements; and any additional facts and circumstances that indicate that the Bank has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous shareholder's meetings.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

1 ACCOUNTING POLICIES (Continued)

(c) Interest income and expense

Interest income and interest expense for all interest bearing financial instruments are accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

Interest income and expense on all trading assets and liabilities are considered to be incidental to the Bank's trading operations and are presented together with all other changes in the fair value of trading assets and liabilities in net trading income. Fair value changes on other financial assets and liabilities carried at fair value through profit or loss, are also presented in net trading income included in the profit or loss.

Once a financial asset or a group of financial assets has been written down as a result of an impairment loss, interest income is recognised using the rate of interest that was used to discount the future cash flows for purposes of measuring the allowance for impairment.

Interest income includes interest on loans and receivables, placements with other banks and investments in government securities, and is recognised in the year in which it is earned.

(d) Fees and commission income

In the normal course of business, the Bank earns fees and commission income from a diverse range of services to its customers. Fees and commission income and expenses that are integral to the effective interest rate on a financial asset or liability are included in the measurement of the effective interest rate.

Other fees and commission income, including account servicing fees, investment management fees, placement fees and syndication fees, are recognised as the related services are performed. When a loan commitment is not expected to result in the draw-down of a loan, loan commitment fees are recognised on a straight-line basis over the commitment period. Fees and commission expense relates mainly to transaction and service fees, which are expensed as the services are received.

(e) Net trading income

Net trading income arises from the margins which are achieved through market marking and customer business and from changes in market caused by movements in interest and exchange rates, prices and other market variables. It comprises gains less losses related to trading assets and liabilities, and includes all realised and unrealised fair value changes.

(f) Equipment

Equipment is stated at cost less accumulated depreciation and any accumulated impairment losses. Depreciation is calculated on a straight line basis at annual rates estimated to write off the cost of equipment over their expected useful lives using the following rates:

Computers and office equipment	20%
Motor vehicles	25%
Furniture, fittings and office renovations	12.5%
	=====

NOTES TO THE FINANCIAL STATEMENTS (Continued)

1 ACCOUNTING POLICIES (Continued)

(g) Intangible assets-computer software development costs

Generally, costs associated with developing computer software programmes are recognised as an expense incurred. However, a cost that is clearly associated with an identifiable and unique product which will be controlled by the Bank or its subsidiary and has a probable benefit exceeding the cost beyond one year, are recognised as an intangible asset.

Expenditure which enhances and extends computer software programmes beyond their original specifications and lives is recognised as a capital improvement and added to the original costs of the software. Computer software development costs recognised as assets are stated at cost less amortisation. Amortisation is calculated on a straight line basis over the estimated useful lives not exceeding a period of 5 years.

(h) Impairment of non-financial assets

At the end of each reporting period, the directors review the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the recoverable amount of the cash-generating unit to which the asset belongs is estimated. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

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.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or a 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, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

(i) Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

(i) Current taxation

The corporate tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the statement of profit or loss because of items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

1 ACCOUNTING POLICIES (Continued)

(i) Taxation (Continued)

(ii) Deferred tax

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the 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 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 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 tax assets arising from deductible temporary differences 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 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 tax liabilities and assets 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 tax liabilities and assets reflects the tax consequences that would follow from the manner in which the carrying amounts of the assets and liabilities at the end of the reporting period, are expected to be recovered or settled.

(iii) Current and deferred tax for the year

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 the equity respectively.

(j) Foreign currencies

Transactions in foreign currencies during the year are translated at the rates ruling at the time of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated into Kenya Shillings at the rates of exchange ruling at the end of each reporting date. Non-monetary items that are measured in terms of historical costs in a foreign currency are not retranslated. Gains and losses on exchange of monetary items are dealt with in the profit or loss in the period in which it arises.

(k) Provisions

Provisions are recognised when there is a present legal or constructive obligation as a result of past events; it is probable, that an outflow of resources embodying economic benefits will be required to settle the obligations; and a reliable estimate of the amount of the obligation can be made.

1 ACCOUNTING POLICIES (Continued)

(l) Statutory reserve

IFRS 9 requires the Bank to recognise an impairment loss if there is expected losses on loans and receivables. However, Central Bank of Kenya prudential guidelines require the Bank to set aside amounts for impairment losses on loans and advances in addition to those losses that have been recognised under IFRS 9. Any such amounts set aside are appropriations of retained earnings and not expenses in determining profit or loss. These amounts are dealt with in the statutory reserve.

(m) Financial instruments

IFRS 9, Financial Instruments, is applied to the recognition, classification and measurement, and derecognition of financial assets and financial liabilities and the impairment of financial assets.

Recognition

Financial assets and liabilities are recognised when the Bank or its subsidiary becomes a party to the terms of the contract. Trade date or settlement date accounting is applied depending on the classification of the financial asset.

Classification and measurement

Financial assets are classified on the basis of two criteria:

i) the business model within which financial assets are managed, and
ii) their contractual cash flow characteristics (whether the cash flows represent 'solely payments of principal and interest' (SPPI)).

The business model criteria is assessed at a portfolio level. Information that is considered in determining the applicable business model includes (i) policies and objectives for the relevant portfolio, (ii) how the performance and risks of the portfolio are managed, evaluated and reported to management, and (iii) the frequency, volume and timing of sales in prior periods, sales expectation for future periods, and the reasons for such sales.

The contractual cash flow characteristics of financial assets are assessed with reference to whether the cash flows represent SPPI. In assessing whether contractual cash flows are SPPI compliant, interest is defined as consideration primarily for the time value of money and the credit risk of the principal outstanding. The time value of money is defined as the element of interest that provides consideration only for the passage of time and not consideration for other risks or costs associated with holding the financial asset. Terms that could change the contractual cash flows so that it would not meet the condition for SPPI are considered, including: (i) contingent and leverage features; (ii) non-recourse arrangements; and (iii) features that could modify the time value of money.

Financial assets will be measured at amortised cost if they are held within a business model whose objective is to hold financial assets in order to collect contractual cash flows, and their contractual cash flows represent SPPI.

Financial assets will be measured at fair value through other comprehensive income if they are held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets, and their contractual cash flows represent SPPI. Other financial assets are measured at fair value through profit and loss. There is an option to make an irrevocable election on initial recognition for non traded equity investments to be measured at fair value through other comprehensive income, in which case dividends are recognised in profit or loss, but gains or losses are not reclassified to profit or loss upon derecognition, and impairment is not recognised in the income statement.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

1 ACCOUNTING POLICIES (Continued)

(m) Financial instruments (continued)

Accounting for loans and advances and deposits held at amortised cost

Loans and advances to customers including other banks, customer accounts and most financial liabilities, are held at amortised cost. That is, the initial fair value (which is normally the amount advanced or borrowed) is adjusted for repayments and the amortisation of coupon, fees and expenses to represent the effective interest rate of the asset or liability. Balances deferred on-balance sheet as effective interest rate adjustments are amortised to interest income over the life of the financial instrument to which they relate. Financial assets that are held in a business model to collect the contractual cash flows and that contain contractual terms that give rise on specified dates to cash flows that are SPPI, are measured at amortised cost. The carrying value of these financial assets at initial recognition includes any directly attributable transaction costs.

In determining whether the business model is a ‘hold to collect’ model, the objective of the business model must be to hold the financial asset to collect contractual cash flows rather than holding the financial asset for trading or short-term profit taking purposes. While the objective of the business model must be to hold the financial asset to collect contractual cash flows this does not mean the financial assets are required to be held until maturity. When determining if the business model objective is to collect contractual cash flows the past sales and expectations about future sales are considered.

(i) Significant increase in credit risk

In assessing whether the credit risk on a financial instrument has increased significantly since initial recognition, the risk of a default occurring on the financial instrument at the reporting date is compared with the risk of a default occurring on the financial instrument at the date of initial recognition. In making this assessment, both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort are considered. Forward-looking information considered includes the future prospects of the industries in which the borrowers operate, obtained from economic expert reports, financial analysts, governmental bodies, relevant think-tanks and other similar organisations, as well as consideration of various external sources of actual and forecast economic information that relate to the core operations.

In particular, the following information is taken into account when assessing whether credit risk has increased significantly since initial recognition:

- an actual or expected significant deterioration in the financial instrument’s external (if available) or internal credit rating;
- significant deterioration in external market indicators of credit risk for a particular financial instrument, e.g. a significant increase in the credit spread, the credit default swap prices for the debtor, or the length of time or the extent to which the fair value of a financial asset has been less than its amortised cost;
- existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the debtor’s ability to meet its debt obligations;
- an actual or expected significant deterioration in the operating results of the borrower;
- significant increases in credit risk on other financial instruments of the same borrower;
- an actual or expected significant adverse change in the regulatory, economic, or technological environment of the borrower that results in a significant decrease in the borrower’s ability to meet its debt obligations.

Irrespective of the outcome of the above assessment, it is presumed that the credit risk on a financial asset has increased significantly since initial recognition when contractual payments are more than 30 days past due, unless there is a reasonable and supportable information that demonstrates otherwise.

1 ACCOUNTING POLICIES (Continued)

(m) **Financial instruments (continued)**

(i) Significant increase in credit risk (Continued)

Despite the foregoing, there is a presumption that the credit risk on a financial instrument has not increased significantly since initial recognition if the financial instrument is determined to have low credit risk at the reporting date. A financial instrument is determined to have low credit risk if:

- The financial instrument has a low risk of default;
- The borrower has a strong capacity to meet its contractual cash flow obligations in the near term; or
- Adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfil its contractual cash flow obligations.

A financial asset has a low credit risk when the asset has external credit rating of 'investment grade' in accordance with the globally understood definition or if an external rating is not available, the asset has an internal rating of 'performing'. Performing means that the counterparty has a strong financial position and there are no past due amounts.

(ii) Definition of default

The following constitutes an event of default for internal credit risk management purposes as historical experience indicates that financial assets that meet either of the following criteria are generally not recoverable:

- when there is a breach of financial covenants by the borrower; or
- information developed internally or obtained from external sources indicates that the borrower is unlikely to pay its lenders and/or creditors in full (without taking into account any collateral held).

Irrespective of the above analysis, a default occurs when a financial asset is more than 90 days past due unless there is a reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

(iii) Credit-impaired financial assets

A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. Evidence that a financial asset is credit-impaired includes observable data about the following events:

a) significant financial difficulty of the issuer or the borrower;
b) a breach of contract, such as a default or past due event (see (ii) above);
c) the lender(s) of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession(s) that the lender(s) would not otherwise consider;
d) it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation; or
e) the disappearance of an active market for that financial asset because of financial difficulties.

(iv) Write-off policy

A financial asset is written off when there is information indicating that the borrower is in severe financial difficulty and there is no realistic prospect of recovery e.g., when the borrower has been placed under liquidation or has entered into bankruptcy proceedings or when the amounts are over two years past due, whichever occurs sooner. Financial assets written off may still be subject to enforcement activities under the contractual recovery procedures, taking into account legal advice where appropriate. Any recoveries made are recognised in profit or loss.

1 ACCOUNTING POLICIES (Continued)

(m) **Financial instruments (continued)**

(v) Measurement and recognition of expected credit losses

The measurement of expected credit losses is a function of the probability of default; loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information as described above. As for the exposure at default, for financial assets, this is represented by the assets' gross carrying amount at the reporting date; for financial guarantee contracts, the exposure includes the amount drawn down as at the reporting date, together with any additional amounts expected to be drawn down in the future by default date determined based on historical trend, the understanding of the specific future financing needs of the borrower, and other relevant forward-looking information.

For financial assets, the expected credit loss is estimated as the difference between all contractual cash flows that are due and all the cash flows that the Bank expects to receive, discounted at the original effective interest rate.

If the loss allowance for a financial instrument has been measured at an amount equal to lifetime ECL in the previous reporting period, but it has been determined that at the current reporting date that the conditions for lifetime ECL are no longer met, the loss allowance is measured at an amount equal to 12-month ECL at the current reporting date.

Derecognition of financial assets

A financial asset is derecognised only when the contractual rights to the cash flows from the asset expire, or when they are and substantially all the risks and rewards of ownership of the asset to another entity. If the Bank neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Bank recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Bank retains substantially all the risks and rewards of ownership of a transferred financial asset, the Bank continues to recognise the financial asset and recognises a collateralised borrowing for the proceeds received.

On derecognition of a financial asset measured at amortised cost, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in profit or loss. In addition, on derecognition of an investment in a debt instrument classified as at FVTOCI, the cumulative gain or loss previously accumulated in the investments revaluation reserve is reclassified to profit or loss. In contrast, on derecognition of an investment in equity instrument, which the Bank has elected on initial recognition to measure at FVTOCI, the cumulative gain or loss previously accumulated in the investments revaluation reserve is not reclassified to profit or loss, but is transferred to retained earnings.

Financial liabilities

After initial recognition, the company measures all financial liabilities including customer deposits, cash collaterals other than liabilities held for trading at amortised cost. Liabilities held for trading (financial liabilities acquired principally for the purpose of generating a profit from short-term fluctuations in price or dealer's margin) are subsequently remeasured to their fair values.

Derecognition of financial liabilities

Financial liabilities are derecognised when and only when the company obligations are discharged, cancelled or they expire. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

1 ACCOUNTING POLICIES (Continued)

(m) **Financial instruments (continued)**

Borrowings

Borrowings are recorded at the proceeds received. Finance charges, including premiums payable on settlement or redemption, are accounted for on the accruals basis and are added to the carrying amount of the instrument to the extent that they are not settled in the period in which they arise.

Offsetting financial instruments

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

(n) Cash and cash equivalents

Cash and cash equivalents include notes and coins on hand, unrestricted balances held with Central Bank of Kenya (CBK), items in the course of collection from other banks, deposits held at call with banks and treasury bills with original maturities of less than three months. Such assets are generally subject to insignificant risk of changes in their fair value and are used by the bank in the management of its short-term commitments. Cash and cash equivalents are carried at amortised cost in the statement of financial position.

(o) Leases

An assessment is made whether a contract contains a lease at inception. A right of use asset and a corresponding lease liability are recognised with respect to all lease arrangements in which it is the lessee, except for short term leases (defined as leases with a lease term of 12 months or less) and leases of low value assets. For these leases, the lease payments are recognised as an operating expense on a straight-line basis over the term of the lease unless another systematic basis is more representative of the time pattern in which the economic benefits from the leased assets are consumed.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted by using the rate implicit in the lease. If this rate cannot be readily determined, the incremental borrowing rate is used.

Lease payments included in the measurement of the lease liability comprises of fixed lease payments (including the substance fixed payments), less any lease incentives.

The lease liability is presented as a separate line in the statement of financial position. The lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability (using the effective interest rate method and by reducing the carrying amount to reflect the lease payments made).

The lease liability is remeasured (and a corresponding adjustment is made to the related right-of-use asset) whenever:

- the lease term has changed or there is a change in the assessment of exercise of a purchase option, in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate.
- the lease payments change due to changes in an index or rate or a change in expected payment under a guaranteed residual value, in which cases the lease liability is remeasured by discounting the revised lease payments using the initial discount rate (unless the lease payments change is due to a change in floating interest rate, in which case a revised discount rate is used).
- a lease contract is modified and the lease modification is not accounted for as a separate lease, in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate.

1 ACCOUNTING POLICIES (Continued)

(o) Leases (Continued)

There were no such adjustments during the periods presented.

The right-of-use assets comprise the initial measurement of the corresponding lease liability, lease payments made at or before the commencement day and any initial direct costs. They are subsequently measured at cost less accumulated depreciation and impairment loses.

Right-of-use assets are depreciated over the shorter period of lease term and useful life of the underlying asset. If a lease transfers ownership of the underlying asset or the cost of the right-of-use asset reflects that the Bank or its subsidiary expects to exercise a purchase option, the related right-of-use asset is depreciated over the useful life of the underlying asset. The depreciation starts at the commencement date of the lease.

The right-of-use assets are presented as a separate line in the statement of financial position.

IAS 36 is applied determining whether a right-of-use asset is impaired and accounts for any identified impairment loss as described in the 'Property and equipment' policy.

Variable rents that do not depend on an index or rate are not included in the measurement of the lease liability and the right-of-use asset. The related payments are recognised as an expense in the period in which the event or condition that triggers those payments occurs and are included in the line 'Other expenses' in the statement of the profit or loss.

(p) Contingent liabilities

Letters of credit, acceptances, guarantees and performance bonds are generally written by the bank to support performance by a customer to third parties. The bank will only be required to meet these obligations in the event of the customer's default. These obligations are accounted for as off financial position transactions and disclosed as contingent liabilities.

(q) Fiduciary activities

Assets and income arising thereon together with related undertakings to return such assets to customers are excluded from these financial statements where the Bank or its subsidiary acts in a fiduciary capacity such as nominee, trustee or agent.

(r) Employee benefit costs

i) Bank's defined contribution retirement benefit scheme

The Bank and its subsidiary operate a defined contribution retirement benefit scheme for its permanent employees. The assets of the scheme are held and administered independently of the assets of the Bank and its subsidiary by an insurance company. The scheme is funded by contributions from both the employer and employees.

ii) Statutory defined benefit obligation pension scheme

The Bank and its subsidiary contribute to the National Social Security Fund (NSSF). This is a defined contribution scheme registered under the National Social Security Act. Contributions are determined by local statute. The contributions of the Bank and of its subsidiary to the statutory retirement benefit scheme are charged to the profit or loss for the year to which they relate.

iii) Other employee entitlements

Employee entitlements to annual leave are recognised when they accrue to employees. A provision is made for the liability for annual leave outstanding at the financial position date.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

1 ACCOUNTING POLICIES (Continued)

(s) Comparatives

Where necessary, comparative figures are adjusted to conform to changes in presentation in the current year.

2 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING THE GROUP'S ACCOUNTING POLICIES

In the process of applying the entity'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. These are dealt with below:

i) Critical accounting judgements in applying the company's policies

Business model assessment

Classification and measurement of financial assets depends on the results of the SPPI and the business model test. The Bank and its subsidiary determine the business model at a level that reflects how groups of financial assets are managed together to achieve a particular business objective. This assessment includes judgement reflecting all relevant evidence including how the performance of the assets is evaluated and their performance measured, the risks that affect the performance of the assets and how these are managed and how the managers of the assets are compensated. The Bank and its subsidiary monitor financial assets measured at amortised cost that are derecognised prior to their maturity to understand the reason for their disposal and whether the reasons are consistent with the objective of the business for which the asset was held. Monitoring is part of the Group's continuous assessment of whether the business model for which the remaining financial assets are held continues to be appropriate and if it is not appropriate whether there has been a change in business model and so a prospective change to the classification of those assets. No such changes were required during the periods presented.

Significant increase in credit risk

As explained in note 1, ECL are measured as an allowance equal to 12-month ECL for stage 1 assets, or lifetime ECL for stage 2 or stage 3 assets. An asset moves to stage 2 when its credit risk has increased significantly since initial recognition. IFRS 9 does not define what constitutes a significant increase in credit risk. In assessing whether the credit risk of an asset has significantly increased, the Bank and its subsidiary take into account qualitative and quantitative reasonable and supportable forward-looking information.

Establishing groups of assets with similar credit risk characteristics

When ECLs are measured on a collective basis, the financial instruments are grouped on the basis of shared risk characteristics. The Bank and its subsidiary monitor the appropriateness of the credit risk characteristics on an ongoing basis to assess whether they continue to be similar. This is required in order to ensure that should credit risk characteristics change there is appropriate re-segmentation of the assets. This may result in new portfolios being created or assets moving to an existing portfolio that better reflects the similar credit risk characteristics of that group of assets. Re-segmentation of portfolios and movement between portfolios is more common when there is a significant increase in credit risk (or when that significant increase reverses) and so assets move from 12-month to lifetime ECLs, or vice versa, but it can also occur within portfolios that continue to be measured on the same basis of 12-month or lifetime ECLs but the amount of ECL changes because the credit risk of the portfolios differ.

Models and assumptions used

The Bank and its subsidiary use various models and assumptions in estimating ECL. Judgement is applied in identifying the most appropriate model for each type of asset, as well as for determining the assumptions used in these models, including assumptions that relate to key drivers of credit risk.

2 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING THE BANK'S ACCOUNTING POLICIES (CONTINUED)

ii) Key sources of estimation uncertainty

Establishing the number and relative weightings of forward-looking scenarios for each type of product and determining the forward-looking information relevant to each scenario:

When measuring ECL the Bank uses reasonable and supportable forward-looking information, which is based on assumptions for the future movement of different economic drivers and how these drivers will affect each other.

Probability of default:

PD constitutes a key input in measuring ECL. PD is an estimate of the likelihood of default over a given time horizon, the calculation of which includes historical data, assumptions and expectations of future conditions.

Loss Given Default:

LGD is an estimate of the loss arising on default. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, taking into account cash flows from collateral and integral credit enhancements.

Property and equipment

Critical estimates are made by the directors in determining depreciation rates for property and equipment.

Fair value measurement and valuation

Some of the company's assets and liabilities are measured at fair value for financial reporting process. In estimating the fair value of an asset or liabilities, the company uses market – observable data to the extent it is available. Where level 1 inputs are not available, the company engages third party qualified valuers to perform the valuation.

Key sources of estimation uncertainty in the application of IFRS 16 include the following:

- Determination of the appropriate rate to discount the lease payments; and
- Assessment of whether a right-of-use asset is impaired.

3 FINANCIAL RISK MANAGEMENT

This note presents information about the Bank's exposure to financial risks and the Bank's management of capital.

The Bank has exposure to the following risks from its use of financial instruments:

- Credit risk
- Liquidity risk
- Market risks

A CREDIT RISK

Credit risk refers to the current or prospective risk to earnings and capital arising from an obligator's failure to meet the terms of any contract with the bank or if an obligator otherwise fails to perform as agreed. It arises principally from lending, leasing, trade finance and treasury activities. The Bank's credit risk is primarily attributable to its loans and receivables. The amounts presented in the statement of financial position are net of allowances for doubtful advances, estimated by the bank's management based on prior experience and their assessment of the current economic environment.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

A CREDIT RISK (Continued)

i) Credit quality analysis

An analysis of the Group's credit risk exposure per class of financial asset, internal rating and "stage" without taking into account the effects of any collateral or other credit enhancements is provided in the following tables. Unless specifically indicated, for financial assets, the amounts in the table represent gross carrying amounts. For loan commitments and financial guarantee contracts, the amounts in the table represent the amounts committed or guaranteed, respectively.

Explanation of the terms 'Stage 1', 'Stage 2' and 'Stage 3' is included in Note 3A(iii).

Year ended 2021

Loans and advances to customers at amortised cost	**Stage 1 12-month ECL Shs**	**Stage 2 Lifetime ECL Shs**	**Stage 3 Lifetime ECL Shs**	**Total Shs**	**Year ended 2020 Total Shs**
Grade 1: Normal	6,051,668			6,051,668	5,500,035
Grade 2: Watch	-	363,967	-	363,967	1,037,029
Grade 3: Substandard	-	-	564,039	564,039	457,946
Grade 4: Doubtful	-	-	144,020	144,020	313,464
Grade 5: Loss	-	-	-	**-**	**-**
Total gross carrying amount	**6,051,668**	**363,967**	**708,059**	**7,123,694**	**7,308,473**
Loss allowance	(229,403)	(58,817)	(270,720)	(558,940)	(481,065)
Carrying amount	**5,822,265**	**305,150**	**437,339**	**6,564,754**	**6,827,408**

The following table sets out information about the overdue status of loans and advances to customers in Stages 1, 2 and 3.

	2021				**2020**
In thousands Kenya Shillings	**Stage 1**	**Stage 2**	**Stage 3**	**Total**	**Total**
Loans and advances to customers at amortised cost – net carrying amount					
Current	6,051,668			6,051,668	5,339,972
Overdue < 30 days		363,967		363,967	952,172
Overdue > 90 days			437,339	437,339	535,264
Total	**6,051,668**	**363,967**	**437,339**	**6,564,754**	**6,827,408**

NOTES TO THE FINANCIAL STATEMENTS (Continued)

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

A CREDIT RISK (Continued)

i) Credit quality analysis (Continued)

Cash and cash equivalents

The Bank held cash and cash equivalents of Shs 1,270 million at 31 December 2021 (2020: Shs 1,310 million). The cash and cash equivalents are held with central banks and financial institution counterparties that are rated at least B to AA+, based on Moody's ratings.

ii) Collateral held and other credit enhancements

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

Type of credit exposure

	Percentage of exposure that is subject to collateral requirements		
In thousands Kenya Shillings	**31 December 2021**	**31 December 2020**	**Principal type of collateral held**
Loans and advances to customers	813,959	1,302,887	Cash deposit
Loans and advances to customers	4,543,351	4,623,583	Property discounted forced sale value
Loans and advances to customers	681,775	514,337	Debenture (25% of registered value)
Loans and advances to customers	525,669	386,598	Others
	6,564,754	6,827,408	

The following table stratify credit exposures from mortgage loans and advances to customers by ranges of loan-to-value (LTV) ratio. LTV is calculated as the ratio of the gross amount of the loan – or the amount committed for loan commitments – to the value of the collateral.

The valuation of the collateral excludes any adjustments for obtaining and selling the collateral. For credit-impaired loans the value of collateral is based on the most recent appraisals.

In thousands Kenya Shillings	**31 December 2021**	**31 December 2020**
LTV ratio		
Less than 50%	1,489,098	1,117,480
51–70%	496,827	247,405
71–90%	657,997	1,167,049
91–100%	285,034	1,397,245
More than 100%	3,159,234	2,358,274
Total	6,088,190	6,287,453
Credit-impaired loans		
Less than 50%	141,629	25,345
51–70%	51,436	10,632
More than 70%	283,496	503,978
Total	476,561	539,955
Total	**6,564,751**	**6,827,408**

NOTES TO THE FINANCIAL STATEMENTS (Continued)

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

A CREDIT RISK (Continued)

ii) Collateral held and other credit enhancements (continued)

Loans and advances to corporate customers

The general creditworthiness of customers tends to be the most relevant indicator of credit quality of a loan extended to it. However, collateral provides additional security and the Bank generally requests that corporate borrowers provide it. The Bank may take collateral in the form of a first charge over real estate, floating charges over all corporate assets and other liens and guarantees.

Because of the Bank's focus on corporate customers' creditworthiness, the Bank does not routinely update the valuation of collateral held against all loans to corporate customers. Valuation of collateral is updated when the loan is put on a watch list and the loan is monitored more closely. For credit-impaired loans, the Bank obtains appraisals of collateral because it provides input into determining the management credit risk actions.

At 31 December 2021, the gross carrying amount of credit-impaired loans and advances to customers amounted to Shs 1,345 million (2020: Shs 1,263 million) and the value of identifiable collateral (mainly commercial properties) held against those loans and advances amounted to Shs 596 million (2020: Shs 611 million). For each loan, the value of disclosed collateral is capped at the nominal amount of the loan that it is held against.

Other types of collateral and credit enhancements

The Bank does not hold any other types of collateral and credit enhancements, such as second charges and floating charges for which specific values are not generally available.

The Bank has not obtained any assets by taking possession of collateral.

iii) Amounts arising from ECL

Inputs, assumptions and techniques used for estimating impairment

Significant increase in credit risk

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

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

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

NOTES TO THE FINANCIAL STATEMENTS (Continued)

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

A CREDIT RISK (Continued)

iii) Amounts arising from ECL (Continued)

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

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

Credit risk grades

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

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

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

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

- The table below provides an indicative mapping of how the Bank's internal credit risk grades relate to PD and to external credit ratings of Moody's.
- The customer loans portfolio of the Bank comprises ordinary loans, business loans, current account loans, credit cards and bank guarantees.

Grading	12-month weighted-average PD	External rating
Grades 1: Normal	15%	AAA to B
Grades 2: Watch	45%	B- to C
Grades 3–5: Substandard and Doubtful	100%	Default

NOTES TO THE FINANCIAL STATEMENTS (Continued)

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

A CREDIT RISK (Continued)

iii) Amounts arising from ECL (Continued)

Inputs, assumptions and techniques used for estimating impairment

Significant increase in credit risk

Generating the term structure of PD

The Bank collects sector wise performance and default information about its credit risk exposures analysed by type of product and borrower. For some portfolios e.g government securities, information purchased from external credit reference agencies is also used.

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

The method of PD parameter estimation is based on the ratio of PD = Gross Non-Performing Loan/Net Loans. The total gross GDP is projected from the previous year gross GDP using the GDP projection. The gross GDP per sector is then obtained by taking the ratio of the gross GDP per sector for the previous year and the total gross GDP for the previous year and multiplying that by the total gross GDP for the current year. The gross loans per sector is obtained by taking the ratio of the gross loans per sector for the previous year and the gross GDP per sector for the previous year and multiplying that by the gross GDP per sector for the current year. The gross NPLs are projected using the regression coefficients for each of the sector. A regression is run on the gross NPLs against gross GDP for each of the sectors. The Bank uses one approach of generating PDs for all the loan portfolios.

Determining whether credit risk has increased significantly

The Bank assesses whether credit risk has increased significantly since initial recognition at each reporting date. Determining whether an increase in credit risk is significant depends on the characteristics of the financial instrument and the borrower, and the sectorial information.

The Bank considers credit risk of a particular exposure to have increased significantly since initial recognition based on a loan being rated as “watch”. The Credit Committee reviews the loans periodically and the movement in the probability of default (PD) between the reporting period and initial recognition date of the loan to determine whether there has been a significant increase in credit risk.

Lifetime PDs are estimated considering the contractual maturities of exposures and estimated prepayment rates.

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

For an explanation of the relevant qualitative indicators used for determining whether there has been a significant increase in credit risk, see Note 1 (m)(i).

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

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

A CREDIT RISK (Continued)

iii) Amounts arising from ECL (Continued)

Inputs, assumptions and techniques used for estimating impairment (continued)

Significant increase in credit risk (continued)

Determining whether credit risk has increased significantly (Continued)

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

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

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

Definition of default

The Bank considers a financial asset to be in default when:
- the borrower is unlikely to pay its credit obligations to the Bank in full, without recourse by the Bank to actions such as realising security (if any is held);
- the borrower is more than 90 days past due on any material credit obligation to the Bank.
- Overdrafts are considered as being past due once the customer has breached an advised limit or been advised of a limit smaller than the current amount outstanding; or
- it is becoming probable that the borrower will restructure the asset as a result of bankruptcy due to the borrower's inability to pay its credit obligations.
- In assessing whether a borrower is in default, the Bank considers indicators that are:
- qualitative: e.g. breaches of covenant;
- quantitative: e.g. overdue status and non-payment on another obligation of the same issuer to the Bank; and
- based on data developed internally and obtained from external sources.

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

NOTES TO THE FINANCIAL STATEMENTS (Continued)

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

A CREDIT RISK (Continued)

iii) Amounts arising from ECL (Continued)

Inputs, assumptions and techniques used for estimating impairment (continued)

Incorporation of forward-looking information

The Bank incorporates forward-looking information into both the assessment of whether the credit risk of an instrument has increased significantly since its initial recognition and the measurement of ECL.

The Bank formulates three economic scenarios: a base case, which is the median scenario assigned a 50% probability of occurring, and two less likely scenarios, one upside – Best Case and one downside – Worst Case, with Best Case having a 20% probability of occurring and Worst Case having a 30% Probability of occurring. The base case is aligned with information used by the Bank for other purposes such as strategic planning and budgeting. External information considered includes economic data and forecasts published by governmental bodies and monetary authorities in the countries where the Bank operates, supranational organisations such as the International Monetary Fund and selected private-sector and academic forecasters.

Periodically, the Bank carries out stress testing of more extreme shocks to calibrate its determination of the upside and downside representative scenarios. A comprehensive review is performed at least annually on the design of the scenarios by a panel of experts that advises the Bank's senior management.

The Bank has identified and documented key drivers of credit risk and credit losses for each portfolio of financial instruments and, using an analysis of historical data, has estimated relationships between macro-economic variables and credit risk and credit losses.

The key drivers for credit risk is GDP growth which generally incorporates other indicates such as inflation, exchange rates etc. Another importance source of information used is the sector wise or industry wise total loans and advances and non-performing loans and advances as experienced by the banking industry. This information is published by the Central Bank of Kenya annually. The exposures are classified sector wise and credit losses computed for each sector individually.

The economic scenarios used as at 31 December 2021 included the following key indicators for Kenya for the years ending 31 December 2021 to 2023.

	Scenario	**2021**	**2022**	**2023**	**2024**	**2025**
GDP Growth rate	Base Case	5.0%	4.0%	5.5%	5.0%	5.0%
GDP Growth rate	Best Case	6.0%	4.8%	6.6%	6.0%	6.0%
GDP Growth rate	Worst Case	4.0%	3.2%	4.4%	4.0%	4.0%

NOTES TO THE FINANCIAL STATEMENTS (Continued)

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

A CREDIT RISK (Continued)

iii) Amounts arising from ECL (Continued)

Inputs, assumptions and techniques used for estimating impairment (continued)

Incorporation of forward-looking information (continued)

12 Months Probability of Default

Sector	Base Case	Best Case	Worst Case
Agriculture, Fishing & Forestry	24.00%	23.00%	24.00%
Mining and Quarrying	13.00%	13.00%	14.00%
Manufacturing	15.00%	15.00%	16.00%
Electricity & Water	10.00%	10.00%	10.00%
Building & Construction	27.00%	26.00%	28.00%
Wholesale & Retail Trade	18.00%	18.00%	18.00%
Transport & Communication	18.00%	17.00%	18.00%
Tourism, Restaurant & Hotels	7.00%	7.00%	7.00%
Real Estate	13.00%	13.00%	14.00%
Finance & Insurance	15.00%	14.00%	15.00%
Social Community & Personal Services	8.00%	8.00%	8.00%

Lifetime Probability of Default

Sector	Base Case	Best Case	Worst Case
Agriculture, Fishing & Forestry	62.00%	60.00%	63.00%
Mining and Quarrying	39.00%	38.00%	41.00%
Manufacturing	43.00%	42.00%	44.00%
Electricity & Water	29.00%	28.00%	30.00%
Building & Construction	66.00%	65.00%	68.00%
Wholesale & Retail Trade	47.00%	46.00%	49.00%
Transport & Communication	50.00%	48.00%	51.00%
Tourism, Restaurant & Hotels	40.00%	39.00%	41.00%
Real Estate	37.00%	36.00%	38.00%
Finance & Insurance	23.00%	22.00%	24.00%
Social Community & Personal Services	24.00%	22.00%	25.00%

Predicted relationships between the key indicators and sector wise default and loss rates of financial assets have been developed based on analysing historical data over the past 10 to 15 years.

Uncertain events

Uncertain events that are relevant to the risk of default occurring but for which, despite best efforts, the bank is not able to estimate the impact on ECL because of lack of reasonable and supportable information include:

1. Impact of the slowing down global economy on the growth rate of the Kenyan Economy
2. The unpredictable volatility of the global oil prices and its impact on the Kenyan Economy. This is specially the case when is Kenya is a net importer.
3. Unpredictable weather conditions considering Kenya is a predominately agricultural economy.
4. The unpredictable political environment both local and regional which has a direct impact on economic performance.
5. The rising impact of the Kenya's debt to GDP ratio and its impact on the economic output.
6. Impact of COVID-19 on the operations of business within the Kenyan Economy.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

A CREDIT RISK (Continued)

iii) Amounts arising from ECL (Continued)

Inputs, assumptions and techniques used for estimating impairment (continued)

Incorporation of forward-looking information (continued)

Key Assumptions

In all the three scenarios of Base, Best and Worst case positive GDP growth is assumed. This assumption is well reasoned given the tested resilience strength of the Kenyan Economy during distress times.

Modified financial assets

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

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

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

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

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

The revised terms usually include extending the maturity, changing the timing of interest payments and amending the terms of loan covenants. Both retail and corporate loans are subject to the forbearance policy. The Bank Credit Committee regularly reviews reports on forbearance activities.

For financial assets modified as part of the Bank's forbearance policy, the estimate of PD reflects whether the modification has improved or restored the Bank's ability to collect interest and principal and the Bank's previous experience of similar forbearance action. As part of this process, the Bank evaluates the borrower's payment performance against the modified contractual terms and considers various behavioural indicators.

Generally, forbearance is a qualitative indicator of a significant increase in credit risk and an expectation of forbearance may constitute evidence that an exposure is credit-impaired. A customer needs to demonstrate consistently good payment behaviour over a period of time before the exposure is no longer considered to be credit-impaired/in default or the PD is considered to have decreased such that the loss allowance reverts to being measured at an amount equal to Stage 1.

Measurement of ECL

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

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

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

A CREDIT RISK (Continued)

iii) Amounts arising from ECL (Continued)

Inputs, assumptions and techniques used for estimating impairment (continued)

Measurement of ECL (Continued)

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

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

LGD is the magnitude of the likely loss if there is a default. The Bank estimates LGD parameters based on the history of recovery rates of claims against defaulted counterparties. The LGD models consider the structure, collateral, seniority of the claim, counterparty industry and recovery costs of any collateral that is integral to the financial asset.

For loans secured by retail property, LTV ratios are a key parameter in determining LGD. LGD estimates are recalibrated for different economic scenarios and, for real estate lending, to reflect possible changes in property prices. They are calculated on a discounted cash flow basis using the effective interest rate as the discounting factor.

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

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

However, for overdrafts facilities that include both a loan and an undrawn commitment component, the Bank measures ECL over a period longer than the maximum contractual period if the Bank's contractual ability to demand repayment and cancel the undrawn commitment does not limit the Bank's exposure to credit losses to the contractual notice period. These facilities do not have a fixed term or repayment structure and are managed on a collective basis. The Bank can cancel them with immediate effect but this contractual right is not enforced in the normal day-to-day management, but only when the Bank becomes aware of an increase in credit risk at the facility level.

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

Where modelling of a parameter is carried out on a collective basis, the financial instruments are Banked on the basis of shared risk characteristics that include:

- instrument type;
- collateral type;
- remaining term to maturity;
- industry;

NOTES TO THE FINANCIAL STATEMENTS (Continued)

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

A CREDIT RISK (Continued)

iii) Amounts arising from ECL (Continued)

Inputs, assumptions and techniques used for estimating impairment (continued)

Measurement of ECL (continued)

The groupings are subject to regular review to ensure that exposures within a particular Bank remain appropriately homogeneous.

For portfolios in respect of which the Bank has limited historical data, external benchmark information is used to supplement the internally available data. The Bank does not have portfolios for which external benchmark information represents a significant input into measurement of ECL.

Loss allowance

The following tables show reconciliations from the opening to the closing balance of the loss allowance by class of financial instrument.

Loans and advances to customers	**Stage 1 12-month ECL Shs**	**Stage 2 Lifetime ECL Shs**	**Stage 3 Lifetime ECL Shs**	**Total Shs**
Loss allowance as at 1 January 2021	**160,062**	**84,857**	**236,146**	**481,065**
Changes in the loss allowance:				
– Transfer to stage 1	16,148	(16,148)		**-**
– Transfer to stage 2		(4,671)	4,671	**-**
– Transfer to stage 3	(6,895)		6,895	
New financial assets originated	36,053			**36,053**
Financial assets derecognized	(18,848)	(34,255)	-	**(53,104)**
Financial Assets remeasured	51,416	55,075	(11,566)	**94,925**
Loss allowance as at 31 December 2021	**237,937**	**84,857**	**236,146**	**558,940**

More information about the significant changes in the gross carrying amount of financial assets during the period that contributed to changes in the loss allowance, is provided at the table below:

Loans and advances to customers	**Stage 1 12-month ECL Shs**	**Stage 2 Lifetime ECL Shs**	**Stage 3 Lifetime ECL Shs**	**Total Shs**
Gross carrying amount as at 31 December 2020 & 1 January 2021	**5,500,033**	**1,037,029**	**771,411**	**7,308,473**
Changes in the loss allowance:				
– Transfer to stage 1	197,349	(197,349)		**-**
– Transfer to stage 2		(57,082)	57,082	**-**
– Transfer to stage 3	(236,914)		236,914	**-**
New financial assets originated	1,238,864			**1,238,864**
Financial assets that have been derecognised	(647,664)	(418,631)	(357,348)	**(1,423,643)**
Financial Assets remeasured	-	**-**	**-**	**-**
Gross carrying amount as at 31 December 2021	**6,051,668**	**363,967**	**708,059**	**7,123,694**

NOTES TO THE FINANCIAL STATEMENTS (Continued)

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

A CREDIT RISK (Continued)

iii) Amounts arising from ECL (Continued)

Loss allowance (continued)

The following table provides a reconciliation between:

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

In thousands Kenya Shillings	**Advances to customers at amortised cost**	**Cash and cash equivalents**	**Financial lease receivable**	**Total**
Net remeasurement of loss allowance	83,850	-	-	83,850
Recoveries of amounts previously written off	-	-	-	-
Total	83,850	-		83,850

Credit-impaired financial assets

Credit-impaired loans and advances are graded 3 to 5 in the Bank's internal credit risk grading system (see Note 3(A (i))).

The following table sets out a reconciliation of changes in the net carrying amount of credit-impaired loans and advances to customers.

In thousands Kenya Shillings	2021	2020
Credit-impaired loans and advances to customersat 1 January	481,065	429,666
Change in allowance for impairment (Day 1 Adjustment)	-	-
Classified as credit-impaired during the year	83,850	108,165
Transferred to not credit-impaired during the year		
Credit Impaired written off during the year	(5,975)	(56,766)
Credit-impaired loans and advances to customersat 31 December	558,940	481,065

The contractual amount outstanding on financial assets that were written off during the year ended 31 December 2021 and that are still subject to enforcement activity is Shs Nil (2020: Shs Nil million).

Modified financial assets

There were financial assets that were modified while they had a loss allowance measured at an amount equal to lifetime ECL.

Loans with renegotiated terms

Loans with renegotiated terms are defined as loans that have been restructured due to a deterioration in the borrower's financial position, for which the Bank has made concessions by agreeing to terms and conditions that are more favourable for the borrower than the Bank had provided initially and that it would not otherwise consider. A loan continues to be presented as part of loans with renegotiated terms until maturity, early repayment or write-off.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

A CREDIT RISK (Continued)

iv) Concentration of credit risk

The Bank monitors concentrations of credit risk by sector and by geographic location. An analysis of concentrations of credit risk from loans and advances, loan commitments, financial guarantees and investment securities is shown below.

(i) Advances to customers

	2021 Sh '000	%	2020 Sh '000	%
Agriculture, Fishing & Forestry	374,699	5	499,953	7
Mining and Quarrying	128,227	2	113,958	2
Manufacturing	320,380	4	333,391	5
Electricity & Water	253,376	4	206,285	3
Building & Construction	200,961	3	398,737	5
Wholesale & Retail Trade	2,876,563	40	2,680,167	37
Transport & Communication	497,845	7	450,572	6
Finance & Insurance	39,305	1	77,801	1
Real Estate	1,784,381	25	2,007,448	27
Tourism, Restaurant & Hotels	326,848	5	236,107	3
Social, Community & Personal Services	321,106	5	304,056	4
Total	7,123,691	100	7,308,475	100

(ii) Customer deposits

	2021 Sh '000	%	2020 Sh '000	%
Private enterprises	7,270,382	71	6,399,716	69
Not for profit institutions and individuals	2,927,000	29	2,865,718	31
Total	10,197,382		9,265,434	100

(iii) Off – balance sheet items

	2021 Sh '000	%	2020 Sh '000	%
Business services	50,429	7	43,582	7
Wholesale and retail	583,535	81	504,310	81
Transport and communications	28,817	4	24,904	4
Other	57,633	8	49,810	8
Total	720,414		622,606	100

v) Offsetting financial assets and financial liabilities

There were no financial assets and financial liabilities that were offset in the Bank's statement of financial position and none are subject to an enforceable master netting arrangement or similar agreement that covers similar financial instruments.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

A CREDIT RISK (Continued)

Judgement	**Retail & Corporate**
Determination of whether the credit risk of financial instruments have increased significantly since initial recognition	Although COVID-19 has had a negative impact on the economic environment in the country, in isolation COVID-19 initially reflected a liquidity constraint due to the control measures imposed by the government more than an inherent increase in credit risk for the entire portfolio of advances held by the group. As such the bank did not impose a blanket downgrade on all ECL stages. A more targeted approach to the impact of COVID-19 on the bank's customer base was undertaken, following the bank's existing credit framework, which allowed for well-balanced and consistent decision-making that considered not only the impact of COVID-19, but existing economic trends, business sector, history of the client with the bank, value & type of security etc. As such, the bank did not view requests for payment deferrals as the sole indicator that SICR had occurred for performing advances. IFRS 9 contains a rebuttable presumption that credit risk has increased significantly when contractual payments are more than 30 days past due. This means that where payments are 30 days past due, the financial asset needs to migrate from stage 1 to stage 2. Instead of rebutting this presumption, the bank views that where the customer and the bank have agreed to a deferral of payment for a specified period, that such an extension will not trigger the counting of days past due.
SICR assessment of COVID 19 relief exposures	In accordance with IFRS 9, all exposures are assessed to determine whether there has been a SICR at each reporting date (monthly), in which case the expected credit loss is calculated on a lifetime basis. SICR triggers are based on client behaviour, sectorial performance (such as belonging to an industry in distress,are considered in the context of the financial impact of COVID-19), any significant change in the value of the underlying security and customer specific judgemental factors (e.g duration in business or demise of a key man etc). Any adverse change in these triggers reflective of a significant increase in credit risk.

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

A CREDIT RISK (Continued)

<table>
<tr><th>Judgement</th><th>Retail & Corporate</th></tr>
<tr><td>Sensitivity Staging</td><td>
As outlined above, when there is a SICR since initial recognition, the exposure is moved from stage 1 to stage 2 and the ECL is calculated based on lifetime expected credit losses.
The move from 12-month expected credit loss to lifetime expected credit loss can result in a substantial increase in ECL. The sensitivity information provided in the table below details the additional ECL charge to the income statement that the bank would need to recognise if all facilities with greater than 90 days past due and all restructures were restaged.
<table>
<tr><th></th><th colspan="2">31 December 2021</th></tr>
<tr><th></th><th>Base</th><th>Restaged</th></tr>
<tr><td>Stage 1</td><td>4,650</td><td>14,064</td></tr>
<tr><td>Stage 2</td><td>-</td><td>-</td></tr>
<tr><td>Stage 3</td><td>-</td><td>-</td></tr>
<tr><td>Total</td><td>4,650</td><td>14,064</td></tr>
</table>
Comparative information has not been provided. As IFRS 9 is refined and embedded in the bank’s reporting process, additional disclosure is included. This information was not produced in the prior year.
The following table sets out the additional ECL charge to the income statement if all advances which were subject to a form of COVID-19 relief were deemed to have suffered a SICR and were moved from stage 1 to stage 2, or where the COVID-19 relief was deemed to be an indicator of impairment and the advance was moved from stage 2 to stage 3 as at 31 December 2021.
<table>
<tr><th></th><th colspan="2">31 December 2021</th></tr>
<tr><th></th><th>Base</th><th>Restaged</th></tr>
<tr><td>Stage 1</td><td>4,650</td><td>14,064</td></tr>
<tr><td>Stage 2</td><td>9,957</td><td>27,276</td></tr>
<tr><td>Stage 3</td><td>-</td><td>-</td></tr>
<tr><td>Total</td><td>14,607</td><td>41,340</td></tr>
</table>
The increase in the loss allowance is calculated as the difference between the impairment that would have been raised in either stage 2 or stage 3 and the impairment recognised as at 31 December 2021. The impairment recognised as at 31 December 2021 already includes the post-model adjustment for COVID-19 relief detailed in the post-model adjustment section in this note.
</td></tr>
</table>

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

A CREDIT RISK (Continued)

Judgement	Retail & Corporate
Treatment of financial relief offered in response to the impacts of COVID-19	The bank offered financial relief through various mechanisms in response to COVID- 19. These included the following: • additional facilities or new loans being granted; • reschedule of existing exposures with no change in the present value of the estimated future cash flows; and • reschedule of existing exposures with the view of offering between 6 to 12months of repayment of principal relief. • Waiver of fees such as commitment fees etc. • Reduction/ partial waiver in interest rates charged. Prior to COVID-19 relief being granted, the customer was assessed against eligibility for relief criteria. In doing so, the bank was able to identify customers who were in good standing but were facing financial distress due to the impact of COVID-19 directly or indirectly. The COVID-19 relief provided to these customers were deemed to be temporary and cash flow in nature. Where a customer was already experiencing financial distress and was in arrears prior to 31 March 2021, any restructuring of the customer's facilities was deemed to be permanent in nature. Where relief is expected to be temporary in nature and as such qualifies as a non- distressed restructure, the staging of the exposure as at 31 March 2021 has been maintained, and adjustments have been made to coverage to allow for incremental credit risk and potential masking of normal arrears. Where the relief is expected to be permanent in nature, the exposure has been treated as a distressed restructure, and staging and coverage have been adjusted in line with the bank's normal practice. Where relief has been enacted through the issuance of a new loan as part of a non-distressed restructure, the loan has been treated at initial recognition as a new exposure and coverage has been calculated on the basis of sectoral probability of default, including a post-model adjustment to allow for incremental credit risk attributable to COVID-19 relief provided. Where the relief provided as an emergency facility (as defined under CBK's issued guidelines to the banks on implementation of emergency measures to mitigate the adverse impact of COVID-19 pandemic on loans and advances (Circulars No 3 and 4).) is part of a distressed restructure, the staging of the emergency facility has been aligned to the staging of the underlying exposures. Where there are multiple underlying exposures with different stages, the worst of these stages has been applied. The ECL for all exposures on which relief has been offered and for all emergency facilities has been adjusted to reflect the impact of forward-looking macroeconomic information in line with the rest of the portfolio.

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

B LIQUIDITY RISK

Liquidity risk is the risk that the bank cannot obtain the necessary funds to meet its obligations associated with financial instruments as they fall due. The amount of liquidity required depends very much on the banks ability to forecast demand and its access to outside sources. The board of directors has assigned the authority for the management oversight of the liquidity risk policy to the Assets and Liability Committee (ALCO). The committee which is composed of the CEO, Treasury Manager, and other bank officers as necessary review various liquidity and funding decisions and related risks. Formal minutes pertaining to committee actions are recorded and maintained for review by the board of directors.

Liquidity management

The bank manages the liquidity structure of assets, liabilities and commitments so that cash flows are appropriately matched to ensure that all funding obligations are met when due. Banking operations are such that mismatch of assets and liabilities according to their maturity profiles cannot be avoided. However, management ensures that the mismatch is controlled in line with allowable risk levels. Liquidity is managed on a daily basis and incorporates assets and liabilities of the bank based on the remaining period up to 31 December 2021 to the contractual maturity date.

Liquidity risk is addressed through the following measures:

- The bank enters into lending contracts subject to availability of funds.
- The bank has an aggressive strategy aimed at increasing the customer deposit base.
- The bank invests in short term liquid instruments which can easily be sold in the market when the need arises.
- Investments in equipment are properly budgeted for and done when the bank has sufficient cash flows.

The key measure used by the company for managing liquidity risk is the ratio of net liquid assets to deposits from customers. The table below details the liquidity ratio trends over the year:

	2021 %	2020 %
As at 31 December		
Average for the period	47	43
Maximum for the period	52	45
Minimum for the period	44	39
Statutory minimum requirement by Central Bank	20	20
	====	====

Undiscounted cash flows

The table below shows the undiscounted cash outflows on the bank’s financial liabilities based on their contractual maturity dates and the discounted cash inflows on the bank’s financial assets based on their expected maturity dates. The banks expected cash flows on these instruments could vary significantly from this analysis. For example, demand deposits from customers are expected to maintain a stable or increasing balance; and unrecognised loan commitments are not all expected to be drawn down immediately.

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

B LIQUIDITY RISK

Undiscounted cash flows (continued)

	Upto 1 Month Sh '000	1-3 Months Sh '000	4-12 Months Sh '000	1-5 Years Sh '000	Over 5 Years Sh '000	Total Sh'000
As at 31 December 2021						
FINANCIAL ASSETS						
Cash and balances with CBK	440,020	362,395	40,675	35,312	-	878,402
Deposits and balances from banking institutions	755,635					755,635
Government securities	498,652	642,538	1,093,172	342,997	1,269,606	3,846,965
Advances to customers	534,058	1,130,271	1,498,425	2,889,342	512,655	6,564,751
	2,228,365	2,135,204	2,632,272	3,267,651	1,782,261	12,045,753
FINANCIAL LIABILITIES						
Customer deposits	1,847,244	6,902,762	774,762	672,614	-	10,197,382
	1,847,244	6,902,762	774,762	672,614	-	10,197,382
Net liquidity gap	381,121	(4,767,558)	1,857,510	2,595,037	1,782,261	1,848,371
As at 31 December 2020						
Total financial assets	2,169,826	1,756,736	2,445,483	3,175,681	1,390,004	10,937,730
Total financial liabilities	1,608,887	6,207,968	710,028	738,551	-	9,265,434
Net liquidity gap	560,939	(4,451,232)	1,735,455	2,437,130	1,390,004	1,672,296

The gross nominal inflow/(outflow) disclosed is the contractual, undiscounted cash flow on the financial liability or commitment.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

C MARKET RISK

(i) Interest rate risk

The bank is exposed to the risk that the value of a financial instrument will fluctuate due to changes in market interest rate. Interest rates on advances to customers are either pegged to the bank's base lending rate or Treasury bill rate.

The interest rates, therefore, fluctuate depending on the movement in the market interest rates. The bank also invests in fixed interest rate instruments issued by the Central Bank of Kenya. Interest rate on customer deposits is negotiated between the bank and the customer. The bank has the discretion to change the rates in line with changes in market trends.

The board of directors has assigned the authority for the management oversight of the interest rate risk policy to the Assets and Liability Committee (ALCO). The committee which is composed of the CEO, Treasury Manager, and other bank officers meets as necessary for specific credit risk situations, reviews various liquidity and funding decisions and related risks.

Formal minutes pertaining to committee actions are recorded and maintained for review by the board of directors.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

C MARKET RISK

(i) Interest rate risk (Continued)

The table below summarises the exposure to interest rate risks. Included in the table are the bank's assets and liabilities at carrying amounts, categorised by the earlier of contractual repricing or maturity dates. The bank does not bear an interest rate risk on off financial position items. All figures are in thousand of shillings.

	Up to 1 Month Sh '000	1-3 Months Sh '000	4-12 Months Sh '000	1-5 years Years Sh '000	Over 5 Years Sh '000	Non-interest Bearing Sh '000	Total Sh'000
FINANCIAL ASSETS							
Cash in hand						115,123	115,123
Balances with Central Bank of Kenya						763,279	763,279
Deposits and balances due from banking institutions						755,635	755,635
Government securities	498,652	642,538	1,093,172	342,997	1,269,606	-	3,846,965
Advances to customers	534,058	1,130,271	1,498,425	2,889,342	512,655	-	6,564,751
Total financial assets	1,032,710	1,772,809	2,591,597	3,232,339	1,782,261	1,634,037	12,045,753
FINANCIAL LIABILITIES							
Customer deposits	457,363	6,902,762	774,762	672,614	-	1,389,881	10,197,382
Total financial liabilities	457,363	6,902,762	774,762	672,614	-	1,389,881	10,197,382
Interest rate sensitivity gap	575,347	(5,129,953)	1,816,835	2,559,725	1,782,261	244,156	1,848,371
As at 31 December 2020							
Total financial assets	1,290,504	1,430,818	2,408,206	3,136,907	1,390,004	1,281,291	10,937,730
Total financial liabilities	410,161	6,207,968	710,028	738,551	-	1,198,726	9,265,434
Interest rate sensitivity gap	880,343	(4,777,150)	1,698,178	2,398,356	1,390,004	82,565	1,672,296

The matching and controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental to the management of the bank. It is unusual for a bank's interest to completely be matched due to the nature of business terms and types.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

C MARKET RISK (Continued)

i) Interest rate risk (Continued)

Exposure to interest rate risk

The group is exposed to various risks associated with the effects of fluctuation in the prevailing levels of market interest rates on its financial position and cash flows. ALCO closely monitors the interest rate trends to minimize the potential adverse impact of interest rate changes. The table below summarises the exposure to interest rate risk at the statement of financial position date.

Interest rate risk – stress test-as at 31 December 2021

	Amount Sh'000	Scenario 10% increase in net margin Sh'000	Scenario 10% decrease in net margin Sh'000
Profit before taxation	152,679	207,394	97,965
Adjusted core capital	1,877,886	1,932,601	1,823,171
Adjusted total capital	1,877,886	1,932,601	1,823,171
Risk weighted assets (RWA)	6,721,143	6,721,143	6,721,143
Adjusted core capital to RWA	28%	28%	28%
Adjusted total capital to RWA	28%	28%	28%
	=======	=======	========

Interest rate risk – stress test-as at 31 December 2020

	Amount Sh'000	Scenario 10% Increase in net margin Sh'000	Scenario 10% Decrease in net margin Sh'000
Profit before taxation	96,554	139,150	53,957
Adjusted core capital	1,746,944	1,789,541	1,704,347
Adjusted total capital	1,746,944	1,789,541	1,704,347
Risk weighted assets (RWA)	7,064,332	7,064,332	7,064,332
Adjusted core capital to RWA	25%	25%	24%
Adjusted total capital to RWA	25%	25%	24%
	=======	=======	=======

ii) Foreign exchange risk

Foreign exchange risk is the risk that may occur to earnings or capital that results from movement of foreign exchange rates. This type of risk affects the bank due to cross-border investing and operating activities. The board of directors has assigned authority for management oversight of the foreign exchange risk policy to the CEO and Treasury manager.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

C MARKET RISK (Continued)

ii) Foreign exchange risk (Continued)

Management of foreign exchange risk

The bank operates wholly within Kenya and its assets and liabilities are reported in the local currency. The bank's currency risk is managed within the Central Bank of Kenya exposure guideline of 20% core capital. The bank's management monitors foreign currency exposure on a daily basis.

The bank's currency position is as follows:

	SHS Sh '000	GBP Sh '000	USD Sh '000	EURO Sh '000	OTHERS Sh '000	Total Sh '000
At 31 December 2021						
FINANCIAL ASSETS						
Cash in hand	88,103	2,162	17,050	7,610	199	115,123
Balances with CBK	751,964	6,479	64,057	6,749	388	829,637
Deposits and balances due from banking institutions	7,464	321,808	348,217	7,852	3,935	689,277
Government securities	3,846,965					3,846,965
Other securities	-					-
Advances to customers	6,015,155	984	499,268	49,344	-	6,564,751
Other assets	110,167					110,167
Total financial assets	10,819,818	331,433	928,592	71,555	4,522	12,155,920
FINANCIAL LIABILITIES						
Customer deposits	8,877,408	343,538	910,570	65,865	-	10,197,382
Other liabilities	91,210					91,210
Total financial liabilities	8,968,618	343,538	910,570	65,865	-	10,288,592
Net balance sheet position	1,851,199	(12,105)	18,022	5,691	4,522	1,867,328
At 31 December 2020						
Total financial assets	9,819,729	333,220	823,692	87,251	4,693	11,068,585
Total financial liabilities	8,217,414	330,945	736,454	82,827	-	9,367,639
Net balance sheet position	1,602,315	2,275	87,238	4,425	4,693	1,700,946

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

C MARKET RISK (Continued)

ii) Foreign exchange risk (Continued)

The table below shows the foreign exchange risk sensitivity analysis. The net position is after a 10% increase or decrease in foreign currency exchange rates against the Kenya shilling.

	Amount Sh'000	Scenario 10% increase in foreign currency rate Sh'000	Scenario 10% decrease in foreign currency rate Sh'000
At 31 December 2021			
Profit before taxation	152,679	153,839	151,518
Adjusted core capital	1,877,886	1,894,457	1,892,136
Adjusted total capital	1,877,886	1,894,457	1,892,136
Risk weighted assets (RWA)	6,721,143	6,721,143	6,721,143
Adjusted core capital to RWA	28%	28%	28%
Adjusted total capital to RWA	28%	28%	28%
	=======	=======	========
At 31 December 2020			
Profit before taxation	85,643	82,729	88,978
Adjusted core capital	1,660,600	1,657,475	1,663,725
Adjusted total capital	1,660,600	1,657,475	1,663,725
Risk weighted assets (RWA)	6,790,811	6,790,811	6,790,811
Adjusted core capital to RWA	24%	24%	24%
Adjusted total capital to RWA	24%	24%	24%
	=======	=======	=======

iii) Price risk

Treasury bonds held at fair value are stated at their market value on the last day of business in the year. These are subject to frequent variations due to changes in their market prices.

An increase or decrease in rates by 10% with all other variables held constant, will have no impact on shareholders' equity (2020: Nil).

D CAPITAL MANAGEMENT

Regulatory capital

The Central Bank of Kenya sets and monitors capital requirements for the bank.

The bank's objectives when managing capital are:

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

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

D CAPITAL MANAGEMENT (Continued)

Regulatory capital (Continued)

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

The Central Bank of Kenya requires each bank to:

a) Hold the minimum level of regulatory capital of Sh 1 billion.

b) Maintain a ratio of total regulatory capital; to risk weighted assets plus risk weighted off balance assets at above the required minimum of 8%;

c) Maintain a core capital of not less than 8% of total deposit liabilities and

d) Maintain total capital of not less than 12% of risk weighted assets plus risk weighted off financial position items.

In addition to the above minimum capital adequacy ratios of 8% and 12%, with effect from 1 January 2020, institutions are required to hold a capital conservation buffer of 2.5% over and above these minimum ratios to enable institutions withstand future periods of stress. This brings the minimum core capital to risk weighted assets and total capital to risk weighted assets requirements to 10.5% and 14.5% respectively. The capital conservation buffer is made up of high quality capital which should comprise mainly of common equity, premium reserves and retained earnings.

Institutions that currently meet the minimum capital ratios of 8% and 12% but remain below the buffer-enhanced ratios of 10% and 14.5% should maintain prudent earnings retention policies with a view to meeting the conservation buffer within 24 months effective from 1 January 2020.

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

- Tier 1 capital, which includes ordinary share capital, share premium, retained earnings, after deductions for intangible assets (excluding computer software), investments in equity instruments of other institutions and other regulatory adjustments relating to items that are included in equity but are treated differently for capital adequacy purposes.

- Tier 2 capital, which includes 25% revaluation surplus which have received prior CBK approval, qualifying subordinated liabilities and collective impairment allowances.

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.

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

D CAPITAL MANAGEMENT (Continued)

Regulatory capital (Continued)

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

	Nominal financial position amounts		Risk weighted amounts	
	2021	2020	2021	2020
ASSETS	Sh'000	Sh'000	Sh'000	Sh'000
Cash (including foreign notes and coins)	115,123	119,126	-	-
Cash balances with Central Bank of Kenya	763,279	634,044	-	-
Government securities	3,846,965	2,829,031	-	-
Corporate bonds	-	-	-	-
Deposits and balances due from banking institutions	755,635	528,121	125,767	90,094
Loans and advances to customers	6,564,751	6,827,408	4,466,477	5,040,046
Other assets	110,167	130,856	110,167	130,856
Investment in subsidiary	10,000	10,000	10,000	10,000
Property and equipment	22,633	33,823	22,633	33,823
Intangible assets	4,410	5,842	4,410	5,842
Deferred tax asset	165,263	154,354	165,263	154,354
Right of Use Asset	88,463	88,308	88,463	88,309
Tax recoverable	1,091	17,418	1,091	17,418
Total assets on balance sheet	12,447,780	11,378,331	4,994,271	5,570,742
Total asset off balance sheet	720,414	622,606	399,374	264,202
Total allowance for operations risk	-	-	1,028,318	941,944
Total allowance for market risk	-	-	299,180	297,444
Total risk weighted assets	13,168,194	12,000,937	6,721,143	7,074,332
Tier 1 Capital	1,877,886	1,746,944		
Tier 1 + Tier 2 Capital	1,877,886	1,746,944		
Basel ratio				
Tier 1 (CBK minimum – 10.5%)	28%	25%		
Tier 1 + Tier 2 (CBK min – 14.5%)	28%	25%		

The process of allocating capital to specific operations and activities is undertaken independently of those responsible for the operation, by Risk and Credit, and is subject to review by the Credit Committee or ALCO as appropriate.

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

E OPERATING RISK

Non-financial risk management disclosures

The Board of Directors has put in place a framework for management of non-financial risk management of the bank. The Board Risk Management Committee (BMRC) is responsible for monitoring compliance of this framework with the bank's overall risk management policies and procedures, and review of the adequacy of the risk management framework in relations to non-financial risks faced by the bank

The key non-financial risks the bank faces are strategic risk, operational risks, reputational risk, compliance /legal risk.

i) Strategic risk

Strategic risk is a function of the internal and the external environment. The strategic risk policy of the bank provides direction and guidance to the board of directors for anticipating change, both externally and internally.

The bank uses key indicators to measure strategic risk such as: Current and forecasted economic conditions such as economic growth, inflation, interest rates, foreign exchange trends and other useful key economic data such as demography and demographic structures; trends within the banking sector such as, Competition both from existing players and new entrants; Merger and acquisition activities; Changes in customer needs, wants and behaviour; development of new products and use of technology; Changes in the bank's various sector exposures and the associated risks; and achievement of the targets, goals and objectives set by the board.

Responsibilities of strategic risk

The board of directors is responsible for the formulation and overall implementation of the bank's strategy. Strategy execution, strategic risk planning and overall strategic risk management is delegated to managing director.

Management of strategic risk

The board and management use the board, committees, and strategic plan to manage strategic risk. Regular and adhoc meetings of the board, the board committees review reports of the management and take corrective action. The execution of the bank's 5 year strategic plan is a key tool for strategic risk with the current strategic plan being 2010 - 2021. The next strategic plan cycle plan is being developed.

ii) Bank operational risk

The bank's operational risk framework is designed to identify risks, measures and mitigate operational risks. These are risks associated with human error, system failures or technological failure, inadequate procedures and controls, unforeseen catastrophes, or other operational problems which may result in unexpected losses.

Responsibilities for operational risk management

The General Manager-Operations, continually reports to the Managing Director on all the key risks of the bank. Risk & Compliance department as well as Internal Audit reports both report to the managing director and their respective board committees.

Through use of key performance indicators (KPI's) so as to adequately reflect the key risk area, and report on them. KPI's are reported monthly, quarterly, or on emergencies, whichever is appropriate. An examples of a KPI is 'Incident/Fraud/ Suspicious Activities and Transaction Reports.'

NOTES TO THE FINANCIAL STATEMENTS (Continued)

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

E OPERATING RISK (Continued)

ii) Bank operational risk

Management of operational risk (Continued)

These detail those process related operational risk incidents combined with what remedial action was taken and what steps implemented to avoid a repeat occurrence. These reports are submitted as soon as the incident is discovered and notable trends reported quarterly on a summary report.

Reporting operational risk is a key part of risk management and staff are required to report all incidents which could fall within any of the six key risk areas (as above) – whether or not they resulted in any actual loss to the bank.

iii) Reputational risk

Reputational risk is the potential that negative publicity may lead to decline of its customer base, costly litigation, revenue reduction and subsequently its value and brand. All other risks may lead to reputational risks.

Main source of reputational risks are: business viability, business practices, fraudulent activities, litigations, customer satisfaction, anti-money laundering (AML) and rumours.

Responsibilities for reputational risk

The responsibility for management of reputational risk lies with the board of directors of the bank. Nonetheless, risk and audit management committees are responsible for reviewing adequacy and effectiveness of internal control systems relating to reputation risk and means through which exposures related to reputation risk are managed. Their purpose is to ensure that all stakeholders meet the bank's reputational risk objectives.

Management of Reputational risk

Overall, the bank promotes a corporate culture that adequately addresses stakeholder concerns and result in a gain of confidence. Internally, the bank has developed a code of conduct for directors and senior management and all staff. The bank also fully complies with applicable laws, legislation, and regulations. Finally, we continually communicate to the staff and regulators and the public on our compliance and standards.

iv) Compliance (legal/regulatory) risk

Compliance risk refers to the potential of loss arising from non-compliance or violation of laws, rules, regulations, obligatory practices/standards, contractual agreements. The bank is variously exposed to compliance risk due to relations with a wide number of stakeholders, e.g. regulators, customers, counter parties, as well as tax authorities, local authorities and other authorized agencies. The bank meets high standards of compliance with the Central Bank of Kenya, County governments, Occupational Safety and Health Administration (OSHA) and National Environment Management Authority (NEMA) etc.

Management of regulatory and legal risk

The risk & compliance department identifies and monitors the key risks and is responsible for ensuring that the day to day business controls comply with applicable legislation and are in line with best practice. Internal and external legal counsel work closely with business units to identify areas of existing and potential regulatory/legal risks and actively manage them to reduce the bank's exposures.

The board risk management committee receive the risk & compliance department's report on the strength of the bank's compliance risk framework to enable them determine whether it is under control.

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

E OPERATING RISK (Continued)

iv) Compliance (legal/regulatory) risk (Continued)

Management of regulatory risks

The board of directors and senior management through adoption of the bank's corporate governance and code of conduct sets a culture of integrity. All employees are required to attest to this code when they join the bank and thereafter annually, indicating that they have understood it and that they have complied with its provisions.

The bank has implemented compliance risk in key areas such as Know Your Customer (KYC) policy. Customer due diligence (CDD) and transactions monitoring has been ongoing. Cash transaction reporting (CTR) and Suspicious Account Transactions Reporting (SATR) is done as required by FRC. The risk and compliance department periodically update business units on the Anti Money Laundering's on UN Security Committees reports on individuals and entities who been place on travel ban and funds frozen and embargo on arms as well as other regional and national bodies involved in fighting Money Laundering and Combating terrorism including the FAFT 40 and the Wolfsberg-Private Banking Principles.

v) IT risk

The bank's information technology risk management ensures presence of an effective mechanism to identify, measure, monitor, and control the risks inherent in the banks' IT systems, ensure data integrity, availability, confidentiality and consistency and provide the relevant early warning mechanism.

Responsibilities for Management of IT Risk

The three key functions responsible are the board, senior management and IT Head. The board ensures there is an IT governance structure that meets its risk tolerance. Senior management ensures staff understands and adheres to IT Risk Management. The Head of IT is key in decision making on business development that require the use of IT and that such system meet the bank's needs.

Management of IT Risk

By restricted access to both the IT system and physical access to IT infrastructure(s), IT security deployment and periodic IT Audit.

F FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES

The table below shows an analysis of financial instruments at fair value by level of the fair value hierarchy. The financial instruments are grouped into levels 1 to 3 based on the degree to which the fair value is observable.

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

ii) 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 a price) or indirectly (i.e. derived from prices); and

iii) 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).

NOTES TO THE FINANCIAL STATEMENTS (Continued)

4 INTEREST INCOME

	GROUP		BANK	
	2021	2020	2021	2020
	Sh'000	Sh'000	Sh'000	Sh'000
Advances to customers	979,172	887,929	979,172	887,929
Government securities – at amortised cost	225,646	138,173	225,646	138,173
Government Securities – at fair value	59,424	84,312	59,424	84,312
Corporate bonds - at amortised cost		-		-
Deposits/balances due from other financial institutions	11,217	3,338	11,217	3,338
	1,275,459	1,113,752	1,275,459	1,113,752

5 INTEREST EXPENSE

Customer deposits	705,630	672,799	705,630	672,799

6 FEES AND COMMISSION INCOME

Transaction related fees	25,359	61,979	20,551	58,030
Commissions on letters of credit, guarantees and discounting foreign bills	17,511	17,511	16,750	17,511
	42,870	79,490	37,301	75,541

7 GAINS ON FOREIGN EXCHANGE DEALINGS

Gains on foreign currency dealings arose from trading in foreign currency transactions and also on the translation of foreign currency assets and liabilities.

	GROUP		BANK	
	2021	2020	2021	2020
	Sh'000	Sh'000	Sh'000	Sh'000

8 OTHER OPERATING INCOME

Locker rental income	15	940	15	940
Other operating income	4,999	18,081	4,999	18,081
Fair value gains on financial assets (note 15)	4,375	15,405	4,375	15,405
	9,389	34,426	9,389	34,426

NOTES TO THE FINANCIAL STATEMENTS (Continued)

		GROUP		BANK	
		2021	2020	2021	2020
		Sh'000	Sh'000	Sh'000	Sh'000
9	OTHER OPERATING EXPENSES				
	Contribution to Deposit Protection Fund	14,145	12,675	14,145	12,675
	Directors' emoluments	22,596	26,456	22,596	26,456
	Auditors' remuneration	11,260	11,697	11,260	11,347
	Rent and rates	10,688	9,318	10,688	9,318
	Legal and professional fees	32,571	16,349	32,571	16,349
	Insurance	10,421	7,416	10,421	7,416
	Security	14,237	13,452	14,237	13,452
	Telephone and postage	11,071	10,562	11,071	10,562
	Repairs and maintenance	15,317	16,450	15,317	16,450
	Other expenses	58,236	47,500	56,499	46,298
		200,542	171,875	198,805	170,323
10	STAFF COSTS				
	Salaries and allowances	127,419	123,271	124,919	121,448
	Staff training	270	635	270	635
	Terminal dues	307	598	307	598
	Pension contributions-defined contribution scheme	4,262	4,497	4,262	4,497
	Medical expenses	1,381	836	1,381	836
		133,639	129,837	131,139	128,014
11	TAXATION				
	(a) Taxation charge/(credit)				
	Current taxation based on the taxable profit for the year at 30% (2020: 25%)	16,456	121	16,327	-
	Deferred taxation (credit)/charge (note 22):-				
	- current year (credit)/charge	(8,085)	2,762	(8,068)	2,743
	- prior year under provision	(2,841)	(39,270)	(2,841)	(39,270)
		5,530	(36,387)	5,418	(36,527)

	GROUP 2021 Sh'000	GROUP 2020 Sh'000	BANK 2021 Sh'000	BANK 2020 Sh'000
11 TAXATION (Continued)				
(b) Reconciliation of taxation credit to the expected taxation based on profit before taxation				
Profit before taxation	153,987	97,063	152,679	96,554
Tax at the applicable rate of 30% (2020: 25%)	46,196	24,266	45,645	24,139
Effect of expenses disallowed for taxation purposes	3,140	5,212	3,065	5,199
Effect of income not subject to taxation	(40,965)	(31,422)	(40,451)	(31,422)
Prior year under provision	(2,841)	(34,443)	(2,841)	(34,443)
Taxation credit/(charge)	5,530	(36,387)	5,418	(36,527)
(c) Corporate tax recoverable				
At 1 January	17,633	17,455	17,418	17,418
Taxation charge	(16,456)	(121)	(16,327)	-
Tax paid in the year	200	299	-	-
At 31 December	1,377	17,633	1,091	17,418

12 EARNINGS PER SHARE

Earnings per share are calculated by dividing the profit attributable to shareholders by the weighted average number of ordinary shares in issue during the year.

	GROUP 2021	GROUP 2020	BANK 2021	BANK 2020
Earnings				
Earnings for the year attributable to ordinary shareholders (Sh'000)	148,457	133,450	147,261	133,081
Number of shares				
Weighted average number of ordinary shares in issue	1,000,000	1,000,000	1,000,000	1,000,000
Earnings Per Share-Basic (Sh)				
Ordinary shares	148.46	133.45	147.26	133.08

The diluted earnings per share is the same as the basic earnings per share as there were no potentially dilutive shares as at 31 December 2021 or 31 December 2020, respectively.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

		GROUP		BANK	
		2021	2020	2021	2020
		Sh'000	Sh'000	Sh'000	Sh'000
13	CASH AND BALANCES WITH CENTRAL BANK OF KENYA				
	Cash on hand	115,123	119,126	115,123	119,126
	Balances with Central Bank of Kenya				
	- Deposits held under lien	11,315	10,925	11,315	10,925
	- Current account with CBK	751,964	623,119	751,964	623,119
		878,402	753,170	878,402	753,170

The cash ratio requirement is based on the customer deposits with the bank as adjusted by the Central Bank of Kenya requirements. As at 31 December 2021 the cash reserve ratio requirement was 5.25% (2020: 5.25%) of all customer deposits. The deposits held under lien are to support foreign currency clearing. These funds are not available for the day to day operations of the bank.

		GROUP		BANK	
		2021	2020	2021	2020
		Sh'000	Sh'000	Sh'000	Sh'000
14	DEPOSITS AND BALANCES DUE FROM BANKING INSTITUTIONS				
	Balances due from banking institutions	755,635	528,121	755,635	528,121

The weighted average effective interest rate for deposits and balances due from banking institutions at 31 December 2021 was 4.0% (2020 – 6%).

	GROUP & BANK	
	2021	2020
MATURITY ANALYSIS OF DEPOSITS AND BALANCES DUE FROM BANKING INSTITUTIONS	Sh'000	Sh'000
Due on demand	755,635	528,121

		GROUP & BANK	
		2021	2020
		Sh'000	Sh'000
15	GOVERNMENT SECURITIES		
	Treasury bills – at amortised cost		
	At amortized cost – maturing within 90 days		
	Face value	2,300,000	1,800,000
	Less: unearned discount	(65,638)	(37,751)
		2,234,362	1,762,249
	At amortised cost (maturing within 5 years)		-
	At amortised cost (maturing after 5 years)	1,218,756	273,309
	Treasury bonds at fair value	393,847	793,473
		1,612,603	1,066,782
		3,846,965	2,829,031

The weighted average effective interest rate for treasury bonds and bills as at 31 December 2021 was 9.47% (2020 – 8.64%).

Included in Government Bonds maturing within 5 years is an impairment provision of Sh 15,192,791 (2020: Sh 9,277,557).

Movement in treasury bonds can be summarised as follows:

	GROUP & BANK	
	2021	2020
	Shs'000	Shs'000
At 1 January	1,066,782	1,028,435
Additions	1,177,077	250,000
Disposals	(635,631)	(227,058)
Fair value gains	4,375	15,405
At 31 December	1,612,603	1,066,782

The weighted average effective interest rate on the bonds at 31 December 2021 was 8.1% (2020 – 7%).

16 RIGHT-OF-USE ASSETS – GROUP & BANK

The Bank and its subsidiary lease office space and equipment for its use. Information about the leases in which the Group is a lessee is presented below:

	2021 Sh'000	2020 Sh'000
COST		
At 1 January	135,868	135,868
Additions	22,481	-
At 31 December	158,349	135,868
AMORTISATION		
At 1 January	47,560	23,780
Charge for the year	22,326	23,780
At 31 December	69,886	47,560
NET BOOK VALUE		
At 31 December	88,463	88,308
Amounts recognised in profit and loss		
Amortisation expense on right of use assets	22,326	23,780
Interest expense on lease liabilities	7,245	8,250
At the end of the year	29,571	32,030

The Bank and its subsidiary is not committed to any arrangements that are short term as at year end.

All of the property and equipment leases in which the Group is the lessee contain only fixed payments.

The total cash outflow for leases amount to Sh 27.5 million (2020: Sh 26.8 million).

There are no restrictions or covenants imposed by lessors and the Group did not enter into any sale and leaseback transactions during the year (2020: nil).

Rights of use assets are classified as non-current.

	GROUP		BANK	
	2021	2020	2021	2020
	Sh'000	Sh'000	Sh'000	Sh'000
17 ADVANCES TO CUSTOMERS				
Loans and advances to customers	7,122,791	7,307,573	7,122,791	7,307,573
Bills discounted	900	900	900	900
	7,123,691	7,308,473	7,123,691	7,308,473
Provision for impaired loans and advances (note 18)	(558,940)	(481,065)	(558,940)	(481,065)
	6,564,751	6,827,408	6,564,751	6,827,408

The weighted average effective interest rate on advances to customers as at 31 December 2021 was 14.28% (2020 – 13.25%).

Included in net advances are loans and advances amounting to Sh 545,265,000 (2020 – Sh 550,504,000), net of specific provisions, which have been classified as non-performing.

	GROUP		BANK	
	2021	2020	2021	2020
	Sh'000	Sh'000	Sh'000	Sh'000
Analysis of gross advances by maturity:				
Maturing within one year	3,162,754	3,191,310	3,162,754	3,191,310
Over one year to three years	1,457,035	1,462,637	1,457,035	1,462,637
Over three to five years	1,944,962	2,654,526	1,944,962	2,654,526
	6,564,751	7,308,473	6,564,751	7,308,473

Advances to related parties are disclosed in note 31.

	GROUP		BANK	
18 PROVISION FOR IMPAIRMENT LOSSES	2021	2020	2021	2020
a) Impairment losses on loans and advances	Sh'000	Sh'000	Sh'000	Sh'000
At 1 January	481,065	429,666	481,065	429,666
Impairment losses in the year	83,850	108,165	83,850	108,165
Write off	(5,975)	(56,766)	(5,975)	(56,766)
At 31 December	558,940	481,065	558,940	481,065

NOTES TO THE FINANCIAL STATEMENTS (Continued)

		GROUP		BANK	
18	PROVISION FOR IMPAIRMENT LOSSES	2021	2020	2021	2020
		Sh'000	Sh'000	Sh'000	Sh'000
	b) Total impairment losses on financial assets at amortised costs				
	Impairment losses on loans and advances in the year (Note 17)	83,850	108,165	83,850	108,165
	Impairment losses on government securities (Note 15)	5,915	-	5,915	-
		89,765	108,165	89,765	108,165

19	OTHER ASSETS				
	Items in course of collection	9,120	9,053	9,120	9,053
	Prepayments*	55,854	57,054	55,854	57,054
	Other receivables	51,528	72,482	45,193	64,749
		116,502	138,589	110,167	130,856

All other assets are classified as current.

* Included in the prepayments is an amount of Sh 33.5 million (2020: Sh 33.5 million) that the Bank paid to Kenya Depositors Insurance Corporation ("KDIC"), as the liquidator of Trust Bank (In Liquidation), with regard to a High Court Decree HCC No. 1243 of 2001. The decree has since been set aside hence KDIC is expected to refund Paramount Bank the amount on or before 31 December 2022. This refund has been covered by a personal written letter of indemnity by the Chairman of the Board giving the Bank a right to recover the money from his deposits held at the Bank should KDIC fail to refund the Bank by 31 December 2022.

20 EQUIPMENT – Group and Bank

	Computers & office Equipment Sh'000	Motor vehicles Sh'000	Furniture, fittings and office renovations Sh'000	Total Sh'000
COST				
At 1 January 2020	97,501	27,736	172,410	297,647
Additions	4,341	-	317	4,658
Disposals	-	(2,560)	-	(2,560)
At 31 December 2020	101,842	25,176	172,727	299,745
At 1 January 2021	101,842	25,176	172,727	299,745
Additions	3,715	700	412	4,829
At 31 December 2021	105,557	25,876	173,139	304,572
ACCUMULATED DEPRECIATION				
At 1 January 2020	86,632	18,258	147,496	252,386
Charge for the year	3,884	4,732	7,307	15,923
Disposal	-	(2,387)	-	(2,387)
At 31 December 2020	90,516	20,603	154,803	265,922
At 1 January 2021	90,516	20,603	154,803	265,922
Charge for the year	4,511	4,525	6,981	16,017
At 31 December 2021	95,027	25,128	161,784	281,939
NET BOOK VALUE				
At 31 December 2021	10,530	748	11,355	22,633
At 31 December 2020	11,326	4,573	17,924	33,823

Included in equipment are assets with a cost of Sh 57,491,093 (2020 - Sh 114,783,246) which were fully depreciated. The notional depreciation charge in respect of these assets for the year is Sh 8,623,664 (2020 – Sh 17,217,487).

All equipment are classified as non-current.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

	GROUP 2021 Sh'000	GROUP 2020 Sh'000	BANK 2021 Sh'000	BANK 2020 Sh'000
21 INTANGIBLE ASSETS – COMPUTER SOFTWARE				
COST				
At 1 January	48,852	47,328	48,576	47,052
Additions	1,879	1,524	1,879	1,524
At 31 December	50,731	48,852	50,455	48,576
ACCUMULATED AMORTISATION				
At 1 January	42,949	39,878	42,734	39,728
Charge for the year	3,335	3,071	3,311	3,006
At 31 December	46,284	42,949	46,045	42,734
NET BOOK VALUE				
At 31 December	4,447	5,903	4,410	5,842

All intangible assets are classified as non-current.

22 DEFERRED TAXATION

The deferred tax asset, computed at the enacted rate of 30%, is attributable to the following items:

	GROUP 2021 Sh'000	GROUP 2020 Sh'000	BANK 2021 Sh'000	BANK 2020 Sh'000
Excess depreciation over capital allowances	7,267	6,066	7,263	6,067
Leave pay provision	1,327	393	1,327	393
Other provisions	4,830	4,773	4,830	4,773
Provisions for impairment	153,155	147,103	153,155	147,103
Unrealised exchange gains	(1,312)	(4,663)	(1,312)	(4,651)
Tax losses	-	669	-	669
	167,267	154,341	165,263	154,354

The movement on the deferred tax asset account is as follows:

	GROUP 2021 Sh'000	GROUP 2020 Sh'000	BANK 2021 Sh'000	BANK 2020 Sh'000
As at 1 January	154,341	117,833	154,354	117,827
Credit for the year – note 11(a)	8,085	(2,762)	8,068	(2,743)
Prior year under provision - note 11(a)	2,841	39,270	2,841	39,270
At 31 December	165,267	154,341	165,263	154,354

Deferred taxation assets/ liabilities are classified as non-current

NOTES TO THE FINANCIAL STATEMENTS (Continued)

23 INVESTMENT IN SUBSIDIARY

			BANK	
	No. of shares	Holding	2021 Sh'000	2020 Sh'000
Parabank Bancassurance Intermediary Limited	5,000	100%	10,000	1,000
	======	=====	======	======

The subsidiary is wholly owned Limited Liability Company incorporated and domiciled in Kenya. The company was incorporated on 22 May 2020 and licenced to operate Insurance Agency/brokerage business.

The principal activity of the company is insurance agency business.

	GROUP		BANK	
	2021 Sh'000	2020 Sh'000	2021 Sh'000	2020 Sh'000
24 CUSTOMER DEPOSITS				
Current accounts	670,840	665,740	670,840	673,210
Savings accounts	535,360	353,239	535,360	353,239
Call deposits	567,510	488,726	567,510	488,726
Fixed deposits	8,423,672	7,750,259	8,423,672	7,750,259
	10,197,382	9,257,964	10,197,382	9,265,434
	========	========	========	========
Analysis of customer deposits by maturity:				
Payable within 90 days	8,750,006	7,809,395	8,750,006	7,816,855
Payable after 90 days and within one year	774,762	710,028	774,762	710,028
Payable after one year	672,614	738,551	672,614	738,551
	10,197,382	9,257,964	10,197,382	9,265,434
	========	========	========	========

The weighted average effective interest rate on interest bearing customer deposits at 31 December 2021 was 7.4 % (2020 – 7.6%).

Customers deposits from related parties are disclosed in note 31 and concentrations of customer deposits are covered under note 3(a).

	GROUP		BANK	
	2021 Sh'000	2020 Sh'000	2021 Sh'000	2020 Sh'000
25 OTHER LIABILITIES				
Sundry payables	71,743	85,305	67,137	81,440
Accruals	22,013	19,453	19,649	19,453
Leave pay provision	4,422	1,312	4,422	1,312
	98,178	106,070	91,208	102,205
	======	======	======	======

Other liabilities are classified as current.

26 LEASE LIABILITIES

	GROUP & BANK 2021 Sh'000	GROUP & BANK 2020 Sh'000
Undiscounted future minimum lease payment under operating lease at 1 January	135,868	64,775
Impact of discounting	-	(37,402)
Leases not yet commenced at 1 January	-	108,495
Additions	22,479	-
At 1 January	158,347	135,868

The movement in the lease liabilities is as follows:

	2021 Sh'000	2020 Sh'000
Balance at 1 January	99,394	118,694
Payment of lease liabilities	(28,489)	(27,550)
Interest on lease liabilities	7,245	8,250
Additions	22,481	-
At 31 December	100,631	99,394
Amounts due for settlement within 12 months	26,353	19,300
Amounts due for settlement after 12 months	74,278	80,084
	100,631	99,394

Maturity Analysis of undiscounted cash flows

	2021 Sh'000	2020 Sh'000
Year 1	28,488	27,549
Year 2	29,723	28,737
Year 3	30,689	29,976
Year 4	31,639	23,003
Year 5	31,432	11,550
	151,972	120,518

The Company does not face a significant liquidity risk with regards to its lease liabilities. Lease liabilities are monitored within the company's treasury function. All lease obligations are denominated in Kenya Shillings. Lease liabilities are classified as non-current.

	GROUP & BANK 2021 Sh'000	GROUP & BANK 2020 Sh'000
27 SHARE CAPITAL		
Authorised, issued and fully paid:		
1,000,000 ordinary shares of Sh 1,000 each	1,000,000	1,000,000

28 NOTES TO THE STATEMENT OF CASH FLOWS

(a) Reconciliation of profit before taxation to cash generated from operations

	GROUP		BANK	
	2021	2020	2021	2020
	Sh '000	Sh '000	Sh '000	Sh '000
Profit before taxation	153,987	97,063	152,679	96,554
Adjustments for:				
Depreciation on equipment (note 20)	16,017	15,923	16,017	15,923
Depreciation on right of use asset (note 16)	22,326	23,780	22,326	23,780
Amortisation of intangible assets (note 21)	3,311	3,071	3,311	3,006
Gain on sale of motor vehicle	-	(329)	-	(329)
Interest on lease liabilities (note 26)	7,245	8,250	7,245	8,250
Working capital changes:	202,886	147,758	201,578	147,184
Increase in balances held by Central Bank of Kenya under lien	(390)	(790)	(390)	(790)
Decrease/(increase) in advances to customers	262,657	(364,445)	262,657	(364,445)
Increase in government securities	(1,017,934)	(597,799)	(1,017,935)	(597,799)
Increase in other assets	22,087	(11,494)	20,689	(3,491)
Increase in customer deposits	926,313	785,129	931,948	786,550
(Decrease)/increase in other liabilities	(7,892)	34,856	(10,997)	34,705
Cash generated from operations	387,751	(6,785)	387,551	1,914

(b) Analysis of balances of cash and cash equivalents as shown in the financial position and notes

Cash on hand (note 13)	115,123	119,126	115,123	119,126
Current account with Central Bank of Kenya (note 13)	751,964	623,119	751,964	623,119
Deposits and balances due from banking institutions (note 14)	755,635	528,121	755,635	528,121
	1,622,722	1,270,366	1,622,722	1,270,366

For the purposes of the statement of cash flows, cash equivalents include short term liquid investments which are readily convertible into known amounts of cash and which were within three months of maturity when acquired, less advances from banks repayable within three months from the dates of the advances.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

29 CONTINGENCIES AND COMMITMENTS INCLUDING OFF FINANCIAL POSITION ITEMS

	2021 Sh'000	2020 Sh'000
(a) Contingent liabilities		
Letters of credit	54,553	-
Letters of guarantee and performance bonds	606,299	563,468
Bills for collection	59,562	59,138
	720,414	622,606

Letters of credit are commitments by the bank to make payments to third parties, on production of documents, on behalf of customers and are reimbursable by customers.

Letters of guarantee and performance bonds are issued by the bank, on behalf of customers, to guarantee performance by customers to third parties. The bank will only be required to meet these obligations in the event of default by the customers.

Contingent liabilities arising from law suits as at 31 December 2021 amounted to Sh 7,250,000 (2020- Sh 7,250,000).

(b) The Bank and its subsidiary had no capital commitments as at 31 December 2021 (2020 – Sh Nil).

(c) Commitments to extend credit

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 without incurring any charges from its contractual obligation to extend credit by giving reasonable notice to the customer.

30 RELATED PARTY TRANSACTIONS

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions.

Placements at 31 December 2021 include placements made in the bank by directors, their associates and companies associated to directors. Advances to customers and deposits at 31 December 2021 include loans and advances to companies associated to directors employees of the bank and, also deposits held with related parties respectively. Contingent liabilities at 31 December 2021 include guarantees and letters of credit for companies associated to directors.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

30 RELATED PARTY TRANSACTIONS (Continued)

These balances are included in the loans and advances and deposits balances at year end.

	Directors' associated companies 2021 Sh'000	Directors' associated companies 2020 Sh'000	Employees/staff 2021 Sh'000	Employees/staff 2020 Sh'000
Movement in related party balances was as follows:				
Loans and advances:				
At 1 January	642,311	659,234	50,986	59,844
Net movement during the year	104,227	(16,923)	18,006	(8,858)
At 31 December	746,538	642,311	68,992	50,986
Interest earned	97,050	83,500	6,554	4,844
Deposits:				
At 1 January	317,741	438,188	5,518	8,672
Net movement during the year	173,684	(120,447)	34,252	(3,154)
At 31 December	491,425	317,741	39,770	5,518
Interest paid	44,228	28,597	3,182	441

	GROUP & BANK 2021 Sh'000	GROUP & BANK 2020 Sh'000
Guarantees and letters of credit to companies associated to directors	27,304	26,860

Key management compensation

The remuneration of directors and other members of key management during the year were as follows:

	2021 Sh'000	2020 Sh'000
Key management salaries and other benefits	61,321	65,379
Directors' emoluments	22,596	26,456

The remuneration of directors and key executives is determined by the board of directors having regard to the performance of the individuals and market trends.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

30 RELATED PARTY TRANSACTIONS (Continued)

Transactions between the Bank and its subsidiary	2021 Sh	2020 Sh
Intercompany debt	6,779,600	4,279,600
	========	========
Subsidiary cash balances held at the Bank (at normal business terms)	13,105,104	7,470,278
	========	========

The intercompany debt relates to the operational expenses settled on behalf of company by the parent. The debt does not have specified terms hence has been occounted for at nominal value (as debt due on demand).

31 FIDUCIARY ACTIVITIES

At 31 December 2021, the bank and its subsidiary did not hold any asset security documents on behalf of customers (2020: none).

32 COUNTRY OF INCORPORATION

The bank is incorporated in Kenya under the Kenyan Companies Act and domiciled in Kenya.

33 CURRENCY

The financial statements are presented in Kenya Shillings thousands (Sh'000), the bank's functional and presentation currency.

34 EVENTS AFTER REPORTING PERIOD

There are no significant events after the reporting period which have been reported in these financial statements (2020: none).