MAYFAIR-CIB
BANK

MAYFAIR CIB BANK LIMITED

ANNUAL REPORT AND FINANCIAL STATEMENTS
2020

Contents **Pages**

Directors	Tom M Gitogo	- Chairman
	Hossam Rageh***	- Executive Director (Appointed 28 September 2020)
	Bharatkumar V. Shah	
	Vishal R. Patel	
	Anjay V. Patel*	
	Kalpesh R. Patel*	
	Sheila Kyarisiima**	
	Nadeem I. Ahmed	
	Dr Amani Abou-Zeid***	(Appointed: 25 August 2020)
	Hussein Abaza***	(Appointed: 25 August 2020)
	Mark Richards*	(Appointed: 25 August 2020)
	Ashok Labhshanker Doshi	(Resigned: 25 August 2020)
	Mugambi Nandi	(Resigned: 25 August 2020)
	Ramji D. Varsani	(Resigned: 25 August 2020)

* 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	Deloitte & Touche Certified Public Accountants (Kenya) Deloitte Place Waiyaki Way, Muthangari P O Box 40092 - 00100 GPO Nairobi, Kenya
Lawyers	Coulson Harney LLP 5th Floor West Wing, ICEA Lion Centre Riverside Park, Chiromo Road P O Box 10643 - 00100 Nairobi, Kenya

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, as contained in the Central Bank of Kenya Prudential Guidelines, 2013. The Charter is also subject to the provisions of the Companies Act No. 17 of 2015, the Laws of Kenya, the Bank's Articles of Association, the shareholders agreement dated 9 March 2015 and any other applicable law or regulatory provision.

Additionally, the Bank has put in place a Code of Conduct and Code of Ethics that binds all its directors and employees 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 11 members elected by the shareholders. The Board comprises 1 Executive Director, 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 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.

Details of attendance of Board committee and Board meetings for each member in 2020 are as below:

Directors	No. of meetings attended 2020				
	BRMC	BAC	BNHRC	BCC	BOARD
Tom M Gitogo (Chairman)	4/4	5/5			7/7
Hossam Rageh (Executive Director)	1/1	1/1	1/1	1/1	2/2
Bharatkumar V. Shah			4/4	4/4	6/7
Vishal R. Patel	4/4				7/7
Anjay V. Patel				4/4	7/7
Kalpesh R. Patel		5/5	4/4		7/7
Nadeem I. Ahmed	4/4				7/7
Sheila Kyarisiima			4/4	4/4	7/7
Dr Amani Abou-Zeid		1/1			2/2
Hussein Abaza					2/2
Mark Richards					2/2
Ashok Labhshanker Doshi				3/3	5/5
Mugambi Nandi			2/3		5/5
Ramji D. Varsani		4/4			5/5

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 markets 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) 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 exists within the bank to develop the Risk Management Framework and monitor its execution.

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

d) Business Line/Unit Accountability: Business lines/units 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.

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: These help 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 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.

- 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 Dept. and Senior Management.

Risk Appetite & Risk Tolerance

The Board of Directors determines the bank's risk tolerance, 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.

Tom Gitogo

Chairman

Hossam Rageh

Executive Director

The directors present their report together with the audited financial statements of Mayfair CIB Bank Limited (the "Bank") for the year ended 31 December 2020, which disclose its state of affairs in accordance with the Kenyan Companies Act, 2015.

Principal Activities

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

Financial Results

	2020 Sh'000	2019 Sh'000
Loss before taxation	(351,917)	365,879)
Tax charge	(27,357)	-
Loss for the year transferred to accumulated deficit	(379,274)	(365,879)

Dividends

The directors do not recommend the payment of a dividend in respect of the year ended 31 December 2020.
(2019: Ksh Nil).

Business Review

Operating Environment

The Bank has been operational since August 2017.

Below are the key highlights on the Bank's performance for 2020.

	2020 Ksh'Million	2019 Ksh'Million
Total assets	12,729	8,642
Customer deposits	8,068	7,270
Loans and advances	4,781	4,602
Loss before tax	(352)	(366)
Net interest income	392	177
Non-interest income	152	78

Overall Economy in 2020

- 2020 began on a low note, with locust invasions in the north-eastern region of the country which had a negative impact on the food security and growth of the agricultural sector in the country.
- The COVID-19 pandemic ensued, resulting in epidemiological lockdowns in most parts of the world. This in turn had unprecedented repercussions on global trade, business and individual incomes, and valuation of assets.
- Containment measures implemented by the Government of Kenya also continued to impact the local economy negatively, with the most affected sectors being hotel & tourism, transport, personal, manufacturing, wholesale & retail trade sectors.
- As a result of the ongoing pandemic, the banking sector saw an increase in non-performing loans, especially in the most affected sectors. In response, banks have been lending conservatively to affected sectors, and disposing off excess liquidity in government securities and other investments, despite diminishing interest rates.
- COVID-19 also saw the government and regulators implement emergency measures to cushion the economy against the adverse effects of the pandemic. These included fiscal stances such as downward review of tax rates by the Kenya Revenue Authority (KRA); monetary and regulatory changes by Central Bank of Kenya including downward review of the Cash Reserve Ratio (CRR), restructuring and provisioning of loans for struggling clients, downward review of mobile money transfer rates; and government economic stimulus packages.
- A notable turnaround was observed in affected sectors following the lifting of restrictions and opening up of international travel. The Central Bank of Kenya's Monetary Policy Committee (MPC) reported an increase in hotel occupancy and horticultural exports.
- The Kshs has continued to weaken against major currencies, particularly the USD, due to a decline in tourism and export trade in the first half of 2020, as well as increased demand from importers, following lifting of COVID-induced economic restrictions.

Future outlook

- Although governments across the world have lifted various restrictions and reintroduced international travel, a second wave of Covid-19 continues to threaten the economy, even amidst release of the Covid-19 vaccine.
- Increased provisions on restructured facilities continue to erode the bank's capital base which was boosted following capital injection by CIB Egypt.
- Introduction of new digital platforms including Pesalink which was rolled out in 2020, and internet banking, which is expected to go live in 2021, is expected to boost fee income.
- Increase in cross-border remittances and trade finance opportunities due to opening of foreign currency nostro accounts at CIB Egypt. This is also expected to increase fee income, forex income and deposit retention.
- The bank will continue to boost its operational and technological capacity through investment in new systems, products and human resources. This will enable the bank to reach a wider target market and offer a wider range of products, channels and services.
- Like most local banks, Mayfair CIB has been disposing off the bulk of its excess liquidity in government bills and bonds, the bank will continue to expand its loan portfolio, albeit selectively, to minimize the risk of bad loans.
- While the CBR is no longer a sole determinant when it comes to lending rates, the CBK expects banks to self-regulate through adoption of risk-based credit pricing models. Mayfair CIB Bank will therefore strive to remain compliant and competitive in a bid to grow its business and support sustainable economic development.
- The bank's management believes that its strategy for the year 2021 will drive both growth and profitability, enabling the bank to retain its operational break-even status (before depreciation and provisions), which it attained in 2020.

Market Description and Branch Networks

The Bank currently has 5 branches in Nairobi (3), Eldoret (1) and Nyali, Mombasa (1) and held over 2,900 accounts as at 31st December 2020. Corporates made up 44% of the customer deposits, while retail customers constitute the remaining 56%.

The Bank's loan book is dominated by Corporate Clients, who make up 86% of the loan portfolio by value with the majority being in Wholesale and Retail Trade.

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.

The Bank launched iTAX and Pesalink in 2020 and is working on expanding its digital channels in 2021. Additionally, the bank's acquisition by CIB has allowed it to offer more comprehensive remittance and trade finance services through nostro accounts held at CIB Egypt.

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 year 2020 saw the regulator continue to focus on supporting the economy through the Banking Sector Charter, which is aimed at promoting access to credit and financial services for SMEs, to further economic growth within the country.

The CBK continued to support the economy in the wake of the pandemic, by implementing emergency measures that included lowering of the Cash Reserve Ratio (CRR) to boost loan access by various economic sectors, lowering of the Central Bank Rate (CBR), and calling for restructuring of loans for clients affected by the pandemic.

The year 2020 also saw a rise in cybercrime following increased usage of digital transaction platforms and remote access to work systems as a result of Covid-19.

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

Deloitte & Touche continues in office in accordance with Section 719 (2) of the Companies Act, 2015 and subject to approval by the Central Bank of Kenya. The directors monitor the effectiveness, objectivity and independence of the auditors. 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.

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

- so far as the director is aware, there is no relevant audit information of which the 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

Secretary

Nairobi, Kenya

2021

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.

As disclosed in note 4 to the financial statements, having made an assessment of the Bank's ability to continue as a going concern, the directors are aware of material uncertainties related to events or conditions that may cast doubt upon the Bank's ability to continue as a going concern. In the short term, the Bank has sufficient liquidity to pay its obligations as they fall due. The Bank's business strategy that management and the board have put together is expected to enable it to trade profitably in the near future.

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 18 March 2021 and signed on its behalf by:

Tom Gitogo	Hossam Rageh
Director	Executive Director

Deloitte.

Deloitte & Touche
Certified Public Accountants (Kenya)
Deloitte Place
Waiyaki Way, Muthangari
P.O. Box 40092 - GPO 00100
Nairobi
Kenya

Tel: +254 (0) 20 423 0000
Cell: +254 (0) 719 039 000
Dropping Zone No.92
Email: admin@deloitte.co.ke
www.deloitte.com

INDEPENDENT AUDITORS' REPORT

TO THE MEMBERS OF MAYFAIR BANK LIMITED

Report on the Audit of the Financial Statements

We have audited the financial statements of Mayfair CIB Bank Limited, set out on pages 13 to 70 which comprise the statement of financial position as at 31 December 2020, and the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the financial statements give a true and fair view of the financial position of the Bank as at 31 December 2020 and of its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs") and the requirements of the Kenyan Companies Act, 2015.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing ("ISA"). 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 Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code), together with the ethical requirements that are relevant to our audit of the financial statements in Kenya. We have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of Matter- Bank's financial performance

We draw attention to the disclosure in note 4 to the financial statements which indicates that the Bank incurred a net loss of Sh379,274,000 during the year ended 31 December 2020 (2019: Sh 365,879,000) and, as of that date, the Bank had accumulated losses amounting to Sh 1,643,259,000 (2019: Sh 1,263,985,000). Note 5 provides further details on this matter. Our opinion is not modified with respect to this matter.

Other Information

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

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Report on the Audit of the Financial Statements (Continued)

Responsibilities of the Directors and Those Charged with Governance for the Financial Statements

The Directors are responsible for the preparation of the financial statements that give a true and fair view in accordance with IFRSs, and for such internal controls as Directors determine are necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Directors are responsible for assessing 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. Those charged with governance are responsible for overseeing the Bank's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an 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 judgment and maintain professional skepticism 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 the Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the 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.
- 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 those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

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

In our opinion the information given in the report of the directors on page 6 to 9 is consistent with the financial statements.

Deloitte & Touche

Certified Public Accountants (Kenya)

Nairobi 23 March **2021**

FCPA Anne Muraya, Practising certificate No. 1697

Signing partner responsible for the independent audit

Statement of profit or loss and other comprehensive income for the year ended December 31, 2020

	Notes	Dec. 31, 2020 Ksh Thousands	Dec. 31, 2019 Ksh Thousands
Interest and similar income		953,732	613,949
Interest and similar expense		(561,322)	(456,297)
Net interest income	7	392,410	157,652
Fee and commission income	8	52,833	42,537
Net trading income	9	95,857	31,124
Other operating income	11	3,851	5
Operating income		544,951	231,319
Administrative expenses	10	(691,913)	(584,079)
Impairment charge for credit losses	12	(204,954)	(13,119)
Loss before income tax		(351,917)	(365,879)
Tax charge	13	(27,357)	-
Net loss for the year		(379,274)	(365,879)

Other comprehensive income

	Notes	Dec. 31, 2020 Ksh Thousands	Dec. 31, 2019 Ksh Thousands
Net loss for the year		(379,274)	(365,879)
Net change in fair value of debt instruments measured at fair value through other comprehensive income		65,584	2,876
Total comprehensive loss for the year		(313,690)	(363,003)
Loss per share	14		
Basic		(0.12)	(0.18)

Statement of financial position as at December 31, 2020

	Notes	Dec. 31, 2020 Ksh Thousands	Dec 31, 2019 Ksh Thousands
Assets			
Cash and balances with Central Bank of Kenya	15	1,005,909	651,658
Due from banks, net	16	2,915,339	1,300,583
Loans and advances to customers, net	18	4,781,947	4,602,441
Financial investments securities			
- Financial Assets at Fair value through OCI	20	1,423,444	504,962
- Amortized cost	20	1,795,031	927,404
Other assets	21	352,629	88,209
Property, plant and equipment	22	250,839	297,172
Intangible assets	23	81,697	120,907
Right of use asset	33	122,525	159,140
Total assets		12,729,360	8,652,475
Liabilities and equity			
Liabilities			
Derivative financial instruments	19	-	3,900
Due to banks	24	13,404	22,732
Customer deposits	25	8,068,514	7,270,221
Other liabilities	26	361,462	153,255
Deferred tax liability	29	27,357	-
Lease liabilities	34	137,676	162,502
Total liabilities		8,608,413	7,612,610
Equity			
Issued and paid up capital	27	4,081,633	2,300,000
Share premium	28	1,613,139	-
Fair value reserve		69,434	3,850
Accumulated deficit		(1,643,259)	(1,263,985)
Total equity		4,120,947	1,039,865
Total liabilities and equity		12,729,360	8,652,475

The financial statements were approved by the board of directors on 18 March 2021 and were signed on its behalf by :

....
Tom M. Gitogo
Chairman

....
Hossam Rageh
Executive Director

....
Sheila Kyarisiima
Director

....
JLG Maonga
Company Secretary

Statement of changes in equity for the year ended December 31, 2019

Dec. 31, 2019	Issued and paid up capital	Share premium	Fair value reserve	Accumulated Deficit	Total Shareholders Equity
Beginning balance	1,917,000	-	974	(898,106)	**1,019,868**
Capital increase	383,000	-	-	-	**383,000**
Loss for the year	-	-	-	(365,879)	**(365,879)**
Other comprehensive income	-	-	2,876	-	**2,876**
Balance at the end of the year	**2,300,000**	**-**	**3,850**	**(1,263,985)**	**1,039,865**

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

Dec. 31, 2020	Issued and paid up 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 increase	**1,781,633**	**1,613,139**	**-**	**-**	**3,394,772**
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**

* Legal expenses of Ksh 27.6m relating to the capital injection were netted off against share premium.

Cash flow for the year ended December 31, 2020

	Note	Dec. 31, 2020 Ksh Thousands	Dec. 31, 2019 Ksh Thousands
Cash flows from operating activities			
Loss before taxation		**(351,917)**	(365,879)
Adjustments for:			
Gain from disposal of property, plant and equipment	11	**(11)**	-
Fixed assets depreciation	22	**89,896**	80,880
Intangible assets amortization	23	**47,290**	45,209
Depreciation of right-of-use assets	33	**36,615**	33,834
Impairment (release) charge for credit losses (due from banks)		**3,224**	171
(Release) provision for off balance sheet items		**(9,096)**	8,933
Finance costs - leases	34	**18,834**	19,664
Operating income/(loss) before changes in operating assets and liabilities		**(165,165)**	(177,188)
Working capital changes:			
Increase in financial assets at amortized cost		**(646,121)**	(470,834)
Increase in financial assets at fair value through OCI		**(918,482)**	(250,465)
Increase in loans and advances to customers	18	**(179,507)**	(1,420,194)
Decrease/(increase) in derivative financial instruments	19	**(3,900)**	3,900
Increase in other assets	21	**(264,420)**	(43,910)
Increase in customer deposits	25	**798,294**	1,667,113
Decrease/(increase) in cash reserve ratio balances		**59,090**	(140,133)
Increase/(decrease) in other liabilities	26	**208,207**	(68,752)
Net cash generated from/(used in) operating activities		**(1,112,004)**	(900,463)
Cash flows from investing activities			
Purchases of property, plant and equipment	22	**(43,637)**	(39,250)
Purchase of computer software	23	**(8,080)**	(3,306)
Proceeds from disposal of property, plant and equipment		**85**	-
Net cash used in investing activities		**(51,632)**	(42,556)
Cash flows from financing activities			
Capital increase		**3,394,772**	383,000
Payment of lease liabilities	34	**(43,660)**	(45,525)
Net cash used in financing activities		**3,351,112**	337,475
Net increase/(decrease) in cash and cash equivalent during the year		**2,187,476**	(605,544)
Beginning balance of cash and cash equivalent		**1,605,886**	2,211,430
Cash and cash equivalent at the end of the year		**3,793,362**	1,605,886
Cash and cash equivalent comprise:			
Cash and balances with the CBK - available for use by the bank	15	**692,330**	278,990
Due from banks	16	**2,915,339**	1,300,583
Treasury bills - maturing within 90 days		**199,097**	49,045
Amounts due to other banks	24	**(13,404)**	(22,732)
Total cash and cash equivalent		**3,793,362**	1,605,886

Notes to the financial statements for the period ended December 31, 2020.

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. 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.

2.1. Adoption of new and revised International Financial Reporting Standards (IFRS)

2.1.1 Relevant new standards and amendments to published standards effective for the year ended 31 December 2020.

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

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

Covid-19-Related Rent Concessions Amendment to IFRS 16

In May 2020, the IASB issued Covid-19-Related Rent Concessions (Amendment to IFRS 16) that provides practical relief to lessees in accounting for rent concessions occurring as a direct consequence of COVID-19, by introducing a practical expedient to IFRS 16. The practical expedient permits a lessee to elect not to assess whether a COVID-19-related rent concession is a lease modification. A lessee that makes this election shall account for any change in lease payments resulting from the COVID-19-related rent concession the same way it would account for the change applying IFRS 16 if the change were not a lease modification.

The practical expedient applies only to rent concessions occurring as a direct consequence of COVID-19 and only if all of the following conditions are met:

a) The change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change.

b) Any reduction in lease payments affects only payments originally due on or before 30 June 2021 (a rent concession meets this condition if it results in reduced lease payments on or before 30 June 2021 and increased lease payments that extend beyond 30 June 2021); and

c) There is no substantive change to other terms and conditions of the lease.

In the current financial year, the Bank has applied the practical expedient included in the amendment to IFRS 16 (as issued by the IASB in May 2020). The Bank received Covid-19 related rent concessions of Kshs 222,283.

Amendments to References to the Conceptual Framework in IFRS Standards

The Bank has adopted the amendments included in Amendments to References to the Conceptual Framework in IFRS Standards for the first time in the current year. The amendments include consequential amendments to affected Standards so that they refer to the new Framework. Not all amendments, however, update those pronouncements with regard to references to and quotes from the Framework so that they refer to the revised Conceptual Framework. Some pronouncements are only updated to indicate which version of the Framework they are referencing to (the IASC Framework adopted by the IASB in 2001, the IASB Framework of 2010, or the new revised Framework of 2018) or to indicate that definitions in the Standard have not been updated with the new definitions developed in the revised Conceptual Framework.

The Standards which are amended are IFRS 2, IFRS 3, IFRS 6, IFRS 14, IAS 1, IAS 8, IAS 34, IAS 37, IAS 38, IFRIC 12, IFRIC 19, IFRIC 20, IFRIC 22, and SIC-32. The adoption of the amendments has not had any material impact on the disclosures or on the amounts reported in these financial statements.

Amendments to IAS 1 and IAS 8 Definition of material

The Bank has adopted the amendments to IAS 1 and IAS 8 for the first time in the current year. The amendments make the definition of material in IAS 1 easier to understand and are not intended to alter the underlying concept of materiality in IFRS Standards. The concept of 'obscuring' material information with immaterial information has been included as part of the new definition.

The threshold for materiality influencing users has been changed from 'could influence' to 'could reasonably be expected to influence'. The definition of material in IAS 8 has been replaced by a reference to the definition of material in IAS 1. In addition, the IASB amended other Standards and the Conceptual Framework that contain a definition of 'material' or refer to the term ‘material’ to ensure consistency.

The adoption of the amendments has not had any material impact on the disclosures or on the amounts reported in these financial statements.

2.1.2. Impact of new and amended standards and interpretations in issue but not yet effective.

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

IFRS 17	*Insurance Contracts*
IFRS 10 and IAS 28 (amendments)	*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*
Amendments to IAS 1	*Classification of Liabilities as Current or Non-current*
Amendments to IFRS 3	*Reference to Conceptual Framework*
Amendments to IAS 16	*Property, Plant and Equipment – Proceeds before Intended Use*
Amendments to IAS 37	*Onerous Contracts – Cost of Fulfilling a Contract*
Annual Improvements to IFRS Standards 2018 – 2020 Cycle	*Amendments to IFRS 1 First-time Adoption of International Financial Reporting*
	Standards, IFRS 9 Financial Instruments, IFRS 16 Leases, and IAS 41 Agriculture

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

2.1.3 Early adoption of standard

The Bank did not early-adopt any new or amended standards in the year ended 31 December 2020.

2.2 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.

2.3 Revenue recognition

2.3.1 Interest income and expense

Interest income and expense for all interest-bearing financial instruments are recognised 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 recognised using the rate of interest that was used to discount the future cash flows for purposes of measuring the allowance for impairment.

2.3.2 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 recognised as the related services are performed. When a loan commitment is not expected to result in the draw-down of a loan, loan commitment fees are recognised on a straight-line basis over the commitment period.

Fees and commission expense relates mainly to transaction and service fees, which are expensed as the services are received them.

2.4 Property and equipment

Property 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 equipment over its expected useful life. During the year, the Bank revised useful life of assets to be in line with the group as per below;

	Revised Useful life	Previous Useful life
Leasehold improvements	12.5%	12.5%
Furniture and fittings	20%	20%
Motor vehicle	20%	25%
Computer equipment	33%	20%
Office equipment	20%	20%
Right of use asset	Dependent on lease period/	Dependent on lease period/
	Estimated useful life of asset.	Estimated useful life of asset.
Intangible assets (Core Banking Software)	10%	20%
Intangible assets (Application Software)	33%	20%

2.5 Offsetting financial instruments

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 recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously.

2.6 Foreign currency translation

2.6.1 Functional and presentation currency

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

2.6.2 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 right The ownership of the difference in the change in the fair value (fair value reserve / financial investments at fair value through comprehensive income).

Valuation differences arising from the measurement of items of a non-monetary nature at fair value through profit and losses resulting from changes in the exchange rates used to translate those items include, and then are recognized in the income statement by the total valuation differences resulting from the measurement of equity instruments classified at fair value through Profits and losses, 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.

2.7 Employee entitlements

Entitlements to annual leave are recognised 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.

2.8 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.

2.9 Financial assets

The Bank classifies its financial assets in the following categories:

- Financial assets designated at amortized cost.
- Financial assets designated at fair value through other comprehensive income (FVTOCI).
- Financial assets designated at fair value through profit or loss (FVTPL).
- Loans and receivables.

Management determines the classification of its investments at initial recognition.

Financial assets are measured based on both:

(a) The banks business model for managing its financial assets.
(b) The contractual cash flow characteristics of the financial asset.

2.9.1.1 Financial assets designated at amortized cost.

Financial assets are measured at amortized cost when each of the following are satisfied and are not classified as at fair value through profit or loss:

- Assets are retained in a business model that is intended to hold assets in order to collect contractual cash flows;
- The contractual terms of the financial assets on specific dates result in cash flows which are only payments on the original amount and interest on the original amount outstanding.

2.9.1.2 Financial assets designated at fair value through other comprehensive income (FVTOCI)

Financial assets are measured at fair value through other comprehensive income only when both of the following conditions are met and are not classified as at fair value through profit or loss:

- Assets are retained in the business model, which is intended to achieve both the collection of contractual cash flows and the sale of financial assets.
- The contractual terms of the financial assets on specific dates result in cash flows that are only payments on the original amount and interest on the original amount outstanding.

Upon initial recognition of equity investments that are not held for trading, the Bank may elect irrevocably to present changes in fair value in other comprehensive income.

This choice is made on an investment-by-investment basis.

2.9.1.3 Financial assets designated at fair value through profit or loss (FVTPL)

Financial assets are measured at fair value through other profit or loss when:

- The objective is not to retain the financial asset for the collection of contractual or retained cash flows for the collection of contractual cash flows and sales.
- Collecting contractual cash flows is an incidental event for the model objective.
- Management of financial assets at fair value through profit or loss to avoid inconsistency in accounting measurement.

2.10 Dividend income

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

2.11 Impairment of financial assets

The Bank assesses on each balance sheet date whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event/s') and that loss event/s has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

The criteria that the Bank uses to determine that there is objective evidence of an impairment loss include:

- Cash flow difficulties experienced by the borrower (e.g., equity ratio, net income percentage of sales).
- Violation of the conditions of the loan agreement such as non-payment.
- Initiation of bankruptcy proceedings.
- Deterioration of the borrower's competitive position.
- The Bank for reasons of economic or legal financial difficulties of the borrower by granting concessions may not agree with the Bank granted in normal circumstances.
- Deterioration in the value of collateral or deterioration of the creditworthiness of the borrower.

The objective evidence of impairment loss for a group of financial assets is observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the portfolio, for instance an increase in the default rates for a particular banking product.

The Bank estimates the period between a loss occurring and its identification for each specific portfolio. In general, the periods used vary between three months to twelve months.

The Bank first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant and in this field the following are considered:

- If the Bank determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment according to historical default ratios.
- If the Bank determines that an objective evidence of financial asset impairment exist that is individually assessed for impairment and for which an impairment loss is or continues to be recognized are not included in a collective assessment of impairment.

The amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognized in the income statement. If a loan or held to maturity investment has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract when there is objective evidence for asset impairment. As a practical expedient, the Bank may measure impairment on the basis of an instrument's fair value using an observable market price.

The calculation of the present value of the estimated future cash flows of a collateralized financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

For the purposes of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics (i.e., on the basis of the group's grading process that considers asset type, industry, geographical location, collateral type, past-due status and other relevant factors). Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated.

For the purposes of evaluation of impairment for a group of a financial assets according to historical default ratios future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows of the assets in the Bank and historical loss experience for assets with credit risk characteristics similar to those in the Bank. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not currently exist.

Estimates of changes in future cash flows for groups of assets should be reflected together with changes in related observable data from period to period (e.g. changes in unemployment rates, property prices, payment status, or other indicative factors of changes in the probability of losses in the Bank and their magnitude). The methodology and assumptions used for estimating future cash flows are reviewed regularly by the Bank.

The Bank assesses on each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets classify fair value through OCI is impaired. In the case of equity investments classified as fair value through OCI, a significant or prolonged decline in the fair value of the security below its cost is considered in determining whether the assets are impaired. During periods start from first of January 2009, the decrease consider significant when it became 10% from the book value of the financial instrument and the decrease consider to be extended if it continues for period more than 9 months, and if the mentioned evidences become available then any cumulative gains or losses previously recognized in equity are recognized in the income statement , in respect of available for sale equity securities, impairment losses previously recognized in profit and loss are not reversed through the income statement.

If, in a subsequent period, the fair value of a debt instrument classified as fair value through OCI increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in the income statement, the impairment loss is reversed through the income statement to the extent of previously recognized impairment charge from equity to income statement.

2.12 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.

2.13 Taxation

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

2.13.1 Current 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.

2.13.2 Deferred tax

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences are utilized. Such deferred tax assets and liabilities are not recognised 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 is recognised on temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences are utilized. Such deferred tax assets and liabilities are not recognised 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 realised, 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 tax for the period

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

2.14 Leases

The Bank assesses whether a contract is or contains a lease at inception of the contract. The Bank recognises 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 recognises 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 loses.

Right-of-use assets are depreciated over the shorter period of lease term and useful life of the underlying asset. If a lease transfers ownership of the underlying asset or the cost of the right-of-use asset reflects that the Bank 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.

2.15 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.

2.16 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.

2.17 Comparatives

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

2.18 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:

2.18.1 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 derecognised prior to their maturity to understand the reason for their disposal and whether the reasons are consistent with the objective of the business for which the asset was held. Monitoring is part of the 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 or stage 3 assets. An asset moves to stage 2 when its credit risk has increased significantly since initial recognition. IFRS 9 does not define what constitutes a significant increase in credit risk. In assessing whether the credit risk of an asset has significantly increased, the Bank 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 lender would expect to receive, taking into account cash flows from collateral and integral credit enhancements.

2.18.2 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 liabilities, 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 lease, 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.

Assessment of whether a right-of-use asset is impaired.

There exists uncertainty in assessing whether the Bank's right of use asset is impaired.

3. Incorporation

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

4. Bank's financial performance

The Bank incurred a net loss of Ksh 379,274,000 for the period ended Dec. 31, 2020 (Dec. 31, 2019: Ksh 365,879,000) and as at that date it had an accumulated deficit of Ksh 1,643,259,000 (December 31, 2019: Ksh 1,263,985,000).

The Bank reported improved revenues driven by increase in net interest income by 121% year on year to close at Ksh 392m. Revenue was also boosted from gains resulting from USD capital revaluation as a result of weakening of Ksh against the dollar. The impact of growth in revenues resulted in the Bank breaking even operationally by posting year to date operational profit of Ksh 26.8m as at December 31, 2020.

There was a capital injection of USD 35m from Commercial International Bank (Egypt) to acquire 51% of Mayfair that was approved by CBK effective 1 May 2020. The acquisition is expected to boost the bank's operational and technological capacity through investment in new systems, products and human resources. This will enable the bank to reach a wider target market and offer a wider range of products, channels and services. The additional capital will also enable the bank to expand its asset base and subsequently enhance profitability.

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 Credit Committee. A separate Credit department, reporting to the 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, 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 Bank 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 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 entity is exposed to credit risk and not a longer period, even if contact 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 Bank 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.

Impact of COVID 19 on staging

<table>
<tr><th>Judgement</th><th>Retail</th><th>Corporate</th></tr>
<tr><td>Determination of whether the credit risk of financial instruments have increased significantly since initial recognition.</td><td colspan="2">Although COVID-19 has had a negative impact on the economies in which the Bank operates, in isolation COVID-19 initially reflected a liquidity constraint more than an inherent increase in credit risk for the entire portfolio of advances held by the Bank. As such the Bank did not impose a blanket downgrade on all ECL stages.

A more systematic and targeted approach to the impact of COVID-19 on the Bank’s customer base was undertaken, following the Bank’s existing credit framework, which allowed for well-balanced and consistent decision-making that considered not only the impact of COVID-19, but existing economic trends as well. As such, the Bank did not view requests for payment deferrals and liquidity assistance as the sole indicator that SICR had occurred for performing advances.

IFRS 9 contains a rebuttable presumption that credit risk has increased significantly when contractual payments are more than 30 days past due. This means that where payments are 30 days past due, the financial asset needs to migrate from stage 1 to stage 2. Instead of rebutting this presumption, the Bank views that where the customer and the Bank have agreed to a deferral of payment for a specified period, that such an extension will not trigger the counting of days past due.</td></tr>
</table>

<table>
<tr>
<td>SICR assessment of COVID 19 relief exposures.</td>
<td>In accordance with IFRS 9, all exposures are assessed to determine whether there has been a SICR at each reporting date (monthly), in which case the expected credit loss is calculated on a lifetime basis.

SICR triggers are based on client behaviour, client-based behaviour scores and judgemental factors. These triggers are portfolio specific and are calibrated over time to determine what level of deterioration is reflective of a significant increase in credit risk.

These levels are monitored and validated on a continuous basis. Management also considers other judgemental triggers, for example behaviour on other products.</td>
<td>In accordance with IFRS 9, all exposures are assessed to determine whether there has been a significant increase in credit risk at each reporting date (monthly), in which case the expected credit loss is calculated on a lifetime basis.

SICR triggers are determined based on client behaviour, client internal Bank rating or risk score, as well as judgemental factors which may result in the client being added to the watch list through the Bank’s ongoing risk management process. These triggers are determined at a deal and client level and are calibrated over time to determine what level of deterioration is reflective of a significant increase in credit risk.

Additional judgmental triggers, such as belonging to an industry in distress, are considered in the context of the financial impact of COVID-19.

These levels are monitored and validated on a continuous basis.</td>
</tr>
<tr>
<td>Sensitivity Staging.</td>
<td colspan="2">As outlined above, when there is a SICR since initial recognition, the exposure is moved from stage 1 to stage 2 and the ECL is calculated based on lifetime expected credit losses.

The move from 12-month expected credit loss to lifetime expected credit loss can result in a substantial increase in ECL. The sensitivity information provided in the table below details the additional ECL charge to the income statement that the Bank would need to recognise if all facilities with greater than 90 days past due and all restructures were restaged.

Comparative information has not been provided. As IFRS 9 is refined and embedded in the Bank’s reporting process, additional disclosure is included. This information was not produced in the prior year.

The following table sets out the additional ECL charge to the income statement if all advances which were subject to a form of COVID-19 relief were deemed to have suffered a SICR and were moved from stage 1 to stage 2, or where the COVID-19 relief was deemed to be an indicator of impairment and the advance was moved from stage 2 to stage 3 as at 31 December 2020.

<table>
<tr><td></td><td>Base</td><td>Restaged</td></tr>
<tr><td>Stage 1</td><td>95,018,443</td><td>80,850,724</td></tr>
<tr><td>Stage 2</td><td>50,578,780</td><td>139,234,367</td></tr>
<tr><td>Stage 3</td><td>119,694,275</td><td>119,694,275</td></tr>
<tr><td>Total</td><td>265,291,498</td><td>339,779,366</td></tr>
</table>

The increase in the loss allowance is calculated as the difference between the impairment that would have been raised in either stage 2 or stage 3 and the impairment recognised as at 31 December 2020. The impairment recognised as at 31 December 2020 already includes the post-model adjustment for COVID-19 relief detailed in the post-model adjustment section in this note.</td>
</tr>
</table>

Treatment of financial relief offered in response to the impacts of COVID-19.	The Bank offered financial relief through various mechanisms in response to COVID- 19. These included the following: • additional facilities or new loans being granted; • restructure of existing exposures with no change in the present value of the estimated future cash flows; and • restructure of existing exposures with a change in the present value of the estimated future cash flows. Prior to COVID-19 relief being granted, the customer was assessed against eligibility for relief criteria. In doing so, the Bank was able to identify customers who were in good standing but were facing financial distress due to the impact of COVID-19 directly or indirectly. The COVID-19 relief provided to these customers were deemed to be temporary and cash flow in nature. Where a customer was already experiencing financial distress and was in arrears prior to 31 March 2020, any restructuring of the customer's facilities was deemed to be permanent in nature. Where relief is expected to be temporary in nature and as such qualifies as a non- distressed restructure, the staging of the exposure as at 31 March 2020 has been maintained, and adjustments have been made to coverage to allow for incremental credit risk and potential masking of normal arrears. Where the relief is expected to be permanent in nature, the exposure has been treated as a distressed restructure, and staging and coverage have been adjusted in line with the Bank's normal practice. Where relief has been enacted through the issuance of a new loan as part of a non-distressed restructure, the loan has been treated at initial recognition as a new exposure and coverage has been calculated on the basis of historical behaviour in similar products, including a post-model adjustment to allow for incremental credit risk attributable to COVID-19 relief provided. The terms of the new loan are distinct from other facilities granted to the customer previously, as the new loan is unsecured and its repayment terms differ from the terms of the customers other facilities with the Bank. Where the relief provided as an emergency facility (as defined under CBK's issued guidelines to the banks on implementation of emergency measures to mitigate the adverse impact of COVID-19 pandemic on loans and advances (Circulars No 3 and 4) is part of a distressed restructure, the staging of the emergency facility has been aligned to the staging of the underlying exposures. Where there are multiple underlying exposures with different stages, the worst of these stages has been applied. The ECL for all exposures on which relief has been offered and for all emergency facilities has been adjusted to reflect the impact of forward-looking macroeconomic information in line with the rest of the portfolio.
Determination of whether a financial asset is credit impaired	Exposures are classified as stage 3 if there are qualitative indicators that the obligor is unlikely to repay their credit obligations in full without any recourse action by the Bank, such as the realisation of security. Distressed restructures of accounts in stage 2 are also considered to be default events. For a loan account to cure from stage 3 to either stage 2 or stage 1, the account needs to meet a stringent cure definition. Cures are assessed on a case-by-case basis, subsequent to an analysis by the relevant debt restructuring credit committee. A default event is a separate default event only if an account has met the portfolio- specific cure definition prior to the second or subsequent default. Default events that are not separate are treated as a single default event when developing LGD models and the associated term structures.

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	50%	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 reporting year is made up as follows:

	Dec. 31, 2020 Ksh Thousands	Dec. 31, 2019 Ksh Thousands
On balance sheet items exposed to credit risk		
Cash and balances with central bank	**1,005,909**	651,658
Due from banks	**2,921,165**	1,303,185
Less:Impairment provision	**(5,826)**	(2,602)
Gross loans and advances to customers	**5,047,239**	4,656,907
Individual:		
- Overdraft	**55,335**	65,662
- Personal loans	**609,226**	622,086
- Mortgages	**52,425**	43,785
Corporate:		
- Overdraft	**1,065,442**	791,082
- Direct loans	**3,264,811**	3,134,292
Impairment provision	**(265,292)**	(54,466)
Financial investments:		
-Debt instruments	**3,218,475**	1,432,366
Other assets	**352,629**	88,209
Total	**12,274,299**	**7,987,048**
Off balance sheet items exposed to credit risk		
Letters of credit (import and export)	**85,506**	75,031
Letter of guarantee	**247,572**	225,295
Total	**333,078**	**300,326**

The above table represents the Bank's Maximum exposure to credit risk on December 31, 2020, 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, 41.12% of the total maximum exposure is derived from loans and advances to customers, 23.75% due from banks while investments in debt instruments represent 26.22%.
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:

- 97.79% of the loans and advances are concentrated in the top two grades of the internal credit risk rating system.
- 85.47% of loans and advances portfolio are considered to be neither past due nor impaired.
- Loans and advances assessed individualy are valued Ksh 0.13m.
- The Bank has implemented more prudent processes when granting loans and advances during the financial year ended on December 31, 2020.
- 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. A collective provision on the total outstanding balances is made and appropriated from revenue reserves to statutory reserves.

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. However, the amounts involved are insignificant.

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 31 December 2020 (2019: 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, 2020	Dec. 31, 2019
	Ksh Thousands	Ksh Thousands
Stage 1 assets		
Property	**44,301,690**	9,262,662
Other	**3,857,694**	8,935,793
Stage 2 assets		
Property	**2,149,882**	1,149,386
Other	**947,985**	312,453
Stage 3 assets		
Property	**535,500**	126,550
Other	**80,535**	124,000
Total	**51,873,286**	**19,910,845**

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, amortised cost and at FVTPL.

	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 31 December 2020. 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, 2020 Ksh Thousands	**Dec. 31, 2020 %**	Dec. 31, 2019 Ksh Thousands	Dec. 31, 2019 %
Agriculture	**-**	**-**	4,088	0.1%
Building and Construction	**664,411**	**13.2%**	577,427	12.4%
Business Services	**417,217**	**8.3%**	274,725	5.9%
Electricity and Water	**13,417**	**0.3%**	33,825	0.7%
Finance and Insurance	**227,711**	**4.5%**	306,917	6.6%
Manufacturing	**518,378**	**10.3%**	410,774	8.8%
Mining and Quarrying	**172,411**	**3.4%**	190,725	4.1%
Other Activities and Enterprises	**607,533**	**9.9%**	259,550	5.6%
Real Estate	**236,274**	**4.7%**	291,512	6.3%
Personal/Household	**716,986**	**16.5%**	833,692	17.9%
Transport & Communication	**343,657**	**6.7%**	543,540	11.7%
Wholesale and Retail Trade	**1,129,245**	**22.3%**	930,132	20.0%
Total	**5,047,239**	**100%**	**4,656,907**	**100%**

Customer Deposits

	Dec. 31, 2020 Ksh Thousands	**Dec. 31, 2020 %**	Dec. 31, 2019 Ksh Thousands	Dec. 31, 2019 %
Non-profit institutions and individuals	**4,964,796**	**62%**	4,593,800	63%
Private enterprises	**2,716,542**	**34%**	2,484,320	34%
Insurance companies	**387,176**	**4.8%**	192,101	3%
Total	**8,068,514**	**100%**	**7,270,221**	**100%**

Off balance sheet items

	Dec. 31, 2020 Ksh Thousands	**Dec. 31, 2020 %**	Dec. 31, 2019 Ksh Thousands	Dec. 31, 2019 %
Building and Construction	**207,818**	**62%**	156,197	52%
Electricity and Water	**44,538**	**13%**	16,111	5%
Finance and Insurance	**9,152**	**3%**	3,000	1%
Manufacturing	**28,104**	**8%**	12,693	4%
Other Activities and Enterprises	**18,280**	**5%**	6,990	2%
Real Estate	**3,036**	**1%**	-	0%
Wholesale and Retail Trade	**22,150**	**7%**	78,384	26%
Transport and Communication	**-**	**0%**	26,951	9%
Total	**333,078**	**100%**	**300,326**	**100%**

5.1.9. Loans and advances

Loans and advances are summarized as follows:

	Dec.31, 2020 Ksh Thousands		Dec.31, 2019 Ksh Thousands	
	Loans and advances to customers	**Loans and advances to banks**	Loans and advances to customers	Loans and advances to banks
Gross Loans and advances	**5,047,239**	**-**	4,656,907	-
Less:				
Impairment provision	**(265,292)**	**-**	(54,466)	-
Net	**4,781,947**	**-**	4,602,441	-

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

Dec.31, 2020 — **Ksh Thousands**

	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**

Dec.31, 2019

	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	603,382	128,023	128	-	731,533
Corporate and Business Banking	3,638,226	221,886	65,261	-	3,925,374
Total	4,241,608	349,909	65,389	-	4,656,907

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

Dec.31, 2020 — **Ksh Thousands**

	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**	**64,175**	**-**	**150,172**
Total	**95,019**	**50,579**	**119,694**	**-**	**265,292**

Dec.31, 2019

	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	10,430	1,906	49	-	12,384
Corporate and Business Banking	28,221	9,585	4,276	-	42,082
Total	38,651	11,491	4,325	-	54,466

The significant increase in the impairment charge in the current financial year was due to the Board decision to increase provision on facilities in high-risk sectors such as the personal/household for facilities that had been restructured or with security issues.
The increase in provisions was also driven by the negative impact of Covid-19 pandemic on such customers. Also, the accounts under the tourism sector were downgraded to watch for monitoring purposes having been impacted by the pandemic as well.

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

Corporate and Business Banking loans: **Ksh Thousands**

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%-14%**	**3,681,918**	**-**	**-**	**-**	**3,681,918**
Grade 2: Watch	**14%-28%**	**-**	**584,160**	**-**	**-**	**584,160**
Grade 3: Substandard	**100%**	**-**	**-**	**61,804**	**-**	**61,804**
Grade 4: Doubtful	**100%**	**-**	**-**	**2,371**	**-**	**2,371**
Grade 5: Loss	**100%**	**-**	**-**	**-**	**-**	**-**

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%-15%**	**623,841**	**-**	**-**	**-**	**623,841**
Grade 2: Watch	**15%-30%**	**-**	**37,625**	**-**	**-**	**37,625**
Grade 3: Substandard	**100%**	**-**	**-**	**31,788**	**-**	**31,788**
Grade 4: Doubtful	**100%**	**-**	**-**	**23,731**	**-**	**23,731**
Grade 5: Loss	**100%**	**-**	**-**	**-**	**-**	**-**

Corporate and Business Banking loans: Ksh Thousands

Dec.31, 2019	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%	3,638,226	-	-	-	3,638,226
Grade 2: Watch	15%-27%	-	221,887	-	-	221,887
Grade 3: Substandard	100%	-	-	33,968	-	33,968
Grade 4: Doubtful	100%	-	-	31,293	-	31,293
Grade 5: Loss	100%	-	-	-	-	-

Individual Loans:

Dec.31, 2019	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%	603,382	-	-	-	603,382
Grade 2: Watch	16%-32%	-	128,023	-	-	128,023
Grade 3: Substandard	100%	-	-	128	-	128
Grade 4: Doubtful	100%	-	-	-	-	-
Grade 5: Loss	100%	-	-	-	-	-

Expected credit losses divided by internal classification:

Corporate and Business Banking loans:

Ksh Thousands

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%-14%	52,716	-	-	-	52,716
Grade 2: Watch	14%-28%	-	33,280	-	-	33,280
Grade 3: Substandard	100%	-	-	61,410	-	61,410
Grade 4: Doubtful	100%	-	-	2,765	-	2,765
Grade 5: Loss	100%	-	-	-	-	-

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%-15%	42,302	-	-	-	42,302
Grade 2: Watch	15%-30%	-	17,299	-	-	17,299
Grade 3: Substandard	100%	-	-	29,689	-	29,689
Grade 4: Doubtful	100%	-	-	25,830	-	25,830
Grade 5: Loss	100%	-	-	-	-	-

Corporate and Business Banking loans:

Ksh Thousands

Dec.31, 2019	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%	28,221	-	-	-	28,221
Grade 2: Watch	15%-27%	-	9,585	-	-	9,585
Grade 3: Substandard	100%	-	-	4,276	-	4,276
Grade 4: Doubtful	100%	-	-	-	-	-
Grade 5: Loss	100%	-	-	-	-	-

Individual Loans:

Dec.31, 2019	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%	10,430	-	-	-	10,430
Grade 2: Watch	16%-32%	-	1,906	-	-	1,906
Grade 3: Substandard	100%	-	-	49	-	49
Grade 4: Doubtful	100%	-	-	-	-	-
Grade 5: Loss	100%	-	-	-	-	-

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	716,986
Less:Impairment provision	(42,302)	(17,298)	(55,520)	(115,120)
Net	581,539	20,327	(0)	601,866

Corporate and Business Banking loans:	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Credit rating	**12 months**	**Life time**	**Life time**	
Grade 1: Normal	3,681,918	-	-	3,681,918
Grade 2: Watch	-	584,160	-	584,160
Grade 3: Substandard	-	-	61,804	61,804
Grade 4: Doubtful	-	-	2,371	2,371
Grade 5: Loss	-	-	-	-
Total	3,681,918	584,160	64,175	4,330,253
Less:Impairment provision	(52,716)	(33,280)	(64,175)	(150,171)
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	-	-	-	-
Total	1,423,444	-	-	1,423,444
Less:Impairment provision	-	-	-	-
Net	1,423,444	-	-	1,423,444

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

Dec.31, 2019

Ksh Thousands

Due from banks	Stage 1	Stage 2	Stage 3	Total
Credit rating	12 months	Life time	Life time	
Grade 1: Normal	1,303,185	-	-	1,303,185
Grade 2: Watch	-	-	-	-
Grade 3: Substandard	-	-	-	-
Grade 4: Doubtful	-	-	-	-
Grade 5: Loss	-	-	-	-
Total	1,303,185	-	-	1,303,185
Less:Impairment provision	(2,602)	-	-	(2,602)
Net	1,300,583	-	-	1,300,583

Individual Loans:	Stage 1	Stage 2	Stage 3	Total
Credit rating	12 months	Life time	Life time	
Grade 1: Normal	603,382	-	-	603,382
Grade 2: Watch	-	128,023	-	128,023
Grade 3: Substandard	-	-	128	128
Grade 4: Doubtful	-	-	-	-
Grade 5: Loss	-	-	-	-
Total	603,382	128,023	128	731,533
Less:Impairment provision	(10,430)	(1,906)	(49)	(12,385)
Net	592,952	126,117	79	719,148

Corporate and Business Banking loans:	Stage 1	Stage 2	Stage 3	Total
Credit rating	12 months	Life time	Life time	
Grade 1: Normal	3,638,226	-	-	3,638,226
Grade 2: Watch	-	221,887	-	221,887
Grade 3: Substandard	-	-	33,968	33,968
Grade 4: Doubtful	-	-	31,293	31,293
Grade 5: Loss	-	-	-	-
Total	3,638,226	221,887	65,261	3,925,374
Less:Impairment provision	(28,221)	(9,586)	(4,276)	(42,083)
Net	3,610,005	212,301	60,985	3,883,291

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	504,962	-	-	504,962
Grade 2: Watch	-	-	-	-
Grade 3: Substandard	-	-	-	-
Grade 4: Doubtful	-	-	-	-
Grade 5: Loss	-	-	-	-
Total	504,962	-	-	504,962
Less:Impairment provision	-	-	-	-
Net	504,962	-	-	504,962

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 — **Ksh Thousands**

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	12,384
Impairment during the period	31,872	15,393	55,470	102,736
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	9,585	4,276	42,082
New financial assets purchased or issued	29,831	11,508	43,736	85,075
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	33,280	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	-	-	-	-

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, 2019

Due from banks	Stage 1	Stage 2	Stage 3	Total
Provision for credit losses on 1 January 2019	2,431	-	-	2,431
New financial assets purchased or issued	2,602	-	-	2,602
Matured or disposed financial assets	(2,431)	-	-	(2,431)
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	2,602	-	-	2,602

Individual Loans:	Stage 1	Stage 2	Stage 3	Total
Provision for credit losses on 1 January 2019	2,504	-	-	2,504
Impairment during the period	7,926	1,906	49	9,881
Write off during the period	-	-	-	-
Recoveries	-	-	-	-
Cumulative foreign currencies translation differences	-	-	-	-
Ending balance	10,430	1,906	49	12,385

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 2019	47,853	95	-	47,947
New financial assets purchased or issued	(33,676)	9,585	4,276	(19,815)
Matured or disposed financial assets	(703)	(95)	-	(798)
Transferred to stage 1	8,960	-	-	8,960
Transferred to stage 2	5,787	-	-	5,787
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	-	-	-	-
Recoveries	-	-	-	-
Write off during the period	-	-	-	-
Cumulative foreign currencies translation differences	-	-	-	-
Ending balance	28,221	9,585	4,276	42,082

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	-	-	-	-

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, 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**
Dec.31, 2019	
IFRS 9 Stage 1 (0- 30 days)	4,241,608
IFRS 9 Stage 2 (31- 90 days)	349,909
IFRS 9 Stage 3(Over 90 days)	65,390
Total	4,656,907

Loans and advances restructured

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. Restructuring is

Loans and advances to customer	**Dec.31, 2020** Ksh Thousands	**Dec.31, 2019** Ksh Thousands
Corporates	**4,330,253**	3,925,374
Individuals	**716,986**	731,533
Total	**5,047,239**	4,656,907

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, 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

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

Dec.31, 2019

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 (Ksh Thousands)
AAA	-	-	-	-	-
AA+ to -AA	-	-	-	-	-
A to -A+	-	-	-	-	-
Less than -A	927,404	-	-	-	927,404
Not rated	-	-	-	-	-
Total	927,404	-	-	-	927,404

Dec.31, 2019

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 (Ksh Thousands)
AAA	-	-	-	-	-
AA+ to -AA	-	-	-	-	-
A to -A+	-	-	-	-	-
Less than -A	504,962	-	-	-	504,962
Not rated	-	-	-	-	-
Total	504,962	-	-	-	504,962

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

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	-	-	-	-	-

Dec.31, 2019

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 enc of the period.

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

				Ksh Thousands
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**	**845,539**	**484,647**	**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, 2020	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	-	-	-	-	52,425	-	-	-	-	-	-	-	52,425
Corporate:													
- Overdrafts	226,783	50,336	-	68,848	-	91,084	-		242,520	23,572	5,256	357,044	1,065,442
- Direct loans	437,629	366,881	13,417	158,863	-	427,294	-	172,411	365,013	212,702	338,401	772,201	3,264,811
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	664,411	417,217	13,417	4,148,959	716,986	518,378	3,218,475	172,411	607,533	236,274	343,657	1,129,245	12,186,962

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 31 December 2020. Included in the table are the Bank's financial instruments at carrying amounts categorised by currency.

The table below summarises the Bank's exposure to foreign exchange rate risk as at 31 December 2020. Included in the table are the Bank's financial instruments at carrying amounts categorised by currency.

						Ksh Thousands
Dec.31, 2020	**Ksh**	**USD**	**EUR**	**GBP**	**Other**	**Total**
Financial assets						
Cash and balances with central bank	859,601	113,658	14,545	18,105	-	1,005,909
Gross due from banks	1,009,497	1,874,822	4,555	24,802	1,663	2,915,339
Gross loans and advances to customers	4,013,657	1,029,743	3,839	-		5,047,239
Derivative financial instruments	-	-	-	-	-	-
Financial investments						
Gross financial investment securities	3,218,475	-	-	-	-	3,218,475
Total financial assets	9,101,230	3,018,223	22,939	42,907	1,663	12,186,961
Financial liabilities						
Due to banks	-	-	13,404	-	-	13,404
Due to customers	7,258,939	767,255	1,203	41,118	-	8,068,514
Derivative financial instruments	-	-	-	-	-	-
Total financial liabilities	7,258,939	767,255	14,607	41,118	-	8,081,918
Net on-balance sheet financial position	1,842,291	2,250,968	8,332	1,789	1,663	4,105,043

Dec.31, 2019	Ksh	USD	EUR	GBP	Other	Total
Total financial assets	6,593,209	1,337,403	30,861	23,877	1,698	7,987,048
Total financial liabilities	6,199,350	1,040,736	28,098	24,769	-	7,292,953
Net on statement of financial position	393,859	296,667	2,763	(892)	1,698	694,095

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 2020.

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, 2020			**Ksh Thousands**
	Amount	**Scenario 1** **10% appreciation**	**Scenario 2** **10% depreciation**
Adjusted Core Capital	**4,051,513**	**4,056,070**	**4,046,956**
Adjusted Total Capital	**4,051,513**	**4,056,070**	**4,046,956**
Risk Weighted Assets (RWA)	**7,624,604**	**7,624,604**	**7,624,604**
Adjusted Core Capital to RWA	**53.14%**	**53.20%**	**53.08%**
Adjusted Total Capital to RWA*	**53.14%**	**53.20%**	**53.08%**

*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, 2020							
Financial assets							
Cash and balances with central bank	**250,046**	**-**	**-**	**-**	**-**	**755,863**	**1,005,909**
Gross due from banks	**1,277,067**	**1,516,422**	**-**	**-**	**-**	**121,850**	**2,915,339**
Gross loans and advances to customers	**5,047,239**	**-**	**-**	**-**	**-**	**-**	**5,047,239**
Financial investments	**-**	**-**	**-**	**-**	**-**	**-**	
Gross financial investment securities	**199,097**	**-**	**-**	**611,877**	**2,407,501**	**-**	**3,218,475**
Total financial assets	**6,773,449**	**1,516,422**	**-**	**611,877**	**2,407,501**	**877,713**	**12,186,962**
Financial liabilities							
Due to banks	**13,404**	**-**	**-**	**-**	**-**	**-**	**13,404**
Due to customers	**797,764**	**3,970,957**	**2,618,035**	**-**	**-**	**681,759**	**8,068,514**
Total financial liabilities	**811,168**	**3,970,957**	**2,618,035**	**-**	**-**	**681,759**	**8,081,918**
Total interest re-pricing gap	**5,962,281**	**(2,454,535)**	**(2,618,035)**	**611,877**	**2,407,501**	**195,954**	**4,105,043**
Dec.31, 2019							
Total financial assets	5,657,323	250,024	878,358	250,465	254,497	696,381	7,987,048
Total financial liabilities	379,403	3,412,324	2,888,166	-	-	613,060	7,292,953
Total interest re-pricing gap	5,277,920	(3,162,300)	(2,009,808)	250,465	254,497	83,321	694,095

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
•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
•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 2020.

Dec.31, 2020			**Ksh Thousands**
	Amount	**Scenario 1** **Increase net interest margin by 10%**	**Scenario 2** **Decrease net interest margin by 10%**
Loss before taxation	**(351,917)**	**(312,676)**	**(391,157)**
Adjusted Core Capital	**4,051,513**	**4,090,754**	**4,012,272**
Adjusted Total Capital	**4,051,513**	**4,090,754**	**4,012,272**
Risk Weighted Assets (RWA)	**7,624,604**	**7,624,604**	**7,624,604**
Adjusted Core Capital to RWA	**53.14%**	**53.65%**	**52.62%**
Adjusted Total Capital to RWA	**53.14%**	**53.65%**	**52.62%**

*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 Poilcy 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, 2020	Dec.31, 2019
At year end	**87.4%**	45.6%
Average for the year	**71.5%**	44.6%
Maximum for the year	**93.8%**	52.2%
Minimum for the year	**44.0%**	36.9%

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, 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	**1,479,523**	**3,970,957**	**2,618,035**	**-**	**-**	**8,068,514**
Total liabilities (contractual and non contractual maturity dates)	**1,492,927**	**3,970,957**	**2,618,035**	**-**	**-**	**8,081,918**
Total financial assets (contractual and non contractual maturity dates)	**7,651,162**	**1,516,422**	**-**	**611,877**	**2,407,501**	**12,186,962**

Dec.31, 2019	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	22,732	-	-	-	-	22,732
Due to customers	969,731	3,412,324	2,888,166	-	-	7,270,221
Total liabilities (contractual and non contractual maturity dates)	992,463	3,412,324	2,888,166	-	-	7,292,953
Total financial assets (contractual and non contractual maturity dates)	1,494,294	727,485	2,393,653	2,401,852	969,764	7,987,048

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, 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**

						Ksh Thousand
Dec.31, 2019	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	22,732	-	-	-	-	22,732
Due to customers	969,731	3,412,324	2,888,166	-	-	7,270,221
Total liabilities (contractual and non contractual maturity dates)	992,463	3,412,324	2,888,166	-	-	7,292,953
Total financial assets (contractual and non contractual maturity dates)	1,494,272	727,485	2,393,675	2,401,852	969,764	7,987,048

Off balance sheet items

				Ksh Thousands
Dec.31, 2019	Up to 1 year	1-5 years	Over 5 years	Total
Letters of credit, guarantees and other commitments	300,326	-	-	300,326
Total	300,326	-	-	300,326

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, 2020	Dec.31, 2019	**Dec.31, 2020**	Dec.31, 2019
Financial assets				
Due from banks	**2,915,339**	1,300,583	**2,915,339**	1,300,583
Gross loans and advances to banks	**-**	-	**-**	-
Gross loans and advances to customers	**5,047,239**	4,656,907	**5,047,239**	4,656,907
- Individual	**716,986**	731,533	**716,986**	731,533
- Corporate	**4,330,253**	3,925,374	**4,330,253**	3,925,374
Financial investments:				
Amortized cost	**1,795,031**	927,404	**1,795,031**	927,404
Total financial assets	**9,757,609**	6,884,894	**9,757,609**	6,884,894
Financial liabilities				
Due to banks	**13,404**	22,732	**13,404**	22,732
Due to customers	**8,068,514**	7,270,221	**8,068,514**	7,270,221
Total financial liabilities	**8,081,918**	7,292,953	**8,081,918**	7,292,953

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 31 December 2020:

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, 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 OCI	**31-Dec-20**	**1,423,444**	**1,423,444**	**-**	**-**
Total		**1,423,444**	**1,423,444**	**-**	**-**
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**

Dec.31, 2019	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-19	-	-	-	-
Financial Assets at Fair value through OCI	31-Dec-19	504,962	504,962	-	-
Total		504,962	504,962	-	-
Derivative financial instruments					
Financial assets	31-Dec-19	-	-	-	-
Financial liabilities	31-Dec-19	3,900	-	3,900	-
Total		3,900	-	3,900	-
Liabilities for which fair values are disclosed:					
Due to customers	31-Dec-19	7,270,221	-	7,270,221	-
Total		7,270,221	-	7,270,221	-

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 our regulators within the markets that the Bank operates in.
•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.

Kenya

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.
•Supplementary 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, 2020**	Dec.31, 2019
	Ksh Thousands	Ksh Thousands
Tier 1 capital		
Ordinary share capital	**4,081,633**	2,300,000
Share premium	**1,613,139**	-
Accumulated deficit	**(1,643,259)**	(1,263,985)
Total qualifying tier 1 capital	**4,051,513**	1,036,015
Tier 2 capital		
Revaluation reserve	**-**	-
Total qualifying tier 2 capital	**-**	-
Total capital 1+2	**4,051,513**	1,036,015
Risk weighted assets		
On balance sheet items	**5,559,905**	4,904,774
Off balance sheet items	**320,926**	281,908
Market risk	**1,378,835**	442,148
Operational risk	**364,938**	208,074
Total Risk-weighted assets	**7,624,604**	5,836,904
Core capital to Total Risk Weighted assets ratio	**53.14%**	17.75%
Total capital to Total Risk Weighted Assets ratio	**53.14%**	17.75%

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, 2020			Dec.31, 2019		
	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)	93,687	0%	-	87,835	0%	-
Balances with Central Bank of Kenya	912,222	0%	-	563,823	0%	-
Kenya Government Treasury Bills	199,097	0%	-	927,404	0%	-
Kenya Government Treasury Bonds	3,019,378	0%	-	504,962	0%	-
Deposits and balances due from local institutions	2,808,972	20%	561,794	1,270,104	20%	254,021
Deposits and balances due from foreign institutions	106,368	20%	21,274	30,479	20%	6,096
Lending fully secured by cash	586,626	0%	-	601,350	0%	-
Loans and receivables Secured by residential property	52,348	50%	26,174	43,722	50%	21,861
Other Loans and advances (net of provisions)	4,142,974	100%	4,142,974	3,957,369	100%	3,957,369
Fixed Assets(net of depreciation)	455,061	100%	455,061	577,218	100%	577,218
Other assets	352,629	100%	352,629	88,209	100%	88,209
Total	12,729,360		5,559,905	8,652,475		4,904,774
Local Financial Institutions (Notional amount of swap deals)	-	20%	-	304,050	20%	60,810
Off balance sheet assets						
Transactions Secured by Cash	12,152	0%	-	79,228	0%	-
Others	320,926	100%	320,926	221,098	100%	221,098
Total	333,078		320,926	300,326		221,098

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 four main business segments:

- Corporate banking – incorporating direct debit facilities, current accounts, deposits, overdrafts, loan and other credi currency and derivative products
- Investment – incorporating financial instruments Trading.
- Retail banking – incorporating private banking services, private customer current accounts, savings, deposits, inves custody, credit and debit cards, consumer loans and mortgages;
- Others –Including other banking business, such as Assets Management.

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

	Ksh Thousands			
	Corporate banking	**Investments**	**Retail banking**	**Total**
Dec.31, 2020				
Revenue according to business segment	**457,869**	**229,371**	**419,033**	**1,106,272**
Expenses according to business segment	**(458,576)**	**(283,331)**	**(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)**	**(300,152)**	**(379,274)**
Total assets	**3,979,216**	**3,938,642**	**4,811,502**	**12,729,360**

Dec.31, 2019	Corporate banking	Investments	Retail banking	Total
Revenue according to business segment	335,786	85,004	266,825	687,616
Expenses according to business segment	(426,561)	(59,959)	(566,975)	(1,053,494)
Profit before tax	(90,774)	25,045	(300,150)	(365,879)
Tax	-	-	-	-
Profit for the year	(90,774)	25,045	(300,150)	(365,879)
Total assets	2,956,646	2,017,979	3,677,850	8,652,475

6.2. By geographical segment

	Ksh Thousands			
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	**(26,171)**	**(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**

	Nairobi	Coast	Rift valley	Total
Dec.31, 2019				
Revenue according to geographical segment	594,330	87,391	5,895	687,616
Expenses according to geographical segment	(851,920)	(165,779)	(35,795)	(1,053,494)
Profit before tax	(257,590)	(78,388)	(29,900)	(365,879)
Tax	-	-	-	-
Profit for the year	(257,590)	(78,388)	(29,900)	(365,879)
Total assets	6,946,376	1,515,037	191,063	8,652,475

7 . Net interest income

	Dec.31, 2020 Ksh Thousands	Dec.31, 2019 Ksh Thousands
Interest and similar income		
- Banks	**128,475**	67,982
- Clients	**549,628**	459,513
Total	**678,104**	527,495
Government securities – treasury bills at amortised cost	**89,536**	55,481
Government securities – treasury bonds	**186,091**	30,973
Total	**275,628**	86,454
Total interet income	**953,732**	613,949
Interest and similar expense		
- Banks	**(140)**	(145)
- Clients	**(542,347)**	(436,489)
Lease liability interest expense	**(18,834)**	(19,664)
Total	**(561,322)**	(456,297)
Net interest income	**392,410**	157,652

8 . Net fee and commission income

	Dec.31, 2020 Ksh Thousands	Dec.31, 2019 Ksh Thousands
Fee and commission income		
Fee and commissions related to credit	**35,900**	31,463
Other fee	**16,933**	11,074
Total	**52,833**	42,537

9 . Net trading income

	Dec.31, 2020 Ksh Thousands	Dec.31, 2019 Ksh Thousands
Gain from foreign exchange	**91,957**	31,124
Gain from forward foreign exchange deals revaluation	**3,900**	-
Total	**95,857**	31,124

10 . Administrative expenses

	Dec.31, 2020 Ksh Thousands	Dec.31, 2019 Ksh Thousands
Employee benefits*	319,353	269,164
Depreciation - property plant & equipment (note 22)	89,896	80,880
Depreciation - right of use asset (note 33)	36,615	33,834
Amortization (note 23)	47,290	45,209
Audit fees	7,800	7,150
Directors' emoluments - fees	11,144	7,964
Other operating expenses	179,815	139,878
Total	691,913	584,079

*** Employee benefits**

	Dec.31, 2020 Ksh Thousands	Dec.31, 2019 Ksh Thousands
Staff costs		
Salaries and allowances	282,886	235,326
Retirement benefits costs:		
-Defined contribution benefits scheme	11,872	9,653
-National social security fund	217	182
Staff insurance	23,975	20,234
Other staff expenses	403	3,769
Total	319,353	269,164

11 . Other operating income

	Dec.31, 2020 Ksh Thousands	Dec.31, 2019 Ksh Thousands
Profits from selling property, plant and equipment	11	-
Other income/expenses	3,840	5
Total	3,851	5

12 . Impairment charge for credit losses

	Dec.31, 2020 Ksh Thousands	Dec.31, 2019 Ksh Thousands
Loans and advances to customers	210,826	4,015
Due from banks impairment provision	3,224	171
(Write back)/provision for off balance sheet items	(9,096)	8,933
Total	204,954	13,119

13 . Taxation

	Dec.31, 2020 Ksh Thousands	Dec.31, 2019 Ksh Thousands
(a) Taxation charge		
Deferred tax credit (note 29)	27,357	-
(b) Reconciliation of taxation credit to expected tax based on accounting loss		
Loss before taxation	(351,917)	(365,879)
Tax at the applicable rate of 30%	(105,575)	(109,764)
Tax effect of expenses not deductible for tax purposes	8,566	10,470
Tax effect of incomes not subject to tax	(36,752)	(8,987)
Deferred tax asset not recognised	161,118	108,281
Tax charge	27,357	-

14 . Loss per share

	Dec.31, 2020 Ksh Thousands	Dec.31, 2019 Ksh Thousands
Net Loss for the year, available for distribution	(379,274)	(365,879)
Loss shareholders' Stake	(379,274)	(365,879)
Weighted Average number of shares	3,214,286	2,000,000
Basic Loss per share	(0.12)	(0.18)

15 . Cash and balances with central bank

	Dec.31, 2020	Dec.31, 2019
	Ksh Thousands	Ksh Thousands
Cash	93,687	87,835
Cash reserve ratio*	313,579	372,668
Balances with the CBK - available for use by the bank	598,643	191,155
Total	1,005,909	651,658
Fixed interest bearing balances	250,046	-
Non-interest bearing balances	755,863	651,658
Total	1,005,909	651,658

* The cash reserve ratio requirement is non-interest bearing and is based on the customer deposits with the Bank as adjusted by the Central Bank of Kenya requirements. At Dec.31, 2020 the cash reserve ratio requirement for Kenya was 4.25% of all customer deposits under certain conditions prescribed by CBK. (Dec.31, 2019 - 5.25%). These funds are not available for the day to day operations of the bank.

16 . Due from banks

	Dec.31, 2020	Dec.31, 2019
	Ksh Thousands	Ksh Thousands
Current accounts	121,850	44,723
Deposits	2,799,315	1,258,462
Expected credit losses	(5,826)	(2,602)
Total	2,915,339	1,300,583
Local banks	2,808,971	1,081,593
Foreign banks	106,368	218,990
Total	2,915,339	1,300,583
Non-interest bearing balances	121,850	44,723
Floating interest bearing balances	-	-
Fixed interest bearing balances	2,793,489	1,255,860
Total	2,915,339	1,300,583
Current balances	2,915,339	1,300,583

Due from banks

	Stage 1	Stage 1
Gross due from banks	2,921,165	1,303,185
Expected credit losses	(5,826)	(2,602)
Net due from banks	2,915,339	1,300,583

The weighted average effective interest rate at Dec.31, 2020 for deposits due from Banking institutions was (LCY - 7.40% FCY – 2.46%) (Dec.31, 2019 LCY – 7.73%, FCY – 1.49%).

17 . Treasury bills and other governmental notes

	Dec.31, 2020	Dec.31, 2019
	Ksh Thousands	Ksh Thousands
364 Days maturity	200,000	1,000,000
Unearned interest	(903)	(72,596)
Net	199,097	927,404

Governmental bonds	Dec.31, 2020 Ksh Thousands	Dec.31, 2019 Ksh Thousands
At Fair value through OCI	**1,423,444**	504,962
At amortized cost	**1,595,934**	-
Total	**3,019,378**	504,962

The weighted average effective interest rate on treasury bills at Dec.31, 2020 was 9.80% (2019 – 9.72%) and the rate for bonds was 11.10% (2019 – 11.72%).

18 . Loans and advances to customers, net

	Dec.31, 2020 Ksh Thousands	Dec.31, 2019 Ksh Thousands
Individual		
- Overdraft	**55,335**	65,662
- Personal loans	**609,226**	622,086
- Mortgages	**52,425**	43,785
Total 1	**716,986**	731,533
Corporate		
- Overdraft	**1,065,442**	791,082
- Direct loans	**3,264,811**	3,134,292
Total 2	**4,330,253**	3,925,374
Total Loans and advances to customers (1+2)	**5,047,239**	4,656,907
Less:		
Impairment provision	**(265,292)**	(54,466)
Net loans and advances to customers	**4,781,947**	4,602,441

The weighted average effective interest rate on LCY loans and receivables to customers as at Dec.31, 2020 was 12.36% (2019 – 12.59%). The weighted average effective interest rate on FCY loans as at Dec.31, 2020 was 8.45% (2019 – 8.23%).

Analysis of gross advances by maturity:	Dec.31, 2020 Ksh Thousands	Dec.31, 2019 Ksh Thousands
Maturing within one month	**583,153**	67,755
Maturing within 90 days	**266,111**	310,545
Maturing after 90 days and within one year	**1,270,926**	1,377,943
Maturing after one to five years	**2,441,298**	2,185,419
Over 5 years	**485,751**	715,245
Total	**5,047,239**	4,656,907

Analysis of the expected credit losses of IFRS 9 / Loss on loans and advances to customers by type during the year was as follows:

Ksh Thousands

	Dec.31, 2020				
Individual Loans:	**Overdrafts**	**Credit cards**	**Personal loans**	**Mortgages**	**Total**
Beginning balance	**96**	**-**	**11,359**	**929**	**12,384**
Impairment	**27,306**	**-**	**75,261**	**169**	**102,736**
Written off amounts		**-**	**-**	**-**	**-**
Recoveries	**-**	**-**	**-**	**-**	**-**
Ending balance	**27,402**	**-**	**86,620**	**1,098**	**115,120**

	Dec.31, 2020				
Corporate and Business Banking loans:	**Overdraft**	**Direct loans**	**Syndicated loans**	**Other loans**	**Total**
Beginning balance	**1,045**	**41,037**	**-**	**-**	**42,082**
Impairment	**8,964**	**99,126**	**-**	**-**	**108,090**
Written off amounts	**-**	**-**	**-**	**-**	**-**
Recoveries	**-**	**-**	**-**	**-**	**-**
foreign currencies translation differences	**-**	**-**	**-**	**-**	**-**
Ending balance	**10,009**	**140,163**	**-**	**-**	**150,172**

Ksh Thousands

	Dec.31, 2019				
Individual Loans:	Overdrafts	Credit cards	Personal loans	Mortgages	Total
Beginning balance	1,045	-	1,356	103	2,504
Impairment	(949)	-	10,003	826	9,880
Written off amounts	-	-	-	-	-
Recoveries	-	-	-	-	-
Ending balance	96	-	11,359	929	12,384

	Dec.31, 2019				
Corporate and Business Banking loans:	Overdraft	Direct loans	Syndicated loans	Other loans	Total
Beginning balance	6,504	41,444	-	-	47,947
Impairment	(5,459)	(407)	-	-	(5,865)
Written off amounts	-	-	-	-	-
Recoveries	-	-	-	-	-
foreign currencies translation differences	-	-	-	-	-
Ending balance	1,045	41,037	-	-	42,082

19.0 . Derivative financial instruments

19.1 . Derivatives

The Bank uses the following financial derivatives for non hedging purposes.

Forward contracts represent commitments to buy foreign and local currencies including unexecuted spot transactions. Future in foreign exchange rates or interest rates, and/or to buy/sell foreign currencies or financial instruments in a future date with a fixed contractual price under active financial market.

Credit risk is considered low, and future interest rate contract represents future exchange rate contracts negotiated for case by case, These contracts require financial settlements of any differences in contractual interest rates and prevailing market interest rates on future interest rates on future dates based on contractual amount (nominal value) pre agreed upon.

Foreign exchange and/or interest rate swap represents commitments to exchange cash flows, resulting from these contracts are exchange of currencies or interest (fixed rate versus variable rate for example) or both (meaning foreign exchange and interest rate contracts). Contractual amounts are not exchanged except for some foreign exchange contracts.

Credit risk is represented in the expected cost of foreign exchange contracts that takes place if other parties default to fulfill their liabilities. This risk is monitored continuously through comparisons of fair value and contractual amount, and in order to control the outstanding credit risk, the Bank evaluates other parties using the same methods as in borrowing activities.

as a right not an obligation whether to buy (buy option) or sell (sell option) at a certain day or within certain year for a predetermined amount in foreign currency or interest rate. Options contracts are either traded in the market or negotiated between The Bank and one which represent its fair value.

The contractual value for some derivatives options is considered a base to analyze the realized financial instruments on the balance sheet, but it doesn't provide an indicator for the projected cash flows of the fair value for current instruments, and those amounts don't reflects credit risk or interest rate risk.

from time to time as well as the range through which the financial derivatives can be in benefit for the Bank or conversely against its benefit and the total fair value of the financial derivatives in assets and liabilities. Hereunder are the fair values of the booked financial derivatives:

19.1.1 . For trading derivatives

			Ksh Thousands			Ksh Thousands
	Dec.31, 2020			Dec.31, 2019		
Foreign currencies derivatives	**Notional amount**	**Assets**	**Liabilities**	Notional amount	Assets	Liabilities
- Forward foreign exchange contracts	-	-	-			
- Currency swap	-	-	-	304,050	-	3,900
- Options	-	-	-	-	-	-
Total (1)	-	-	-	304,050	-	3,900

20 . Financial investments securities

Ksh Thousands

Dec.31, 2020	**Financial Assets at Fair value through OCI**	**Amortized cost**	**Total**
Investments listed in the market			
Governmental 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**

Ksh Thousands

Dec.31, 2019	Financial Assets at Fair value through OCI	Amortized cost	Total
Investments listed in the market			
Governmental bonds	504,962	-	504,962
Investments not listed in the market			
Treasury bills and other governmental notes	-	927,404	927,404
Total	504,962	927,404	1,432,366

Dec.31, 2020	**Financial Assets at Fair value through OCI**	**Amortized cost**	**Total**
Beginning balance	**504,962**	**927,405**	**1,432,367**
Addition	**852,898**	**1,595,934**	**2,448,832**
Deduction	**-**	**(728,308)**	**(728,308)**
Profit (losses) from fair value difference	**65,584**	**-**	**65,584**
Ending Balance as of Dec.31, 2020	**1,423,444**	**1,795,031**	**3,218,475**

Dec.31, 2019	Financial Assets at Fair value through OCI	Amortized cost	Total
Beginning balance	250,647	715,360	966,007
Addition	250,465	212,044	462,509
Deduction	-	-	-
Profit (losses) from fair value difference	3,850	-	3,850
Ending Balance as of Dec.31, 2019	504,962	927,404	1,432,366

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, 2020	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	1,005,909	-	-	-	1,005,909
Due from banks	2,915,339	-	-	-	2,915,339
Amortized cost	1,795,031	-	-	-	1,795,031
Loans and advances to customers, net	4,781,947	-	-	-	4,781,947
Derivative financial instruments	-	-	-	-	-
Financial Assets at Fair value through OCI	-	1,423,444	-	-	1,423,444
Total 1	10,498,227	1,423,444	-	-	11,921,670
Due to banks	13,404	-	-	-	13,404
Due to customers	8,068,514	-	-	-	8,068,514
Total 2	8,081,918	-	-	-	8,081,918

21 Other assets	Dec.31, 2020	Dec.31, 2019
	Ksh Thousands	Ksh Thousands
Prepaid expenses	39,482	34,972
Accounts receivable and other assets	313,147	53,237
Total	352,629	88,209

22 . **Property, plant and equipment**

Dec.31, 2020	Computer equipment	Motor vehicles	Leasehold Improvements	Office equipment	Furniture, and fittings	Capital work in progress*	Total
							Ksh Thousands
Beginning gross assets (1)	**70,288**	**6,900**	**165,843**	**212,261**	**21,338**	**25,853**	**502,482**
Additions during the year	**3,805**	**-**	**878**	**4,170**	**4,875**	**29,908**	**43,637**
Disposals during the year	**(127)**	**-**	**-**	**-**	**-**	**-**	**(127)**
Ending gross assets (2)	**73,966**	**6,900**	**166,721**	**216,431**	**26,213**	**55,761**	**545,992**
Accumulated depreciation at beginning of the period (3)	**33,772**	**6,030**	**44,723**	**111,977**	**8,809**	**-**	**205,310**
Current period depreciation	**17,805**	**762**	**20,589**	**46,068**	**4,672**	**-**	**89,896**
Disposals during the year	**(53)**	**-**	**-**	**-**	**-**	**-**	**(53)**
Accumulated depreciation at end of the period (4)	**51,524**	**6,792**	**65,312**	**158,045**	**13,481**	**-**	**295,153**
Ending net assets (2-4)	**22,442**	**108**	**101,409**	**58,386**	**12,732**	**55,761**	**250,839**
Beginning net assets (1-3)	**36,516**	**870**	**121,120**	**100,284**	**12,529**	**25,853**	**297,172**
Depreciation rates (Old)	**20.00%**	**25.00%**	**12.50%**	**20.00%**	**20.00%**	**20.00%**	
Depreciation rates (New)	**33.33%**	**20.00%**	**12.50%**	**20.00%**	**20.00%**	**20.00%**	

** Capital work in progress relates to fit out for new office space and anti-money laundering software whose implementation had not been completed as at year end.*

*** The bank changed useful lifes of some assets to be in line with the group. The additional depreciation resulting from this change in the current year is kes 8.1m*

Dec.31, 2019	Computer equipment	Motor vehicles	Leasehold Improvements	Office equipment	Furniture, and fittings	Capital work in progress	Total
Beginning gross assets (1)	68,029	6,900	148,492	202,550	18,699	21,712	466,383
Additions during the year	2,258	-	17,350	9,711	2,639	7,291	39,250
Transfer from work in progress	-	-	-	-	-	(3,150)	(3,150)
Ending gross assets (2)	70,288	6,900	165,843	212,261	21,338	25,853	502,483
Accumulated depreciation at beginning of the year (3)	19,854	4,305	25,168	70,315	4,789	-	124,431
Current year depreciation	13,918	1,725	19,555	41,662	4,020	-	80,880
Accumulated depreciation at end of the year (4)	33,772	6,030	44,723	111,977	8,809	-	205,311
Ending net assets (2-4)	36,516	870	121,120	100,284	12,529	25,853	297,172
Beginning net assets (1-3)	48,176	2,595	123,126	132,077	13,910	21,712	321,049
Depreciation rates	20.0%	25.0%	12.5%	20.0%	20.0%		

23 Intangible assets	Dec. 31, 2020	Dec.31, 2019
	Ksh Thousands	Ksh Thousands
Computer software		
Cost		
At 1 January and 31 December	231,768	225,524
Additions	8,080	3,306
Transfer from Work in progress	-	2938
Total 1	239,848	231,768
Amortisation		
At 1 January	110,861	65,652
Current year amortization	47,290	45,209
Total 2	158,151	110,861
Net book value at year end (1-2)	81,697	120,907

24 Due to banks

	Dec.31, 2020	Dec.31, 2019
	Ksh Thousands	Ksh Thousands
Current accounts	-	-
Deposits	13,404	22,732
Total	13,404	22,732
Local banks	-	-
Foreign banks	13,404	22,732
Total	13,404	22,732
Non-interest bearing balances	-	-
Floating bearing interest balances	-	-
Fixed interest bearing balances	13,404	22,732
Total	13,404	22,732
Current balances	13,404	22,732
Non-current balances	-	-
Total	13,404	22,732

The weighted average effective interest rate of FCY balances due to banks at Dec.31, 2020 was 0% (2019 – 0.75%).

25 Due to customers	Dec.31, 2020	Dec.31, 2019
	Ksh Thousands	Ksh Thousands
Demand deposits	766,509	613,060
Time deposits	6,802,401	6,355,956
Saving deposits	468,037	227,286
Other deposits (Call)	31,567	73,919
Total	8,068,514	7,270,221
Corporate deposits	3,172,789	2,735,934
Individual deposits	4,895,725	4,534,287
Total	8,068,514	7,270,221
Non-interest bearing balances	766,509	613,060
Floating interest bearing balances	468,037	227,286
Fixed interest bearing balances	6,833,968	6,429,875
Total	8,068,514	7,270,221
Current balances	8,068,514	7,270,221
Total	8,068,514	7,270,221

The weighted average effective interest rate on LCY customer deposits at Dec.31, 2020 was 7.67% (2019 - 8.00%) and the rate for FCY was 3.03% (2019 - 3.58%).

26 Other liabilities	Dec.31, 2020	Dec.31, 2019
	Ksh Thousands	Ksh Thousands
Accrued expenses	30,389	12,803
Accounts payable	277,001	72,510
Other credit balances	54,072	67,941
Total	361,462	153,255

27 . Share Capital

	Dec.31, 2020 Ksh Thousands	Dec.31, 2019 Ksh Thousands
Authorised:		
4,081,633 ordinary shares of Sh 1,000 each (2019:2,300,000)	**4,081,633**	2,300,000
Issued and fully paid:		
4,081,633 ordinary shares of Sh 1,000 each (2019:2,000,000)	**4,081,633**	2,000,000
Deposit paid for shares but not issued:	**-**	300,000
Total	**4,081,633**	2,300,000

28 . Share Premium

	Dec.31, 2020 Ksh Thousands	Dec.31, 2019 Ksh Thousands
Share Premium	**1,613,139**	-

29 . Deferred tax assets (Liabilities)

Deferred taxation 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, 2020 Ksh Thousands	Assets (Liabilities) Dec.31, 2019 Ksh Thousands
Fixed assets (depreciation)	**(7,682)**	(32,605)
Tax losses carried forward	**385,040**	337,629
Provision for non-performing loans	**81,360**	19,874
Leave pay provision	**1,358**	1,769
Provision for asset removal under IFRS 16	**1,383**	1,383
Other provisions	**2,046**	524

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 2020, the bank had accumulated tax losses amounting to Sh 1.28 Billion (2019 Sh 1.13 Billion) respectively available to be offset against future taxable profit.

30 . Contingent liabilities and commitments including off statement of financial position items

30.1 . Legal claims

- There are no legal claims against the Bank as at Dec.31, 2020.

	Dec.31, 2020 Ksh Thousands	Dec.31, 2019 Ksh Thousands
Authorised and contracted for	**-**	-
Authorised but not contracted for	**113,984**	54,870

30.3 . Letters of credit, guarantees and other commitments

	Dec.31, 2020 Ksh Thousands	Dec.31, 2019 Ksh Thousands
Letters of guarantee	**247,572**	225,295
Letters of credit (import and export)	**85,506**	75,031
Customers acceptances	**-**	-
Total	**333,078**	300,326

30.4 . Credit facilities commitments

	Dec.31, 2020 Ksh Thousands	Dec.31, 2019 Ksh Thousands
Credit facilities commitments	**-**	-

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.

Placements at 31 December 2020 include placements made in the bank by directors, their associates and companies associated to directors. Advances to customers and deposits at 31 December 2020 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 year end:

	Directors' associated companies		Employees/staff	
	2020	**2019**	**2020**	**2019**
	Ksh Thousands	Ksh Thousands	**Ksh Thousands**	Ksh Thousands
Movement in related party balances was as follows:				
Loans and advances:				
At 1 January	**770,551**	518,308	**69,893**	43,959
Net movement during the year	**112,480**	252,243	**10,725**	25,934
At 31 December	**883,031**	770,551	**80,618**	69,893
Interest earned	**89,524**	76,066	**5,952**	4,258
Deposits:				
At 1 January	**3,214,169**	2,674,934	**37,684**	31,677
Net movement during the year	**593,895**	539,235	**(19,337)**	6,007
At 31 December	**3,565,924**	3,214,169	**24,374**	37,684
Interest paid	**285,274**	241,831	**1,219**	1,388

Key management compensation

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

	Dec.31, 2020	Dec.31, 2019
	Ksh Thousands	Ksh Thousands
Key management salaries and other benefits	**119,359**	109,117
Directors emoluments	**11,144**	7,964

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, 2020	Dec.31, 2019
	Ksh Thousands	Ksh Thousands
Other transactions with related parties		
Amount due to Copy Cat Ltd	**51,796**	50,579
Payments during the year to Copy Cat Ltd	**103,178**	125,404
Payments during the year to Mayfair Insurance Ltd	**11,455**	12,043
Amount due to existing shareholders	**267,109**	-

The transactions with Copy Cat Ltd relate to sale of IT infrastructure, comprehensive support services for IT systems (Enterprise and Networking) and IT security upgrade for the Bank.

The transactions with Mayfair Insurance Ltd 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, 2020	Dec.31, 2019
	Ksh Thousands	Ksh Thousands
US dollar	33,783	(17,818)
Sterling pound	1,789	(900)
Euro	8,333	2,771
Other	1,663	1,698

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:

		2020	
	Ksh Thousands	Ksh Thousands	Ksh Thousands
	Office space	IT Equipment	Total
Amounts recognised in Statement of financial position			
Cost			
At 1 January	135,319	57,655	192,974
Additions/lease asset recognized	-	-	-
At 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	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

The Bank is not committed to any arrangements that are short term as at Dec.31,2020.
The total cash outflow for leases amount to Sh 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 (2019: Nil)

		2019	
	Ksh Thousands	Ksh Thousands	Ksh Thousands
	Office space	IT Equipment	Total
Amounts recognised in Statement of financial position			
Cost			
At 1 January	-	-	-
Adjustment on adoption of IFRS 16	105,251	-	105,251
Additions/lease asset recognized	30,068	57,655	87,723
At 31 December	135,319	57,655	192,974
Depreciation			
At 1 January	-	-	-
Current year depreciation	22,303	11,531	33,834
At 31 December	22,303	11,531	33,834
Net book value	113,016	46,124	159,140
Amounts recognised in profit and loss			
Depreciation expense on right-of-use assets	22,303	11,531	33,834
Interest expense on lease liabilities	13,083	6,581	19,664
Total	35,386	18,112	53,498

34 . Lease liabilities

	Dec. 31, 2020 Ksh Thousands	Dec. 31, 2019 Ksh Thousands
The movement in the lease liabilities is as follows:		
Balance at 1 January	**162,502**	102,061
Payment of lease liabilities	**(43,660)**	(45,525)
Interest on lease liabilities	**18,834**	19,664
Additions/lease asset recognized	**-**	86,302
At period end	**137,676**	162,502
Amounts due for settlement within 12 months	**26,609**	29,420
Amounts due for settlement after 12 months	**111,067**	133,082
Total	**137,676**	162,502
Maturity Analysis	**Ksh Thousands**	Ksh Thousands
Year 1	**45,877**	42,989
Year 2	**50,733**	41,290
Year 3	**46,734**	52,849
Year 4	**29,495**	54,608
Year 5	**7,754**	28,181
Above 5 years	**-**	10,698
Total	**180,593**	230,615

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. The lease obligations are denominated in Kenya Shillings.

Events after the reporting date

The Board of Directors approved the financial statements on 18 March 2021 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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