PARAMOUNT BANK

Enabling You To Reach Your Peak

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2023

PARAMOUNT BANK LIMITED

ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2023

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BANK FOOTPRINT

- WESTLANDS BRANCH
- PARKLANDS BRANCH
- KOINANGE BRANCH
- MOMBASA BRANCH
- ELDORET BRANCH
- INDUSTRIAL AREA BRANCH
- KISUMU BRANCH

BRANCHES 7

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.

Chairman's Report

Operating Environment in Kenya

The year 2023 presented a challenging macroeconomic environment for businesses in Kenya. The country continued to grapple with inflationary pressures, exchange rate volatility, and the lingering effects of global economic uncertainty. Despite these headwinds, the Kenyan economy demonstrated resilience, with GDP growth remaining positive, albeit moderate.

Kenyan Context

Kenya's strategic position as East Africa's economic hub continued to attract investment and drive economic activity. The Government's focus on infrastructural development and digital transformation provided opportunities across various sectors. However, concerns around public debt levels and fiscal consolidation efforts created some uncertainty in the business environment.

Banking Industry

The Kenyan banking sector faced a complex operating landscape in 2023. Regulatory changes, including the evolving capital adequacy requirements, necessitating ongoing adjustments. Competition intensified, particularly in the digital banking space, as financial institutions sought to enhance their technological capabilities and expand their customer reach.

Paramount Bank's Performance in 2023

I am pleased to report that Paramount Bank Limited delivered a commendable performance in 2023, demonstrating the strength of our business model and the dedication of our team. The Bank's profit before tax increased to KShs. 285.4 million, up from KShs. 255.5 million in 2022. Our total assets grew to KShs. 15.4 billion, reflecting a robust 11.8% increase from the previous year. Customer deposits also saw healthy growth, rising to KShs. 12.1 billion, underlining the trust our customers place in us.

Paramount Bank's Strategy

Our strategy remains focused on enhancing customer experience, driving operational efficiency, and pursuing sustainable growth. In 2023, we continued to invest in our digital capabilities, expanded our product offerings, and strengthened our risk management framework. We remain committed to supporting the economic development of Kenya through responsible lending and innovative financial solutions.

Conclusion

As we look ahead, Paramount Bank is well-positioned to navigate the evolving financial landscape and capitalise on emerging opportunities. Our strong capital position, with a core capital to risk-weighted assets ratio of 34%, provides a solid foundation for future growth.

I would like to express my sincere gratitude to our CEO and his management team for their exceptional leadership in steering the Bank through these challenging times. Their strategic vision and unwavering commitment have been instrumental in delivering these positive results. I also extend my appreciation to our staff, whose dedication and hard work continue to drive our success.

To our customers, shareholders, and other stakeholders, thank you for your continued support and trust in Paramount Bank. We remain dedicated to creating value and contributing positively to Kenya's economic progress.

Thank you.

Mr Anwarali Padany
Chairman Paramount Bank Limited

PARAMOUNT BANK LIMITED

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FOR THE YEAR ENDED 31 DECEMBER 2023

CORPORATE INFORMATION

DIRECTORS	Anwarali Padany - Chairman Ayaz Merali - Chief Executive Officer Noorez Padamshi Mercy Kamau Eunice Wamaitha
BOARD AUDIT COMMITTEE	Eunice Wamaitha - Chairperson Noorez Padamshi Anwarali Padany Mercy Kamau Henry Onkunya
BOARD CREDIT COMMITTEE	Mercy Kamau - Chairperson Eunice Wamaitha Anwarali Padany Ayaz Merali
BOARD RISK MANAGEMENT COMMITTEE	Eunice Wamaitha - Chairperson Anwarali Merali Noorez Padamshi Aamir Sheikh
BOARD NOMINATION AND REMUNERATION COMMITTEE	Anwarali Padany - Chairman Mercy Kamau Eunice Wamaitha
ASSET LIABILITY COMMITTEE	Ayaz Merali - Chairman Nicholas Odera Fred Maina Micheal Ritho Alishaan Merali
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
REGISTERED OFFICE	4th Floor, Sound Plaza Woodvale Groove P O Box 14001- 00800 Nairobi, Westlands

PARAMOUNT BANK LIMITED

ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2023

CORPORATE INFORMATION (Continued)

AUDITORS	Deloitte & Touche LLP 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 CORRESPONDENT BANKS	Crown Agent Bank, UK Standard Bank of South Africa, Johannesburg HDFC Bank, India BMCE, Spain

PARAMOUNT BANK LIMITED

ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2023

REPORT OF THE DIRECTORS

The directors submit their report together with the audited financial statements for the year ended 31 December 2023, 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, Paramount Bancassurance Intermediary Limited (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 2023:

	GROUP		BANK	
	2023 Sh'000	2022 Sh'000	2023 Sh'000	2022 Sh'000
Profit before taxation	290,274	256,568	285,383	255,472
Taxation credit/(charge)	4,545	(28,590)	6,155	(28,621)
Profit for the year	294,819	227,978	291,538	226,851

BUSINESS REVIEW

The Bank

Paramount Bank Limited began operations under the name Combined Finance Limited 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 had an effect on the interest rates and exchange rates in the Kenyan economy. The economy is optimally to rebound in the future. Latest credit survey conducted by the Central Bank of Kenya(CBK) on 39 banks show that personal and household, trade and transport and communication top the list of sectors where many banks expect non performing loans(NPLs)to spike. According to CBK, banks are still considering restructures of struggling facilities outside the CBK waiver, meaning there is likely to be an increase in provisions.

Banks are intending to intensify their credit recovery efforts. Rising defaults are linked to the prevailing tight economic conditions as well as many individuals and business awaiting payments from national and county governments.

PARAMOUNT BANK LIMITED

ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2023

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 7% increase in net interest income from Sh 631million in the previous year to Sh 675 million in the current year due to lending and continued investment in government securities. Net operating income increased by 5% from Sh 699 million in the previous year to Sh 736 million in the current year. There was a 55% increase in impairment losses on loans and advances from Sh 96 million in the previous year to Sh 149 million in the current year mainly due to suppression in the business environment because of rise in interest rates Overall, the profit before tax increased by 13% from Sh 256 million in the previous year to Sh 290 million in the current year.

On the balance sheet side total assets grew by 12% from Sh 13,807 million in the previous year to Sh 15,437 million at the end of the year. There was a 22% increase in investment in government securities and a 14% increase in advances to customers as compared to the previous year. Customer deposits increased by 7% from Sh 11,284 million in the previous year to Sh 12,109 million in the current year. There was an 13% increase in shareholders' funds from Sh 2.289million in the previous year to Sh 2,584 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. The economy looks buoyant despite some geopolitical tensions due to the ongoing war in Ukraine.

DIVIDENDS

The directors do not recommend the payment of a dividend in respect of the year ended 31 December 2023 (2022: Sh nil).

DIRECTORS

The present members of the Board of Directors are as listed on page 2.

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

WMJumba.

Winniefred Nyagoha Jumba
Secretary

Nairobi, Kenya

31st March 2024

PARAMOUNT BANK LIMITED

ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2023

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 board of directors 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 2023
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.

PARAMOUNT BANK LIMITED

ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2023

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).

-- | --
Mr. Anwarali Padany - Chairman | Mr. Ayaz Merali - Chief Executive Officer

31 March 2024

PARAMOUNT BANK LIMITED
ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2023

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 31st March 2024 and signed on its behalf by:

…………………………………..
Mr. Anwarali Padany-Chairman

………………………………………..
Mr. Ayaz Merali- Chief Executive Officer

Deloitte.

Deloitte & Touche LLP
Deloitte Place
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Muthangari
P.O. Box 40092 - GPO 00100
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Kenya

Tel: +254 (20) 423 0000
Cell: +254 (0) 719 039 000
Email: admin@deloitte.co.ke
www.deloitte.com

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 81, which comprise the consolidated and bank statement of financial position as at 31 December 2023 and consolidated and bank statements of profit or loss, consolidated and bank statement of other comprehensive income, consolidated and bank statement of changes in equity and consolidated and bank statement of cash flows for the year then ended, and notes to the financial statements, including material accounting policy information.

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 2023 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), togeth er 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, statement of corporate governance and the appendices. 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.

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

Report on the Audit of the Financial Statements (Continued)

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.

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.

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

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

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.

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 4 to 5 is consistent with the financial statements.

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

For and on behalf of Deloitte & Touche LLP
Certified Public Accountants (Kenya)
Nairobi

31 March 2024

PARAMOUNT BANK LIMITED

CONSOLIDATED AND BANK STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2023

		GROUP		BANK	
	Note	2023 Sh'000	2022 Sh'000	2023 Sh'000	2022 Sh'000
INTEREST INCOME	4	1,570,344	1,406,252	1,570,344	1,406,252
INTEREST EXPENSE	5	(895,570)	(774,776)	(895,570)	(774,776)
NET INTEREST INCOME		674,774	631,476	674,774	631,476
FEES AND COMMISSION INCOME	6	30,207	34,079	21,812	28,493
TOTAL OPERATING INCOME		704,981	665,555	696,586	659,969
Gains on foreign exchange dealings	7	52,064	60,864	52,064	60,864
Other operating income	8	127,973	68,635	127,973	68,635
Impairment losses on financial assets	18(b)	(148,783)	(96,177)	(148,783)	(96,177)
NET OPERATING INCOME		736,235	698,877	727,840	693,291
Staff costs	10	(154,005)	(149,093)	(154,005)	(146,593)
Amortisation of right of use assets	16	(24,239)	(24,239)	(24,239)	(24,239)
Depreciation of property & equipment	20	(7,602)	(9,658)	(7,602)	(9,658)
Amortisation of intangible assets	21	(7,370)	(1,478)	(7,370)	(1,453)
Finance cost on lease liabilities	26	(8,196)	(7,137)	(8,196)	(7,137)
Other operating expenses	9	(244,549)	(250,704)	(241,045)	(248,739)
PROFIT BEFORE TAXATION		290,274	256,568	285,383	255,472
TAXATION CREDIT/(CHARGE)	11(a)	4,545	(28,590)	6,155	(28,621)
PROFIT FOR THE YEAR		294,819	227,978	291,538	226,851
OTHER COMPREHENSIVE INCOME		-	-		
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		294,819	227,978	291,538	226,851
EARNINGS PER SHARE – Basic and diluted	12	294.82	227.98	291.54	226.85

PARAMOUNT BANK LIMITED

CONSOLIDATED AND BANK STATEMENTS OF FINANCIAL POSITION AS AT 31 DECEMBER 2023

		GROUP		BANK	
	Note	2023 Sh'000	2022 Sh'000	2023 Sh'000	2022 Sh'000
ASSETS					
Cash and balances with Central Bank of Kenya	13	1,210,489	1,290,543	1,210,489	1,290,543
Deposits and balances due from banking institutions	14	1,158,639	1,285,386	1,158,639	1,285,386
Government securities	15	4,212,240	3,448,800	4,202,004	3,448,800
Right of use assets	16	81,053	105,291	81,053	105,291
Advances to customers (net)	17	8,379,808	7,350,056	8,379,808	7,350,056
Other assets	19	135,452	119,366	138,778	116,123
Corporate tax recoverable	11(c)	30,346	767	29,821	447
Equipment	20	14,559	17,644	14,559	17,644
Intangible assets	21	9,449	16,819	9,437	16,808
Deferred taxation asset	22	204,830	172,236	204,795	172,201
Investment in subsidiary	23	-	-	10,000	10,000
TOTAL ASSETS		15,436,865	13,806,908	15,439,383	13,813,299
LIABILITIES					
Customer deposits	24	12,109,216	11,284,021	12,122,569	11,297,898
Other liabilities	25	94,463	113,865	90,833	110,303
Lease liability obligation	26	97,891	119,688	97,891	119,688
Amount due to local banks	31	551,142	-	551,142	-
TOTAL LIABILITIES		12,852,712	11,517,574	12,862,435	11,527,889
SHAREHOLDERS' FUNDS					
Share capital	27	1,000,000	1,000,000	1,000,000	1,000,000
Retained earnings		1,584,153	1,289,334	1,576,948	1,285,410
TOTAL SHAREHOLDERS' FUNDS		2,584,153	2,289,334	2,576,948	2,285,410
TOTAL SHAREHOLDERS' FUNDS AND **LIABILITIES**		15,436,865	13,806,908	15,439,383	13,813,299

The financial statements on pages 14 to 85 were approved and authorised for issue by the board of directors on 31st March, 2 024 and were signed on its behalf by:

Mr. Anwarali Padany -Director

Mr.Noorez Padamshi - Director

Mr. Ayaz Merali - Chief Executive Officer

Ms.WinnieFred Jumba - Company Secretary

PARAMOUNT BANK LIMITED

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2023

	Share capital Sh'000	Retained earnings Sh'000	Statutory reserve* Sh'000	Fair value reserve Sh'000	Total Sh'000
At 1 January 2022	1,000,000	1,061,356	-	-	2,061,356
Total comprehensive income for the year	-	227,978	-	-	227,978
At 31 December 2022	1,000,000	1,289,334	-	-	2,289,334
At 1 January 2023	1,000,000	1,289,334			2,289,334
Total comprehensive income for the year	-	294,819	-	-	294,819
At 31 December 2023	1,000,000	1,584,153	-	-	2,584,153

*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.

PARAMOUNT BANK LIMITED

BANK STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2023

	Share capital Sh'000	Retained earnings Sh'000	Statutory Reserve* Sh'000	Fair value reserve Sh'000	Total Sh'000
At 1 January 2022	1,000,000	1,058,559	-	-	2,058,559
Total comprehensive income for the year	-	226,851	-	-	226,851
At 31 December 2022	1,000,000	1,285,410	-	-	2,285,410
At 1 January 2023	1,000,000	1,285,410	-	-	2,285,410
Total comprehensive income for the year	-	291,538	-	-	291,538
At 31 December 2023	1,000,000	1,576,948	-	-	2,576,948

*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.

PARAMOUNT BANK LIMITED

CONSOLIDATED AND BANK STATEMENTS OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2023

		GROUP		BANK	
		2023	2022	2023	2022
	Note	Sh'000	Sh'000	Sh'000	Sh'000
CASH FLOWS FROM OPERATING ACTIVITIES					
Cash generated from operations	28(a)	776,559	1,798,253	774,740	1,798,219
Tax paid during the year	11(c)	(57,628)	(34,949)	(55,809)	(34,915)
Interest paid on customer deposits	5	(895,570)	(774,776)	(895,570)	(774,776)
Net cash (used in)/generated from operating activities		(176,639)	988,528	(176,639)	988,528
CASH FLOWS FROM INVESTING ACTIVITIES					
Purchase of equipment	20	(3,393)	(4,669)	(3,393)	(4,669)
Purchase of intangible assets	21	-	(13,850)	-	(13,850)
Net cash used in investing activities		(3,393)	(18,519)	(3,393)	(18,519)
CASH FLOWS FROM FINANCING ACTIVITIES					
Payment of lease liabilities	26	(29,993)	(29,148)	(29,993)	(29,148)
(DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS		(210,025)	940,861	(210,025)	940,861
CASH AND CASH EQUIVALENTS AT 1 JANUARY		2,563,583	1,622,722	2,563,583	1,622,722
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	28(b)	2,353,558	2,563,583	2,353,558	2,563,583

PARAMOUNT BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2023

1 ACCOUNTING POLICIES

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

(i) Compliance with IFRS

The financial statements are prepared in compliance with International Financial Reporting Standards (IFRS) applicable to companies reporting under IFRS and in accordance with the Kenyan Companies Act, 2015. The financial statements are presented in thousands of Kenya shillings rounded to the nearest thousand (Sh '000) and are prepared under the historical cost convention except where otherwise stated in the accounting policies below. For those assets at fair value, fair value is the price that would be revalued to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

(ii) Use of estimates

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates and assumptions. It also requires the directors to exercise judgment in the process of applying the Bank's accounting policies. The areas involving a higher degree of judgment or complexity, or where assumptions and estimates are significant to the financial statements,.

(iii) Changes in accounting policies and disclosures

Relevant new and amendments to standards and interpretations on the financial statements effective for the year ended 31 December 2023

IFRS 17 Insurance Contracts	IFRS 17 establishes the principles for the recognition, measurement, presentation and disclosure of insurance contracts and supersedes IFRS 4 Insurance Contracts. IFRS 17 outlines a general model, which is modified for insurance contracts with direct participation features, described as the variable fee approach. The general model is simplified if certain criteria are met by measuring the liability for remaining coverage using the premium allocation approach. The general model uses current assumptions to estimate the amount, timing and uncertainty of future cash flows and it explicitly measures the cost of that uncertainty. It takes into account market interest rates and the impact of policyholders' options and guarantees.
IFRS 17 Insurance Contracts (continued)	In June 2021, the IASB issued Amendments to IFRS 17 to address concerns and implementation challenges that were identified after IFRS 17 was published. The amendments defer the date of initial application of IFRS 17 (incorporating the amendments) to annual reporting periods beginning on or after 1 January 2023. IFRS 17 must be applied retrospectively unless impracticable, in which case the modified retrospective approach or the fair value approach is applied. For the purpose of the transition requirements, the date of initial application is the start if the annual reporting period in which the entity first applies the Standard, and the transition date is the beginning of the period immediately preceding the date of initial application. The directors do not expect that the adoption of the Standard will have a material impact on the financial statements of the Bank.

PARAMOUNT BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

1 ACCOUNTING POLICIES (Continued)

1.1 Basis of preparation (continued)

(iii) Changes in accounting policies and disclosures (continued)

Relevant new and amendments to standards and interpretations on the financial statements effective for the year ended 31 December 2023 (continued)

IFRS 10 and IAS 28 (amendments) Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	The amendments to IFRS 10 and IAS 28 deal with situations where there is a sale or contribution of assets between an investor and its associate or joint venture. Specifically, the amendments state that gains or losses resulting from the loss of control of a subsidiary that does not contain a business in a transaction with an associate or a joint venture that is accounted for using the equity method, are recognised in the parent's profit or loss only to the extent of the unrelated investors' interests in that associate or joint venture. Similarly, gains and losses resulting from the remeasurement of investments retained in any former subsidiary (that has become an associate or a joint venture that is accounted for using the equity method) to fair value are recognised in the former parent's profit or loss only to the extent of the unrelated investors' interests in the new associate or joint venture. 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 of the Bank anticipate that the application of these amendments may have an impact on the Bank's financial statements in future periods should such transactions arise. The directors do not expect that the adoption of the amendment will have a material impact on the financial statements of the Bank.
Amendments to IAS 1 - Classification of Liabilities as Current or Non-current	The amendments aim at providing a more general approach to the classification of liabilities under IAS 1 based on the contractual arrangements in place at the reporting date. The amendments in Classification of Liabilities as Current or Non-current (Amendments to IAS 1) affect only the presentation of liabilities in the statement of financial position- not the amount or timing of recognition of any asset, liability income or expenses, or the information that entities disclose about those items. They clarify that the classification of liabilities as current or non-current should be based on rights that are in existence at the end of the reporting period and align the wording in all affected paragraphs to refer to the "right" to defer settlement by at least twelve months and make explicit that only rights in place "at the end of the reporting period" should affect the classification of a liability; clarify that classification is unaffected by expectations about whether an entity will exercise its right to defer settlement of a liability; and make clear that settlement refers to the transfer to the counterparty of cash, equity instruments, other assets or services. In July 2021, the Board tentatively decided to defer the effective date of the 2020 amendments to no earlier than 1 January 2024. The amendments are effective for annual reporting periods beginning on or after 1 January 2022 and are to be applied retrospectively. Earlier application is permitted. The directors do not expect that the adoption of the amendment will have a material impact on the financial statements of the Bank.

PARAMOUNT BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

1 ACCOUNTING POLICIES (Continued)

1.1 Basis of preparation (continued)

(iii) Changes in accounting policies and disclosures (continued)

Relevant new and amendments to standards and interpretations on the financial statements effective for the year ended 31 December 2023 (continued)

Amendments to IAS 8: Definition of accounting estimates	The amendments replace the definition of a change in accounting estimates with a definition of accounting estimates. Under the new definition, accounting estimates are "monetary amounts in financial statements that are subject to measurement uncertainty". Entities develop accounting estimates if accounting policies require items in financial statements to be measured in a way that involves measurement uncertainty. The amendments clarify that a change in accounting estimate that results from new information or new developments is not the correction of an error. cognised in the former parent's profit or loss only to the extent of The changes to IAS 8 focus entirely on accounting estimates and clarify the following: a) The definition of a change in accounting estimates is replaced with a definition of accounting estimates. Under the new definition, accounting estimates are "monetary amounts in financial statements that are subject to measurement uncertainty". b) Entities develop accounting estimates if accounting policies require items in financial statements to be measured in a way that involves measurement uncertainty. c) The effects of a change in an input or a measurement technique used to develop an accounting estimate are changes in accounting estimates if they do not result from the correction of prior period errors. d) A change in an accounting estimate may affect only the current period's profit or loss, or the profit or loss of both the current period and future periods. The effect of the change relating to the current period is recognised as income or expense in the current period. The effect, if any, on future periods is recognised as income or expense in those future periods. The amendments are effective for annual periods beginning on or after 1 January 2023 and changes in accounting policies and changes in accounting estimates that occur on or after the start of that period. Earlier application is permitted. The directors do not expect that the adoption of the amendment will have a material impact on the financial statements of the Bank.
Amendments to IAS 12: Deferred Tax related to Assets and Liabilities arising from a Single Transaction	The amendments clarify that the initial recognition exemption does not apply to transactions in which equal amounts of deductible and taxable temporary differences arise on initial recognition. The main change in Deferred Tax related to Assets and Liabilities arising from a Single Transaction (Amendments to IAS 12) is an exemption from the initial recognition exemption provided in IAS 12.15(b) and IAS 12.24. Accordingly, the initial recognition exemption does not apply to transactions in which equal amounts of deductible and taxable temporary differences arise on initial recognition. The amendments are effective for annual reporting periods beginning on or after 1 January 2023. Early adoption is permitted. The directors do not expect that the adoption of the amendment will have a material

PARAMOUNT BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

1 ACCOUNTING POLICIES (Continued)

1.1 Basis of preparation (continued)

(iii) Changes in accounting policies and disclosures (continued)

Relevant new and amendments to standards and interpretations on the financial statements effective for the year ended 31 December 2023 (continued)

Amendments to IAS 1 and IFRS practice statement 2: Disclosure of accounting policies	The amendments require that an entity discloses its material accounting policies, instead of its significant accounting policies. Further amendments explain how an entity can identify a material accounting policy. Examples of when an accounting policy is likely to be material are added. To support the amendment, the Board has also developed guidance and examples to explain and demonstrate the application of the 'four-step materiality process' described in IFRS Practice Statement 2. Disclosure of Accounting Policies (Amendments to IAS 1 and IFRS Practice Statement 2) amends IAS 1 in the following ways: a) An entity is now required to disclose its material accounting policy information instead of its significant accounting policies; b) several paragraphs are added to explain how an entity can identify material accounting policy information and to give examples of when accounting policy information is likely to be material; c) the amendments clarify that accounting policy information may be material because of its nature, even if the related amounts are immaterial; the amendments clarify that accounting policy information is material if users of an entity's financial statements would need it to understand other material information in the financial statements; and d) the amendments clarify that if an entity discloses immaterial accounting policy information, such information shall not obscure material accounting policy information. In addition, IFRS Practice Statement 2 has been amended by adding guidance and examples to explain and demonstrate the application of the 'four -step materiality process' to accounting policy information in order to support the amendments to IAS 1. The amendments are applied prospectively. The amendments to IAS 1 are effective for annual periods beginning on or after 1 January 2023. Earlier application is permitted. Once the entity applies the amendments to IAS 1, it is also permitted to apply the amendments to IFRS Practice Statement 2. The directors do not expect that the adoption of the amendment will have a material impact on the financial statements of the Bank.
Amendments to IAS 1 - Non-current Liabilities with Covenants	The amendments specify that only covenants that an entity is required to comply with on or before the end of the reporting period affect the entity's right to defer settlement of a liability for at least twelve months after the reporting date (and therefore must be considered in assessing the classification of the liability as current or noncurrent). Such covenants affect whether the right exists at the end of the reporting period, even if compliance with the covenant is assessed only after the reporting date (e.g. a covenant based on the entity's financial position at the reporting date that is assessed for compliance only after the reporting date).

PARAMOUNT BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

1 ACCOUNTING POLICIES (Continued)

1.1 Basis of preparation (continued)

(iii) Changes in accounting policies and disclosures (continued)

Relevant new and amendments to standards and interpretations on the financial statements effective for the year ended 31 December 2023 (continued)

Amendments to IAS 1 - Non-current Liabilities with Covenants (Continued)	The IASB also specifies that the right to defer settlement of a liability for at least twelve months after the reporting date is not affected if an entity only has to comply with a covenant after the reporting period. However, if the entity's right to defer settlement of a liability is subject to the entity complying with covenants within twelve months after the reporting period, an entity discloses information that enables users of financial statements to understand the risk of the liabilities becoming repayable within twelve months after the reporting period. This would include information about the covenants (including the nature of the covenants and when the entity is required to comply with them), the carrying amount of related liabilities and facts and circumstances, if any, that indicate that the entity may have difficulties complying with the covenants. The amendments are applied retrospectively for annual reporting periods beginning on or after 1 January 2024. Earlier application of the amendments is permitted. If an entity applies the amendments for an earlier period, it is also required to apply the 2020 amendments early. The directors of the parent company anticipate that the application of these amendments may have an impact on the Bank's financial statements in future periods.
Amendments to IFRS 10 and IAS 28 - Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	The amendments to IFRS 10 and IAS 28 deal with situations where there is a sale or contribution of assets between an investor and its associate or joint venture. Specifically, the amendments state that gains or losses resulting from the loss of control of a subsidiary that does not contain a business in a transaction with an associate or a joint venture that is accounted for using the equity method, are recognised in the parent's profit or loss only to the extent of the unrelated investors' interests in that associate or joint venture. Similarly, gains and losses resulting from the remeasurement of investments retained in any former subsidiary (that has become an associate or a joint venture that is accounted for using the equity method) to fair value are recognised in the former parent's profit or loss only to the extent of the unrelated investors' interests in the new associate or joint venture. The effective date of the amendments has yet to be set by the IASB; however, earlier application of the amendments is permitted. The directors of the parent company anticipate that the application of these amendments may have an impact on the group's consolidated financial statements in future periods should such transactions arise.
Amendments to IAS 1 - Classification of Liabilities as Current or Non-current	The amendments aim at providing a more general approach to the classification of liabilities under IAS 1 based on the contractual arrangements in place at the reporting date. The amendments in Classification of Liabilities as Current or Non-current (Amendments to IAS 1) affect only the presentation of liabilities in the statement of financial position- not the amount or timing of recognition of any asset, liability income or expenses, or the information that entities disclose about those items. They clarify that the classification of liabilities as current or non-current should be based on rights that are in existence at the end of the reporting period and align the wording in all affected paragraphs to refer to the "right" to defer settlement by at least twelve months and make explicit that only rights in place "at the end of the reporting period" should affect the classification of a liability; clarify that classification is unaffected by expectations about whether an entity will exercise its right to defer settlement of a liability; and make clear that settlement refers to the transfer to the counterparty of cash, equity instruments, other assets or services. In July 2021, the Board tentatively decided to defer the effective date of the 2020 amendments to no earlier than 1 January 2024.

PARAMOUNT BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

1 ACCOUNTING POLICIES (Continued)

1.1 Basis of preparation (continued)

(iii) Changes in accounting policies and disclosures (continued)

Relevant new and amendments to standards and interpretations on the financial statements effective for the year ended 31 December 2023 (continued)

Amendments to IAS 1 - Classification of Liabilities as Current or Non-current (Continued)	The amendments are effective for annual reporting periods beginning on or after 1 January 2022 and are to be applied retrospectively. Earlier application is permitted. The directors do not expect that the adoption of the amendment will have a material impact on the financial statements of the Bank.
Amendments to IAS 7 and IFRS 7 - Supplier Finance Arrangements	The amendments add a disclosure objective to IAS 7 stating that an entity is required to disclose information about its supplier finance arrangements that enables users of financial statements to assess the effects of those arrangements on the entity's liabilities and cash flows. In addition, IFRS 7 was amended to add supplier finance arrangements as an example within the requirements to disclose information about an entity's exposure to concentration of liquidity risk. The term 'supplier finance arrangements' is not defined. Instead, the amendments describe the characteristics of an arrangement for which an entity would be required to provide the information. To meet the disclosure objective, an entity will be required to disclose in aggregate for its supplier finance arrangements: • The terms and conditions of the arrangements • The carrying amount, and associated line items presented in the entity's statement of financial position, of the liabilities that are part of the arrangements • The carrying amount, and associated line items for which the suppliers have already received payment from the finance providers • Ranges of payment due dates for both those financial liabilities that are part of a supplier finance arrangement and comparable trade payables that are not part of a supplier finance arrangement • Liquidity risk information The amendments, which contain specific transition reliefs for the first annual reporting period in which an entity applies the amendments, are applicable for annual reporting periods beginning on or after 1 January 2024. Earlier application is permitted.
Lease Liability in a Sale and Leaseback - Amendments to IFRS 16	The amendment to IFRS 16 specifies the requirements that a seller-lessee uses in measuring the lease liability arising in a sale and leaseback transaction, to ensure the seller-lessee does not recognise any amount of the gain or loss that relates to the right of use it retains. After the commencement date in a sale and leaseback transaction, the seller-lessee applies paragraphs 29 to 35 of IFRS 16 to the right-of-use asset arising from the leaseback and paragraphs 36 to 46 of IFRS 16 to the lease liability arising from the leaseback. In applying paragraphs 36 to 46, the seller-lessee determines 'lease payments' or 'revised lease payments' in such a way that the seller-lessee would not recognise any amount of the gain or loss that relates to the right of use retained by the seller-lessee. Applying these requirements does not prevent the seller-lessee from recognising, in profit or loss, any gain or loss relating to the partial or full termination of a lease, as required by paragraph 46(a) of IFRS 16.

PARAMOUNT BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

1 ACCOUNTING POLICIES (Continued)

1.1 Basis of preparation (continued)

(iii) Changes in accounting policies and disclosures (continued)

Relevant new and amendments to standards and interpretations on the financial statements effective for the year ended 31 December 2023 (continued)

Lease Liability in a Sale and Leaseback - Amendments to IFRS 16	The amendment does not prescribe specific measurement requirements for lease liabilities arising from a leaseback. The initial measurement of the lease liability arising from a leaseback may result in a seller-lessee determining 'lease payments' that are different from the general definition of lease payments in Appendix A of IFRS 16. The seller-lessee will need to develop and apply an accounting policy that results in information that is relevant and reliable in accordance with IAS 8. A seller-lessee applies the amendment to annual reporting periods beginning on or after 1 January 2024. Earlier application is permitted and that fact must be disclosed. The directors do not expect that the adoption of the amendment will have a material impact on the financial statements of the Bank.

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.

iv) Early adoption of standards

The Group/Bank has not early-adopted any new or amended standards in the year ended 31 December 2023.

(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.

PARAMOUNT BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

1 ACCOUNTING POLICIES (Continued)

(b) Basis of consolidation

These financial statements incorporate the financial statements of the Bank and its subsidiary, Paramount Bancassurance Intermediary Limited. 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.

(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.

PARAMOUNT BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

1 ACCOUNTING POLICIES (Continued)

(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%
	=====

(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.

PARAMOUNT BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

1 ACCOUNTING POLICIES (Continued)

(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.

(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.

PARAMOUNT BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

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.

PARAMOUNT BANK LIMITED

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

PARAMOUNT BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

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.

PARAMOUNT BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

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.

PARAMOUNT BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

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.

PARAMOUNT BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

1 ACCOUNTING POLICIES (Continued)

(o) Leases

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

Financial 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) *Group*'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.

(s) Comparatives

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

PARAMOUNT BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

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

Under the Expected Credit Loss approach, entities are required to use historical, current, and forward-looking information to estimate the credit losses on financial instruments. Unlike the Incurred Loss Model (IAS 39) where losses are recognized only when a loss event occurs, entities are now required to recognize losses earlier.

The guiding principle of IFRS 9 is that Expected Credit Loss (ECL) modelling should reflect the general pattern of deterioration in the credit quality of financial instruments over the life of the instruments. In estimating the expected credit quality of the instrument, the Bank considers, reasonable and supportable information available without undue cost or effort at the reporting date, past events, current conditions, and forecasts of future economic conditions.

In line with the standard, the Bank adopts the '3-stage' model for impairment based on changes in credit quality since initial recognition, these are:

Stage 1: covers financial instruments that have not deteriorated significantly in credit quality since initial recognition or those that have low credit risk at the reporting date. For these assets, 12-month Expected Credit Losses are recognized, and interest revenue is calculated on the gross carrying amount of the asset (that is, without deduction for credit allowance). 12-month ECL is the expected credit losses that result from default events that are possible within 12 months after the reporting date.

Stage 2: covers financial instruments that have had a significant increase in credit risk since initial recognition (unless they have low credit risk at the reporting date) but that do not have objective evidence of impairment. For these assets, lifetime ECL are recognised, but interest revenue is still calculated on the gross carrying amount of the asset. Lifetime ECL are the expected credit losses that result from all possible default events over the expected life of the financial instrument.

Stage 3: covers financial assets that have objective evidence of impairment at the reporting date. For these assets, lifetime ECL are recognized, and interest revenue is calculated on the net carrying amount (that is, net of credit allowance).

Expected credit losses (ECL) are a probability-weighted estimate of credit losses over the expected life of the financial instrument.

The bank's measurement of ECL reflects the following criteria as required by IFRS 9:

IFRS 9 Area	Description
ECL estimates are an Unbiased and probability weighted amount	The Bank measures expected credit losses of a financial instrument in a way that it reflects an amount that is determined by evaluating a range of outcomes. Three scenarios are generated by considering different macroeconomic outcomes on the expected default rate. The three outcomes consider a base, optimistic and pessimistic view that may result in the forecast horizon. The three outcomes are weighted across based on the expected scenario weights to obtain weighted average estimates of the PD parameter. The weighted PDs are applied in the ECL calculation to generate an unbiased weighted ECL estimate.
Scenarios and Scenario Weightings	The Bank's ECL methodology considers weighted average of the multiple economic scenarios for the risk parameters in arriving at impairment figure for a particular reporting period. Scenario weights are chosen based on objective evidence from the bank's economic team as well as application of expert judgement.
Exposure at Default (EAD)	This is an estimate of the exposure at a future default date, considering expected changes in the exposure after the reporting date, including repayments of principal and interest and expected drawdowns on committed facilities. The Bank ECL model has included the effects of contractual repayments. Expected drawdowns on committed facilities have also been considered in the ECL Model.
Probability of Default (PD)	This is an estimate of the likelihood of default over a given time horizon. This can be either for 12 months or lifetime. IFRS 9 requires the use of 12-month PDs for Stage 1 ECL. calculations and lifetime PDs for Stage 2 and 3 ECL calculations. Lifetime PD is computed for all financial instruments that have had a significant increase in credit risk especially stage 2 and stage 3 instruments.

PARAMOUNT BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

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

<table>
<tr><td>Default Definition</td><td>When defining default for the purposes of determining the risk of a default occurring, an entity shall apply a default definition that is consistent with the definition used for internal credit risk management purposes for the relevant financial instrument and consider qualitative indicators (for example, financial covenants) when appropriate. However, there is a rebuttable presumption that default does not occur later than when a financial asset is 90 days past due unless an entity has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate. The definition of default used for these purposes shall be applied consistently to all financial instruments unless information becomes available that demonstrates that another default definition is more appropriate for a particular financial instrument.

The bank's default definition is based on the 90 -days presumption and hence facilities with over 89 days past due are considered as "default" for ECL modelling purposes.</td></tr>
<tr><td>Staging Criteria</td><td>The bank has relied on quantitative criteria to stage the facilities. Facilities that are over 90 days past due are classed as 'Stage 3', facilities that are within 30 and 89 days past due are classed as 'Stage 2' and facilities less than 30 days past due are classed in Stage 1.

The bank also considers qualitative criteria by assessing each facility individually for credit quality. In such cases, the bank may override the stage based on quantitative criteria and class the facility in the new stage based on additional qualitative criteria.</td></tr>
<tr><td>Segmentation Criteria</td><td>The standard requires banks to group facilities into groups that mirror similar credit risk characteristics and may model the various parameters for each group on its own.
The bank has assessed its book and segmented the book into separate groups based on the industry sectors. The industry sectors are as follows:
<table>
<tr><th>Sector</th><th>Final Sector</th></tr>
<tr><td>WHOLESALE AND RETAIL TRADE</td><td>TRADE</td></tr>
<tr><td>PERSONAL SERVICES</td><td>PERSONAL SERVICES</td></tr>
<tr><td>REAL ESTATE</td><td>REAL ESTATE</td></tr>
<tr><td>TRANSPORT AND COMMUNICATION</td><td>TRANSPORT AND COMMUNICATION</td></tr>
<tr><td>AGRICULTURE, HUNTING, FISHING AND FORESTRY</td><td>AGRICULTURE, HUNTING, FISHING AND FORESTRY</td></tr>
<tr><td>MANUFACTURING</td><td>OTHERS</td></tr>
<tr><td>BUILDING AND CONSTRUCTION</td><td>OTHERS</td></tr>
<tr><td>RESTAURANTS AND HOTELS</td><td>OTHERS</td></tr>
<tr><td>ELECTRICITY AND WATER</td><td>OTHERS</td></tr>
<tr><td>MINING AND QUARRYING</td><td>OTHERS</td></tr>
<tr><td>FINANCIAL INSTITUTIONS</td><td>OTHERS</td></tr>
</table></td></tr>
<tr><td>Discounting</td><td>The Bank considers the time value of money when estimating Expected Credit Losses. ECLs are discounted using the original EIR to the reporting date for each account and financial instrument using the account original effective interest rate.</td></tr>
<tr><td>Forward Looking Information</td><td>The Bank measures Expected Credit Loss of a financial instrument with available information at the reporting date about past events, current conditions, and forecasts of future economic conditions.</td></tr>
</table>

Consistent with regulatory and industry best practices, the Bank's ECL calculations are based on three components:

PARAMOUNT BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

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

Probability of Default

Probability of default (PD) is an estimate of the likelihood of default over a given time horizon. This is a key component of calculating ECLs and in assessing whether a significant increase in credit risk has occurred. In line with IFRS 9, the PD computed by the Bank reflects management's current view of the future and is unbiased.

The standard requires the use of distinct types of PD in the calculation of ECL, these include:

12-month PDs: This is the estimated probability of default occurring within the next 12 months (or over the remaining life of the financial instrument if that is less than 12 months). This is used to calculate 12- month ECLs.

Lifetime PDs: This is the estimated probability of a default occurring over the remaining life of the financial instrument. This is used to calculate lifetime ECLs for 'Stage 2' and 'Stage 3' exposures. PDs are limited to the maximum period of exposure required by IFRS 9. The lifetime PD used for Stage 3 is 100%.

PD Estimation Approach

In estimating PD for the Bank's loan portfolios, the transition matrix approach was adopted.

Transition Matrix

A transition matrix approach has been used in estimating the probability of default. The approach has been explained based on the steps described below. Quarterly data starting from March 2019 relating to the outstanding balance and arrears status of the facilities has been used to perform the analysis. The data used is updated on a quarterly basis by adding the latest quarterly data to the history.

The steps taken in computation of PD for loan portfolio using Transition Matrix method are as follows:

Step 1: The various facilities in the listing may be classified into risk statuses based on the days past due into either; 'Normal' (Stage 1), 'Watch' (Stage 2) or 'NPL' (Stage 3). The staging criteria used has been described in the previous section in this document.

Step 2: The facilities are tracked by checking their risk status in the next quarter. This is repeated for all the quarters in the data. For facilities that are not found to be existing in the next period, they are termed as NAs (exits). For the latest quarter, all the facilities' next status is in NAs as there is no comparison period forward.

Step 3: Based on the current and next status derived, the outstanding balances are aggregated at the product level into a matrix that considers 3 states. The transition matrix appear as follows:

	Next Status			
Current Status		Normal	Watch	Default
	Normal	AAA	BBB	CCC
	Watch	DDD	EEE	FFF
	Default	GGG	HHH	III

The probabilities of default are extracted from the matrix as follows:

Stage 1 PD: CCC/ (AAA+BBB+CCC)
Stage 2 PD: FFF/ (DDD+EEE+FFF)
Stage 3 PD: 100%
Stage 3 is assumed to be an absorbing state.

The extracted probabilities are transformed into cumulative PDs ($Cum\ PDt$) by matrix multiplication to obtain pint in time cumulative PDs.

PARAMOUNT BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

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

Transition Matrix (Continued)

The marginal probabilities are obtained as per below formula:

$$Marginal\ PDt = Cum\ PDt - Cum\ PDt{-}1$$

The final forward-looking information adjusted PD is obtained as follows:

$$FLI\ Adjusted\ PDt = Marginal\ PDt \quad FLI\ adjustment\ factor$$

The FLI adjustment factor derivation has been described in a section that follows.

Due to the limited transition data available for some of the sector groupings, the bank has elected to determine portfolio level Stage 1 and Stage 2 PDs for use for the interim period. The bank will continually monitor the individual sector performance and will utilize sector specific PDs once enough transition data has been accumulated. The current structure of the PD model has considered the sector groupings that will be used as more data becomes available.

The 'ALL' grouping has considered the entire portfolio experience and has been utilized for the 31 December 2023 reporting period. Further, the forward looking Information adjustment multipliers has followed a similar process as outlined above. The 'ALL' grouping forward looking information adjustment multipliers have been utilized.

Exposure at Default

Exposure at Default (EAD) is the estimate of the exposure at a future default date, considering expected changes in the exposure after the reporting date, including repayments of principal and interest, whether scheduled by contract or otherwise, expected drawdowns on committed facilities, and accrued interest from missed payments.

EAD measures the utilized exposure at default. For on-balance sheet exposures, the gross value of the exposure is taken into account.

For non-revolving facilities, the preferred approach to determine EAD is to assume contractual rundown of the facilities. A simple contractual rundown through regular payments has been assumed with no consideration for prepayment and refinancing. The contractual rundown has been performed using the loan repayment details. (I.e. repayment frequency, repayment dates, contractual profit rate).

The bank considers the expectation of some missed instalments for the period leading to a default event. The following have been assumed as per the classification:

For accounts in Stage 1, expectation of two missed instalments, such that the forecasted point in time EAD for month 1 and month 2 assumes no repayment of the expected instalments.

For accounts in Stage 2, expectation of one missed instalment, such that the forecasted point in time EAD for month 1 assumes no repayment of the expected instalment.

Loss Given Default

Loss Given Default is an estimate of expected credit loss arising on default. It is usually computed as the difference between the contractual cash flows due and those that the lender would expect to receive, (including from any collateral and credit enhancements that are part of the contractual terms of financial instrument and not recognized separately by the entity) discounted at the contractual profit rate. It is expressed as a percentage of the outstanding amount at the time of default.

Under IFRS 9, irrespective of whether foreclosure is probable, the estimate of expected cash short falls on a collateralized financial asset reflects:

- The amount and timing of cash flows that are expected from foreclosure (including cash flows that are expected beyond the asset's contractual maturity) less
- Incremental and directly attributable costs for obtaining and selling the collateral.

PARAMOUNT BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

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

Loss Given Default (Continued)

In addition, the standard requires that LGD estimates must meet the following criteria:

- LGD estimates must be forward-looking.
- All cash flows must be taken into consideration, rather than only those relating to collateral.
- Forecasted values of collateral and best estimates of haircut should be used.
- In case the LGD model uses EAD as an input parameter or segmentation variable, the projected EAD values of the EAD model should be reflected in the LGD model.

LGD Estimation Approach

The Loss Given Default (LGD) is a measure of the loss in the event of a default. It is measured in two steps as follows:

Step 1: Determine the Unsecured LGD

$$Unsecured\ Loss\ Given\ DefaultSector\ i = (1 - Cash\ \ Recovery\ RateSector\ i)* (1 - Cure\ RateSector\ i)$$

The average cash recovery rate for each industry sector is based on total discounted recoveries against the total outstanding balances in 'NPL' Status in a quarter.

$$Cash\ Recovery\ Rate \quad \frac{\sum Discounted\ Recoveries_{\ sector\ i}}{\sum Outstanding\ Balances\ in\ NPL_{\ sector\ i}}$$

The discounting period is based on the difference between the recovery date and the default date.

The discounted recoveries are capped to ensure that they are not in excess of the outstanding balance at default such that the recovery rate estimated would be at a maximum of 100%.

Step 2: Determine the Secured LGD

The secured LGD is based on consideration of the collateral amounts on a customer level. The secured LGD is obtained as follows:

$$Secured\ LGD_{\ account\ i} = \frac{(EADi\text{- Allocated Collateral}^{(-TTR)} *(1\text{-Cost of realisation})}{EADi} * Unsecured\ LGD_{\ sector\ i}$$

The allocated collateral value is based on apportioning the total collateral value to each account for a customer based on the outstanding account balances.

The following table details the assumptions utilized:

LGD Assumption	Description
Haircut	The collateral value used is the forced sale value and hence a haircut adjustment is applied on the current market values. The haircut percentages applied are based on management's objective evidence on the nature, type, and state of collateral as well as past experience observed by the bank. The bank may assess some specific collateral and may assign a lower or higher haircut based on the nature, type, or condition of the collateral.
Time to realization (emergence period)	This has been based on management's objective evidence on standard time expected to realize the collateral based on the type and nature of collateral.
Discount Rate	The contractual interest rate has been used to discount the collateral values.

Application of Forward-Looking Information

A measure of Expected Credit Loss (ECL) is an unbiased probability-weighted amount that is determined by evaluating a range of outcomes and using reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions, and forecasts of future economic conditions. This section discusses how the Bank has incorporated FLI into its ECL components.

PARAMOUNT BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

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

Application of Forward-Looking Information

IFRS 9 notes that ECL should be based on reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions, and forecasts of future economic conditions. This implies that in arriving at point-in-time estimates of expected credit losses, it is recommended that a firm incorporates the impact of not only past and current events but also forecasts of future macro-economic conditions.

The Bank on a regular basis obtains the key macro-economic indicators and forecasts from credible economic data vendors based on the historical trends observed in the country. Considering IFRS 9 requirements of incorporating probability weighted outcomes into the ECL computation, management have produced the following weights for the multiple economic scenarios based on their view of the future economic prospects of the country and this shall be updated as events unfold.

- Base Case Scenario: 50%
- Optimistic Case Scenario: 30%
- Pessimistic Case Scenario: 20%

The following are the various macroeconomic variables that will impact the Bank's IFRS 9 risk model:

- Nominal GDP, LCU, % chg y-o-y
- Nominal GDP per capita, LCU, % chg y-o-y
- Real GDP per capita, LCU, % chg y-o-y
- Total labour force, % chg y-o-y
- Total unemployment, % chg y-o-y
- Number of households, % chg y-o-y
- Consumer price index inflation, eop, % chg y-o-y
- Total household spending, LCU, % chg y-o-y
- M3, LCU, % chg y-o-y
- Lending rate, %, eop
- M1, LCU, % chg y-o-y
- M2, LCU, % chg y-o-y
- LCU per USD, eop, % chg y-o-y
- LCU per EUR, eop, % chg y-o-y
- Nominal Effective Exchange Rate, % chg y-o-y
- Real effective exchange rate index, % chg y-o-y
- Total revenue, LCU, % chg y-o-y
- Total reserves ex gold, USD, % chg y-o-y
- Imports of goods and services, LCU, % chg y-o-y
- Exports of goods and services, LCU, % chg y-o-y

The following are the steps followed in determining the scenario-weighted forward looking adjustment factor:

Step 1: Determine the average yearly non-performing loan rates by sector.
Step 2: Correlate the average yearly transition rates obtained from step 1 with historical macro-economic data on the various macro-economic variables.
Step 3: Assess the correlation result and sign (whether positive or negative) based on expected relation of default rates with macro-economic variables.
Step 4: For the macro-economic variables that shows the expected relation, rank these based on the absolute correlation values. The highest correlated variable is selected for the next steps.
Step 5: Perform a regression analysis of the average transition rate to default on the chosen macro-economic variable(s) based on the historical data points available. Obtain the regression coefficients.
Step 6: Prepare forecast values of the chosen macro-economic variable under the base, optimistic and pessimistic scenarios.
Step 7: Using the regression coefficients and outputs, obtain predicted values of the transition rates to default for each of the scenarios.
Step 8: Relate the average predicted values of the pessimistic and optimistic to the base scenario to obtain the forward-looking scalars for each scenario.
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Step 9: Compute the weighted adjustment factor based on multiplying the forward-looking scalars to the scenario weights.

PARAMOUNT BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

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.

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).

Loans and advances to customers at amortised cost	Year ended 2023 Stage 1 12-month ECL Shs	Stage 2 Lifetime ECL Shs	Stage 3 Lifetime ECL Shs	Total Shs	Year ended 2022 Total Shs
Grade 1: Normal	7,158,267,	-	-	7,158,267	5,703,698
Grade 2: Watch	-	551,255	-	551,255	409,673
Grade 3: Substandard	-	-	1,132,643	1,132,643	1,087,066
Grade 4: Doubtful	-	-	180,766	180,766	806,159
Grade 5: Loss	-	-	-	-	-
Total gross carrying amount	**7,158,267**	**551,255**	**1,313,409**	**9,022,931**	**8,006,596**
Loss allowance	7,544	11,815	623,764	643,123	(656,540)
Carrying amount	**7,150,723**	**539,440**	**689,645**	**8,379,808**	**7,350,056**

PARAMOUNT BANK LIMITED

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 1,194 million at 31 December 2023 (2022: Shs 1,270 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 2023**	**31 December 2022**	**Principal type of collateral held**
Loans and advances to customers	1,379,417	987,314	Cash deposit
Loans and advances to customers	4,836,803	3,459,451	Property discounted forced sale value
Loans and advances to customers	159,433	798,909	Debenture (25% of registered value)
Loans and advances to customers	2,004,155	2,104,382	Others
	8,379,808	7,350,056	

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 2023**	**31 December 2022**
LTV ratio		
Less than 50%	2,085,987	1,750,082
51–70%	761,781	639,112
71–90%	186,829	156,744
91–100%	479,138	401,983
More than 100%	4,314,818	3,620,007
Total	7,828,553	6,567,928
Credit-impaired loans		
Less than 50%	170,159	241,423
51–70%	98,985	140,441
More than 70%	282,111	400,261
Total	551,255	782,125
Total	**8,379,808**	**7,350,053**

PARAMOUNT BANK LIMITED

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 2023, the gross carrying amount of credit-impaired loans and advances to customers amounted to Shs 1,313 million (2022: Shs 1,345 million) and the value of identifiable collateral (mainly commercial properties) held against those loans and advances amounted to Shs 658 million (2022: Shs 596 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).

PARAMOUNT BANK LIMITED

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	1%	AAA to B
Grades 2: Watch	3%	B- to C
Grades 3–5: Substandard and Doubtful	100%	Default

PARAMOUNT BANK LIMITED

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.

In estimating PD for the Bank's loan portfolios, the transition matrix approach was adopted.

Transition Matrix

A transition matrix approach has been used in estimating the probability of default. The approach has been explained based on the steps described below. Quarterly data relating to the outstanding balances and arrears status of the facilities has been used to perform the analysis. The data used is updated on a quarterly basis by adding the latest quarterly data to the history.

The steps taken in computation of PD for loan portfolio using Transition Matrix method are as follows:

Step 1: The various facilities in the listing may be classified into risk statuses into either; 'Normal' (Stage 1), 'Watch' (Stage 2) or 'NPL' (Stage 3).

Step 2: The facilities are tracked by checking their risk status in the next quarter. This is repeated for all the quarters in the data. For facilities that are not found to be existing in the next period, they are termed as NAs (exits). For the latest quarter, all the facilities' next status is in NAs as there is no comparison period forward.

Step 3: Based on the current and next status derived, the outstanding balances are aggregated at the product level into a matrix that considers 3 states.

The transition matrix would appear as follows:

	Next Status			
Current Status		Normal	Watch	Default
	Normal	AAA	BBB	CCC
	Watch	DDD	EEE	FFF
	Default	GGG	HHG	III

The probabilities of default are extracted from the matrix as follows:

Stage 1 PD: CCC/ (AAA+BBB+CCC)

Stage 2 PD: FFF/ (DDD+EEE+FFF)

Stage 3 PD: 100%

The extracted probabilities are transformed into cumulative PDs $(Cum\ PD_t)$ by matrix multiplication to obtain point in time cumulative PDs.

The marginal probabilities are obtained as per below formula:

$$Marginal\ PD_t = Cum\ PD_t - Cum\ PD_{t-1}$$

The final forward-looking information adjusted PD is obtained as follows:

$$FLI\ Adjusted\ PD_t \quad Marginal\ PD_t * FLI\ adjustment\ factor$$

PARAMOUNT BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

3 FINANCIAL RISK MANAGEMENT (Continued)

A CREDIT RISK (Continued))

iii) Amounts arising from ECL (Continued)

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.

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).

PARAMOUNT BANK LIMITED

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)

Significant increase in credit risk (continued)

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.

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 economic data vendors, 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.

PARAMOUNT BANK LIMITED

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)

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

Base:

Year	Total labour force, % chg y-o-y	Nominal GDP, LCU, % chg y-o-y	Nominal GDP per capita, LCU, % chg y-o-y
2024	4.26%	10.48%	8.31%
2025	4.25%	11.34%	9.16%
2026	4.20%	12.03%	9.86%
2027	4.18%	11.17%	9.03%
2028	4.17%	11.01%	8.89%
2029	4.18%	10.96%	8.86%
2030	4.24%	10.94%	8.87%
2031	4.34%	11.06%	9.02%
2032	4.42%	10.98%	8.97%
2033	4.49%	10.90%	8.92%

Upside:

Year	Total labour force, % chg y-o-y	Nominal GDP, LCU, % chg y-o-y	Nominal GDP per capita, LCU, % chg y-o-y
2024	4.35%	11.11%	8.73%
2025	4.34%	12.02%	9.63%
2026	4.29%	12.76%	10.36%
2027	4.27%	11.85%	9.49%
2028	4.26%	11.67%	9.34%
2029	4.27%	11.62%	9.31%
2030	4.33%	11.60%	9.32%
2031	4.43%	11.73%	9.48%
2032	4.51%	11.64%	9.42%
2033	4.58%	11.56%	9.38%

Downside:

Year	Total labour force, % chg y-o-y	Nominal GDP, LCU, % chg y-o-y	Nominal GDP per capita, LCU, % chg y-o-y
2024	4.17%	9.84%	7.89%
2025	4.16%	10.65%	8.70%
2026	4.12%	11.30%	9.36%
2027	4.09%	10.49%	8.57%
2028	4.08%	10.34%	8.44%
2029	4.09%	10.29%	8.42%
2030	4.15%	10.28%	8.43%
2031	4.25%	10.39%	8.57%
2032	4.33%	10.31%	8.52%
2033	4.39%	10.24%	8.47%

PARAMOUNT BANK LIMITED

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)

Portfolio marginal quarterly probability of default (next 5 years):

	Stage 1			Stage 2		
Forecast Quarter	Base	Upside	Downside	Base	Upside	Downside
31/03/2024	0.23%	0.17%	0.30%	0.74%	0.53%	0.95%
30/06/2024	0.23%	0.17%	0.30%	0.73%	0.53%	0.94%
30/09/2024	0.24%	0.17%	0.30%	0.73%	0.52%	0.93%
31/12/2024	0.24%	0.17%	0.30%	0.72%	0.52%	0.93%
31/03/2025	0.24%	0.17%	0.31%	0.72%	0.51%	0.92%
30/06/2025	0.24%	0.17%	0.31%	0.71%	0.50%	0.92%
30/09/2025	0.24%	0.17%	0.31%	0.70%	0.50%	0.91%
31/12/2025	0.24%	0.17%	0.31%	0.70%	0.50%	0.90%
31/03/2026	0.24%	0.17%	0.31%	0.69%	0.49%	0.89%
30/06/2026	0.24%	0.17%	0.32%	0.69%	0.49%	0.89%
30/09/2026	0.25%	0.17%	0.32%	0.68%	0.49%	0.88%
31/12/2026	0.25%	0.18%	0.32%	0.68%	0.48%	0.87%
31/03/2027	0.25%	0.18%	0.31%	0.68%	0.50%	0.85%
30/06/2027	0.25%	0.18%	0.32%	0.67%	0.49%	0.85%
30/09/2027	0.25%	0.18%	0.32%	0.66%	0.49%	0.84%
31/12/2027	0.25%	0.19%	0.32%	0.66%	0.49%	0.83%
31/03/2028	0.25%	0.19%	0.32%	0.66%	0.49%	0.82%
30/06/2028	0.25%	0.19%	0.32%	0.65%	0.48%	0.82%
30/09/2028	0.25%	0.19%	0.32%	0.65%	0.48%	0.81%
31/12/2028	0.26%	0.19%	0.32%	0.64%	0.48%	0.80%

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 post COVID-19 on the operations of business within the Kenyan Economy

PARAMOUNT BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

3 FINANCIAL RISK MANAGEMENT (Continued)

A CREDIT RISK (Continued))

iii) Amounts arising from ECL

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 and labour force growth are 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).

PARAMOUNT BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

3 FINANCIAL RISK MANAGEMENT (Continued)

A CREDIT RISK (CONTINUED)

iii) Amounts arising from ECL

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. The bank considers the expectation of some missed instalments for the period leading to a default event. The following have been assumed as per the classification: For accounts in Stage 1, expectation of two missed instalments, such that the forecasted point in time EAD for month 1 and month 2 assumes no repayment of the expected instalments. For accounts in Stage 2, expectation of one missed instalment, such that the forecasted point in time EAD for month 1 assumes no repayment of the expected instalment.

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 extens ion 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 grouped on the basis of shared risk characteristics that include:

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

PARAMOUNT BANK LIMITED

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 2023	292,208	13,597	350,735	**656,540**
Changes in the loss allowance:				
– Transfer to stage 1	(188,086)		188,086	
– Transfer to stage 2		(1,783)	1,783	
– Transfer to stage 3				
New financial assets originated				
Financial assets derecognized				
Financial Assets remeasured	(96,579)		83,000	**(13,579)**
Loss allowance as at 31 December 2023	**7,543**	**11,814**	**623,604**	**642,961**

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 2022 & 1 January 2023	5,703,698	409,673	1,893,225	8,006,596
Changes in the loss allowance:				
– Transfer to stage 1	1,116,678		(1,116,678)	
– Transfer to stage 2		141,582	(141,582)	
– Transfer to stage 3				
New financial assets originated				
Financial assets that have been derecognised				
Financial Assets remeasured	1,016,335			1,016,335
Gross carrying amount as at 31 December 2023	**7,836,711**	**551,255**	**634,965**	**9,022,931**

PARAMOUNT BANK LIMITED

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	157,353	-	-	157,353
Recoveries of amounts previously written off	-	-	-	-
Total	157,353	-	-	157,353

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	2023	2022
Credit-impaired loans and advances to customers at 1 January	656,540	558,940
Change in allowance for impairment (Day 1 Adjustment)		-
Classified as credit-impaired during the year	157,353	99,199
Transferred to not credit-impaired during the year		
Credit Impaired written off during the year	(170,770)	(1,599)
Credit-impaired loans and advances to customers at 31 December	643,123	656,540

The contractual amount outstanding on financial assets that were written off during the year ended 31 December 2023 and that are still subject to enforcement activity is Shs Nil (2022: 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.

PARAMOUNT BANK LIMITED

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

	2023		2022	
	Sh '000	%	Sh '000	%
Agriculture, Fishing & Forestry	892,218	9	664,968	8
Mining and Quarrying	109,942	1	92,792	1
Manufacturing	223,771	2	505,983	6
Electricity & Water	257,923	3	291,158	4
Building & Construction	270,511	3	273,779	3
Wholesale & Retail Trade	4,170,929	46	3,249,063	41
Transport & Communication	519,297	5	451,522	6
Finance & Insurance	6,700	1	165,339	2
Real Estate	1,868,511	19	1,611,800	20
Tourism, Restaurant & Hotels	188,353	2	321,309	4
Social, Community & Personal Services	532,312	5	378,882	5
Total	9,040,467	100	8,006,595	100

(ii) Customer deposits

	2023 Sh '000	%	2022 Sh '000	%
Private enterprises	9,331,561	77	8,055,012	71
Not for profit institutions and individuals	2,791,008	23	3,242,886	29
Total	12,122,569	100	11,297,898	100

(iii) Off – balance sheet items

	2023 Sh '000	%	2022 Sh '000	%
Business services	5,080	1	42,886	7
Wholesale and retail	87,924	19	496,252	81
Transport and communications	30,764	7	24,506	4
Other	238,349	73	49,012	8
Total	362,117	100	612,656	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.

PARAMOUNT BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

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 2023 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:

	2023	2022
	%	%
As at 31 December		
Average for the period	52	47
Maximum for the period	55	52
Minimum for the period	48	44
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.

PARAMOUNT BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

3 FINANCIAL RISK MANAGEMENT (Continued)

B LIQUIDITY RISK (Continued)

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 2023						
FINANCIAL ASSETS						
Cash and balances with CBK	1,210,489	-	-	-	-	1,210,489
Deposits and balances from banking institutions	1,158,639	-	-	-	-	1,158,639
Government securities	199,094	108,581	1,137,689	452,517	2,314,123	4,212,004
Advances to customers	63,892	2,073,977	1,942,143	3,724,261	575,535	8,379,808
	2,632,114	2,182,558	3,079,832	4,176,778	2,889,658	14,960,940
FINANCIAL LIABILITIES						
Customer deposits	1,873,598	8,026,466	826,360	-	1,396,145	12,122,569
Net liquidity gap	758,516	(5,843,908)	2,253,472	4,176,778	1,493,513	2,838,371
As at 31 December 2022						
Total financial assets	2,228,365	2,135,204	2,632,272	3,267,651	1,782,261	12,045,753
Total financial liabilities	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

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

PARAMOUNT BANK LIMITED

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.

PARAMOUNT BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

3 FINANCIAL RISK MANAGEMENT (Continued)

C **MARKET RISK (Continued)**

(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 thousands of shillings.

	Up to 1 Month	1-3 Months	4-12 Months	1-5 years Years	Over 5 Years	Non-interest Bearing	Total
	Sh '000	Sh '000	Sh '000	Sh '000	Sh '000	Sh '000	Sh'000
FINANCIAL ASSETS							
Cash in hand	-	-	-	-	-	133,596	133,596
Balances with Central Bank of Kenya	-	-	-	-	-	1,076,893	1,076,893
Deposits and balances due from banking institutions	-	-	-	-	-	1,158,639	1,158,639
Government securities	-	-	413.051	1,304,057	2,484,896	-	4,202,004
Advances to customers	596,090	1,261,553	1,672,469	3,224,943	572,200	-	7,327,255
Total financial assets	596,090	1,261,553	2,085,520	4,529,000	3,057,096	2,369,127	13,898,386
FINANCIAL LIABILITIES							
Due to Bank	551,142						551,142
Customer Deposit	276,724	7,647,718	858,375	800,839		1,691,047	11,274,702
Total financial liabilities	827,866	7,647,718	858,375	800,839		1,691,047	11,825,844
Interest rate sensitivity gap	(231,776)	(6,386,165)	1,227,145	3,728,161	3,057,096	678,080	2,072,542
As at 31 December 2022							
Total financial assets	1,032,710	1,772,809	2,591,597	3,232,339	1,782,261	1,634,037	12,045,753
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

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.

PARAMOUNT BANK LIMITED

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 2023

Interest Rate risk Stress Test	*Amount Sh'000*	*Scenario 10% Increase in Net Margins*	*Scenario 10% Decrease in Net Margins*
Profit before tax	285,383	360,037	210,728
Adjusted Core Capital	2,362,156	2,436,810	2,287,502
Adjusted Total Capital	2,362,156	2,436,810	2,287,502
Risk Weighted Assets (RWA)	6,889,795	6,889,795	6,889,795
Adjusted Core Capital to RWA	34%	35%	33%
Adjusted Total Capital to RWA	34%	35%	33%

Interest rate risk – stress test-as at 31 December 2022

	Amount Sh'000	Scenario 10% Increase in net margin Sh'000	Scenario 10% Decrease in net margin Sh'000
Profit before taxation	255,472	313,739	197,205
Adjusted core capital	2,102,209	2,160,476	2,043,942
Adjusted total capital	2,102,209	2,160,476	2,043,942
Risk weighted assets (RWA)	7,903,297	7,903,297	7,903,297
Adjusted core capital to RWA	27	27	26
Adjusted total capital to RWA	27	27	26
	=======	=======	=======

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.

PARAMOUNT BANK LIMITED

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	GBP	USD	EURO	OTHERS	Total
	Sh '000	Sh '000	Sh '000	Sh '000	Sh '000	Sh '000
At 31 December 2023						
FINANCIAL ASSETS						
Cash in hand	120,807	2,538	2,709	7,425	117	133,596
Balances with CBK	926,318	19,175	119,723	10,835	843	1,076,892
Deposits and balances due from banking institutions	18,308	172,667	880,600	78,202	8,862	1,158,639
Government securities	4,202,004	-	-	-	-	4,202,004
Other securities	-	-	-	-	-	-
Advances to customers	8,064,393	1,460	269,785	44,169	-	8,379,808
Other assets	148,779	-	-	-	-	148,779
Total financial assets	13,480,609	195,840	1,272,817	140,631	9,822	15,099,719
FINANCIAL LIABILITIES						
Customer deposits	9,387,503	426,206	2,182,518	126,342	-	12,122,569
Other liabilities	100,833	-	-	-	-	100,833
Total financial liabilities	9,488,336	426,206	2,182,518	126,342	-	12,223,402
Net balance sheet position	3,992,273	(230,366)	(909,702)	14,289	9,822	2,876,317
At 31 December 2022						
Total financial assets	11,710,751	219,778	1,467,486	86,853	6,039	13,490,907
Total financial liabilities	9,320,762	361,136	1,647,060	79,244	-	11,408,202
Net balance sheet position	2,389,989	(141,358)	(179,575)	7,609	6,039	2,082,705

PARAMOUNT BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

3 FINANCIAL RISK MANAGEMENT OBJECTIVES& POLICIES (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 2023			
Profit before taxation	285,583	172,805	397,961
Adjusted core capital	2,362,156	2,259,578	2,484,733
Adjusted total capital	2,326,156	2,259,578	2,484,733
Risk weighted assets (RWA)	6,889,795	6,889,795	6,889,795
Adjusted core capital to RWA	34%	33%	36%
Adjusted total capital to RWA	34%	33%	36%
	=======	=======	========
At 31 December 2022			
Profit before taxation	255,472	286,804	224,140
Adjusted core capital	2,102,209	2,133,541	2,070,877
Adjusted total capital	2,102,209	2,133,541	2,070,877
Risk weighted assets (RWA)	7,903,297	7,903,297	7,903,297
Adjusted core capital to RWA	27%	27%	26%
Adjusted total capital to RWA	27%	27%	26%
	=======	=======	=======

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 (2022: 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.

PARAMOUNT BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

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 2022, 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 2022.

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.

PARAMOUNT BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

3 FINANCIAL RISK MANAGEMENT (Continued)

D CAPITAL MANAGEMENT

Regulatory capital (Continued)

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

	Nominal financial position amounts		Risk weighted amounts	
	2023	2022	2023	2022
ASSETS	Sh'000	Sh'000	Sh'000	Sh'000
Cash (including foreign notes and coins)	133,596	117,155	-	-
Cash balances with Central Bank of Kenya	1,076,891	1,173,388	-	-
Government securities	4,202,004	3,448,800	-	-
Deposits and balances due from banking institutions	1,158,639	1,285,386	231,727	232,732
Loans and advances to customers	8,379,808	7.350,056	5,785,857	4,985,263
Other assets	138,779	116,123	138,779	116,123
Investment in subsidiary	10,000	10,000	10,000	10,000
Property and equipment	14,559	17,643	14,559	17,643
Intangible assets	9,437	16,808	9,437	16,808
Deferred tax asset	204,795	172,201	204,795	172,201
Right of Use Asset	81,053	105,292	81,053	105,292
Tax recoverable	29,821	447	29,821	447
Total assets on balance sheet	15,439,382	13,813,299	6,506,028	5,656,509
Total asset off balance sheet	362,117	612,656	383,767	339,637
Total allowance for operations risk				1,235,492
Total allowance for market risk				289,883
Total risk weighted assets	15,801,499	14,425,955	6,889,795	7,521,521
Tier 1 Capital	2,362,156	2,102,209		
Tier 1 + Tier 2 Capital	2,362,156	2,102,209		
Basel ratio				
Tier 1 (CBK minimum – 10.5%)	28%	28%		
Tier 1 + Tier 2 (CBK min – 14.5%)	28%	28%		

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.

PARAMOUNT BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

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 - 2023. 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. '

PARAMOUNT BANK LIMITED

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.

PARAMOUNT BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

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).

PARAMOUNT BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

4 INTEREST INCOME

	GROUP 2023 Sh'000	GROUP 2022 Sh'000	BANK 2023 Sh'000	BANK 2022 Sh'000
Advances to customers	1,070,511	1,012,230	1,070,511	1,012,230
Government securities – at amortised cost	401,025	341,742	401,025	341,742
Government Securities – at fair value	77,617	47,842	77,617	47,842
Deposits/balances due from other financial institutions	21,191	4,438	21,191	4,438
	1,570,344	1,406,252	1,570,344	1,406,252

5 INTEREST EXPENSE

	GROUP 2023 Sh'000	GROUP 2022 Sh'000	BANK 2023 Sh'000	BANK 2022 Sh'000
Customer deposits	895,570	774,776	895,570	774,776

6 FEES AND COMMISSION INCOME

	GROUP 2023 Sh'000	GROUP 2022 Sh'000	BANK 2023 Sh'000	BANK 2022 Sh'000
Transaction related fees	12,574	19,297	7,134	14,911
Commissions on letters of credit, guarantees and discounting foreign bills	17,633	14,782	14,678	13,582
	30,207	34,079	21,812	28,493

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.

8 OTHER OPERATING INCOME

	GROUP 2023 Sh'000	GROUP 2022 Sh'000	BANK 2023 Sh'000	BANK 2022 Sh'000
Locker rental income	108	-	108	-
Other operating income	15,587	9,553	15,587	9,553
Fair value gains on financial assets (note 15)	112,278	59,082	112,278	59,082
	127,973	68,635	127,973	68,635

PARAMOUNT BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

	GROUP 2023 Sh'000	GROUP 2022 Sh'000	BANK 2023 Sh'000	BANK 2022 Sh'000
9 OTHER OPERATING EXPENSES				
Contribution to Deposit Protection Fund	17,546	16,050	17,546	16,050
Directors' emoluments	26,920	25,529	26,920	25,529
Auditors' remuneration	8,736	11,189	8,736	11,189
Rent and rates	12,809	12,186	12,809	12,186
Legal and professional fees	14,064	43,124	14,064	43,124
Insurance	14,921	12,000	14,921	12,000
Security	15,065	15,130	15,065	15,130
Telephone and postage	14,301	11,177	14,301	11,177
Repairs and maintenance	19,668	19,035	19,668	19,035
Depreciation on equipment	7,602	9,658	7,602	9,658
Amortization on intangible assets	7,370	1,478	7,370	1,453
Interest on lease liabilities	8,196	7,137	8,196	7,137
Other expenses	77,351	67,011	73,847	65,017
	244,549	250,704	241,045	248,739
10 STAFF COSTS				
Salaries and allowances	145,299	141,131	145,299	138,631
Staff training	1,472	731	1,472	731
Terminal dues	2,089	1,785	2,089	1,785
Pension contributions-defined contribution scheme	5,078	4,758	5,078	4,758
Medical expenses	67	688	67	688
	154,005	149,093	154,005	146,593
11 TAXATION				
(a) Taxation charge				
Current taxation based on the taxable profit for the year at 30%	28,049	35,559	26,439	35,559
Deferred taxation (credit)/charge (note 22):-				
- current year credit	(32,594)	(6,969)	(32,594)	(6,938)
- prior year over provision	-	-	-	-
	(4,545)	28,590	(6,155)	28,621

PARAMOUNT BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

11 TAXATION (Continued)

	GROUP 2023 Sh'000	GROUP 2022 Sh'000	BANK 2023 Sh'000	BANK 2022 Sh'000
(b) Reconciliation of taxation credit to the expected taxation based on profit before taxation				
Profit before taxation	290,275	256,568	285,383	255,472
Tax at the applicable rate of 30%	87,083	76,970	85,615	76,642
Effect of expenses disallowed for taxation purposes	6,651	6,651	6,651	6,651
Effect of income not subject to taxation	(98,279)	(55,031)	(98,421)	(54,672)
Prior year under provision	-	-	-	-
Taxation credit/(charge)	(4,545)	28,590	(6,155)	28,621
(c) Corporate tax recoverable				
At 1 January	767	1,377	447	1,091
Taxation charge	(28,049)	(35,559)	(26,436)	(35,559)
Tax paid in the year	57,628	34,949	55,810	34,915
At 31 December	30,346	767	29,821	447

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 2023	GROUP 2022	BANK 2023	BANK 2022
Earnings				
Earnings for the year attributable to ordinary shareholders (Sh'000)	294,819	227,978	291,538	226,852
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	294.82	227.98	291.54	226.85

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 2023 or 31 December 2022, respectively.

PARAMOUNT BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

		GROUP & BANK	
		2023	2022
		Sh'000	Sh'000
13	CASH AND BALANCES WITH CENTRAL BANK OF KENYA		
	Cash on hand	133,596	117,155
	Balances with Central Bank of Kenya		
	- Deposits held under lien	15,570	12,345
	- Current account with CBK	1,061,323	1,161,043
		1,210,489	1,290,543

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 2023 the cash reserve ratio requirement was 4.25% (2022: 4.25%) 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	
		2023	2022
		Sh'000	Sh'000
14	DEPOSITS AND BALANCES DUE FROM BANKING INSTITUTIONS		
	Balances due from banking institutions	1,158,639	1,285,386

The weighted average effective interest rate for deposits and balances due from banking institutions at 31 December 2023 was 8% (2022 – 6%).

	GROUP & BANK	
	2023	2022
MATURITY ANALYSIS OF DEPOSITS AND BALANCES DUE FROM BANKING INSTITUTIONS	Sh'000	Sh'000
Due on demand	1,158,639	1,285,836

PARAMOUNT BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

	GROUP & BANK 2023 Sh'000	2022 Sh'000
15 GOVERNMENT SECURITIES		
Treasury bills – at amortised cost		
At amortized cost – maturing within 90 days		
Face value	420,000	737,035
Less: unearned discount	(6,949)	(8,444)
	413,051	728,591
Treasury bonds – at amortised cost		
At amortised cost (maturing within 5 years)	1,029,772	504,950
At amortised cost (maturing after 5 years)	2,495,132	1,934,602
Treasury bonds at fair value	274,285	280,657
	3,798,953	2,720,209
	4,212,240	3,448,800

The weighted average effective interest rate for treasury bonds and bills as at 31 December 2023 was 10% (2022 – 9.47%).

Included in Government Bonds maturing within 5 years is an impairment provision of Sh 17,535,914 (2022: Sh 12,170,616).

Movement in treasury bonds can be summarised as follows:

	GROUP & BANK 2023 Shs'000	2022 Shs'000
At 1 January	2,720,209	1,612,603
Additions	962,660	1,220,790
Disposals	(6,194)	(172,266)
Fair value gains	112,278	59,082
At 31 December	3,788,953	2,720,209

The weighted average effective interest rate on the bonds at 31 December 2023 was 13% (2022 – 8.1%).

PARAMOUNT BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

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:

	2023 Sh'000	2022 Sh'000
COST		
At 1 January	199,417	158,349
Additions	-	41,067
At 31 December	199,417	199,417
AMORTISATION		
At 1 January	94,125	69,886
Charge for the year	24,239	24,239
At 31 December	118,364	94,125
NET BOOK VALUE		
At 31 December	81,053	105,291
Amounts recognised in profit and loss		
Amortisation expense on right of use assets	24,239	24,239
Interest expense on lease liabilities	8,196	7,137
At the end of the year	32,435	31,376

The Bank and its subsidiary is not committed to any lease 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 30 million (2022: Sh 29.1 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 (2022: nil).

Right of use assets are classified as non-current.

PARAMOUNT BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

17 ADVANCES TO CUSTOMERS

	GROUP & BANK 2023 Sh'000	GROUP & BANK 2022 Sh'000
Loans and advances to customers	9,022,931	8,005,696
Bills discounted	-	900
	9,022,931	8,006,596
Provision for impaired loans and advances (note 18)	(643,123)	(656,540)
	8,379,808	7,350,056

The weighted average effective interest rate on advances to customers as at 31 December 2023 was 15% (2022 – 14.28%).

Included in net advances are loans and advances amounting to Sh 468,272 (2022 – Sh 453,022), net of specific provisions, which have been classified as non-performing.

	GROUP & BANK 2023 Sh'000	GROUP & BANK 2022 Sh'000
Analysis of gross advances by maturity:		
Maturing within one year	4,024,685	3,530,112
Over one year to three years	1,854,114	1,626,271
Over three to five years	2,501,009	2,193,673
	8,379,808	7,350,056

Advances to related parties are disclosed in note 31.

18 PROVISION FOR IMPAIRMENT LOSSES

	GROUP & BANK 2023 Sh'000	GROUP & BANK 2022 Sh'000
a) Impairment losses on loans and advances		
At 1 January	656,540	558,940
Impairment losses in the year	157,353	99,199
Write off	(170,770)	(1,599)
At 31 December	643,123	656,540

PARAMOUNT BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

18 PROVISION FOR IMPAIRMENT LOSSES

	GROUP & BANK 2023 Sh'000	GROUP & BANK 2022 Sh'000
b) Total impairment losses on financial assets at amortised costs		
Impairment losses on loans and advances in the year (Note 18 a)	157,353	99,199
Impairment losses on government securities (Note 15)	(8,570)	(3,022)
	148,783	96,177

19 OTHER ASSETS

	GROUP 2023 Sh'000	GROUP 2022 Sh'000	BANK 2023 Sh'000	BANK 2022 Sh'000
Items in course of collection	4,744	12,120	4,744	12,120
Prepayments*	49,544	60,385	49,544	60,385
Other receivables	81,164	46,861	84,490	43,618
	135,452	119,366	138,778	116,123

All other assets are classified as current.

* Included in the prepayments is an amount of Sh 33.5 million (2022: 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 2023. 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 2023.

PARAMOUNT BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

20 EQUIPMENT – GROUP & BANK

	Computers & office Equipment Sh'000	Motor vehicles Sh'000	Furniture, fittings and office renovations Sh'000	Total Sh'000
COST				
At 1 January 2022	105,557	25,876	173,139	304,572
Additions	4,642	-	27	4,669
At 31 December 2022	110,199	25,876	173,166	309,241
At 1 January 2023				
Additions	2,456	-	937	3,393
Disposal	-	(18,000)	-	(18,000)
At 31 December 2023	112,655	7,876	174,103	294,634
ACCUMULATED DEPRECIATION				
At 1 January 2022	95,027	25,128	161,784	281,939
Charge for the year	3,336	200	6,122	9,658
At 31 December 2022	98,363	25,328	167,906	291,597
At 1 January 2023				
Opening balance adjustments	90	-	(1,214)	(1,124)
Charge for the year	5,167	200	2,235	7,602
Disposal	-	(18,000)	-	(18,000)
At 31 December 2023	103,620	7,528	168,927	280,075
NET BOOK VALUE				
At 31 December 2023	9,035	348	5,176	14,559
At 31 December 2022	11,836	548	5,260	17,644

Included in equipment are assets with a cost of Sh 3,205,461 (2022 - Sh 57,491,093) which were fully depreciated. The notional depreciation charge in respect of these assets for the year is Sh 491,894/- (2022 – Sh 8,623,664).

All equipment are classified as non-current.

PARAMOUNT BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

	GROUP 2023 Sh'000	GROUP 2022 Sh'000	BANK 2023 Sh'000	BANK 2022 Sh'000
21 INTANGIBLE ASSETS – COMPUTER SOFTWARE				
COST				
At 1 January	64,581	50,731	64,305	50,455
Additions	-	13,850	-	13,850
At 31 December	64,581	64,581	64,305	64,305
ACCUMULATED AMORTISATION				
At 1 January	47,762	46,284	47,498	46,045
Charge for the year	7,370	1,478	7,370	1,453
At 31 December	55,132	47,762	54,868	47,498
NET BOOK VALUE				
At 31 December	9,449	16,819	9,437	16,808

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 2023 Sh'000	GROUP 2022 Sh'000	BANK 2023 Sh'000	BANK 2022 Sh'000
Excess depreciation over capital allowances	4,935	2,912	4,900	2,904
Leave pay provision	1,425	1,546	1,425	1,546
Other provisions	5,534	4,830	5,534	4,830
Provisions for impairment	192,936	162,921	192,936	162,921
Unrealised exchange gains		-	-	-
Tax losses		27	-	-
	204,830	172,236	204,795	172,201
The movement on the deferred tax asset account is as follows:				
As at 1 January	172,236	165,267	172,201	165,263
Credit for the year – note 11(a)	32,594	6,969	32,594	6,938
Prior year under provision - note 11(a)		-	-	-
At 31 December	204,830	172,236	204,795	172,201

Deferred taxation assets/ liabilities are classified as non-current

PARAMOUNT BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

23 INVESTMENT IN SUBSIDIARY

	No. of shares	Holding	BANK 2023 Sh'000	BANK 2022 Sh'000
Paramount Bancassurance Intermediary Limited	5,000	100%	10,000	10,000
	=======	=====	=======	=======

The subsidiary is wholly owned Limited Liability Company incorporated and domiciled in Kenya. The company was incorporated on 22 May 2022 and licenced to operate insurance agency/brokerage business.

The principal activity of the company is insurance agency business.

	2023 Sh'000	2022 Sh'000
Summarised statement of financial position		
Total assets	30,682	26,766
Total liabilities	(13,477)	(12,846)
Net assets	17,205	13,920
	======	======
Summarised statement of profit and loss and other comprehensive income		
Total income	8,395	5,586
Total Expenses	(3,504)	(4,490)
Profit before income tax	4,891	1,096
Income tax expense	(1,637)	31
Total comprehensive income	3,254	1,127
	======	======
Summarised statement of cash flows		
Net cash generated from operating activities	(525)	772
Net cash used in investing activities		-
Increase in cash and cash equivalents	(525)	772
Cash and cash equivalents at beginning of year	13,877	13,105
Cash and cash equivalents at end of year	13,352	13,877
	======	======

PARAMOUNT BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

24 CUSTOMER DEPOSITS

	GROUP 2023 Sh'000	GROUP 2022 Sh'000	BANK 2023 Sh'000	BANK 2022 Sh'000
Current accounts	988,443	972,730	1,001,796	986,607
Savings accounts	390,868	574,951	390,868	574,951
Call deposits	666,897	599,399	666,897	599,399
Fixed deposits	10,063,008	9,136,941	10,063,008	9,136,941
	12,109,216	11,284,021	12,122,569	11,297,898
Analysis of customer deposits by maturity:				
Payable within 90 days	10,403,260	9,694,319	10,403,260	9,694,319
Payable after 90 days and within one year	921,148	858,375	921,148	858,375
Payable after one year	784,808	731,327	798,161	745,204
	12,109,216	11,284,021	12,122,569	11,297,898

The weighted average effective interest rate on interest bearing customer deposits at 31 December 2023 was 8 % (2022 – 7.4 %).

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

25 OTHER LIABILITIES

	GROUP 2023 Sh'000	GROUP 2022 Sh'000	BANK 2023 Sh'000	BANK 2022 Sh'000
Sundry payables	60,865	91,060	57,235	87,498
Accruals	10,051	17,652	10,051	17,652
Leave pay provision	4,749	5,153	4,749	5,153
Reclassification of sundry deposits amount	18,798	-	18,798	-
	94,463	113,865	90,833	110,303

Other liabilities are classified as current.

PARAMOUNT BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

26 LEASE LIABILITIES

	GROUP & BANK 2023 Sh'000	2022 Sh'000
Undiscounted future minimum lease payment under operating lease at 1 January	199,415	158,347
Additions	-	41,068
At 1 January	199,415	199,415
The movement in the lease liabilities is as follows:		
Balance at 1 January	119,688	100,631
Payment of lease liabilities	(29,993)	(29,148)
Interest on lease liabilities	8,196	7,137
Additions	-	41,068
At 31 December	97,891	119,688
Amounts due for settlement within 12 months	31,936	29,993
Amounts due for settlement after 12 months	65,955	89,695
	97,891	119,688
Maturity Analysis of undiscounted cash flows		
Year 1	29,221	29,221
Year 2	42,432	42,432
Year 3	43,448	43,448
Year 4	44,624	44,624
Year 5	39,690	39,690
	199,415	199,415

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 2023 Sh'000	2022 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

PARAMOUNT BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

28 NOTES TO THE STATEMENT OF CASH FLOWS

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

	GROUP		BANK	
	2023	2022	2023	2022
	Sh '000	Sh '000	Sh '000	Sh '000
Profit before taxation	290,274	256,568	285,383	255,472
Adjustments for:				
Opening balance adjustment on depreciation	(1,125)	-	(1,125)	-
Depreciation on equipment (note 20)	7,602	9,658	7,602	9,658
Depreciation on right of use asset (note 16)	24,239	24,239	24,239	24,239
Amortisation of intangible assets (note 21)	7,370	1,478	7,370	1,453
Interest on lease liabilities (note 26)	8,196	7,137	8,196	7,137
Interest on customer deposits(note 5)	895,570	774,776	895,570	774,776
Working capital changes:	1,232,126	1,073,856	1,227,235	1,072,735
Increase in balances held by Central Bank of Kenya under lien	(3,225)	(1,030)	(3,225)	(1,030)
Increase in advances to customers	(1,029,752)	(785,305)	(1,029,752)	(785,305)
Increase in advances from other local banks	551,142	-	551,142	-
(Increase)/Decrease in government securities	(753,205)	398,166	(753,205)	398,166
Increase in other assets	(35,792)	(2,864)	(32,656)	(5,956)
Increase in customer deposits	824,671	1,099,744	824,671	1,100,515
(Decrease)/Increase in other liabilities	(9,406)	15,686	(9,470)	19,094
Cash generated from operations	776,559	1,798,253	774,740	1,798,219

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

	GROUP 2023	GROUP 2022	BANK 2023	BANK 2022
Cash on hand (note 13)	133,596	117,154	133,596	117,154
Current account with Central Bank of Kenya (note 13)	1,158,639	1,161,043	1,158,639	1,161,043
Deposits and balances due from banking institutions (note 14)	1,061,323	1,285,386	1,061,323	1,285,386
	2,353,558	2,563,583	2,353,558	2,563,583

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.

PARAMOUNT BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

29 CONTINGENCIES AND COMMITMENTS INCLUDING OFF FINANCIAL POSITION ITEMS

	2023 Sh'000	2022 Sh'000
(a) Contingent liabilities		
Letters of credit	38,607	33,998
Letters of guarantee and performance bonds	323,510	578,658
Bills for collection	-	-
	362,117	612,656

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 lawsuits as at 31 December 2023 amounted to Sh 7,250,000 (2022- Sh 7,250,000).

(b) The Bank and its subsidiary had no capital commitments as at 31 December 2023 (2022 – 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 2023 include placements made in the bank by directors, their associates and companies associated to directors. Advances to customers and deposits at 31 December 2023 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 2023 include guarantees and letters of credit for companies associated to directors.

PARAMOUNT BANK LIMITED

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		Employees/staff	
	2023 Sh'000	2022 Sh'000	2023 Sh'000	2022 Sh'000
Movement in related party balances was as follows:				
Loans and advances:				
At 1 January	661,234	746,538	74,513	68,992
Net movement during the year	(9,605)	(85,304)	(6,841)	5,521
At 31 December	651,629	661,234	67,672	74,513
Interest earned	53,529	85,960	3,156	7,079
Deposits:				
At 1 January	448,018	491,425	18,576	39,770
Net movement during the year	87,232	(43,407)	11,391	(21,194)
At 31 December	535,250	448,018	29,967	18,576
Interest paid	10 532	40,322	55	1,486

	GROUP & BANK	
	2023 Sh'000	2022 Sh'000
Guarantees and letters of credit to companies associated to directors	9,100	29,072

Key management compensation

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

	2023 Sh'000	2022 Sh'000
Key management salaries and other benefits	67,823	69,110
Directors' emoluments	26,920	24,000

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.

PARAMOUNT BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

30 RELATED PARTY TRANSACTIONS (Continued)

Transactions between the Bank and its subsidiary	2023	2022
	Sh'000	Sh'000
Intercompany debt	-	928
	========	========
Subsidiary cash balances held at the Bank (at normal business terms)	13,352	13,877
	========	========

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 accounted for at nominal value (as debt due on demand).

31 Amount due to local banks (overnight lending)

32 FIDUCIARY ACTIVITIES

At 31 December 2023, the bank and its subsidiary did not hold any asset security documents on behalf of customers (2022: none).

33 COUNTRY OF INCORPORATION

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

34 CURRENCY

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

35 EVENTS AFTER REPORTING PERIOD

There are no significant events after the reporting period which have been reported in these financial statements (2022: none).

APPENDIX I

PARAMOUNT BANK LIMITED

DETAILED BANK STATEMENT OF PROFIT OR LOSS FOR THE YEAR ENDED 31 DECEMBER 2023

		2023	2022
		Sh'000	Sh'000
INCOME			
INTEREST INCOME			
Loans and advances including finance lease income		1,070,511	1,012,230
Government securities		478,642	389,584
Placement		21,191	4,438
		1,570,344	1,406,252
Fees and commissions		21,812	28,493
Foreign exchange trading income		52,064	60,864
Other operating income	Appendix II	127,973	68,635
TOTAL INCOME		1,772,193	1,564,244
EXPENDITURE			
INTEREST EXPENSE		(895,570)	(774,776)
OPERATING EXPENSES	Appendix II	(442,457)	(437,819)
ALLOWANCE FOR CREDIT LOSSES		(148,783)	(96,177)
TOTAL EXPENDITURE		(1,486,810)	(1,308,772)
PROFIT BEFORE TAXATION		285,383	255,472

APPENDIX II

PARAMOUNT BANK LIMITED

DETAILED BANK STATEMENT OF PROFIT OR LOSS FOR THE YEAR ENDED 31 DECEMBER 2023

	2023 Sh'000	2022 Sh'000
OTHER OPERATING INCOME		
Bad debts Recovered		-
Rental income-Lockers	108	-
Miscellaneous income	15,587	9,553
Reclassification of fair value on disposal of available for sale IF Bonds	112,278	59,082
	127,973	68,635
OPERATING EXPENSES		
Salaries and staff allowances	145,299	138,631
Rent and rates	12,809	12,186
Telephone and postage	14,301	11,177
Depreciation	7,602	9,658
Directors' fees and emoluments	26,920	25,529
Miscellaneous	43,268	36,898
Advertising expenses	3,099	3,329
Security	15,065	15,130
Repairs and maintenance	19,668	19,035
Insurance	14,921	12,000
Electricity and water	5,119	5,104
Deposit Protection Fund	17,546	16,050
Auditors' remuneration	8,736	11,189
Legal and professional expenses	14,064	43,124
Amortisation of intangible assets	7,370	1,453
Printing and stationery	2,691	2,342
Licences	8,107	4,379
Donations and subscriptions	10,235	11,323
Travelling and vehicle running expenses	1,179	1,026
Terminal dues	2,089	1,785
Medical expenses	67	688
Pension contributions-defined contribution scheme	5,078	4,758
Staff training	1,472	731
Bank charges	22,752	18,372
Cleaning expenses	565	546
Depreciation on Right of Use Assets	24,239	24,239
Finance Cost – Lease Obligation	8,196	7,137
	442,457	437,819

PARAMOUNT BANK

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