MAYFAIR-CIB BANK

MAYFAIR CIB BANK LIMITED

ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021

Contents **Pages**

Directors	Tom M Gitogo	- Chairman
	Hossam Rageh***	- Executive Director
	Joram Kiarie	- Chief Executive Officer
	Bharatkumar V. Shah	
	Vishal R. Patel	
	Anjay V. Patel*	
	Kalpesh R. Patel*	
	Sheila Kyarisiima**	
	Nadeem I. Ahmed	
	Dr Amani Abou-Zeid***	(Resigned: 25 November 2021)
	Hussein Abaza***	
	Mark Richards*	(Resigned: 25 November 2021)

* British
**Ugandan
***Egyptian

Secretary	JLG Maonga Certified Public Secretary (Kenya) P O Box 73248 - 00200 Nairobi, Kenya
Registered Office	L R No. 1870/1/553, KAM House, Westlands P O Box 2051 - 00606, Sarit Centre Nairobi, Kenya
Auditor	PricewaterhouseCoopers LLP Certified Public Accountants (Kenya) PwC tower Waiyaki Way, Chiromo road P O Box 43963 - 00100 Nairobi, Kenya
Lawyers	Coulson Harney LLP 5th Floor West Wing, ICEA Lion Centre Riverside Park, Chiromo Road P O Box 10643 - 00100 Nairobi, Kenya

Statement on corporate governance

Corporate Governance

Mayfair CIB Bank has been keen on entrenching a sound corporate governance culture within its business to ensure transparency and accountability with all stakeholders.

The Board of Directors of Mayfair CIB Bank Limited strongly believes that a sound corporate governance framework sets the foundation for sustained growth and maximization of shareholder value. Consequently, The Board of Directors is guided by a Board Charter, in terms of Corporate Governance, and in line with the Central Bank of Kenya Prudential Guidelines, 2013. The Charter is also subject to the provisions of the Laws of Kenya, the Bank's Articles of Association, and any other applicable law or regulatory provision.

Additionally, the Bank has put in place a Code of Conduct, Code of Ethics and Conflict of Interest, inter alia, that binds all its directors, employees and all its stakeholders to ensure the Bank's business is undertaken with utmost integrity, transparency and in an ethical and fair manner, in keeping with the local and external regulations and global best practices.

Governance Framework

Mayfair CIB Bank Limited is governed by a Board of Directors consisting of 12 members elected by the shareholders. The Board comprises 1 Executive Director, 1 Chief Executive Officer, 8 Non-Executive Directors and 2 Independent Non-Executive Directors.

The responsibility of the Board is to ensure the strategic direction, management supervision and adequate control of the Bank, with the goal of increasing the long-term value of the Bank.

The Bank's governance framework includes a vibrant and dynamic risk management framework characterized by active Board and Senior Management oversight, adequate policies, procedures, charters, terms of reference and Management Information system (MIS) reporting. These collectively shape the governance of a wide range of issues including risk supervision, compliance, audit, remuneration, evaluation, succession planning, ethics and conduct, budgeting, and capital management.

Clear lines of responsibility, accountability and communication exist within the Bank. This includes a continuous chain of supervision at all levels, as well as effective communication channels between the Management and the Board of Directors. Strategic objectives setting, corporate values and promoting high standards of conduct have been established and widely communicated throughout the Bank, providing appropriate incentives to ensure and encourage professional behavior.

Directors	No. of meetings attended 2021				
	BRMC	BAC	BNHRC	BCC	BOARD
Tom M Gitogo (Chairman)					6/6
Hossam Rageh (Executive Director)	5/5	4/4	4/4	4/4	6/6
Joram Kiarie (Chief Executive Officer)	5/5	4/4	4/4	4/4	6/6
Bharatkumar V. Shah			4/4	4/4	6/6
Vishal R. Patel	5/5				6/6
Anjay V. Patel		4/4		4/4	6/6
Kalpesh R. Patel		4/4	4/4		5/6
Nadeem I. Ahmed	5/5				6/6
Sheila Kyarisiima		4/4		4/4	6/6
Hussein Abaza			4/4	4/4	5/6
Dr Amani Abou-Zeid (Resigned: 25 November 2021)	3/5	2/4			2/6
Mr. Mark Richards (Resigned: 25 November 2021)	4/5				4/6

BRMC - Board Risk Management Committee

BAC - Board Audit Committee

BNHRC - Board Nomination and Human Resource Committee

BCC - Board Credit Committee

Enterprise Risk Management

The primary goal of risk management is to ensure that the outcomes of risk-taking activities are consistent with the Bank's strategies and risk appetite, and that there is an appropriate balance between risk and reward, in order to maximize shareholder returns.

The Bank has a robust and dynamic risk management framework, which provides the foundation for achieving these goals. This framework is subject to constant evaluation to ensure that it meets the changing requirements of the market in which the Bank operates, including regulatory standards, industry and global best practice.

Arising from our belief that integrating a strong risk and compliance management program into the daily management of business and strategic planning gives the Bank a strategic competitive advantage, we have ensured that our risk management framework is applied enterprise-wide across all our branches, departments and across all our activities.

The Bank's Enterprise-wide Risk Management Policies encompass: Strategic, Credit, Market, Liquidity, Operational, Compliance, Legal, Regulatory and Reputational risks.

Risk Management Principles

The Bank's Risk Management Policies are meant to allow the Bank to assess and enhance its approach to managing risk by articulating high-level risk management principles that are comprehensive, proven in practice to be effective, and likely to stand the test of time. These principles include:

a) Governance (Board and Senior Management Accountabilities and responsibilities): Overall Risk Management Policies and tolerances are set on a comprehensive, Bank-wide basis by Senior Management, and reviewed with, and approved by, the Board of Directors.

b) Business Line/Unit Accountability: Business lines/units are the Bank's first line of defence and are accountable for managing the risks associated with their respective activities/operations within established tolerances, as well as for the results, both positive and negative, of taking those risks.

c) Framework for Managing Risk: To effectively manage and control risks, policies and procedures are considered to be essential for the Bank. A Risk & Compliance Department, the second line of defence, exists within the Bank to develop the Risk Management Framework and monitor its execution.

d) Integration of Risk Management: Ensures that interactions among risks are identified, understood and managed as appropriate; risks are not evaluated in isolation.

e) Risk Evaluation and Measurement: Risks are qualitatively evaluated on a recurring basis and, wherever practical, the evaluation includes quantitative analysis. Risk assessments consider the effects of both likely and unlikely events based on the risk profiling.

f) Independent Audits: This third line of defence helps to validate and provide assurance on the effectiveness of the Bank's risk management activities, with recommendations for improvements or remedial action being made where necessary.

Risk Management Governance

The Bank's Risk Management Framework is based on best practice, strong corporate governance principles and guided by the Central Bank of Kenya Prudential Guidelines (2013) and Risk Management Guidelines (RMGs). The Board also determines the Bank's risk appetite, risk tolerance and strategy, and oversees the implementation of effective risk management systems in the Bank.

Board of Directors

The Board of Directors has the overall responsibility of establishing a sound risk management framework in the Bank. The Board sets the Bank's risk appetite and tolerance levels from time-to-time and monitors implementation of same by management.

The Board is supported in carrying out its duties by the following committees:

- Board Audit Committee (BAC),
- Board Risk Management Committee (BRMC),
- Board Nomination and Human Resource Committee (BNHRC),
- Board Credit Committee (BCC).

Each of these Board Committees is governed by Board-approved terms of reference. The Board committees report to the Board on a quarterly basis.

Senior Management

The senior management is responsible for overseeing the day-to-day activities and ensuring these are in line with the approved risk management framework and Board strategy.

Management is supported in carrying out its responsibilities by management committees which provide the vital link between management and directors and serve as important channels of cascading board decisions to management-level staff; and also communicating to directors the activities that management staff are engaged in, as well as the risks involved. These committees include:

- Asset Liability Management Committee (ALCO)
- Executive Committee (ExCo),
- Management Credit Committee (MCC),
- Executive Credit Committee (ECC),
- Operational Risk Management Committee (ORCO).

The management committees are governed by Board-approved terms of reference and report to their respective Board committees on a quarterly basis.

Risk Management Philosophy and Risk Appetite

Risk Management Philosophy

Mayfair CIB Bank's Risk Management Philosophy recognizes risk management is a value-adding, rather than a regulatory compliance, issue.

It is our simple philosophy that:

- we will only take on board risks that we fully understand, and know how to mitigate,
- risk management shall be at the heart of whatever we do; risk management is central to all our operations,
- everybody is a risk manager; we primarily focus on preventive and remedial actions as opposed to fault-finding,
- we encourage a risk culture where every staff proactively identifies and manages the risks in their respective areas,
- risk management is everybody's business, and should not only be left to the Board, Risk & Compliance Department and Senior Management.

Risk Appetite & Risk Tolerance

The Board of Directors determines the Bank's risk appetite, which is the general level of risk that the Bank is willing to take while pursuing its objectives.

Risk tolerance is defined as the level of risk that the Bank is willing to assume per individual risk. Our Board of directors also determines the Bank's Risk tolerance levels across all investing, trading, lending and operational activities.

Our Risk Management Framework

In addition to fulfilling regulatory requirements and adopting best-practice when it comes to risk management, it is the Bank's objective to take on an approach in which a risk culture exists amongst all employees of the organization.

The Bank has entrenched an enterprise-wide and integrated approach to risk management that will enable us to consider the potential impact of all types of risks the Bank is exposed to; including risks inherent to its processes, activities, stakeholders, products, channels and systems and mitigate same.

The Bank's Risk Management Framework has greatly evolved in the recent past to capture changes in the Bank's operating environment, including introduction of new products, shifts in channels / customer touch points, as well as changes in the regulatory environment.

Risk & Compliance Department

The 'Risk & Compliance Department' is an independent function reporting to the Board Risk Management Committee. It is a critical part of the Bank's risk management framework and is responsible for assessing the risks that the Bank is exposed to, while continuously giving a report to the Board and Management on the Bank's position in terms of risk exposure, as well as recommending remedial action.

Effectively managing risks arising from the Bank's daily business activities maximizes its opportunities in the market and enhances the Bank's competitive position in the industry.

Integrating a strong risk and compliance management program into the daily management of business and strategic planning gives the Bank a strategic competitive advantage. It helps the Bank to protect its reputation, lower the cost of capital, reduce costs and helps minimize the risk of investigation, prosecution, and penalties.

Internal Audit Department (IAD)

The Internal Audit Department is a critical and integral part of the Mayfair CIB Bank Risk Management Framework.

It is an independent function within the Bank, separate from Business Divisions, which directly reports to the Board Audit Committee of the Board of Directors.

Through its reviews and audits, IAD gives independent assurance that the risk management framework and the inherent controls therein are effective and working as intended.

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Tom Gitogo

Chairman

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Hossam Rageh

Executive Director

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Joram Kiarie

Chief Executive Officer

Report of directors

The directors present their report together with the audited financial statements of Mayfair CIB Bank Limited (the "Bank") for the year ended 31 December 2021.

Principal Activities

The principal activity of the Bank is the provision of Banking, financial and related services as licensed under the Banking Act (Cap 488).

Financial Results

	2021 Ksh'Thousands	2020 Ksh'Thousands
Profit/(Loss) before income tax	77,813	(351,917)
Income tax credit/(expense)	18,281	(27,357)
Net profit/(loss) for the year	96,094	(379,274)

Dividends

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

Business Review

Operating Environment

The Bank has been operational since August 2017.

Below are the key highlights on the Bank's performance:

	2021 Ksh'Thousands	2020 Ksh'Thousands
Total assets	13,460	12,729
Customer deposits	8,302	8,069
Loans and advances to customers, net	5,368	4,782
Net interest income	691	392
Non-interest income	200	153
Profit /(Loss) after income tax	96	(379)

Overall Economy in 2021

- Although the Covid-19 pandemic continued to shake the globe with the emergence of new variants, amid deployment of vaccines, 2021 was characterized by global economic recovery. In Kenya, the government continued to ease the Covid-19 restrictions and containment measures, which saw a rebound in economic activity, particularly in the services sector which had been gravely impacted by the pandemic in 2020. Real GDP grew by 9.9% in the third quarter of 2021, compared to a contraction of 2.1% in the same quarter of 2020. This growth was largely supported by the Manufacturing, Education, Transportation and Storage, Food and Accommodation, and Finance and Insurance sectors.
- The country's annual inflation rate eased for the third month in a row to 5.73% in December 2021, being the lowest rate since January. This was mainly attributed to a slowdown in prices of food & non-alcoholic beverages.
- The KES continued its downward trend against major international currencies during the year and recorded an all-time historic low of 113.14 against the US dollar at the close of the year. This was attributed to strong demand from importers relative to supply, amid dwindling forex reserves, though these continued to provide an adequate buffer against short term shocks in the forex market.
- Acceleration in economic activity was also evident in the Nairobi Securities Exchange (NSE), which saw increased activity, with the NSE 20 Share Index rising from 1,868 points at the end of 2020 to 1,903 points at the end of 2021.
- The banking industry remained stable and resilient during the year, with strong liquidity and adequate capitalization. During the year, the banking scene was characterized by accelerated digital transformation, reinforcement of risk management policies and practices, cost-cutting efforts, as well as recovery from credit losses incurred in the previous year.

Future outlook

- Emergence of new Covid-19 variants, as well as slow uptake of vaccines is expected to hamper recovery from the Covid-19 pandemic.
- The country's economy is expected to take a hit from the upcoming elections, as foreign and local investors take a backseat due to election-related uncertainty.
- The Bank will continue to boost its operational and technological capacity through investment in new systems, solutions, and human resources. The Bank also plans to grow its branch network and channels, which will enable it to reach a wider target market and offer a wider range of products and services.
- Amid various efforts to grow its customer base and diversify its business portfolio, the Bank will be integrating climate-related risk management into its business decisions, practices and activities, which is expected to drive social change and accountability in the prevention and reversal of climate change. This is in line with the Central Bank of Kenya's issuance of Climate-related Risk Management Guidelines in 2021.
- The Bank plans to continue to maintain adequate capital buffers and liquidity levels, to enable it to respond to unforeseen shocks, while maintaining regulatory thresholds.
- The Bank's management believes that its strategy for the year 2022 will drive both growth and profitability, enabling the Bank to remain profitable amid an uncertain operating environment.

Market Description and Branch Networks

The Bank currently has 5 branches in Nairobi (3), Eldoret (1) and Nyali, Mombasa (1) and held over 3,187 customer accounts as at 31 December 2021, (2020:2,900). Corporates made up 43% of the customer deposits, while retail customers constitute the remaining 57% in terms of value.

The Bank's loan book is dominated by Corporate Clients, who make up 89% of the loan portfolio by value with the largest exposures being in Wholesale and Retail Trade, and Finance and Insurance.

Products and Services

The Bank's products and services are tailor-made to its customers' needs. The Bank recognizes that customers' needs are dynamic and keep changing according to socioeconomic trends and as such, commits to remain relevant to its clientele. The Bank's product and services range from savings accounts, term accounts, loans as well as insurance products.

In 2021, the Bank launched its internet banking platform, giving customers access to banking services without the need to visit a branch. The bank will continue to revamp existing products with the aim of enriching customer experiencing, and particularly improving the turnaround time.

Risk Management

The Bank has put in place a robust risk management framework, which encompasses strong corporate governance. The Bank's risk appetite is determined and approved by the Board. The Bank continuously identifies risks it is exposed to, scopes and explains the components of these risks, and employs the relevant mitigation response plans for each risk category. These are clearly communicated to all staff through Bank policies and procedures, and periodic trainings.

The Bank continues to monitor all risks affecting its business, in line with the Board-approved Risk Management Framework, to ensure appropriate actions are taken to reduce potential impact.

The Bank also continues to ensure compliance with existing and new regulations issued by the Central Bank and other regulatory authorities.

Refer to note 5 of the financial statements for a description of the Bank's financial risks and how they are mitigated.

Auditors

PricewaterhouseCoopers LLP were appointed as the auditors of the Company in accordance with the company's Articles of Association and Section 719 of the Companies Act, 2015 and subject to Section 24(1) of the Banking Act (Cap 488) 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.

Directors' statement as to the information given to the auditors.

With respect to each director at the time of approval of this report:

- so far as the director is aware, there is no relevant audit information of which the Bank'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 Bank's auditors are aware of that information

By order of the board

Company secretary

Nairobi, Kenya

24 March 2022

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 as at the end of the financial year and of its profit or loss for that year. It also requires the directors to ensure that the Bank maintains proper accounting records that are sufficient to show and explain the transactions of the Bank and disclose, with reasonable accuracy, the financial position of the Bank. The directors are also responsible for safeguarding the assets of the Bank, 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 assessed the Bank's ability 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 the Bank's 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 24 March 2022 and signed on its behalf by:

…………………………………	…………………………………
Tom Gitogo	Hossam Rageh
Chairman	Executive Director

…………………………………

Joram Kiarie

Chief Executive Officer

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF MAYFAIR CIB BANK LIMITED

Report on the audit of the financial statements

Opinion

We have audited the accompanying financial statements of Mayfair CIB Bank Limited (the "Bank") set out on pages 13 to 69 which comprise the statement of financial position at 31 December 2021, the statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended and the notes to the financial statements, which include a summary of significant accounting policies.

In our opinion, the financial statements give a true and fair view of the financial position of Mayfair CIB Bank Limited at 31 December 2021 and of its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the 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 *Auditor's responsibilities for the audit of the financial statements* section of our report.

We are independent of the Bank in accordance with the International Code of Ethics for Professional Accountants (including International Independence Standards) issued by the International Ethics Standards Board for Accountants (IESBA Code) together with the ethical requirements that are relevant to our audit of the financial statements in Kenya. We have fulfilled our other ethical responsibilities in accordance with the IESBA Code.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other information

The other information comprises the information included in the annual report other than the financial statements and our auditor's report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, 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 identified above 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, 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.

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INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF MAYFAIR CIB BANK LIMITED (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 and the requirements of the Companies Act, 2015 and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the Bank's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Bank or to cease operations, or have no realistic alternative but to do so.

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 auditor's 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 Bank's internal control.

- 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 management's 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 Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's 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 auditor's report. However, future events or conditions may cause the Bank to cease to continue as a going concern.

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF MAYFAIR CIB BANK LIMITED (CONTINUED)

Auditor's responsibilities for the audit of the financial statements (continued)

- 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.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Report on other matters prescribed by the Companies Act, 2015

In our opinion the information given in the report of the directors on pages 6 to 8 is consistent with the financial statements.

Richard Njoroge

FCPA Richard Njoroge, Practicing Certificate Number 1244
Engagement partner responsible for the audit

For and on behalf of PricewaterhouseCoopers LLP
Certified Public Accountants
Nairobi

25 March 2022

Statement of profit or loss and other comprehensive income for the year ended December 31, 2021

	Notes	Dec. 31, 2021 Ksh Thousands	Dec. 31, 2020 Ksh Thousands
Interest and similar income		**1,228,426**	953,732
Interest and similar expense		**(537,112)**	(561,322)
Net interest income	*7*	**691,314**	392,410
Fees and commission income	*8*	**76,693**	52,833
Net trading income	*9*	**108,076**	95,857
Other operating income	*11*	**15,367**	3,851
Operating income		**891,450**	544,951
Administrative expenses	*10*	**(800,534)**	(691,914)
Impairment charge for credit losses	*12*	**(13,103)**	(204,954)
Profit/ (loss) before income tax		**77,813**	(351,917)
Income tax credit/(expense)	*13*	**18,281**	(27,357)
Net profit / (loss) for the year		**96,094**	(379,274)

Other comprehensive income

	Notes	Dec. 31, 2021 Ksh Thousands	Dec. 31, 2020 Ksh Thousands
Net profit / (loss) for the year		**96,094**	(379,274)
Items that will be reclassified subsequently to profit or loss:			
Net change in fair value of debt instruments measured at fair value through other comprehensive income		**(122,517)**	65,584
Net gain on financial assets reclassified to statement of profit or loss		**58,413**	-
Total other comprehensive (loss)/income for the year		**(64,104)**	65,584
Total comprehensive profit/ (loss) for the year		**31,990**	(313,690)
Profit (loss) per share	*14*	**23.54**	(118.00)

Statement of financial position as at December 31, 2021

	Notes	Dec. 31, 2021 Ksh Thousands	Dec. 31, 2020 Ksh Thousands
Assets			
Cash and balances with Central Bank of Kenya	15	1,026,067	1,005,909
Due from banks, net	16	1,104,356	2,915,339
Loans and advances to customers, net	18	5,348,495	4,781,947
Financial investments securities			
At Fair value through OCI	19	3,610,465	1,423,444
At Amortized cost	19	1,597,756	1,795,031
Other assets	21	275,450	352,629
Property and equipment	22	287,099	250,839
Intangible assets	23	100,956	81,697
Right of use asset	33	110,175	122,525
Total assets		13,460,819	12,729,360
Liabilities and equity			
Liabilities			
Due to banks	24	601,271	13,404
Customer deposits	25	8,301,925	8,068,514
Other liabilities	26	279,393	361,462
Lease liabilities	34	125,293	137,676
Deferred income tax	29	-	27,357
Total liabilities		9,307,882	8,608,413
Equity			
Issued and paid up share capital	27	4,081,633	4,081,633
Share premium	28	1,613,139	1,613,139
Fair value reserve		5,330	69,434
Accumulated deficit		(1,547,165)	(1,643,259)
Total equity		4,152,937	4,120,947
Total liabilities and equity		13,460,819	12,729,360

The financial statements on page 13 to 69 were approved and authorized for issue by the board of directors on 24 March 2022 and were signed on its behalf by:

Tom M. Gitogo
Chairman

Hossam Rageh
Executive Director

Sheila Kyarisiima
Director

Joram Kiarie
Chief Executive Officer

JLG Maonga
Company Secretary

Statement of changes in equity for the year ended December 31, 2020

Ksh Thousands

Dec. 31, 2020	Issued and paid up share capital	Share premium	Fair value reserve	Accumulated Deficit	Total Shareholders Equity
Beginning balance	2,300,000	-	3,850	(1,263,985)	**1,039,865**
Capital contributions	1,781,633	1,613,139	-	-	**3,394,772**
Net loss for the year	-	-	-	(379,274)	**(379,274)**
Other comprehensive income	-	-	65,584	-	**65,584**
Balance at the end of the year	**4,081,633**	**1,613,139**	**69,434**	**(1,643,259)**	**4,120,947**

Ksh Thousands

Statement of changes in equity for the year ended December 31, 2021

Dec. 31, 2021	Issued and paid up share capital	Share premium	Fair value reserve	Accumulated Deficit	Total Shareholders Equity
Beginning balance	**4,081,633**	**1,613,139**	**69,434**	**(1,643,259)**	**4,120,947**
Net profit for the year	**-**	**-**	**-**	**96,094**	**96,094**
Other comprehensive loss	**-**	**-**	**(64,104)**	**-**	**(64,104)**
Balance at the end of the year	**4,081,633**	**1,613,139**	**5,330**	**(1,547,165)**	**4,152,937**

Statement of Cash flow for the year ended December 31, 2021

		Dec. 31, 2021 Ksh Thousands	Dec. 31, 2020 Ksh Thousands
Cash flows from operating activities			
Profit/(loss) before Income tax		**77,813**	(351,917)
Adjustments for:			
Loss / (gain) from disposal of property and equipment		**71**	(11)
Property and equipment depreciation	*22*	**91,080**	89,896
Intangible assets amortization	*23*	**21,703**	47,290
Depreciation of right-of-use assets	*33*	**35,875**	36,615
Release of impairment charge for credit losses (due from banks)		**(3,741)**	3,224
Impairment charge for credit losses (off balance sheet items)		**3,987**	(9,096)
Finance costs - leases	*34*	**17,234**	18,834
Operating income/(loss) before changes in operating assets and liabilities		**244,022**	(165,165)
Working capital changes:			
Decrease/(increase) in financial assets at amortized cost		**197,275**	(646,121)
Increase in financial assets at fair value through OCI		**(2,466,225)**	(918,482)
Increase in loans and advances to customers		**(566,547)**	(179,507)
Decrease in derivative financial instruments		**-**	(3,900)
Increase in other assets	*21*	**77,179**	(264,420)
Increase in customer deposits	*25*	**233,411**	798,294
(Increase)/decrease in cash reserve ratio balances		**(40,395)**	59,090
Increase in other liabilities	*26*	**(82,069)**	208,207
Income Tax Paid		**(8,325)**	-
Net cash flow used in operating activities		**(2,411,673)**	(1,112,004)
Cash flows from investing activities			
Purchase of property and equipment	*22*	**(153,446)**	(43,637)
Purchase of intangible assets	*23*	**(15,136)**	(8,080)
Proceeds from disposal of property and equipment		**-**	85
Net cash flows used in investing activities		**(168,582)**	(51,632)
Cash flows from financing activities			
Capital contributions		**-**	3,394,772
Payment of principal position of lease liabilities	*34*	**(37,928)**	(43,660)
Net cash flow (used in) / generated from financing activities		**(37,928)**	3,351,112
Net (decrease)/increase in cash and cash equivalents during the year		**(2,618,184)**	2,187,476
Beginning balance of cash and cash equivalents		**3,793,362**	1,605,886
Cash and cash equivalents at the end of the year		**1,175,178**	3,793,362
Cash and cash equivalents comprise:			
Cash and balances with the CBK - available for use by the bank	*15*	**672,094**	692,330
Due from banks	*16*	**1,104,356**	2,915,339
Treasury bills - maturing within 90 days		**-**	199,097
Amounts due to other banks	*24*	**(601,271)**	(13,404)
Total cash and cash equivalents		**1,175,178**	3,793,362

Notes to the financial statements for the year ended December 31, 2021.

1. Statement of compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS), and the requirements of the Kenyan Companies Act, 2015.

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

2. Incorporation

The Bank is incorporated and domiciled in Kenya under the Kenyan Companies Act, 2015.

3. Summary of 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 years presented, unless otherwise stated.

3.1 Basis of preparation

The financial statements are prepared under the historical cost basis of accounting as modified to include the revaluation of financial instruments that are measured at fair value or revalued amounts at the end of each reporting period. The principal accounting policies adopted in the preparation of these financial statements remain unchanged from the previous year.

3.1.1 Changes in accounting policies and disclosure. New standards, amendments and interpretations adopted by the bank.

The Directors do not plan to apply the above standards, until they become effective. The standards are not expected to have a material impact to the Bank.

International Financial Reporting Standards and amendments effective for the first time for *December* 2021 year-end		
Number	**Effective date**	**Executive summary**
Amendments to IFRS 9 'Financial Instruments', IAS 39 'Financial Instruments: Recognition and Measurement', IFRS 7 'Financial Instruments: Disclosures', IFRS 4 'Insurance Contracts' and IFRS 16 'Leases' – interest rate benchmark (IBOR) reform (Phase 2)	Annual periods beginning on or after 1 January 2021 (Published August 2020)	The Phase 2 amendments address issues that arise from the implementation of the reform of an interest rate benchmark, including the replacement of one benchmark with an alternative one.
IFRS 16, 'Leases' COVID-19-Related Rent Concessions Amendment	Annual periods beginning on or after 1 June 2020 (Early adoption is permitted) (Published June 2020)	The IASB has provided lessees (but not lessors) with relief in the form of an optional exemption from assessing whether a rent concession related to COVID-19 is a lease modification, provided that the concession meets certain conditions. Lessees can elect to account for qualifying rent concessions in the same way as they would if they were not lease modifications. In many cases, this will result in accounting for the concession as a variable lease payment. There is no financial impact since the Bank did not get any rent concession relating to COVID-19

New and amended standards, interpretation and amendments issued but not effected.

International Financial Reporting Standards, interpretations and amendments issued but not effective		
Number	Effective date	Executive summary
Amendments to IAS 16 'Property, Plant and Equipment': Proceeds before Intended Use	Annual periods beginning on or after 1 January 2022 (Published May 2020)	The amendment to IAS 16 prohibits an entity from deducting from the cost of an item of PPE any proceeds received from selling items produced while the entity is preparing the asset for its intended use (for example, the proceeds from selling samples produced when testing a machine to see if it is functioning properly). The proceeds from selling such items, together with the costs of producing them, are recognized in profit or loss.
Amendments to IAS 37 'Provisions, Contingent Liabilities and Contingent Assets' on Onerous Contracts—Cost of Fulfilling a Contract	Annual periods beginning on or after 1 January 2022 (Published May 2020)	The amendment clarifies which costs an entity includes in assessing whether a contract will be loss-making. This assessment is made by considering unavoidable costs, which are the lower of the net cost of exiting the contract and the costs to fulfil the contract. The amendment clarifies the meaning of 'costs to fulfil a contract'. Under the amendment, costs to fulfil a contract include incremental costs and the allocation of other costs that relate directly to fulfilling the contract.
Annual improvements cycle 2018 - 2020	Annual periods beginning on or after 1 January 2022 (Published May 2020)	These amendments include minor changes to: • IFRS 1, 'First time adoption of IFRS' has been amended for a subsidiary that becomes a first-time adopter after its parent. The subsidiary may elect to measure cumulative translation differences for foreign operations using the amounts reported by the parent at the date of the parent's transition to IFRS. • IFRS 9, 'Financial Instruments' has been amended to include only those costs or fees paid between the borrower and the lender in the calculation of "the 10% test" for derecognition of a financial liability. Fees paid to third parties are excluded from this calculation. • IFRS 16, 'Leases', amendment to the Illustrative Example 13 that accompanies IFRS 16 to remove the illustration of payments from the lessor relating to leasehold improvements. The amendment intends to remove any potential confusion about the treatment of lease incentives.
Amendment to IAS 1 'Presentation of Financial Statements' on Classification of Liabilities as Current or Non-current	Annual periods beginning on or after 1 January 2022 (Published Jan 2020)	The amendment clarifies that liabilities are classified as either current or non-current, depending on the rights that exist at the end of the reporting period. Classification is unaffected by expectations of the entity or events after the reporting date (for example, the receipt of a waiver or a breach of covenant).

3.1.2 Early adoption of the standards

The above standards and interpretation are not mandatory for 31 December 2021 reporting period and have not been early adopted by the bank. The standards are not expected to have a material impact on the bank in the current or future reporting periods and on foreseeable future transaction.

3.2 Revenue recognition

3.2.1 Interest income and expense

Interest income and expense for all interest-bearing financial instruments are recognized within the profit or loss on accrual basis using the effective interest method. The effective interest rate is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial instruments (or, where appropriate, a shorter period) to the carrying amount of the financial instruments. The effective interest rate is established on initial recognition of the financial asset and liability and is not revised subsequently.

The calculation of the effective interest rate includes all fees and points paid or received, transaction costs, and discounts or premiums that are an integral part of the effective interest rate. Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or liability.

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

3.2.2 Fees and commissions

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.

Fees and commission income, including account servicing fees, investment management fees, placement fees and syndication fees, are recognized 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 recognized 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.

3.3 Property, plant and equipment

Property, plant and equipment are stated at historical cost less any accumulated depreciation and any accumulated impairment losses.

Depreciation

Depreciation is calculated on the straight-line basis at the following annual rates estimated to write off the cost of property, plant and equipment over its expected useful life as per below.

	Depreciation rates
Leasehold improvements	12.50%
Furniture and fittings	20%
Motor vehicle	20%
Computer equipment	33.33%
Office equipment	20%
Right of use asset	Dependent on lease period/
	Estimated useful life of asset.
Intangible assets (Core Banking Software)	10%
Intangible assets (Application Software)	33.33%

3.4 Foreign currency translation

3.4.1 Functional and presentation currency

The financial statements are presented in Kenya Shillings (Ksh), which is also the Bank's functional currency.

3.4.2 Transactions and balances in foreign currencies

The Bank maintains its accounting records in Kenya Shillings (Ksh). Transactions in foreign currencies during the period are translated into the Kenya Shillings (Ksh) using the prevailing exchange rates on the date of the transaction.

Monetary assets and liabilities denominated in foreign currencies are retranslated at the end of reporting period at the prevailing exchange rates. Foreign exchange gains and losses resulting from settlement and translation of such transactions and balances are recognized in the income statement and reported under the following line items:

- Net trading income from held-for-trading assets and liabilities.
- Items of other comprehensive income with equity in relation to investments in equity instruments at fair value through comprehensive income.
- Other operating revenues (expenses) from the remaining assets and liabilities.

Changes in the fair value of financial instruments of a monetary nature in foreign currencies that are classified as financial investments at fair value through comprehensive income (debt instruments) are analyzed between valuation differences that resulted from changes in the cost consumed for the instrument and differences that resulted from changing the exchange rates in effect and differences caused by changing the fair value for the instrument, the evaluation differences related to changes in the cost consumed are recognized in the income of loans and similar revenues and in the differences related to changing the exchange rates in other operating income (expenses) item, and are recognized in the items of comprehensive income.

Valuation differences arising from the measurement of items of a non-monetary nature at fair value through profit and loss resulting from changes in the exchange rates used to translate those items are recognized in the income statement by the total valuation differences resulting from the measurement of equity instruments classified at fair value through profit and loss, while the total valuation differences resulting from the measurement of equity instruments at fair value through comprehensive income are recognized within other comprehensive income items in equity, fair value reserve item for financial investments at fair value through comprehensive income.

3.5 Employee entitlements

Entitlements to annual leave are recognized when they accrue to employees. Provision is made for the estimated liability in respect of annual leave accrued at the end of the reporting period.

3.6 Retirement benefits

The Bank operates a defined contribution retirement benefit scheme for its employees. The assets of this scheme are held in a separate trustee administered fund. The scheme is funded by payments from both the employees and the employer. The Bank also contributes to a statutory defined contribution pension scheme, the National Social Security Fund (NSSF). Contributions are determined by local statute.

The Bank's contributions in respect of retirement benefit costs are charged to profit or loss in the year to which they relate.

3.7 Financial instruments

Financial assets and liabilities

Measurement methods

Amortised cost and effective interest rate

The amortised cost is the amount at which the financial asset or financial liability is measured at initial recognition minus the principal repayments, plus or minus the cumulative amortization using the effective interest method of any difference between that initial amount and, for financial assets, adjusted for any loss allowances.

The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial asset or financial liability to the gross carrying amount of a financial asset (i.e. its amortised cost before any impairment allowance) or to the amortised cost of a financial liability. The calculation does not consider expected credit losses and includes transaction costs, premiums or discounts and fees paid or received that are integral to the effective interest rate, such as origination fees. For purchased or originated credit-impaired financial assets – assets that are credit-impaired at initial recognition, the Bank calculates the credit adjusted effective interest rate, which is calculated based on the amortised cost of the financial asset instead of its gross carrying amount and incorporates the impact of expected credit losses in estimated future cash flows.

When the Bank revises the estimates of future cash flows, the carrying amount of the respective financial asset or financial liability is adjusted to reflect the new estimate discounted using the original effective interest rate. Any changes are recognized in the profit or loss account.

Interest income

Interest income and interest expense on interest bearing financial instruments is calculated by applying the effective interest rate to the gross carrying amount, except for:

a) Purchased or originated credit impaired (POCI) financial assets, for which the original credit-adjusted effective interest rate is applied to the amortised cost of the financial asset; and

b) Financial assets that are not "POCI" but have subsequently become credit-impaired, for which interest revenue is calculated by applying the effective interest rate to their amortised cost (i.e.net of the expected credit loss provision) in subsequent reporting periods.

Initial recognition and measurement

Financial assets and financial liabilities are recognized when the entity becomes a party to the contractual provisions of the instrument. Regular way purchases and sales of financial assets are recognized on trade-date, the date which the Bank commits to purchase or sell the asset.

At initial recognition, the Bank measures a financial asset or financial liability at its fair value plus or minus, in the case of a financial asset or financial liability not at fair value through the profit or loss, transaction costs that are incremental and directly attributable to the acquisition or issue of the financial asset or financial liability, such as fees and commissions. Transaction costs of financial assets and financial liabilities at fair value through profit or loss are expensed in profit or loss. Immediately after the initial recognition, an expected credit loss allowance (ECL) is recognized for the financial assets measured at amortised cost and investments in debt instruments measured at FVOCI, which results in an accounting loss being recognized in profit or loss when an asset is newly originated.

When the fair value of financial assets and liabilities differs from the transaction price on initial recognition, the Bank recognized the difference as follows:

a) When the fair value is evidenced by a quoted price in an active market for an identical asset or liability (i.e. Level 1 input) or based on a valuation technique that uses only data from observable markets, the difference is recognized as a gain or loss; and

b) In all other cases, the difference is deferred, and the timing of recognition of deferred day one profit or loss is determined individually. It is either amortised over the life of the instrument, deferred until the instrument's fair value can be determined using market observable inputs, or recognized through settlement.

Financial assets

i. Classification and subsequent measurement

The Bank has applies IFRS 9 and classifies its financial assets in the following measurement categories:

- Fair value through profit or loss (FVPL);
- Fair value through other comprehensive income (FVOCI); and
- Amortised cost.

Debt instruments

Debt instruments are those instruments that meet the definition of a financial liability from the issuer's perspective, such as loans, government and corporate bonds and trade receivables purchased from clients in factoring arrangements without recourse. Classification and subsequent measurement of debt instruments depends on the Bank's business model for managing the asset and the cash flow characteristics of the asset.

The Bank classifies its debt instruments into one of the following three measurement categories:

- Amortised cost: assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest (SPPI), and that are not designated at FVPL, are measured at amortised cost. The carrying amount of these assets are adjusted by any expected credit loss allowance. Interest income from financial assets is included in "interest and similar income" using the effective interest rate method.

- Fair value through other comprehensive income (FVOCI): Financial assets that are held for collection of contractual cash flows and for selling the assets, where the assets' cash flows represent solely payments of principal and interest, and that are not designated at FVPL, are measured at fair value through other comprehensive income (FVOCI). Movements in the carrying amount are taken through OCI, except for the recognition of impairment gains or losses, interest revenue and foreign exchange gains and losses on instrument's amortised cost which are recognized in profit or loss. When the financial asset is recognized, the cumulative gain or loss previously recognized in OCI is reclassified from equity to profit or loss and recognized in "Net investment income" using the effective interest rate method; and

- Fair value through the profit or loss (FVTPL): Assets that do not meet the criteria for amortised cost or FVOCI are measured at fair value through profit or loss. A gain or loss on a debt investment that is subsequently measured at fair value through profit or loss and is not part of a hedging relationship is recognized in profit or loss and presented within "Net trading income" in the period in which it arises, unless it arises from debt instruments that were designated at fair value or which are not held for trading, in which case they are presented separately in "Net investment income".

Business model: The business model reflects how the Bank manages the assets in order to generate cash flows. That is, whether the Bank's objective is solely to collect the contractual cash flows from the assets or is to collect both the contractual cash flows and cash flows arising from sale of assets. If neither of these is applicable (e.g. financial assets are held for trading purposes), then the financial assets are classified as part of "other" business model and measured at FVPL. Factors considered by the Bank in determining the business model for a Bank of assets include past experience on how cash flows for these assets were collected, how the asset's performance is evaluated and reported by key management personnel, how risks are assessed and managed and how managers are compensated. For example, the liquidity portfolio of assets is held by the Bank as part of liquidity management and is generally classified with the hold to collect and sell business model. Securities held for trading are held principally for the purpose of selling in the near term or are part of a portfolio of financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking. These securities are classified in the "other" business model and measured at FVPL.

SPPI: Where the business model is to hold assets to collect contractual cash flows or to collect contractual cash flows and sell, the Bank assesses whether the financial instruments' cash flows represent solely payments of principal and interest (the "SPPI test"). In making this assessment, the Bank considers whether the contractual cash flows are consistent with a basic lending arrangement i.e. interest includes only consideration for the time value of money, credit risk and a profit margin that is consistent with a basic lending arrangement. Where the contractual terms introduce exposure to risk or volatility that are inconsistent with a basic lending arrangement, the related financial asset is classified and measured at fair value through profit or loss.

Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest.

The Bank reclassifies debt investments when and only when its business model for managing those assets changes. The reclassification takes place from the start of the first reporting period following the change. The changes are expected to be very infrequent, and none occurred during the year.

ii. Impairment

The Bank assesses on a forward-looking basis the expected credit loss ("ECL") associated with its debt instrument assets carried at amortised cost and FVOCI and with the exposure arising from loan commitments and financial guarantee contracts. The Bank recognized a loss allowance for such losses at each reporting date. The measurement of ECL reflects:

- An unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes.
- The time value of money; and
- Reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions, and forecasts of future economic conditions.

iii. Modification of loans

The Bank sometimes renegotiates or otherwise modifies the contractual cash flows of loans to customers. When this happens, the Bank assesses whether the new terms are substantially different to the original terms. The Bank does this by considering, among others, the following factors:

- If the borrower is in financial difficulty, whether the modification merely reduces the contractual cash flows to amounts the borrower is expected to be able to pay.
- Whether any substantial new terms are introduced, such as a profit share/equity-based return that substantially affects the risk profile of the loan.
- Significant extension of the loan term when the borrower is not in financial difficulty.
- Significant change is interest rate.
- Change in the currency of the loan.
- Insertion of collateral, other security or credit enhancement that significantly affect the credit risk associated with the loan.

If the terms are substantially different, the Bank derecognizes the original financial asset and recognized a "new" asset at fair value and recalculates a new effective interest rate for the asset. The date of renegotiation is consequently considered to be the date of initial recognition for impairment calculation purposes including for the purpose of determining whether a significant credit risk has occurred.

However, the Bank also assesses whether the new financial asset recognized is deemed to be credit impaired at initial recognition, especially in circumstances where the renegotiation was driven by the debtor being unable to make the originally agreed payments. Differences in the carrying amount are also recognized in profit or loss as a gain or loss on derecognition.

If the terms are not substantially different, the renegotiation or modification does not result in derecognition, and the Bank recalculates the gross carrying amount based on the revised cash flows of the financial asset and recognized a modification gain or loss in profit or loss. The new gross carrying amount is recalculated by discounting the modified cash flows at the original effective interest rate of credit-adjusted effective interest rate for POCI financial assets.

iv. Derecognition other than on a modification

Financial assets, or a portion thereof, are recognized when the contractual rights to receive the cash flows from the assets have expired, or when they have been transferred and either (i) the Bank transfers substantially all the risks and rewards of ownership, or (ii) the Bank neither transfers nor retains substantially all the risks and rewards of ownership and the Bank has not retained control.

The Bank enters into transactions where it retains the contractual rights to receive cash flows from assets but assumes a contractual obligation to pay those cash flows to other entities and transfers substantially all of the risks and rewards. These transactions are accounted for as "pass through" transfers that result in derecognition if the Bank:

i. Has no obligation to make payments unless it collects equivalent amounts from the assets.
ii. Is prohibited from selling or pledging the assets; and
iii. Has an obligation to remit any cash it collects from assets without material delays.

Collateral (shares and bonds) furnished by the Bank under standard repurchase agreements and securities lending and borrowings transactions are not recognized23d because the Bank retains substantially all the risks and rewards on the basis of predetermined repurchase price, and the criteria for derecognition are therefore not met.

Financial liabilities

Classification and subsequent measurement

In both the current period and prior period, financial liabilities are classified as subsequently measured at amortised cost, except for:

- Financial liabilities at fair value through profit or loss such as derivatives, financial liabilities held for trading (e.g. short positions in the trading book) and other financial liabilities designated as such at initial recognition. Gains or losses on financial liabilities designated at fair value through profit or loss are presented partially in other comprehensive income (the amount of change in the fair values of the financial liability that is attributable to changes in the credit risk of that liability) and partially profit or loss (the remaining amount of change in the fair value of the liability).

- Financial liabilities arising from the transfer of financial assets which did not qualify for derecognition, whereby a financial liability is recognized for the consideration received for the transfer. In subsequent periods, the Bank recognized any expense incurred on the financial liability; and

- Financial guarantee contracts and loan commitments.

ii) Derecognition

Financial liabilities are recognized when they are extinguished (i.e., when the obligation specified in the contract is discharged, cancelled, or expires).

The exchange between the Bank and its original lenders of debt instruments with substantially different terms, as well as substantial modification of the terms of the existing financial liabilities, are accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability. The terms are substantially different if the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective interest rate, is at least 10% different from the discounted present value of the remaining cash flows of the original financial liability. In addition, other qualitative factors, such as the currency that the instrument is denominated in, changes in the type of interest rate, new conversion features attached to the instrument and change in covenants are also taken into consideration.

If the exchange of debt instruments or modification of terms is accounted for as an extinguishment, any costs or fees incurred are recognized as part of the gain or loss on the extinguishment. If the exchange or modification is not accounted for as an extinguishment, any costs or fees incurred adjust the carrying amount of the liability and are amortised over the remaining term of the modified liability.

Offsetting financial assets and financial liabilities

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

3.8 Dividend income

Dividends are recognized in the income statement when the right to collect it is declared.

3.9 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 transactions off the statement of financial position and disclosed as contingent liabilities.

3.10 Income tax

Income tax expense represents the sum of the current income tax and deferred income tax.

3.10.1 Current income tax

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

3.10.2 Deferred income tax

Deferred income tax is recognized 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 recognized for all taxable temporary differences. Deferred tax assets are generally recognized for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences are utilized. Such deferred tax assets and liabilities are not recognized if the temporary difference arises from good will 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.

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 recognized, based on tax rates that have been 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 Bank expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Current and deferred Income tax for the period

Current and deferred taxes are recognized in profit or loss, except when they relate to items that are recognized in other comprehensive income or directly in equity, in which case, the current and deferred taxes are also recognized in other comprehensive income or directly in equity.

3.11 Leases

The Bank assesses whether a contract is or contains a lease at inception of the contract. The Bank recognized a right of use asset and a corresponding lease liability 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 Bank recognized the lease payments 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 Bank uses its incremental borrowing rate.

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 method and by reducing the carrying amount to reflect the lease payments made.

The Bank re-measures the lease liability (and makes a corresponding adjustment 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.

The Bank did not make any such adjustments during the years 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 losses.

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 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.

The Bank applies IAS 36 to determine whether a right-of-use asset is impaired and accounts for any identified impairment loss.

3.12 Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents comprise balances with less than three months' maturity from the date of acquisition, including cash and non-restricted balances with central banks, treasury bills and other eligible bills, loans and advances to banks, amounts due from other banks and short-term government securities.

3.13 Derivatives

The Bank maintains strict control limits on net open derivative positions (i.e., the difference between purchase and sale contracts), by both amount and term. At any one time, the amount subject to credit risk is limited to the current fair value of instruments that are favorable to the Bank (i.e., assets with positive fair value), which in relation to derivatives is only a small fraction of the contract, or notional values used to express the volume of instruments outstanding. This credit risk exposure is managed as part of the overall lending limits with customers, together with potential exposures from market movements. Collateral or other security is not usually obtained for credit risk exposures on these instruments, except where the Bank requires margin deposits from counterparties.

Settlement risk arises in any situation where a payment in cash, securities or equities is made in the expectation of a corresponding receipt in cash, securities, or equities. Daily settlement limits are established for each counterparty to cover the aggregate of all settlement risk arising from the Bank market transactions on any single day.

Derivatives are initially recognised at fair value on the date on which the derivative contract is entered and are subsequently remeasured at fair value at the end of each reporting period. The resulting gain or loss is recognised in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of recognition of gains or losses in the profit or loss will depend on the nature of the hedge relationship.

All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative.

Derivatives embedded in the non-derivative host contracts are treated as separate derivatives when:

- Their risks and economic characteristics are not closely related to those of the host contract;
- A separate instrument with the same terms would meet the definition of a derivative; and
- The hybrid contract is not measured at fair value through profit or loss

3.14 Intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is the fair value as at the date of acquisition. Following initial recognition, intangible assets are measured at cost less any accumulated amortization and any accumulated impairment losses. Internally generated intangible assets, excluding capitalized development costs, are not capitalized and expenditure is recognized in profit or loss in the year in which the expenditure is incurred. Intangible assets with finite lives are amortized on a straight-line basis in profit or loss over their estimated useful economic lives, from the date that they are available for use. The amortization method, useful life and the residual value are reviewed at each reporting date and adjusted if appropriate. Changes in the expected useful life, residual value or amortization method are accounted for as changes in accounting estimates. The amortization expense on intangible assets with finite lives is recognized in profit or loss in the expense category consistent with the function of the intangible asset. The useful lives of intangible assets are assessed to be either finite or indefinite. Costs associated with maintaining computer software programmes are recognized as an expense as incurred. However, expenditure that enhances or extends the benefits of computer software programmes beyond their original specifications and lives is recognized as a capital improvement and added to the original cost of the software. Computer software development costs recognized as assets are amortized using the straight-line method. There are no intangible assets with indefinite useful lives.

3.15 Segment Reporting

An operating segment is a component of the Bank that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Bank's other components, whose operating results are reviewed regularly by the executive committee (being the chief operating decision maker) to make decisions about resources allocated to each segment and assess its performance, and for which discrete financial information is available.

3.16 Share capital and reserve

Ordinary shares are classified as share capital in equity. Any premium received over and above the par value of the shares is classified as share premium.

3.17 Comparatives

Comparative figures have been adjusted to conform with changes in the presentation of the current period where necessary.

3.18 Critical accounting judgments and key sources of estimation uncertainty

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

These are dealt with below:

3.18.1 Critical accounting judgements in applying the Bank's policies.

Business model assessment

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

Significant increase in credit risk

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

Establishing groups of assets with similar credit risk characteristics

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

Models and assumptions used

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

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

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

Probability of default

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

Loss Given Default

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

3.18.2 Key sources of estimation uncertainty

Property and equipment

Critical estimates are made by the directors in determining useful lives for property and equipment as well as intangible assets.

Fair value measurement and valuation

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

Impairment of tangible and intangible assets

At the end of each reporting period, the Bank reviews 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. Where it is not possible to estimate the recoverable amount of an individual asset, the Bank estimates the recoverable amount of the cash generating unit to which the asset belongs.

Estimating the incremental borrowing rate

The Bank cannot readily determine the interest rate implicit in the leases, therefore, it uses its incremental borrowing rate ('IBR') to measure lease liabilities. The IBR is the rate of interest that the Bank would have to pay to borrow over a similar term, and with a similar security. The Bank uses its own judgement in determination of appropriate IBR to apply.

4. Bank's financial performance

The Bank recorded a net profit of Ksh 96,094,000 for the year ended December. 31, 2021 (December. 31, 2020: net loss of Ksh 379,274,000) and as at that date it had an accumulated deficit of Ksh 1,547,165,000 (December 31, 2020: Ksh 1,643,259,000).

The Bank reported improved revenues driven by increase in net interest income by 76% year on year to close at Ksh 691 million up from 392 million in December 2020. The impact of growth in revenues resulted in the Bank breaking even.

In view of the foregoing, the directors consider it appropriate to prepare the financial statements on the going concern basis.

5. Financial risk management

The Bank's activities expose it to a variety of financial risks and those activities involve the analysis, evaluation, acceptance and management of some degree of risk or combination of risks. Taking risk is core to the financial business, and the operational risks are an inevitable consequence of being in business. The Bank's aim is therefore to achieve an appropriate balance between risk and rewards and minimize potential adverse effects on the Bank's financial performance. The most important types of financial risks are credit risk, market risk, liquidity risk and other operating risks. Also market risk includes exchange rate risk, rate of return risk and other prices risks.

The Board Risk and Compliance and the Board Audit Committees are responsible for monitoring compliance with the Bank's risk management policies and procedures, and for reviewing the adequacy of the risk management framework in relation to the risks faced by the Bank. These Committees are assisted in these functions by the Risk and Compliance and Internal Audit units. The units undertake both regular and ad-hoc reviews of risk management controls and procedures, the results of which are reported to the Board Risk and Compliance and the Board Audit Committees.

All Board committees have both executive and non-executive members and report regularly to the Board of Directors on their activities. The Bank's risk management policies are established to identify and analyse the risks faced by the Bank, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions, products and services offered. The Bank, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment, in which all employees understand their roles and obligations.

5.1 Credit risk

Credit risk is the risk that a customer or counterparty will default on its contractual obligations resulting in financial loss to the Bank. The Bank's main income generating activity is lending to customers and therefore credit risk is a principal risk. Credit risk mainly arises from loans and advances to customers and other banks (including related commitments to lend such as loan or credit card facilities), investments in debt securities and derivatives that are an asset position. The Bank considers all elements of credit risk exposure such as counterparty default risk, geographical risk and sector risk for risk management purposes.

For risk management purposes, credit risk arising on trading securities is managed independently, but reported as a component of market risk exposure.

5.1.1 Credit risk measurement

The Board of Directors has delegated responsibility for the management of credit risk to the Board Credit Committee. A separate Credit department, reporting to the Board Credit Committee, is responsible for oversight of the Bank's credit risk, including:

- Formulating credit policies in consultation with business units, covering collateral requirements, credit assessment, risk grading and reporting, documentary and legal procedures, and compliance with regulatory and statutory requirements.
- Establishing the authorisation structure for the approval and renewal of credit facilities. Authorisation limits are allocated to business unit Credit Officers. Larger facilities require approval by Head of Credit, Executive Credit Committee or the Board of Directors as appropriate.
- Reviewing and assessing credit risk. Credit assesses all credit exposures in excess of designated limits, prior to facilities being committed to customers by the business unit concerned. Renewals and reviews of facilities are subject to the same review process.
- Limiting concentrations of exposure to counterparties, geographies and industries (for loans and receivables), and by issuer, credit rating band, market liquidity and country (for investment securities).
- Categorising Bank's exposures according to the degree of risk of financial loss faced and to focus management on the attendant risks. The risk grading system is used in determining where impairment provisions may be required against specific credit exposures. The current risk grading framework consists of five grades reflecting varying degrees of risk of default and the availability of collateral or other credit risk mitigation. The responsibility for setting risk grades lies with the final approving executive committee as appropriate. Risk grades are subject to regular reviews by Board Credit Committee.
- Reviewing compliance of business units with agreed exposure limits, including those for selected industries, and product types. Regular reports are provided to Credit Committee on the credit quality of local portfolios and appropriate corrective action is taken.
- Providing advice, guidance and specialist skills to business units to promote best practice throughout the Bank in the management of credit risk.

The internal audit function performs regular audits making sure that the established controls and procedures are adequately designed and implemented.

5.1.2 Significant increase in credit risk

The Bank monitors all financial assets that are subject to impairment requirements to assess whether there has been a significant increase in credit risk since initial recognition. If there has been a significant increase in credit risk the Bank will measure the loss allowance based on lifetime rather than 12-month ECL.

5.1.3 Incorporation of forward-looking information.

The Bank uses forward-looking information that is available without undue cost or effort in its assessment of significant increase of credit risk as well as in its measurement of ECL. The Bank employs experts who use external and internal information to generate a 'base case' scenario of future forecast of relevant economic variables along with a representative range of other possible forecast scenarios. The external information used includes economic data and forecasts published by governmental bodies and monetary authorities.

The Bank applies probabilities to the forecast scenarios identified. The base case scenario is the single most-likely outcome and consists of information used by the Bank for strategic planning and budgeting. The Bank has identified and documented key drivers of credit risk and credit losses for each portfolio of financial instruments and, using a statistical analysis of historical data, has estimated relationships between macro-economic variables and credit risk and credit losses. The Bank has not made changes in the estimation techniques or significant assumptions made during the reporting period.

5.1.4 Measurement of ECL

The Bank measures ECL considering the risk of default over the maximum contractual period (including extension options) over which the Bank is exposed to credit risk and not a longer period, even if contract extension or renewal is common business practice. However, for financial instruments such as revolving credit facilities and overdraft facilities that include drawn and an undrawn commitment component, 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. The Bank has ensured that the appropriate methodology is used when calculating ECL for both accounting and regulatory purposes.

The measurement of ECL is based on probability weighted average credit loss. As a result, the measurement of the loss allowance should be the same regardless of whether it is measured on an individual basis or a collective basis (although measurement on a collective basis is more practical for large portfolios of items). In relation to the assessment of whether there has been a significant increase in credit risk it can be necessary to perform the assessment on a collective basis

The key inputs used for measuring ECL are:

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

Probability of default

PD is an estimate of the likelihood of default over a given time horizon. It is estimated as at a point in time. The calculation is based on statistical rating models and assessed using rating tools tailored to the various categories of counterparties and exposures.

In this case, the Bank does not have the benefit of the time horizon. After matching the Bank's sectors to the CBK sectors, the NPL ratio for each sector in the CBK report was obtained and assigned to the matched the Bank's sectors. The 12-month PDs were then modelled by taking these NPL ratios and weighting them using predictions from the CBK credit survey report on changes (rose, fell, remained unchanged) in sectorial NPL's.

The CBK credit survey report is a quarterly report that provides quarterly updates on the banking sector and the economy. Within the report is a summary of predictions of whether the NPL ratio for different sectors will rise, fall or remain unchanged as determined by different banks in the industry.

These three scenarios rise, fall and remain unchanged form the basis of the worst, best and base case scenarios respectively. The base scenario (remain unchanged) applies a 0% impact as this is possibility of no change in the sector NPL ratio. The impact of the worst case and base case scenarios occurring is based on the weighted average quarterly change in the prediction of the NPL ratios rising or falling, respectively, in the different sectors (weights are applied based on the NPL balance per sector).

Lifetime PDs were modelled by applying a growth/ decline factor to the 12-month PD. The factor is determined by taking the banking sector NPL ratios for the last three years, using weights, to project the NPL ratios for the next 4-5 years through a trend analysis and applying the year-on-year change in the NPL ratio as a growth/decline factor to the 12-month PD to obtain the lifetime year 1 PD.

Finally, a macroeconomic adjustment is applied onto the PD from the output of the multivariate regression analysis. Multivariate regression analysis is carried out by taking the year-on-year (Y-O-Y) change banking industry NPL ratio from 2002 to 2018 and regressing it against the Y-OY change in various macroeconomic factors with the source information being from Oxford economics.

Loss given default

Loss given default (LGD) is the magnitude of the likely loss if there is a default. This is computed as the loss the Bank would experience after considering the discounted value of all possible cash flows that can be obtained from the borrower. The Bank considers various forms of collateral in making this determination. The LGD models for secured assets consider forecasts of future collateral valuation considering sale discounts and time to realisation of collateral. LGD models for unsecured assets consider time of recovery, recovery rates and seniority of claims. The calculation is on a discounted cash flow basis, where the cash flows are discounted by the original EIR of the loan.

Exposure at default

Exposure at default (EAD) 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's modelling approach for EAD reflects expected changes in the balance outstanding over the lifetime of the loan exposure that are permitted by the current contractual terms, such as amortisation profiles, early repayment or overpayment, changes in utilisation of undrawn commitments and credit mitigation actions taken before default. The Bank uses EAD models that reflect the characteristics of the portfolios. The ECL is computed on an annual basis, hence a rundown of the current outstanding balance to nil is calculated to determine the EAD at these annual points.

5.1.5 Internal credit risk ratings

In order to minimise credit risk, the Bank has tasked its credit management committee to develop and maintain the Bank's credit risk grading to categorise exposures according to their degree of risk of default. The Bank's credit risk grading framework comprises five categories. The credit rating information is based on a range of data that is determined to be predictive of the risk of default and applying experienced credit judgement. The nature of the exposure and type of borrower are taken into account in the analysis. Credit risk grades are defined using qualitative and quantitative factors that are indicative of risk of default.

The credit risk grades are designed and calibrated to reflect the risk of default as credit risk deteriorates. As the credit risk increases the difference in risk of default between grades changes. Each exposure is allocated to a credit risk grade at initial recognition, based on the available information about the counterparty. All exposures are monitored and the credit risk grade is updated to reflect current information. The monitoring procedures followed are both general and tailored to the type of exposure. The following data are typically used to monitor the Bank's exposures:

- Delinquency in contractual payments of principal or interest.
- Cash flow difficulties experienced by the borrower.
- Breach of loan covenants or conditions.

- Initiation of bankruptcy proceedings.
- Deterioration of the borrower's competitive position.
- Deterioration in the value of collateral

The Bank collects performance and default information about its credit risk exposures analysed by type of product and borrower. The table below provides a mapping of the Bank's internal credit grades.

Bank's credit risk grades	**Description CBK**	**Description IFRS 9**
Grade 1	Normal risk	Stage 1
Grade 2	Watch risk	Stage 2
Grade 3	Substandard risk	Stage 3
Grade 4	Doubtful risk	Stage 3
Grade 5	Loss	Stage 3

The Bank analyses all data collected using statistical models and estimates the remaining lifetime PD of exposures and how these are expected to change over time. The factors taken into account in this process include macro-economic data such as GDP growth, unemployment, benchmark interest rates and house prices. The Bank generates a 'base case' scenario of the future direction of relevant economic variables for each region as well as a representative range of other possible forecast scenarios. The Bank then uses these forecasts, which are probability-weighted, to adjust its estimates of PDs.

The Bank uses different criteria to determine whether credit risk has increased significantly per portfolio of assets. The criteria used are both quantitative changes in PDs as well as qualitative.

The Bank has monitoring procedures in place to make sure that the criteria used to identify significant increases in credit are effective, meaning that significant increase in credit risk is identified before the exposure is defaulted or when the asset becomes 30 days past due. The Bank performs periodic back-testing of its ratings to consider whether the drivers of credit risk that led to default were accurately reflected in the rating in a timely manner.

CBK Provisioning

Below is a statement of institutional worthiness according to internal ratings, compared to CBK ratings and rates of provisions needed for assets impairment related to credit risk:

CBK Rating	Categorization	Provision %	Internal rating	Categorization
Normal	Low risk	1%	Grade 1	Performing loans
Watch	Watch list	3%	Grade 2	Watch list
Substandard	Substandard	20%	Grade 3	Non performing loans
Doubtful	Doubtful	100%	Grade 4	Non performing loans
Loss	Bad debts	100%	Grade 5	Non performing loans

5.1.6. Maximum exposure to credit risk before collateral held

The Bank is exposed to credit risk arising on other financial assets as included in the statement of financial position. As part of the credit risk management system, the Bank's management reviews information on significant amounts. The Bank's management assesses the credit quality of each counterparty, taking into account its financial position, past experience and other factors. The credit risk on amounts due from Banking institutions, corporate bonds, government securities and balances with Central Bank of Kenya is limited because the counterparties are Banks, the governments and corporations with high credit ratings.

The amount that best represents the Bank's such exposure to credit risk, at the end of the year is made up as follows:

	Dec. 31, 2021 Ksh Thousands	Dec. 31, 2020 Ksh Thousands
On balance sheet items exposed to credit risk		
Cash and balances with central bank	**1,026,067**	1,005,909
Due from banks	**1,106,441**	2,921,165
Less:Impairment provision	**(2,085)**	(5,826)
Gross loans and advances to customers	**5,626,644**	5,047,239
Individual:		
- Overdraft	**35,900**	55,335
- Personal loans	**485,673**	609,226
- Mortgages	**51,176**	52,425
Corporate:		
- Overdraft	**1,045,305**	1,065,442
- Loans	**4,008,590**	3,264,811
Impairment provision	**(278,149)**	(265,292)
Financial investments:		
-Debt instruments	**5,208,221**	3,218,475
Other assets	**275,450**	352,629
Total	**12,962,589**	**12,274,299**
Off balance sheet items exposed to credit risk		
Letters of credit (import and export)	**587,819**	85,506
Letter of guarantee	**409,459**	247,572
Total	**997,278**	**333,078**

The above table represents the Bank's Maximum exposure to credit risk on Dec 31, 2021, before taking into account any held collateral.
For assets recognized on balance sheet, the exposures set out above are based on net carrying amounts as reported in the balance sheet.
As shown above, 46.55% of the total maximum exposure is derived from loans and advances to customers, 13.90% due from banks while investments in debt instruments represent 38.75%.
Management is confident in its ability to continue to control and sustain minimal exposure of credit risk resulting from both the bank's loans and advances portfolio and debt instruments based on the following:

- 96.64% of the loans and advances are concentrated in the top two grades of the internal credit risk rating system.
- 86.45% of loans and advances portfolio are considered to be neither past due nor impaired.
- The Bank has implemented more prudent processes when granting loans and advances during the financial year ended on Dec.31, 2021.
- 100% of the investments in debt Instruments are Kenyan sovereign instruments.

5.1.7. Classification of loans and other receivables

Stage 1 assets

The Bank classifies loans and receivables under this category if they are up to date and in line with their contractual agreements. Such loans would have demonstrated the meeting of their financial and non-financial conditions and the borrowers would have proven capacity to repay the loans. These exposures will normally be maintained largely within approved facility programs and with no depiction of impairment or distress signs. These exposures are categorised as normal accounts (category 1) in accordance with the Central Bank of Kenya Prudential Guidelines.

Stage 2 assets

Loans and securities where contractual interest or principal payments are past due but the Bank believes that impairment is not appropriate on the basis of the level of security / collateral available and/or the stage of collection of amounts owed to the Bank. These loans are categorised as watch (category 2) in accordance with the Central Bank of Kenya Prudential Guidelines.

Stage 3 assets

Impaired loans and securities are loans and securities for which the Bank determines that it is probable that it will be unable to collect all principal and interest due according to the contractual terms of the loan / securities agreement(s). These loans are graded 3, 4 and 5 in accordance with the Central Bank of Kenya Prudential Guidelines.

Loans with renegotiated terms

Loans with renegotiated terms are loans that have been restructured due to deterioration in the borrower's financial position and where the Bank has made concessions that it would not otherwise consider. Once the loan is restructured under these terms, it remains in this category for six months after which the category is reviewed.

Allowances for impairment

The Bank records an allowance for expected credit loss for all loans and other debt financial assets not held at FVPL, together with loan commitments and financial guarantee contracts. The ECL allowance is based on the credit losses expected to arise over the life of the asset (the lifetime expected credit losses or LTECL), unless there has been no significant increase in credit risk since origination, in which case, the allowance is based on the 12 months' expected credit losses.

Write-off policy

The Bank writes off a loan / balance (and any related allowances for impairment losses) when the Credit Committee determines that the loans / securities are uncollectible. This determination is reached after considering information such as the occurrence of significant changes in the borrower/issuer's financial position such that the borrower / issuer can no longer pay the obligation, or that proceeds from collateral will not be sufficient to pay back the entire exposure. For smaller balance loans, write off decisions are generally based on specific past due status.

Collateral held

The Bank holds collateral against loans and receivables to customers in the form of mortgage interests over property, other registered securities over assets, and guarantees. Estimates of fair value are based on the value of collateral assessed at the time of restructuring or downgrading of the account, and generally are not updated except when a loan is individually assessed as impaired or where there is a market for the security. Collateral is generally not held over loans and receivables to Banks, except when securities are held as part of reverse repurchase and securities borrowing activity. Collateral is usually not held against government securities, and no such collateral was held at Dec.31, 2021 (2020: nil).

An estimate of the fair value of collateral and other security enhancements held against financial assets is shown below:
Loans and receivables to customers:

	Dec. 31, 2021 Ksh Thousands	Dec. 31, 2020 Ksh Thousands
Stage 1 assets		
Property	**8,213,102**	9,756,090
Other	**4,888,497**	3,858,094
Stage 2 assets		
Property	**993,406**	1,349,882
Other	**249,146**	947,985
Stage 3 assets		
Property	**1,183,000**	343,250
Other	**101,527**	80,535
	15,628,678	**16,335,836**

The main types of collateral and the types of assets these are associated with are listed in the table below. The collateral presented relates to instruments that are measured at FVTOCI and amortised cost

	Percentage of Exposure that is subject to collateral		Type of Collateral held
Loans and advances to banks	-	-	-
Mortgage lending	100%	100%	Property
Personal lending	100%	100%	Property, equipment & insurance bonds
Corporate lending	100%	100%	Property equipment, Stock, insurance bonds

The Bank holds collateral to mitigate against the credit risk of its financial instruments. Accordingly, where the forced sale value of the collateral is higher than the total credit risk exposure for any financial instrument, after the consideration of the time to realisation of the collateral, no loss allowance is recognised at Dec.31, 2021. There was no change in the Bank's collateral policy during the year. More details with regards to collateral held for certain classes of financial assets is listed above.

5.1.8. Credit quality

Concentrations of risk

The Bank monitors concentrations of credit risk by sector. Details of significant concentrations of the Bank's assets, liabilities and items off the statement of financial position by industry are as detailed below:

Advances to customers

	Dec. 31, 2021 Ksh Thousands	Dec. 31, 2021 %	Dec. 31, 2020 Ksh Thousands	Dec. 31, 2020 %
Agriculture	111,187	2%	-	0%
Building and Construction	550,145	9%	664,411	13%
Business Services	325,300	6%	417,217	9%
Electricity and Water	7,059	0%	13,417	0%
Finance and Insurance	1,031,765	18%	227,711	5%
Manufacturing	555,913	10%	518,378	10%
Mining and Quarrying	242,863	4%	172,411	3%
Other Activities and Enterprises	356,996	6%	607,533	12%
Real Estate	151,426	3%	236,273	5%
Personal/Household	572,749	10%	716,986	14%
Transport & Communication	445,233	8%	343,657	7%
Wholesale and Retail Trade	1,276,008	23%	1,129,245	22%
Total	**5,626,644**	**100%**	**5,047,239**	**100%**

Customer Deposits

	Dec. 31, 2021 Ksh Thousands	Dec. 31, 2021 %	Dec. 31, 2020 Ksh Thousands	Dec. 31, 2020 %
Non-profit institutions and individuals	4,883,604	59%	4,964,796	61%
Private enterprises	3,224,247	39%	2,716,542	34%
Insurance companies	194,074	2%	387,176	5%
Total	**8,301,925**	**100%**	**8,068,514**	**100%**

Off balance sheet items

	Dec. 31, 2021 Ksh Thousands	Dec. 31, 2021 %	Dec. 31, 2020 Ksh Thousands	Dec. 31, 2020 %
Building and Construction	266,639	22%	207,818	63%
Business Services	93,528	7%		
Electricity and Water	62,696	7%	44,538	13%
Finance and Insurance	7,626	3%	9,152	3%
Manufacturing	479,065	8%	28,104	8%
Other Activities and Enterprises	-	5%	18,280	5%
Real Estate	1,000	1%	3,036	1%
Wholesale and Retail Trade	76,724	7%	22,150	7%
	10,000	0%	-	0%
Total	**997,278**	**100%**	**333,078**	**100%**

5.1.9. Loans and advances

Loans and advances are summarized as follows:

	Dec.31, 2021 Ksh Thousands Loans and advances to customers	Dec.31, 2020 Ksh Thousands Loans and advances to customers
Gross Loans and advances	**5,626,644**	5,047,239
Less:		
Impairment provision	**(278,149)**	(265,292)
Net	**5,348,495**	4,781,947

Total balances of loans and advances to customers divided by stages:

Dec.31, 2021

	Stage 1: Expected credit losses over 12 months	Stage 2: Expected credit losses Over a lifetime that is not creditworthy	Stage 3: Expected credit losses Over a lifetime Credit default	Individually impaired	Total
Individuals	**426,581**	**58,247**	**87,921**	**-**	**572,749**
Corporate and Business Banking	**4,434,835**	**517,416**	**101,644**	**-**	**5,053,895**
Total	**4,861,416**	**575,663**	**189,565**	**-**	**5,626,644**

Dec.31, 2020

	Stage 1: Expected credit losses over 12 months	Stage 2: Expected credit losses Over a lifetime that is not creditworthy	Stage 3: Expected credit losses Over a lifetime Credit default	Individually impaired	Total
Individuals	623,841	37,626	55,519	-	716,986
Corporate and Business Banking	3,681,918	584,160	64,175	-	4,330,253
Total	4,305,759	621,786	119,694	-	5,047,239

Expected credit losses for loans and advances to customers divided by stages:

Dec.31, 2021

	Stage 1: Expected credit losses over 12 months	Stage 2: Expected credit losses Over a lifetime that is not creditworthy	Stage 3: Expected credit losses Over a lifetime Credit default	Individually impaired	Total
Individuals	**5,396**	**4,004**	**87,794**	**-**	**97,194**
Corporate and Business Banking	**51,790**	**27,521**	**101,644**	**-**	**180,955**
Total	**57,186**	**31,525**	**189,438**	**-**	**278,149**

Dec.31, 2020

	Stage 1: Expected credit losses over 12 months	Stage 2: Expected credit losses Over a lifetime that is not creditworthy	Stage 3: Expected credit losses Over a lifetime Credit default	Individually impaired	Total
Individuals	42,302	17,299	55,519	-	115,120
Corporate and Business Banking	52,717	33,281	64,174	-	150,172
Total	95,019	50,580	119,693	-	265,292

The total balances of loans and facilities divided according to the internal classification:

Corporate and Business Banking loans:

Dec.31, 2021	**Scope of probability of default (PD)**	**Stage 1: Expected credit losses over 12 months**	**Stage 2: Expected credit losses Over a lifetime that is not creditworthy**	**Stage 3: Expected credit losses Over a lifetime Credit default**	**Individually impaired**	**Total**
Grade 1: Normal	**1%-14%**	**4,434,835**	**-**	**-**	**-**	**4,434,835**
Grade 2: Watch	**14%-28%**	**-**	**517,416**	**-**	**-**	**517,416**
Grade 3: Substandard	**100%**	**-**	**-**	**38,189**	**-**	**38,189**
Grade 4: Doubtful	**100%**	**-**	**-**	**47,504**	**-**	**47,504**
Grade 5: Loss	**100%**	**-**	**-**	**15,951**	**-**	**15,951**
		4,434,835	**517,416**	**101,644**	**-**	**5,053,895**

Individual Loans:

Dec.31, 2021	**Scope of probability of default (PD)**	**Stage 1: Expected credit losses over 12 months**	**Stage 2: Expected credit losses Over a lifetime that is not creditworthy**	**Stage 3: Expected credit losses Over a lifetime Credit default**	**Individually impaired**	**Total**
Grade 1: Normal	**1%-15%**	**426,581**	**-**	**-**	**-**	**426,581**
Grade 2: Watch	**15%-30%**	**-**	**58,247**	**-**	**-**	**58,247**
Grade 3: Substandard	**100%**	**-**	**-**	**35,526**	**-**	**35,526**
Grade 4: Doubtful	**100%**	**-**	**-**	**2,536**	**-**	**2,536**
Grade 5: Loss	**100%**	**-**	**-**	**49,859**	**-**	**49,859**
		426,581	**58,247**	**87,921**	**-**	**572,749**

Corporate and Business Banking loans:

Dec.31, 2020	Scope of probability of default (PD)	Stage 1: Expected credit losses over 12 months	Stage 2: Expected credit losses Over a lifetime that is not creditworthy	Stage 3: Expected credit losses Over a lifetime Credit default	Individually impaired	Total
Grade 1: Normal	1%-15%	3,681,918	-	-	-	3,681,918
Grade 2: Watch	15%-27%	-	584,160	-	-	584,160
Grade 3: Substandard	100%	-	-	61,804	-	61,804
Grade 4: Doubtful	100%	-	-	2,371	-	2,371
Grade 5: Loss	100%	-	-	-	-	-
		3,681,918	584,160	64,175	-	4,330,253

Individual Loans:

Dec.31, 2020	Scope of probability of default (PD)	Stage 1: Expected credit losses over 12 months	Stage 2: Expected credit losses Over a lifetime that is not creditworthy	Stage 3: Expected credit losses Over a lifetime Credit default	Individually impaired	Total
Grade 1: Normal	1%-16%	623,841	-	-	-	623,841
Grade 2: Watch	16%-32%	-	37,625	-	-	37,625
Grade 3: Substandard	100%	-	-	31,788	-	31,788
Grade 4: Doubtful	100%	-	-	23,731	-	23,731
Grade 5: Loss	100%	-	-	-	-	-
		623,841	37,625	55,519	-	716,985

Expected credit losses divided by internal classification:

Corporate and Business Banking loans:

Dec.31, 2021	**Scope of probability of default (PD)**	**Stage 1: Expected credit losses over 12 months**	**Stage 2: Expected credit losses Over a lifetime that is not creditworthy**	**Stage 3: Expected credit losses Over a lifetime Credit default**	**Individually impaired**	**Total**
Grade 1: Normal	**1%-14%**	**51,790**	**-**	**-**	**-**	**51,790**
Grade 2: Watch	**14%-28%**	**-**	**27,521**	**-**	**-**	**27,521**
Grade 3: Substandard	**100%**	**-**	**-**	**38,189**	**-**	**38,189**
Grade 4: Doubtful	**100%**	**-**	**-**	**47,504**	**-**	**47,504**
Grade 5: Loss	**100%**	**-**	**-**	**15,951**	**-**	**15,951**
		51,790	**27,521**	**101,644**	**-**	**180,955**

Individual Loans:

Dec.31, 2021	**Scope of probability of default (PD)**	**Stage 1: Expected credit losses over 12 months**	**Stage 2: Expected credit losses Over a lifetime that is not creditworthy**	**Stage 3: Expected credit losses Over a lifetime Credit default**	**Individually impaired**	**Total**
Grade 1: Normal	**1%-15%**	**5,396**	**-**	**-**	**-**	**5,396**
Grade 2: Watch	**15%-30%**	**-**	**4,004**	**-**	**-**	**4,004**
Grade 3: Substandard	**100%**	**-**	**-**	**35,526**	**-**	**35,526**
Grade 4: Doubtful	**100%**	**-**	**-**	**2,536**	**-**	**2,536**
Grade 5: Loss	**100%**	**-**	**-**	**49,732**	**-**	**49,732**
		5,396	**4,004**	**87,794**	**-**	**97,194**

Corporate and Business Banking loans:

Dec.31, 2020	Scope of probability of default (PD)	Stage 1: Expected credit losses over 12 months	Stage 2: Expected credit losses Over a lifetime that is not creditworthy	Stage 3: Expected credit losses Over a lifetime Credit default	Individually impaired	Total
Grade 1: Normal	1%-15%	52,716	-	-	-	52,716
Grade 2: Watch	15%-27%	-	33,281	-	-	33,281
Grade 3: Substandard	100%	-	-	61,410	-	61,410
Grade 4: Doubtful	100%	-	-	2,765	-	2,765
Grade 5: Loss	100%	-	-	-	-	-
		52,716	33,281	64,175	-	150,172

Individual Loans:

Dec.31, 2020	Scope of probability of default (PD)	Stage 1: Expected credit losses over 12 months	Stage 2: Expected credit losses Over a lifetime that is not creditworthy	Stage 3: Expected credit losses Over a lifetime Credit default	Individually impaired	Total
Grade 1: Normal	1%-16%	42,302	-	-	-	42,302
Grade 2: Watch	16%-32%	-	17,299	-	-	17,299
Grade 3: Substandard	100%	-	-	29,689	-	29,689
Grade 4: Doubtful	100%	-	-	25,830	-	25,830
Grade 5: Loss	100%	-	-	-	-	-
		42,302	17,299	55,519	-	115,120

The following table provides information on the quality of financial assets during the financial period:

Dec.31, 2021

Due from banks	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Credit rating	**12 months**	**Life time**	**Life time**	
Grade 1: Normal	1,106,441	-	-	1,106,441
Grade 2: Watch	-	-	-	-
Grade 3: Substandard	-	-	-	-
Grade 4: Doubtful	-	-	-	-
Grade 5: Loss	-	-	-	-
Total	1,106,441	-	-	1,106,441
Less:Impairment provision	(2,085)	-	-	(2,085)
Net	1,104,356	-	-	1,104,356

Individual Loans:	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Credit rating	**12 months**	**Life time**	**Life time**	
Grade 1: Normal	426,581	-	-	426,581
Grade 2: Watch	-	58,247	-	58,247
Grade 3: Substandard	-	-	35,526	35,526
Grade 4: Doubtful	-	-	2,536	2,536
Grade 5: Loss	-	-	49,859	49,859
Total	426,581	58,247	87,921	572,749
Less:Impairment provision	(5,396)	(4,004)	(87,794)	(97,194)
Net	421,185	54,243	127	475,555

Corporate and Business Banking loans:	**Stage 1**		**Stage 3**	**Total**
Credit rating	**12 months**	**Life time**	**Life time**	
Grade 1: Normal	4,434,835	-	-	4,434,835
Grade 2: Watch	-	517,416		517,416
Grade 3: Substandard	-	-	38,189	38,189
Grade 4: Doubtful	-	-	47,504	47,504
Grade 5: Loss	-	-	15,951	15,951
Total	4,434,835	517,416	101,644	5,053,895
Less:Impairment provision	(51,790)	(27,521)	(101,644)	(180,955)
Net	4,383,045	489,895	0	4,872,940

Financial Assets at Fair value through OCI	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Credit rating	**12 months**	**Life time**	**Life time**	
Grade 1: Normal	3,610,465	-	-	3,610,465
Grade 2: Watch	-	-	-	-
Grade 3: Substandard	-	-	-	-
Grade 4: Doubtful	-	-	-	-
Grade 5: Loss	-	-	-	-
	3,610,465	-	-	3,610,465
Less:Impairment provision	-	-	-	-
Net	3,610,465	-	-	3,610,465

Financial Assets at Amortized cost	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Credit rating	**12 months**	**Life time**	**Life time**	
Grade 1: Normal	1,597,756	-	-	1,597,756
Grade 2: Watch	-	-	-	-
Grade 3: Substandard	-	-	-	-
Grade 4: Doubtful	-	-	-	-
Grade 5: Loss	-	-	-	-
	1,597,756	-	-	1,597,756
Less:Impairment provision	-	-	-	-
Net	1,597,756	-	-	1,597,756

The following table provides information on the quality of financial assets during the financial period:

Dec.31, 2020

Ksh Thousands

Due from banks	Stage 1	Stage 2	Stage 3	Total
Credit rating	12 months	Life time	Life time	
Grade 1: Normal	2,921,165	-	-	2,921,165
Grade 2: Watch	-	-	-	-
Grade 3: Substandard	-	-	-	-
Grade 4: Doubtful	-	-	-	-
Grade 5: Loss	-	-	-	-
Total	2,921,165	-	-	2,921,165
Less:Impairment provision	(5,826)	-	-	(5,826)
Net	2,915,339	-	-	2,915,339

Individual Loans:	Stage 1	Stage 2	Stage 3	Total
Credit rating	12 months	Life time	Life time	
Grade 1: Normal	623,841	-	-	623,841
Grade 2: Watch	-	37,625	-	37,625
Grade 3: Substandard	-	-	31,788	31,788
Grade 4: Doubtful	-	-	23,731	23,731
Grade 5: Loss	-	-	-	-
Total	623,841	37,625	55,519	716,985
Less:Impairment provision	(42,302)	(17,299)	(55,519)	(115,120)
Net	581,539	20,326	-	601,865

Corporate and Business Banking loans:	Stage 1		Stage 3	Total
Credit rating	12 months	Life time	Life time	
Grade 1: Normal	3,681,918	-	-	3,681,918
Grade 2: Watch	-	584,161	-	584,161
Grade 3: Substandard	-	-	61,804	61,804
Grade 4: Doubtful	-	-	2,371	2,371
Grade 5: Loss	-	-	-	-
Total	3,681,918	584,161	64,175	4,330,254
Less:Impairment provision	(52,716)	(33,281)	(64,175)	(150,172)
Net	3,629,202	550,880	-	4,180,082

Financial Assets at Fair value through OCI	Stage 1	Stage 2	Stage 3	Total
Credit rating	12 months	Life time	Life time	
Grade 1: Normal	1,423,444	-	-	1,423,444
Grade 2: Watch	-	-	-	-
Grade 3: Substandard	-	-	-	-
Grade 4: Doubtful	-	-	-	-
Grade 5: Loss	-	-	-	-
	1,423,444	-	-	1,423,444
Less:Impairment provision	-	-	-	-
Net	1,423,444	-	-	1,423,444

Financial Assets at Amortized cost	Stage 1	Stage 2	Stage 3	Total
Grade 1: Normal	1,795,031	-	-	1,795,031
Grade 2: Watch	-	-	-	-
Grade 3: Substandard	-	-	-	-
Grade 4: Doubtful	-	-	-	-
Grade 5: Loss	-	-	-	-
	1,795,031	-	-	1,795,031
Less:Impairment provision	-	-	-	-
Net	1,795,031	-	-	1,795,031

The following table shows changes in expected ECL losses between the beginning and end of the year as a result of these factors:

Dec.31, 2021 — **Ksh Thousands**

Due from banks	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Provision for credit losses on 1 January 2021	5,826	-	-	5,826
New financial assets purchased or issued	2,085	-	-	2,085
Matured or disposed financial assets	(5,826)	-	-	(5,826)
Transferred to stage 1	-	-	-	-
Transferred to stage 2	-	-	-	-
Transferred to stage 3	-	-	-	-
Changes in the probability of default and loss in case of default and the exposure at default	-	-	-	-
Changes to model assumptions and methodology	-	-	-	-
Write off during the period	-	-	-	-
Cumulative foreign currencies translation differences	-	-	-	-
Ending balance	2,085	-	-	2,085

Individual Loans:	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Provision for credit losses on 1 January 2021	42,302	17,299	55,519	115,120
Impairment during the period	(36,906)	(13,296)	32,276	(17,926)
Write off during the period	-	-	-	-
Recoveries	-	-	-	-
Cumulative foreign currencies translation differences	-	-	-	-
Ending balance	5,396	4,003	87,795	97,194

Corporate and Business Banking loans:	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
	12 months	**Life time**	**Life time**	
Provision for credit losses on 1 January 2021	52,716	33,280	64,175	150,171
New financial assets purchased or issued	49,431	27,145	73,750	150,326
Matured or disposed financial assets	(4,811)	(11,495)	(4,736)	(21,042)
Transferred to stage 1	9,210	-	-	9,210
Transferred to stage 2	-	4,749		4,749
Transferred to stage 3	-	-	158,914	158,914
Changes in the probability of default and loss in case of default and the exposure at default	-	-	-	-
Changes to model assumptions and methodology	(54,756)	(26,158)	(190,459)	(271,373)
Recoveries	-	-	-	-
Write off during the period	-	-	-	-
Cumulative foreign currencies translation differences	-	-	-	-
Ending balance	51,790	27,521	101,644	180,955

Financial Assets at Fair value through OCI	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
	12 months	**Life time**	**Life time**	
	-	-	-	-
New financial assets purchased or issued	-	-	-	-
Matured or disposed financial assets	-	-	-	-
Transferred to stage 1	-	-	-	-
Transferred to stage 2	-	-	-	-
Transferred to stage 3	-	-	-	-
Changes in the probability of default and loss in case	-	-	-	-
Changes to model assumptions and methodology	-	-	-	-
Write off during the period	-	-	-	-
Cumulative foreign currencies translation differences	-	-	-	-
Ending balance	-	-	-	-

Financial Assets at Amortized cost	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
	12 months	**Life time**	**Life time**	
New financial assets purchased or issued	-	-	-	-
Matured or disposed financial assets	-	-	-	-
Transferred to stage 1	-	-	-	-
Transferred to stage 2	-	-	-	-
Transferred to stage 3	-	-	-	-
Changes in the probability of default and loss in case of default and the exposure at default	-	-	-	-
Changes to model assumptions and methodology	-	-	-	-
Write off during the period	-	-	-	-
Cumulative foreign currencies translation differences	-	-	-	-
Ending balance	-	-	-	-

The following table shows changes in expected ECL losses between the beginning and end of the period as a result of these factors:

Dec.31, 2020

Due from banks	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Provision for credit losses on 1 January 2020	2,602	-	-	2,602
New financial assets purchased or issued	5,826	-	-	5,826
Matured or disposed financial assets	(2,602)	-	-	(2,602)
Transferred to stage 1	-	-	-	-
Transferred to stage 2	-	-	-	-
Transferred to stage 3	-	-	-	-
Changes in the probability of default and loss in case of default and the exposure at default	-	-	-	-
Changes to model assumptions and methodology	-	-	-	-
Write off during the period	-	-	-	-
Cumulative foreign currencies translation differences	-	-	-	-
Ending balance	5,826	-	-	5,826

Individual Loans:	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Provision for credit losses on 1 January 2020	10,430	1,906	49	12,385
Impairment during the period	31,872	15,393	55,470	102,735
Write off during the period	-	-	-	-
Recoveries	-	-	-	-
Cumulative foreign currencies translation differences	-	-	-	-
Ending balance	42,302	17,299	55,519	115,120

Corporate and Business Banking loans:	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
	12 months	**Life time**	**Life time**	
Provision for credit losses on 1 January 2020	28,221	9,586	4,276	42,083
New financial assets purchased or issued	29,831	11,507	43,736	85,074
Matured or disposed financial assets	(55,917)	-	13,398	(42,519)
Transferred to stage 1	22,885	-	-	22,885
Transferred to stage 2	17,745	4,465	-	22,210
Transferred to stage 3	9,951	7,723	2,765	20,439
Changes in the probability of default and loss in case of default and the exposure at default	-	-	-	-
Changes to model assumptions and methodology	-	-	-	-
Recoveries	-	-	-	-
Write off during the period	-	-	-	-
Cumulative foreign currencies translation differences	-	-	-	-
Ending balance	52,716	33,281	64,175	150,172

Financial Assets at Fair value through OCI	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
	12 months	**Life time**	**Life time**	
Provision for credit losses on 1 January 2020	-	-	-	-
New financial assets purchased or issued	-	-	-	-
Matured or disposed financial assets	-	-	-	-
Transferred to stage 1	-	-	-	-
Transferred to stage 2	-	-	-	-
Transferred to stage 3	-	-	-	-
Changes in the probability of default and loss in case	-	-	-	-
Changes to model assumptions and methodology	-	-	-	-
Write off during the period	-	-	-	-
Cumulative foreign currencies translation differences	-	-	-	-
Ending balance	-	-	-	-

Financial Assets at Amortized cost	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
	12 months	**Life time**	**Life time**	
Provision for credit losses on 1 January 2020	-	-	-	-
New financial assets purchased or issued	-	-	-	-
Matured or disposed financial assets	-	-	-	-
Transferred to stage 1	-	-	-	-
Transferred to stage 2	-	-	-	-
Transferred to stage 3	-	-	-	-
Changes in the probability of default and loss in case of default and the exposure at default	-	-	-	-
Changes to model assumptions and methodology	-	-	-	-
Write off during the period	-	-	-	-
Cumulative foreign currencies translation differences	-	-	-	-
Ending balance	-	-	-	-

As discussed in the significant increase in credit risk section, under the Bank's monitoring procedures a significant increase in credit risk is identified before the exposure has defaulted, and at the latest when the exposure becomes 30 days past due. The table below provides an analysis of the gross carrying amount of loans and advances to customers by past due status.

Loans and advances to customers

	Ksh Thousands Gross
Dec.31, 2021	
IFRS 9 Stage 1 (0- 30 days)	**4,861,416**
IFRS 9 Stage 2 (31- 90 days)	**575,663**
IFRS 9 Stage 3(Over 90 days)	**189,565**
Total	**5,626,644**
Dec.31, 2020	
IFRS 9 Stage 1 (0- 30 days)	4,305,759
IFRS 9 Stage 2 (31- 90 days)	621,785
IFRS 9 Stage 3(Over 90 days)	119,695
Total	5,047,239

Restructured Loans and advances

Restructuring activities include rescheduling arrangements, applying obligatory management programs, modifying and deferral of payments. The application of restructuring policies are based on indicators or criteria of credit performance of the borrower that is based on the personal judgment of the management, which indicate that payment will most likely continue. Restructured loans at the end of the year were as below:

Loans and advances to customer	**Dec.31, 2021** Ksh Thousands	**Dec.31, 2020** Ksh Thousands
Corporates	**804,075**	229,050
Individuals	**225,429**	47,477
Total	**1,029,504**	276,527

5.1.10. Financial investments:

The following table represents an analysis of financial investment balances by rating agencies at the end of the year based on Standard & Poor's valuation and its equivalent.

Dec.31, 2021

Ksh Thousands

Amortized cost	Stage 1: Expected credit losses over 12 months	Stage 2: Expected credit losses Over a lifetime that is not creditworthy	Stage 3: Expected credit losses Over a lifetime Credit default	Individually impaired	Total
AAA	-	-	-	-	-
AA+ to -AA	-	-	-	-	-
A to -A+	-	-	-	-	-
Less than -A	**1,597,756**	-	-	-	**1,597,756**
Not rated	-	-	-	-	-
Total	**1,597,756**	-	-	-	**1,597,756**

Dec.31, 2021

Fair value through OCI	Stage 1: Expected credit losses over 12 months	Stage 2: Expected credit losses Over a lifetime that is not creditworthy	Stage 3: Expected credit losses Over a lifetime Credit default	Individually impaired	Total
AAA	-	-	-	-	-
AA+ to -AA	-	-	-	-	-
A to -A+	-	-	-	-	-
Less than -A	**3,610,465**	-	-	-	**3,610,465**
Not rated	-	-	-	-	-
Total	**3,610,465**	-	-	-	**3,610,465**

The following table represents an analysis of financial investment balances by rating agencies at the end of the year based on Standard & Poor's valuation and its equivalent.

Dec.31, 2020

Ksh Thousands

Amortized cost	Stage 1: Expected credit losses over 12 months	Stage 2: Expected credit losses Over a lifetime that is not creditworthy	Stage 3: Expected credit losses Over a lifetime Credit default	Individually impaired	Total
AAA	-	-	-	-	-
AA+ to -AA	-	-	-	-	-
A to -A+	-	-	-	-	-
Less than -A	1,795,031	-	-	-	1,795,031
Not rated	-	-	-	-	-
Total	1,795,031	-	-	-	1,795,031

Dec.31, 2020

Ksh Thousands

Fair value through OCI	Stage 1: Expected credit losses over 12 months	Stage 2: Expected credit losses Over a lifetime that is not creditworthy	Stage 3: Expected credit losses Over a lifetime Credit default	Individually impaired	Total
AAA	-	-	-	-	-
AA+ to -AA	-	-	-	-	-
A to -A+	-	-	-	-	-
Less than -A	1,423,444	-	-	-	1,423,444
Not rated	-	-	-	-	-
Total	1,423,444	-	-	-	1,423,444

The following table shows the analysis of impairment on credit losses of financial investments by rating agencies at the year end based on Standard & Poor's valuation and its equivalent.

Dec.31, 2021

Fair value through OCI	**Stage 1: Expected credit losses over 12 months**	**Stage 2: Expected credit losses Over a lifetime that is not creditworthy**	**Stage 3: Expected credit losses Over a lifetime Credit default**	**Individually impaired**	**Total**
AAA	-	-	-	-	-
AA+ to -AA	-	-	-	-	-
A to -A+	-	-	-	-	-
Less than -A	-	-	-	-	-
Not rated	-	-	-	-	-
Total	-	-	-	-	-

Dec.31, 2020

Fair value through OCI	Stage 1: Expected credit losses over 12 months	Stage 2: Expected credit losses Over a lifetime that is not creditworthy	Stage 3: Expected credit losses Over a lifetime Credit default	Individually impaired	Total
AAA	-	-	-	-	-
AA+ to -AA	-	-	-	-	-
A to -A+	-	-	-	-	-
Less than -A	-	-	-	-	-
Not rated	-		-	-	-
Total	-	-	-	-	-

5.1.11. Concentration of risks of financial assets with credit risk exposure

5.1.11.1. Geographical sectors

Following is a breakdown of the Bank's main credit exposure at their book values categorized by geographical region at the end of the year.

The Bank has allocated exposures to regions based on the country of domicile of its counterparties.

Ksh Thousands

Dec.31, 2021	Nairobi	Coast	Rift valley	Total
Cash and balances with Central Bank of Kenya	**992,391**	**17,180**	**16,496**	**1,026,067**
Due from banks	**1,106,441**	-	-	**1,106,441**
Gross loans and advances to banks				-
Less:Impairment provision	**(2,085)**	-	-	**(2,085)**
Gross loans and advances to customers				
Individual:				
- Overdrafts	**35,900**	-	-	**35,900**
- Personal loans	**423,290**	**58,220**	**4,163**	**485,673**
- Mortgages	**26,182**	**14,993**	**10,001**	**51,176**
Corporate:				
- Overdrafts	**754,249**	**206,358**	**84,698**	**1,045,305**
- Other loans	**2,077,245**	**1,454,581**	**476,764**	**4,008,590**
Impairment provision	**(234,148)**	**(23,577)**	**(20,424)**	**(278,149)**
Financial investments:				
-Debt instruments	**5,208,221**	-	-	**5,208,221**
Total	**10,387,686**	**1,727,755**	**571,698**	**12,687,139**

Dec.31, 2020	Nairobi	Coast	Rift valley	Total
Cash and balances with Central Bank of Kenya	969,021	23,237	13,651	1,005,909
Due from banks	2,921,165	-	-	2,921,165
Less:Impairment provision	(5,826)	-	-	(5,826)
Gross loans and advances to customers				
Individual:				
- Overdrafts	51,010	4,325	-	55,335
- Personal loans	521,594	82,524	5,108	609,226
- Mortgages	23,440	13,785	15,200	52,425
Corporate:				
- Overdrafts	745,604	202,122	117,716	1,065,442
- Other loans	2,386,913	537,999	339,899	3,264,811
Impairment provision	(239,912)	(18,454)	(6,926)	(265,292)
Financial investments:				
- Debt instruments	3,218,475	-	-	3,218,475
Total	10,591,484	845,538	484,648	11,921,670

5.1.11.2. Industry sectors

The following table analyses the Bank's main credit exposure at their book value categorized by the customers activities.

Ksh Thousands

Dec.31, 2021	Agriculture	Building and Construction	Business Services	Electricity and Water	Finance and Insurance	Individual	Manufacturing	Government sector	Mining and Quarrying	Other Activities and	Real estate	Transport and Communication	Wholesale and retail trade	Total
Cash and balances with Central Bank of Kenya	-	-	-	-	1,026,067	-	-	-	-	-	-	-	-	1,026,067
Due from banks	-	-	-	-	1,106,441	-	-	-	-	-	-	-	-	1,106,441
Less:Impairment provision	-	-	-	-	(2,085)	-	-	-	-	-	-	-	-	(2,085)
Gross loans and advances to customers														
Individual:														
- Overdrafts	-	-	-	-	-	35,900	-	-	-	-	-	-	-	35,900
- Personal loans	-	-	-	-	-	485,673	-	-	-	-	-	-	-	485,673
- Mortgages	-	-	-	-	-	51,176	-	-	-	-	-	-	-	51,176
Corporate:														
- Overdrafts		141,614	44,997		79,603		93,973	-		94,027	21,180	166,788	403,123	1,045,305
- Loans	111,187	408,531	280,303	7,059	952,162		461,941	-	242,863	262,970	130,246	278,444	872,884	4,008,590
Impairment provision	(199)	(10,936)	(22,185)	(164)	(7,311)	(97,194)	(29,609)	-	(2)	(19,523)	(990)	(18,997)	(71,039)	(278,149)
Net loans and advances to customers	110,988	539,209	303,115	6,895	1,024,454	475,555	526,305	-	242,861	337,474	150,436	426,235	1,204,968	5,348,495
Financial investments:														
-Debt instruments	-	-	-	-	-	-	-	5,208,221	-	-	-	-	-	5,208,221
Total	110,988	539,209	303,115	6,895	3,154,877	475,555	526,305	5,208,221	242,861	337,474	150,436	426,235	1,204,968	12,687,139

Dec.31, 2020	Agriculture	Building and Construction	Business Services	Electricity and Water	Finance and Insurance	Individual	Manufacturing	Government sector	Mining and Quarrying	Other Activities and	Real estate	Transport and Communication	Wholesale and retail trade	Total
Cash and balances with Central Bank of Kenya	-	-	-	-	1,005,909	-	-	-	-	-	-	-	-	1,005,909
Due from banks	-	-	-	-	2,921,165	-	-	-	-	-	-	-	-	2,921,165
Less:Impairment provision	-	-	-	-	(5,826)	-	-	-	-	-	-	-	-	(5,826)
Gross loans and advances to customers														
Individual:														
- Overdrafts	-	-	-	-	-	55,335	-	-	-	-	-	-	-	55,335
- Personal loans	-	-	-	-	-	609,226	-	-	-	-	-	-	-	609,226
- Mortgages	-	-	-	-	-	52,424	-	-	-	-	-	-	-	52,424
Corporate:														
- Overdrafts	-	226,782	50,336	-	68,848	-	91,084	-		242,520	23,572	5,256	357,044	1,065,442
- Loans	-	437,629	366,882	13,416	158,863	-	427,294	-	172,411	365,013	212,702	338,401	772,201	3,264,812
Impairment provision	-	(5,671)	(12,175)	(22)	-	(115,120)	(20,895)	-	(158)	(49,110)	(1,204)	(24,982)	(35,955)	(265,292)
Net loans and advances to customers	-	658,740	405,043	13,394	227,711	601,865	497,483	-	172,253	558,423	235,070	318,675	1,093,290	4,781,947
Financial investments:														
-Debt instruments	-	-	-	-	-	-	-	3,218,475	-	-	-	-	-	3,218,475
Total	-	658,740	405,043	13,394	4,148,959	601,865	497,483	3,218,475	172,253	558,423	235,070	318,675	1,093,290	11,921,670

5.2. Market risk

The objective of market risk management process is to manage and control market risk exposures in order to optimise return on risk while maintaining a market profile as a provider of financial products and services. Market risk is the risk that movement in market factors, including interest rates and foreign currency exchange rates, will reduce income or value of portfolio.

The Bank's Risk and Compliance Department is responsible for the development of detailed market risk management policies and for the day to day implementation of those policies.

5.2.1. Market risk measurement techniques

As part of the management of market risk, the Bank undertakes various hedging strategies and enters into interest rate swaps to match the interest rate risk associated with the fixed-rate long-term debt instrument and loans to which the fair value option has been applied .

5.2.2. Foreign exchange risk

The Bank operates in Kenya and its assets and liabilities are carried in Kenya shilling. The Bank maintains trade with correspondent Banks and takes deposits and lends in foreign currencies.

The Bank's currency position and exposure are managed within the exposure guideline of 20% of the core capital as stipulated by the Central Bank of Kenya. This position is reviewed on a daily basis by the management. The table below summarises the Bank's exposure to foreign exchange rate risk as at Dec.31, 2021. Included in the table are the Bank's financial instruments at carrying amounts categorised by currency.

						Ksh Thousands
Dec.31, 2021	**Ksh**	**USD**	**EUR**	**GBP**	**Other**	**Total**
Financial assets						
Cash and balances with central bank	757,545	239,549	17,001	11,972	-	1,026,067
Gross due from banks	1,945	1,074,920	22,501	6,932	143	1,106,441
Gross loans and advances to customers	4,865,840	760,804	-	-		5,626,644
Financial investments						
Gross financial investment securities	5,208,222	-	-	-	-	5,208,222
Total financial assets	10,833,552	2,075,273	39,502	18,904	143	12,967,374
Financial liabilities						
Due to banks	-	565,986	35,285	-	-	601,271
Due to customers	6,865,685	1,413,858	3,193	19,189	-	8,301,925
Total financial liabilities	6,865,685	1,979,844	38,478	19,189	-	8,903,196
Net on-balance sheet financial position	3,967,867	95,429	1,024	(285)	143	4,064,178

Dec.31, 2020	Ksh	USD	EUR	GBP	Other	
Total financial assets	9,101,230	3,018,222	22,939	42,907	1,664	12,186,962
Total financial liabilities	7,258,939	767,255	14,607	41,118	-	8,081,919
Net on-balance sheet financial position	1,842,291	2,250,967	8,332	1,789	1,664	4,105,043

Foreign exchange risk – Appreciation/Depreciation of KSh against other currencies by 10%.

The Foreign Exchange risks sensitivity analysis is based on the following assumptions;
•Foreign exchange exposures represent net currency positions of all currencies other than Kenya Shillings.
•The Currency risk sensitivity analysis is based on the assumption that all net currency positions are highly effective.

•The Base currency in which the Bank's business is transacted is Kenya Shillings.

The table below sets out the impact on future earnings of an incremental 10% parallel fall or rise in all foreign currencies at the beginning of each quarter during the 12 months from 1 January 2021.

Assuming no management actions, a series of such rises and falls would impact the future earnings and capital as illustrated in the table below;

Dec.31, 2021			Ksh Thousands
	Amount	Scenario 1 10% appreciation	Scenario 2 10% depreciation
Adjusted Core Capital	**4,099,560**	**4,100,223**	**4,098,898**
Adjusted Total Capital	**4,099,560**	**4,100,223**	**4,098,898**
Risk Weighted Assets (RWA)	**10,170,041**	**10,170,041**	**10,170,041**
Adjusted Core Capital to RWA	**40.31%**	**40.32%**	**40.30%**
Adjusted Total Capital to RWA*	**40.31%**	**40.32%**	**40.30%**

*all variables are constant except for movement of the foreign exchange rate under each scenario

5.2.3. 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 rates. The maturities of asset and liabilities and the ability to replace at an acceptable cost, interest-bearing liabilities as they mature, are important factors in assessing the Bank's exposure to changes in interest rates and liquidity. Interest rates on advances to customers and other risk assets are either pegged to the Bank's base lending or the treasury bill rate. The base rate is adjusted from time to time to reflect the cost of deposits.

The Risk and Compliance Committee closely monitors the interest rate trends to minimize the potential adverse impact of interest rate changes.

The table below summarizes the Bank's exposure to interest rate risks. It includes the Bank's financial instruments at carrying amounts, categorized by the earlier of repricing or contractual maturity dates.

	Up to1 Month	1-3 Months	3-12 Months	1-5 years	Over 5 years	Non- Interest Bearing	Ksh Thousands Total
Dec.31, 2021							
Financial assets							
Cash and balances with central bank	-	-	-	-	-	1,026,067	1,026,067
Gross due from banks	540,701	35,339	-	-	-	528,316	1,104,356
Gross loans and advances to customers	5,626,644	-	-	-	-	-	5,626,644
Financial investments	-	-	-	-	-	-	
Gross financial investment securities	-	-	-	-	5,208,221	-	5,208,221
Total financial assets	6,167,345	35,339	-	-	5,208,221	1,554,383	12,965,288
Financial liabilities							
Due to banks	601,271	-	-	-	-	-	601,271
Due to customers	957,178	3,002,054	3,644,286	-	-	698,407	8,301,925
Total financial liabilities	1,558,449	3,002,054	3,644,286	-	-	698,407	8,903,196
Total interest re-pricing gap	4,608,896	(2,966,715)	(3,644,286)	-	5,208,221	855,976	4,062,092
Dec.31, 2020							
Total financial assets	6,773,449	1,516,422	-	611,877	2,407,501	877,713	12,186,962
Total financial liabilities	811,168	3,970,957	2,618,035	-	-	681,759	8,081,919
Total interest re-pricing gap	5,962,281	(2,454,535)	(2,618,035)	611,877	2,407,501	195,954	4,105,043

The matching and controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental to the management of the Bank.

Interest rate risks – Increase/Decrease of 10% in Net Interest Margin

The interest rate risks sensitivity analysis is based on the following assumptions.

•Changes in the market interest rates affect the interest income or expenses of variable interest financial instruments.
•Changes in market interest rates only affect interest income or expenses in relation to financial instruments with fixed interest rates if these are recognized at their fair value.
•The interest rate changes will have a significant effect on interest sensitive assets and liabilities and hence simulation modelling is applied to net interest margins.
•The interest rates of all maturities move by the same amount and, therefore, do not reflect the potential impact on net interest income of some rates changing while others remain unchanged.
•The projections make other assumptions including that all positions run to maturity.

The table below sets out the impact on future net interest income of an incremental 10% parallel fall or rise in all yield curves at the beginning of each quarter during the 12 months from 1 January 2021.

Dec.31, 2021			**Ksh Thousands**
	Amount	**Scenario 1** Increase net interest margin by 10%	**Scenario 2** Decrease net interest margin by 10%
Profit before taxation	**77,814**	**146,945**	**8,682**
Adjusted Core Capital	**4,099,560**	**4,168,692**	**4,030,429**
Adjusted Total Capital	**4,099,560**	**4,168,692**	**4,030,429**
Risk Weighted Assets (RWA)	**10,170,041**	**10,170,041**	**10,170,041**
Adjusted Core Capital to RWA	**40.31%**	**40.99%**	**39.63%**
Adjusted Total Capital to RWA	**40.31%**	**40.99%**	**39.63%**

*all variables are constant except for movement of the interest rate under each scenario.

5.3. Liquidity risk

Liquidity risk is the risk that the Bank is unable to meet its payment obligations associated with its financial liabilities when they fall due and to replace funds when they are withdrawn.
The consequence may be the failure to meet obligations to repay depositors and fulfill commitments to lend.

Liquidity Risk Management Organization and Measurement Tools

Liquidity Risk is governed by Asset and Liability Committee (ALCO) and Board Risk Committee (BRC) subject to provisions of Treasury Policy Guide (TPG).
Board Risk Committee (BRC): Provides oversight of risk management functions and assesses compliance to the set risk strategies and policies approved by the Board of Directors (BoD) through periodic reports submitted by the Risk Group. The committee makes recommendations to the BoD with regards to risk management strategies and policies (including those related to capital adequacy, liquidity management, various types of risks: credit, market, operation, compliance, reputation and any other risks the Bank may be exposed to).

Asset & Liability Committee (ALCO): Optimises the allocation of assets and liabilities, taking into consideration expectations of the potential impact of future interest rate fluctuations, liquidity constraints, and foreign exchange exposures. ALCO monitors the Bank's liquidity and market risks, economic developments, market fluctuations, and risk profile to ensure ongoing activities are compatible with the risk/ reward guidelines approved by the BoD.

5.3.1. Liquidity risk management process

The Bank's liquidity management process is carried by the Treasury Department and monitored independently by the Risk Management Department, and includes projecting cash flows by major currency under various stress scenarios and considering the level of liquid assets necessary in relation thereto:
-Maintaining an active presence in global money markets to enable this to happen.
-Maintaining a diverse range of funding sources with back-up facilities
-Monitoring balance sheet liquidity and advances to core funding ratios against internal and CBK regulations.
-Managing the concentration and profile of debt maturities.
Monitoring and reporting takes the form of cash flow measurement and projections for the next day, week and month respectively, as these are key periods for liquidity management. The starting point for those projections is an analysis of the contractual maturity of the financial liabilities and the expected collection date of the financial assets.

5.3.2. Exposure to liquidity risk

The key measure used by the Bank for managing liquidity risk is the ratio of net liquid assets to deposits from customers with the minimum ratio required by the regulator being 20%. For this purpose net liquid assets are considered as including cash and cash equivalents and investment grade debt securities for which there is an active and liquid market less any deposits from Banks, debt securities issued, other borrowings and commitments maturing within the next month. Details of the reported Bank ratio of net liquid assets to deposits from customers at the reporting date and during the reporting year were as follows:

	Dec.31, 2021	Dec.31, 2020
At period end	**80.0%**	87.4%
Average for the year	**80.5%**	71.5%
Maximum for the year	**88.3%**	93.8%
Minimum for the year	**75.9%**	44.0%

5.3.3. Non-derivative cash flows

The table below presents the cash flows payable by the Bank under non-derivative financial liabilities by remaining contractual maturities and the maturities assumption for non contractual products on the basis of their behaviour studies, at balance sheet date.

Dec.31, 2021	**Up to 1 month**	**One to three months**	**Three months to one year**	**One year to five years**	**Over five years**	**Total**
Financial liabilities						
Due to banks	**602,823**	**-**	**-**	**-**	**-**	**602,823**
Due to customers	**1,659,677**	**3,036,481**	**3,745,969**	**-**	**-**	**8,442,127**
Lease liabilities	**3,344**	**10,033**	**27,668**	**113,683**	**4,229**	**158,957**
Total liabilities (contractual and non contractual maturity dates)	**2,265,844**	**3,046,514**	**3,773,637**	**113,683**	**4,229**	**9,203,907**
Total financial assets (contractual and non contractual maturity dates)	**2,519,235**	**345,542**	**1,115,150**	**3,372,452**	**5,612,909**	**12,965,288**
Net liquidity gap	**253,391**	**(2,700,972)**	**(2,658,487)**	**3,258,769**	**5,608,680**	**3,761,381**

Dec.31, 2020	Up to 1 month	One to three months	Three months to one year	One year to five years	Over five years	Total
Financial liabilities						
Due to banks	13,404	-	-	-	-	13,404
Due to customers	1,480,085	3,980,938	2,750,155	-	-	8,211,178
Lease liabilities	3,738	11,214	30,925	134,716	-	180,593
Total liabilities (contractual and non contractual maturity dates)	1,497,227	3,992,152	2,781,080	134,716	-	8,405,175
Total financial assets (contractual and non contractual maturity dates)	7,651,162	1,516,422	-	611,877	2,407,501	12,186,962
Net liquidity gap	6,153,935	(2,475,730)	(2,781,080)	477,161	2,407,501	3,781,787

Assets available to meet all of the liabilities and to cover outstanding loan commitments include cash, due from CBK and due from banks, treasury bills, other government notes , loans and advances to banks and customers.

In the normal course of business, a proportion of customer loans contractually repayable within one year will be extended. In addition, debt instrument and treasury bills and other governmental notes have been pledged to secure liabilities. The Bank would also be able to meet unexpected net cash outflows by selling securities and accessing additional funding sources such as asset-backed markets.

Off balance sheet items				**Ksh Thousands**
Dec.31, 2021	**Up to 1 year**	**1-5 years**	**Over 5 years**	**Total**
Letters of credit, guarantees and other commitments	**836,958**	**157,990**	**2,330**	**997,278**
Total	**836,958**	**157,990**	**2,330**	**997,278**

Off balance sheet items				Ksh Thousands
Dec.31, 2020	Up to 1 year	1-5 years	Over 5 years	Total
Letters of credit, guarantees and other commitments	217,794	115,284	-	333,078
Total	217,794	115,284	-	333,078

5.4. Fair value of financial assets and liabilities

5.4.1. Financial instruments not measured at fair value

The table below summarizes the book value and fair value of those financial assets and liabilities not presented on the Bank's balance sheet at their fair value.

	Book value		Fair value	
	Dec.31, 2021	Dec.31, 2020	**Dec.31, 2021**	Dec.31, 2020
Financial assets				
Due from banks	**1,104,356**	2,915,339	**1,104,356**	2,915,339
Net loans and advances to customers	**5,348,495**	4,781,947	**5,367,849**	4,781,947
- Individual	**475,555**	601,865	**494,909**	601,865
- Corporate	**4,872,940**	4,180,082	**4,872,940**	4,180,082
Financial investments:				
Amortized cost	**1,597,756**	1,795,031	**1,551,903**	1,831,747
Total financial assets	**8,050,607**	9,492,317	**8,024,108**	9,529,033
Financial liabilities				
Due to banks	**601,271**	13,404	**601,271**	13,404
Due to customers	**8,301,925**	8,068,514	**8,301,925**	8,068,514
Total financial liabilities	**8,903,196**	8,081,918	**8,903,196**	8,081,918

The fair value is considered in the previous note from the second and third level in accordance with the fair value standard

Due from banks

The fair value of floating rate placements and overnight deposits is their carrying amount. The estimated fair value of floating interest bearing deposits is based on discounted cash flows using prevailing money-market interest rates for debts with similar credit risk and similar maturity date.

Fair values of financial instruments

The following table provides the fair value measurement hierarchy of the assets and liabilities.

Quantitative disclosures fair value measurement hierarchy for assets as at Dec.31, 2021:

instruments:

Level 1 - Quoted prices in active markets for the same instrument (i.e. without modification or repacking);

Level 2 - Quoted prices in active markets for similar assets and liabilities or other valuation techniques for which all significant inputs are based on observable market data; and

Level 3 - Valuation techniques for which any significant input is not based on observable market data.

			Fair value measurement using		
Dec.31, 2021	**Date of Valuation**	**Total**	**Quoted prices in active markets (Level 1)**	**Significant observable inputs (level 2)**	**Valuation techniques (level 3)**
Measured at fair value:					
Financial assets					
Financial Assets at Fair value through OCI	**31 Dec 21**	**3,610,465**	**3,610,465**	**-**	**-**
Total		**3,610,465**	**3,610,465**	**-**	**-**
Liabilities for which fair values are disclosed:					
Due to customers	**31 Dec 21**	**8,301,925**	**-**	**-**	**8,301,925**
Total		**8,301,925**	**-**	**-**	**8,301,925**

Dec.31, 2020	Date of Valuation	Total	Quoted prices in active markets (Level 1)	Significant observable inputs (level 2)	Valuation techniques (level 3)
Measured at fair value:					
Financial assets					
Financial Assets at Fair value through P&L	31 Dec 20	-	-	-	-
Financial Assets at Fair value through OCI	31 Dec 20	1,423,444	1,423,444	-	-
Total		1,423,444	1,423,444	-	-
Derivative financial instruments					
Financial assets	31 Dec 20	-	-	-	-
Financial liabilities	31 Dec 20	-	-	-	-
Total		-	-	-	-
Liabilities for which fair values are disclosed:					
Due to customers	31 Dec 20	8,068,514	-	8,068,514	-
Total		8,068,514	-	8,068,514	-

Fair value of financial assets and liabilities

Loans and advances to banks

Loans and advances to banks are represented in loans that do not consider bank placing. The expected fair value of the loans and advances represents the discounted value of future cash flows expected to be collected. Cash flows are discounted using the current market rate to determine fair value.

Loans and advances to customers

Loans and advances are net of provisions for impairment. The estimated fair value of loans and advances represents the discounted amount of estimated future cash flows expected to be received. Expected cash flows are discounted at current market rates to determine fair value.

Financial Investments

Investment securities include only interest-bearing assets, financial assets at amortized cost, and fair value through OCI.
Fair value for amortized cost assets is based on market prices or broker/dealer price quotations.

Due to other banks and customers

The estimated fair value of deposits with no stated maturity, which includes non-interest-bearing deposits, is the amount repayable on demand. The estimated fair value of fixed interest-bearing deposits and other borrowings not quoted in an active market is based on discounted cash flows using interest rates for new debts with similar maturity date.

5.5 Capital management

The Bank's objectives when managing capital are:
•To safeguard the Bank's ability to continue as a going concern in order to provide acceptable returns to the shareholders and benefits for other stakeholders while maintaining an optimal capital structure.
•To comply with capital requirements set by the Central Bank of Kenya.
•To maintain a strong capital base to support continued business development.
•To create an acceptable buffer catering for unexpected losses that the Bank may incur in adverse market scenarios during the course of its business

Regulatory capital

The Bank's objective when managing regulatory capital is broadly covered as follows:

Banking

In line with our industry, the broader concept of capital and its adequacy is based on guidelines developed by the Basel Committee's Accords and implemented for supervisory purposes by the Central Bank of Kenya (CBK).
CBK largely segregate the total regulatory capital into two tiers;
•Tier 1 Capital (Core Capital), means permanent shareholders equity in the form of issued and fully paid-up shares plus all disclosed reserves, less goodwill or any intangible assets. It includes ordinary share capital, share premium and retained earnings.
•Tier 2 Capital (Supplementary Capital) includes among others, property revaluation reserves (up to a certain level subject to regulatory approval) and collective impairment allowances.

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

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

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

In implementing current capital requirements, the Central Bank of Kenya requires each Bank to maintain;
•A minimum level of regulatory capital of Shs 1 billion.
•A ratio of core capital to the risk–weighted assets plus risk-weighted off-statement of financial position assets at or above the required minimum of 10.50%.
•Core capital of not less than 8% of total deposit liabilities.
•Total capital of not less than 14.50% of risk-weighted assets plus risk-weighted off-statement of financial position items.

The Bank has complied with all externally imposed capital requirements throughout the year.

There have been no material changes in the Bank's management of capital during the year.

The Bank's regulatory capital position at 31 December was as follows as per Central Bank of Kenya:

1-The capital adequacy ratio	**Dec.31, 2021**	Dec.31, 2020
	Ksh Thousands	Ksh Thousands
Tier 1 capital		
Ordinary share capital	**4,081,633**	4,081,633
Share premium	**1,613,139**	1,613,139
Accumulated deficit	**(1,643,259)**	(1,643,259)
Net After tax profits, current year to-date (50% only)	**48,047**	-
Total qualifying tier 1 capital	**4,099,560**	4,051,513
Tier 2 capital		
Revaluation reserve	**-**	-
Total qualifying tier 2 capital	**-**	-
Total capital 1+2	**4,099,560**	4,051,513
Risk weighted assets		
On balance sheet items	**5,666,167**	5,559,905
Off balance sheet items	**857,217**	320,926
Market risk	**2,994,760**	1,378,835
Operational risk	**651,898**	364,938
Total Risk-weighted assets	**10,170,042**	7,624,604
Core capital to Total Risk Weighted assets ratio	**40.31%**	53.14%
Total capital to Total Risk Weighted Assets ratio	**40.31%**	53.14%

Total regulatory capital expressed as a percentage of total risk-weighted assets (Minimum requirement 14.50%)

Total tier 1 capital expressed as a percentage of risk-weighted assets (Minimum requirement 10.50%)

The risk weighted assets are as follows:

	Dec.31, 2021			Dec.31, 2020		
	Amount	**Weight**	**Risk Weighted**	Amount	Weight	Risk Weighted
On balance sheet assets	**Ksh Thousands**	**%**	**Ksh Thousands**	Ksh Thousands	%	Ksh Thousands
Cash (including foreign notes and coins)	**100,012**	**0%**	**-**	93,687	0%	-
Balances with Central Bank of Kenya	**926,055**	**0%**	**-**	912,222	0%	-
Kenya Government Treasury Bills	**-**	**0%**	**-**	199,097	0%	-
Kenya Government Treasury Bonds	**5,208,221**	**0%**	**-**	3,019,378	0%	-
Deposits and balances due from local institutions	**576,675**	**20%**	**115,335**	2,808,972	20%	561,794
Deposits and balances due from foreign institutions	**527,681**	**20%**	**105,536**	106,368	20%	21,274
Lending fully secured by cash	**639,630**	**0%**	**-**	586,625	0%	-
Loans and receivables Secured by residential property	**38,790**	**35%**	**13,577**	52,348	50%	26,174
Other Loans and advances (net of provisions)	**4,670,074**	**100%**	**4,670,074**	4,142,974	100%	4,142,974
Fixed Assets(net of depreciation)	**498,230**	**100%**	**498,230**	455,060	100%	455,060
Other assets	**275,451**	**100%**	**275,451**	352,629	100%	352,629
Total	**13,460,819**		**5,678,202**	12,729,360		5,559,905
Local Financial Institutions (Notional amount of swap deals)	**-**	**20%**	**-**	-	20%	-
Off balance sheet assets						
Transactions Secured by Cash	**140,061**	**0%**	**-**	12,152	0%	-
Others	**857,217**	**100%**	**857,217**	320,926	100%	320,926
Total	**997,278**		**857,217**	333,078		320,926

Capital allocation

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

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

6. Segment analysis

6.1. By business segment

The Bank is divided into three main business segments:

- Corporate banking – incorporating direct debit facilities, current accounts, deposits, overdrafts, loan and other credit facilities, foreign currency and derivative products.
- Investment – incorporating financial instruments Trading.
- Retail banking – incorporating private banking services, private customer current accounts, savings and deposits.

Transactions between the business segments are on normal commercial terms and conditions.

Ksh Thousands

Dec.31, 2021	Corporate banking	Investments	Retail banking	Total
Revenue according to business segment	**535,390**	**695,609**	**197,563**	**1,428,562**
Expenses according to business segment	**(235,920)**	**(85,991)**	**(1,028,838)**	**(1,350,749)**
Profit before tax	**299,470**	**609,618**	**(831,275)**	**77,813**
Tax	**(5,354)**	**(1,500)**	**25,135**	**18,281**
Profit for the year	**294,116**	**608,118**	**(806,140)**	**96,094**
Total assets	**3,733,954**	**5,032,896**	**4,693,969**	**13,460,819**

Dec.31, 2020	Corporate banking	Investments	Retail banking	Total
Revenue according to business segment	457,869	229,370	419,033	1,106,272
Expenses according to business segment	(458,577)	(283,330)	(716,282)	(1,458,189)
Profit before tax	(708)	(53,960)	(297,249)	(351,917)
Tax	(2,401)	(22,052)	(2,904)	(27,357)
Profit for the year	(3,109)	(76,012)	(300,153)	(379,274)
Total assets	3,979,216	3,938,642	4,811,502	12,729,360

6.2. By geographical segment

Ksh Thousands

Dec.31, 2021	Nairobi	Coast	Rift valley	Total
Revenue according to geographical segment	**1,138,427**	**213,750**	**76,385**	**1,428,562**
Expenses according to geographical segment	**(1,153,497)**	**(132,748)**	**(64,504)**	**(1,350,749)**
Profit before tax	**(15,070)**	**81,002**	**11,881**	**77,813**
Tax	**21,182**	**(2,137)**	**(764)**	**18,281**
Profit for the year	**6,112**	**78,865**	**11,117**	**96,094**
Total assets	**11,982,796**	**1,197,004**	**281,019**	**13,460,819**

Dec.31, 2020	Nairobi	Coast	Rift valley	Total
Revenue according to geographical segment	959,005	111,223	36,044	1,106,272
Expenses according to geographical segment	(1,231,461)	(174,079)	(52,649)	(1,458,189)
Profit before tax	(272,456)	(62,856)	(16,605)	(351,917)
Tax	(26,170)	(881)	(306)	(27,357)
Profit for the year	(298,626)	(63,737)	(16,911)	(379,274)
Total assets	10,763,703	1,459,063	506,594	12,729,360

7 . Net interest income

	Dec.31, 2021 Ksh Thousands	Dec.31, 2020 Ksh Thousands
Interest and similar income		
- Banks	**60,795**	128,476
- Clients	**673,416**	549,629
Total	**734,211**	678,105
Government securities – treasury bills	**903**	89,536
Government securities – treasury bonds	**493,312**	186,091
Total	**494,215**	275,627
Total interet income	**1,228,426**	953,732
Interest and similar expense		
- Banks	**(288)**	(140)
- Clients	**(519,590)**	(542,348)
Lease liability interest expense	**(17,234)**	(18,834)
Total	**(537,112)**	(561,322)
Net interest income	**691,314**	392,410

8 . Net fees and commission income

	Dec.31, 2021 Ksh Thousands	Dec.31, 2020 Ksh Thousands
Fees and commission income		
Fees and commissions related to credit	**60,856**	35,900
Other fees	**15,837**	16,933
Total	**76,693**	52,833

9 . Net trading income

	Dec.31, 2021 Ksh Thousands	Dec.31, 2020 Ksh Thousands
Gain from foreign exchange	**46,310**	95,857
Gain from bond trading	**61,766**	-
Total	**108,076**	95,857

10 . Administrative expenses

	Dec.31, 2021 Ksh Thousands	Dec.31, 2020 Ksh Thousands
Employee benefits*	448,397	319,353
Depreciation - property and equipment	91,080	89,896
Depreciation - right of use asset	35,875	36,615
Amortization - intangible assets	21,703	47,290
Audit fees	6,167	5,800
Directors' emoluments - fees	7,357	11,144
Other operating expenses	189,955	181,816
Total	800,534	691,914

*** Employee benefits**

	Dec.31, 2021 Ksh Thousands	Dec.31, 2020 Ksh Thousands
Staff costs		
Salaries and allowances	400,834	282,886
Retirement benefits costs:		
-Defined contribution benefits scheme	13,008	11,872
-National social security fund	226	217
Staff insurance	21,273	23,975
Other staff expenses	13,056	403
Total	448,397	319,353

11 . Other operating income

	Dec.31, 2021 Ksh Thousands	Dec.31, 2020 Ksh Thousands
Profits from selling property and equipment	-	11
Other income	15,367	3,840
Total	15,367	3,851

12 . Impairment charge for credit losses

	Dec.31, 2021 Ksh Thousands	Dec.31, 2020 Ksh Thousands
Charge on loans	(12,857)	(210,826)
Write back/(charge) on due from banks	3,741	(3,224)
Write back /(charge) on off balance sheet items	(3,987)	9,096
Total	(13,103)	(204,954)

13 . Current Income tax

	Dec.31, 2021 Ksh Thousands	Dec.31, 2020 Ksh Thousands
Income tax expense		
Charge to profit or loss for the year	9,076	-
Deferred income tax		
Under/(over) provision of deferred income tax in prior years	(27,357)	27,357
Total income tax (credit) / expense for the year	(18,281)	27,357
Reconciliation of taxation credit to expected tax based on accounting loss		
Profit / (Loss) before taxation	77,813	(351,917)
Tax at the applicable rate of 30%	23,344	(109,764)
Tax effect of expenses not deductible for tax purposes	19,818	10,470
Tax effect of incomes not subject to tax	(161,533)	(8,987)
Effect of IFRS 16 and Revaluation surplus in deferred tax	(19,221)	-
Under/(over) provision of deferred income tax in prior years	27,357	-
Deferred tax asset not recognised	91,954	108,281
Total income tax (credit) / expense for the year	(18,281)	-

14 . Profit (loss) per share

	Dec.31, 2021 Ksh Thousands	Dec.31, 2020 Ksh Thousands
Net profit/ (loss) for the year, available for distribution	96,094	(379,274)
Profit/ (loss) attributable to owners of the company	96,094	(379,274)
Weighted Average number of shares	4,081,633	3,214,286
Basic profit (loss) per share	23.54	(118.00)

15 . Cash and balances with Central Bank of Kenya

	Dec.31, 2021 Ksh Thousands	Dec.31, 2020 Ksh Thousands
Cash	100,012	93,687
Cash reserve ratio*	353,973	313,579
Balances with the CBK - available for use by the bank	572,082	598,643
Total	1,026,067	1,005,909
Fixed interest bearing balances	-	250,046
Non-interest bearing balances	1,026,067	755,863
Total	1,026,067	1,005,909

* The cash reserve ratio requirement is non-interest bearing and is based on the customer deposits held by the Bank as adjusted by the Central Bank of Kenya (CBK) requirements. At December 31, 2021 the cash reserve ratio requirement for Kenya was 4.25% of all customer deposits under certain conditions prescribed by the CBK. (December.31, 2020 - 4.25%). These funds are not available for the day to day operations of the Bank.

16 . Due from banks

	Dec.31, 2021 Ksh Thousands	Dec.31, 2020 Ksh Thousands
Current accounts	528,316	121,850
Deposits	578,125	2,799,315
Expected credit losses	(2,085)	(5,826)
Total	1,104,356	2,915,339
Local banks	576,675	2,808,971
Foreign banks	527,681	106,368
Total	1,104,356	2,915,339
Non-interest bearing balances	528,316	121,850
Fixed interest bearing balances	576,040	2,793,489
Total	1,104,356	2,915,339
Current balances	1,104,356	2,915,339

Due from banks

	Stage 1	Stage 1
Gross due from banks	1,106,441	2,921,165
Expected credit losses	(2,085)	(5,826)
Net due from banks	1,104,356	2,915,339

The weighted average effective interest rate at Dec.31, 2021 for deposits due from Banking institutions was (LCY - 6.73%, FCY – 2.60%) (Dec.31, 2020 LCY - 7.40% , FCY – 2.46%).

17 . Treasury bills and other governmental notes

	Dec.31, 2021 Ksh Thousands	Dec.31, 2020 Ksh Thousands
364 Days maturity	-	200,000
Unearned interest	-	(903)
Net	-	199,097

Governmental bonds	Dec.31, 2021 Ksh Thousands	Ksh Thousands
At Fair value through OCI	**3,610,465**	1,423,444
At amortized cost	**1,597,756**	1,595,934
Total	**5,208,221**	3,019,378

The weighted average effective interest rate on treasury bills at 2021 (Nil), 2020 was 9.80%.
and the rate for bonds at Dec.31, 2021 was 11.90% (2020 – 11.10%).

18 . Loans and advances to customers, net

	Dec.31, 2021 Ksh Thousands	Dec.31, 2020 Ksh Thousands
Individual		
- Overdraft	**35,900**	55,335
- Personal loans	**485,673**	609,226
- Mortgages	**51,176**	52,425
Total 1	**572,749**	716,986
Corporate		
- Overdraft	**1,045,305**	1,065,442
- Loans	**4,008,590**	3,264,811
Total 2	**5,053,895**	4,330,253
Total Loans and advances to customers (1+2)	**5,626,644**	5,047,239
Less:		
Impairment provision	**(278,149)**	(265,292)
Net loans and advances to customers	**5,348,495**	4,781,947

The weighted average effective interest rate on LCY loans and advances to customers as at Dec.31, 2021 was 12.74% (2020 – 12.36%). The weighted average effective interest rate on FCY loans as at Dec.31, 2021 was 8.23% (2020 – 8.45%).

Analysis of gross advances by maturity:	Dec.31, 2021 Ksh Thousands	Dec.31, 2020 Ksh Thousands
Maturing within one month	**244,250**	583,153
Maturing within 90 days	**656,473**	266,111
Maturing after 90 days and within one year	**964,483**	1,270,926
Maturing after one to five years	**3,455,861**	2,441,298
Maturing after 5 years	**305,577**	485,751
Total	**5,626,644**	5,047,239

Analysis of the expected credit losses on loans and advances to customers by type during the year was as follows:

Ksh Thousands

	Dec.31, 2021			
Individual Loans:	**Overdrafts**	**Personal loans**	**Mortgages**	**Total**
Beginning balance	**27,402**	**86,620**	**1,098**	**115,120**
Wite back during the year	**(2,611)**	**(16,050)**	**735**	**(17,926)**
Ending balance	**24,791**	**70,570**	**1,833**	**97,194**

	Dec.31, 2021		
Corporate and Business Banking loans:	**Overdraft**	**Loans**	**Total**
Beginning balance	**10,009**	**140,163**	**150,172**
Impairment charge during the year	**20,781**	**10,001**	**30,782**
Ending balance	**30,790**	**150,164**	**180,954**

Ksh Thousands

	Dec.31, 2020			
Individual Loans:	Overdrafts	Personal loans	Mortgages	Total
Beginning balance	96	11,359	929	12,384
Impairment charge during the year	27,306	75,261	169	102,736
Ending balance	27,402	86,620	1,098	115,120

	Dec.31, 2020		
Corporate and Business Banking loans:	Overdraft	Loans	Total
Beginning balance	1,045	41,037	42,082
Impairment charge during the year	8,964	99,126	108,090
Ending balance	10,009	140,163	150,172

19 . **Financial investments securities**

Dec.31, 2021	**Fair value through OCI**	**Amortized cost**	**Total**
			Ksh Thousands
Investments listed in the market			
Treasury bonds	**3,610,465**	**1,597,756**	**5,208,221**
Total	**3,610,465**	**1,597,756**	**5,208,221**

Dec.31, 2020	Financial Assets at Fair value through OCI	Amortized cost	Total
			Ksh Thousands
Investments listed in the market			
Treasury bonds	1,423,444	1,595,934	3,019,378
Investments not listed in the market			
Treasury bills and other governmental notes	-	199,097	199,097
Total	1,423,444	1,795,031	3,218,475

Dec.31, 2021	**Fair value through OCI**	**Amortized cost**	**Total**
Beginning balance	**1,423,444**	**1,795,031**	**3,218,475**
Additions during the year	**3,732,880**	**-**	**3,732,880**
Disposals/ maturities during the year	**(1,481,755)**	**(197,275)**	**(1,679,030)**
Fair value loss	**(64,104)**	**-**	**(64,104)**
Ending Balance as of Dec.31, 2021	**3,610,465**	**1,597,756**	**5,208,221**

Dec.31, 2020	Fair value through OCI	Amortized cost	Total
Beginning balance	504,962	927,405	1,432,367
Additions during the year	852,898	1,595,934	2,448,832
Disposals/maturities during the year	-	(728,308)	(728,308)
Fair value gain	65,584	-	65,584
Ending Balance as of Dec.31, 2020	1,423,444	1,795,031	3,218,475

Disclosure and measurement of financial assets and financial liabilities:

The following table shows the financial assets and the net financial commitments according to the business model classification:

Ksh Thousands

Dec.31, 2021	Amortized cost	Debt financial Assets at Fair value through OCI	Equity financial Assets at Fair value through OCI	Financial Assets at Fair value through P&L	Total book value
Cash and balances with central bank	1,026,067	-	-	-	1,026,067
Due from banks	1,104,356	-	-	-	1,104,356
Amortized cost	1,597,756	-	-	-	1,597,756
Loans and advances to customers, net	5,348,495	-	-	-	5,348,495
Derivative financial instruments	-	-	-	-	-
Financial Assets at Fair value through OCI	-	3,610,465	-	-	3,610,465
Total 1	9,076,674	3,610,465	-	-	12,687,139
Due to banks	601,271	-	-	-	601,271
Due to customers	8,301,925	-	-	-	8,301,925
Total 2	8,903,196	-	-	-	8,903,196

21 Other assets	Dec.31, 2021	Dec.31, 2020
	Ksh Thousands	Ksh Thousands
Prepaid expenses	36,038	39,482
Off-market loan adjustment	19,354	-
Accounts receivables and other assets	220,058	313,147
Total	275,450	352,629

22 . Property, plant and equipment

	Computer equipment	Motor vehicles	Leasehold Improvements	Dec.31, 2021 Office equipment	Furniture, and fittings	Capital work in progress	Total Ksh Thousands
Beginning gross assets (1)	73,943	6,900	166,721	216,455	26,213	54,949	545,181
Additions during the year	4,287	27,000	68	50,265	195	71,631	153,446
Disposals during the year	(1,177)	-	-	-	-	-	(1,177)
Transfer from work in progress	-	-	16,394	10,443	-	(52,663)	(25,826)
Ending gross assets (2)	77,053	33,900	183,183	277,163	26,408	73,917	671,624
Accumulated depreciation at beginning of the year (3)	51,524	6,791	65,511	157,037	13,480	-	294,343
Current year depreciation	14,967	5,122	22,898	42,842	5,251	-	91,080
Disposals during the year	(898)	-	-	-	-	-	(898)
Accumulated depreciation at end of the year (4)	65,593	11,913	88,409	199,879	18,731	-	384,525
Ending net assets (2-4)	11,460	21,987	94,774	77,284	7,677	73,917	287,099
Beginning net assets (1-3)	22,419	109	101,210	59,418	12,733	54,949	250,838
Depreciation rates	33.33%	20.00%	12.50%	20.00%	20.00%		

** Capital work in progress relates to disaster recovery site & VISA card project not yet completed as at reporting date.*

	Computer equipment	Motor vehicles	Leasehold Improvements	Dec.31, 2020 Office equipment	Furniture, and fittings	Capital work in progress	Total
Beginning gross assets (1)	70,288	6,900	165,843	212,261	21,338	25,041	501,671
Additions during the year	3,782	-	878	4,194	4,875	29,908	43,637
Disposals during the year	(127)	-	-	-	-	-	(127)
Ending gross assets (2)	73,943	6,900	166,721	216,455	26,213	54,949	545,181
Accumulated depreciation at beginning of the year (3)	33,772	6,030	44,921	110,969	8,808	-	204,500
Current year depreciation	17,805	761	20,590	46,068	4,672	-	89,895
Disposals during the year*	(53)	-	-	-	-	-	(53)
Accumulated depreciation at end of the year (4)	51,524	6,791	65,511	157,037	13,480	-	294,343
Ending net assets (2-4)	22,419	109	101,210	59,418	12,733	54,949	250,839
Beginning Net Assets	36,516	870	121,120	100,284	12,530	25,853	297,173
Depreciation rates	33.3%	20.0%	12.5%	20.0%	20.0%		

23 Intangible assets	Dec. 31, 2021	Dec.31, 2020
	Ksh Thousands	Ksh Thousands
Computer software		
Cost		
At 1 January	239,848	231,768
Additions during the period	15,136	8,080
Transfer from Work in progress	25,826	-
Total 1	280,810	239,848
Amortisation		
At 1 January	158,151	110,861
Current period amortization	21,703	47,290
Total 2	179,854	158,151
Net book value at period end (1-2)	100,956	81,697

24 Due to banks

	Dec.31, 2021	Dec.31, 2020
	Ksh Thousands	Ksh Thousands
Current accounts	-	-
Deposits	601,271	13,404
Total	601,271	13,404
Local banks	-	-
Foreign banks	601,271	13,404
Total	601,271	13,404
Non-interest bearing balances	-	-
Floating bearing interest balances	-	-
Fixed interest bearing balances	601,271	13,404
Total	601,271	13,404
Current balances	601,271	13,404
Non-current balances	-	-
Total	601,271	13,404

The weighted average effective interest rate of FCY balances due to banks at Dec.31, 2021 was 1.25% (2020 – 0%).

25 Due to customers	Dec.31, 2021	Dec.31, 2020
	Ksh Thousands	Ksh Thousands
Demand deposits	895,044	766,509
Time deposits	6,986,018	6,802,401
Saving deposits	402,990	468,037
Other deposits (Call)	17,873	31,567
Total	8,301,925	8,068,514
Corporate deposits	3,408,626	3,172,789
Individual deposits	4,893,299	4,895,725
Total	8,301,925	8,068,514
Non-interest bearing balances	895,044	766,509
Floating interest bearing balances	402,990	468,037
Fixed interest bearing balances	7,003,891	6,833,968
Total	8,301,925	8,068,514
Current balances	8,301,925	8,068,514
Total	8,301,925	8,068,514

The weighted average effective interest rate on LCY customer deposits at Dec.31, 2021 was 6.91% (2020 - 7.67%) and the rate for FCY was 2.21% (2020 - 3.03%).

26 Other liabilities	Dec.31, 2021	Dec.31, 2020
	Ksh Thousands	Ksh Thousands
Accrued expenses	23,128	30,389
Accounts payable	169,843	277,001
Other credit balances	86,422	54,072
Total	279,393	361,462

27 . Share Capital

	Dec.31, 2021 Ksh Thousands	Dec.31, 2020 Ksh Thousands
Authorised:		
4,081,633 ordinary shares of Sh 1,000 each (2020:4,081,633)	**4,081,633**	4,081,633
Issued and fully paid:		
4,081,633 ordinary shares of Sh 1,000 each (2020:4,081,633)	**4,081,633**	4,081,633

28 . Share Premium

	Dec.31, 2021 Ksh Thousands	Dec.31, 2020 Ksh Thousands
Share Premium	**1,613,139**	1,613,139

29 . Deferred income tax assets (liabilities)

Deferred income tax is calculated on all temporary differences under the liability method using the enacted rate of 30%.

Deferred tax assets and liabilities are attributable to the following:

	Assets (Liabilities) Dec.31, 2021 Ksh Thousands	Assets (Liabilities) Dec.31, 2020 Ksh Thousands
Fixed assets (depreciation)	**6,500**	(7,682)
Tax losses carried forward	**495,034**	385,040
Other deductible differences	**85,653**	86,147
Deferred tax on fair value gain on government securities through OCI	**(1,599)**	(19,675)
Deferred tax asset not recognised	**(585,588)**	(471,187)
Deferred tax asset (liability)	**-**	(27,357)

The potential deferred tax asset has not been recognised in the financial statements because of the uncertainty regarding the Bank's ability to generate sufficient taxable profits in the foreseeable future to enable it utilise its tax loss within the allowable statutory limit. The directors consider it prudent not to recognise any deferred tax asset until such a time the Bank would be able to generate sufficient taxable profits. As at 31 December 2021, the bank had accumulated tax losses amounting to Sh 1.65 Billion (2020 Sh 1.28 Billion) respectively available to be offset against future taxable profit.

30 . Contingent liabilities and commitments including off Balance Sheet items

30.1 . Legal claims

- There are no legal claims against the Bank as at Dec.31, 2021,(2020:Nil).

30.2 . Capital commitments

	Dec.31, 2021 Ksh Thousands	Dec.31, 2020 Ksh Thousands
Authorised but not contracted for	**194,008**	113,984

30.3 . Letters of credit, guarantees and other commitments

	Dec.31, 2021 Ksh Thousands	Dec.31, 2020 Ksh Thousands
Letters of credit (import and export)	**587,819**	85,506
Letters of guarantee	**409,459**	247,572
Total	**997,278**	333,078

31 . Transactions with related parties

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.

Mayfair CIB Bank is a subsidiary of Commercial International Bank (CIB) Egypt, with a shareholding stake of 51%.There are other entities related to the bank through shareholding or directorship.

Placements at 31 Dec 2021 include placements made in the bank by directors, their associates and companies associated to directors. Advances to customers and deposits at 31 Dec 2021 include loans and advances to companies associated to directors, employees of the Bank and, also deposits held with related parties respectively.

The table below outlines these balances as included in the loans and advances and deposits balances at period end:

	Directors' associated companies		Employees/staff	
	Dec.31, 2021 Ksh Thousands	Dec.31, 2020 Ksh Thousands	**Dec.31, 2021 Ksh Thousands**	Dec.31, 2020 Ksh Thousands
Movement in related party balances was as follows:				
Loans and advances:				
At 1 January	**883,031**	770,551	**80,618**	69,893
Net movement during the year	**(420,621)**	112,480	**18,958**	10,725
At year end	**462,410**	883,031	**99,576**	80,618
Interest earned during the year	**52,411**	89,524	**7,407**	5,952
Letter of credit, guarantees	**11,196**	22,118	**-**	-
Deposits:				
At 1 January	**3,867,157**	3,563,718	**18,347**	37,684
Net movement during the year	**(266,511)**	303,439	**9,681**	(19,337)
At year end	**3,600,646**	3,867,157	**28,028**	18,347
Interest paid during the year	**288,549**	309,906	**1,401**	1,219

Key management compensation

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

	Dec.31, 2021 Ksh Thousands	Dec.31, 2020 Ksh Thousands
Key management salaries and other benefits	**199,076**	119,359
Directors emoluments	**7,357**	11,144
	206,433	130,503

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.

	Dec.31, 2021 Ksh Thousands	Dec.31, 2020 Ksh Thousands
Other transactions with related parties		
Balances due from CIB Bank	**505,795**	-
Balances due to CIB Bank	**601,271**	-
Amount due to Copy Cat Limited*	**-**	51,796
Payments during the year to Copy Cat Limited*	**98,148**	103,178
Payments during the year to Mayfair Insurance Limited**	**11,119**	11,455
Amount due to existing shareholders***	**157,641**	267,109

*The transactions with Copy Cat Limited relate to sale of IT infrastructure, comprehensive support services for IT systems (Enterprise and Networking) and IT security upgrade for the Bank. During the year Copy Cat Limited sold asset IT infrastructure relating to IT security upgrade worth Ksh 48m

**The transactions with Mayfair Insurance Limited relate to premiums for office general insurance.

***Amount due to existing shareholders relate to funds refundable to the old shareholders on fulfillmentof certain conditions as per the share purchase agreement.

32 . Main currencies positions	Dec.31, 2021	Dec.31, 2020
	Ksh Thousands	Ksh Thousands
US dollar	5,745	33,783
Sterling pound	(286)	1,789
Euro	1,019	8,333
Other	143	1,663

33 . Right of use asset

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

	2021		
	Office space	IT Equipment	Total
	Ksh Thousands	Ksh Thousands	Ksh Thousands
Amounts recognised in the statement of financial position			
Cost			
At 1 January	135,319	57,655	192,974
Additions/lease asset recognized during the year	49,470	-	49,470
Derecognition of lease	(13,592)	(57,655)	(71,247)
At 31 December	171,197	-	171,197
Depreciation			
At 1 January	47,387	23,062	70,449
Derecognition of lease	(13,592)	(31,710)	(45,302)
Current period depreciation	27,227	8,648	35,875
At 31 December	61,022	-	61,022
Net book value at end of the year	110,175	-	110,175
Amounts recognised in profit and loss			
Depreciation expense on right-of-use assets	27,227	8,648	35,875
Interest expense on lease liabilities	13,232	4,002	17,234
Total	40,459	12,650	53,109

The Bank is not committed to any arrangements that are short term as at Dec.31,2021, (2020:nil)
The total cash outflow for leases amounted to Ksh 38 million for the 12 months period ended 31 December 2021 (2020: Ksh 44 million).
There are no restrictions or covenants imposed by lessors and the Bank did not enter into any sale and leaseback transactions during the year (2020: Nil)

	2020		
	Ksh Thousands	Ksh Thousands	Ksh Thousands
	Office space	IT Equipment	Total
Amounts recognised in the Statement of financial position			
Cost			
At 1 January and 31 December	135,319	57,655	192,974
Depreciation			
At 1 January	22,303	11,531	33,834
Current year depreciation	25,084	11,531	36,615
At 31 December	47,387	23,062	70,449
Net book value at end of year	87,932	34,593	122,525
Amounts recognised in profit and loss			
Depreciation expense on right-of-use assets	25,084	11,531	36,615
Interest expense on lease liabilities	12,882	5,952	18,834
Total	37,966	17,483	55,449

34 . Lease liabilities

	Dec. 31, 2021 Ksh Thousands	Dec. 31, 2020 Ksh Thousands
The movement in the lease liabilities is as follows:		
Balance at 1 January	**137,676**	162,502
Payment of lease liabilities	**(37,928)**	(43,660)
Interest on lease liabilities	**17,234**	18,834
Additions/lease asset recognized	**49,470**	-
Derecognition of lease	**(41,159)**	-
At year end	**125,293**	137,676
Amounts due for settlement within 12 months	**27,672**	26,609
Amounts due for settlement after 12 months	**97,621**	111,067
Total	**125,293**	137,676
Maturity Analysis of undiscounted cashflows	**Ksh Thousands**	Ksh Thousands
Year 1	**41,045**	45,877
Year 2	**42,849**	50,733
Year 3	**39,880**	46,734
Year 4	**21,744**	29,495
Year 5	**9,209**	7,754
Above 5 years	**4,229**	-
Total	**158,956**	180,593

The Bank does not face a significant liquidity risk with regards to its lease liabilities. Lease liabilities are monitored within the Bank's treasury function.

35 . Events after the reporting date

The Board of Directors approved the financial statements on 24 March 2022 and authorised that the financial statements be issued. On this date, the Directors were not aware of any matter or circumstances arising since the end of the financial year, not otherwise dealt with in the financial statements, which would significantly affect the financial position of the Bank and results of its operations as laid out in these financial statements.

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