MAYFAIR CIB BANK LIMITED

FINANCIALSTATEMENTS
June 2021

Statement of profit or loss and other comprehensive income for the period ended June 30, 2021

	Notes	Jun. 30, 2021 Ksh Thousands	Jun. 30, 2020 Ksh Thousands
Interest and similar income		**573,189**	400,570
Interest and similar expense		**(261,428)**	(292,100)
Net interest income	*7*	**311,761**	108,470
Fee and commission income	*8*	**36,374**	22,096
Net trading income	*9*	**40,923**	30,588
Other operating income	*11*	**4,490**	1,339
Operating income		**393,548**	162,493
Administrative expenses	*10*	**(382,787)**	(320,980)
Impairment write back/(charge) for credit losses	*12*	**4,703**	(10,881)
Profit / Loss before income tax		**15,465**	(169,368)
Income tax expense	*13*	**(4,564)**	-
Net profit / (loss) for the period		**10,901**	(169,368)

Other comprehensive income

	Notes	Jun. 30, 2021 Ksh Thousands	Jun. 30, 2020 Ksh Thousands
Net profit / (loss) for the period		**10,901**	(169,368)
Items that will be reclassified subsequently to profit or loss:			
Net change in fair value of debt instruments measured at fair value through other comprehensive income		**41,615**	24,851
Net gain on financial assets reclassified to statement of profit or loss		**(56,526)**	-
Total other comprehensive (loss)/income for the period		**(14,911)**	24,851
Total comprehensive loss for the period		**(4,010)**	(144,517)
Profit (loss) per share	*14*		
Basic		**2.67**	(52.69)

Statement of financial position as at June 30, 2021

	Notes	Jun. 30, 2021 Ksh Thousands	Dec. 31, 2020 Ksh Thousands
Assets			
Cash and balances with Central Bank of Kenya	15	662,786	1,005,909
Due from banks, net	16	1,908,500	2,915,339
Loans and advances to customers, net	18	5,453,874	4,781,947
Derivative financial instruments	20	130	-
Financial investments securities			
- Financial Assets at Fair value through OCI	17, 19	2,519,036	1,423,444
- Amortized cost	17, 19	1,596,139	1,795,031
Other assets	21	386,626	352,629
Property, plant and equipment	22	229,016	250,839
Intangible assets	23	97,699	81,697
Right of use asset	33	128,010	122,525
Total assets		12,981,818	12,729,360
Liabilities and equity			
Liabilities			
Due to banks	24	22,442	13,404
Customer deposits	25	8,284,484	8,068,514
Other liabilities	26	379,662	361,462
Deferred tax liability	29	27,357	27,357
Lease liabilities	34	150,936	137,676
Total liabilities		8,864,881	8,608,413
Equity			
Issued and paid up capital	27	4,081,633	4,081,633
Share premium	28	1,613,139	1,613,139
Fair value reserve		54,523	69,434
Accumulated deficit		(1,632,358)	(1,643,259)
Total equity		4,116,937	4,120,947
Total liabilities and equity		12,981,818	12,729,360

The financial statements were approved by the board of directors on 24 August 2021 and were signed on its behalf by:

Tom M. Gitogo
Chairman

Hossam Rageh
Executive Director

Statement of changes in equity for the period ended June 30, 2020

Jun. 30, 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	1,640,781	-	-	**3,422,414**
Net loss for the period				(169,368)	**(169,368)**
Other comprehensive income	-	-	24,851	-	**24,851**
Balance at the end of the period	**4,081,633**	**1,640,781**	**28,701**	**(1,433,354)**	**4,317,761**

Statement of changes in equity for the period ended June 30, 2021

Jun. 30, 2021	Issued and paid up capital	Share premium*	Fair value reserve	Accumulated Deficit	Total Shareholders Equity
Beginning balance	**4,081,633**	**1,613,139**	**69,434**	**(1,643,259)**	**4,120,947**
Capital increase	-	-	-	-	-
Net loss for the period	-	-	-	**10,901**	**10,901**
Other comprehensive income	-	-	**(14,911)**	-	**(14,911)**
Balance at the end of the period	**4,081,633**	**1,613,139**	**54,523**	**(1,632,358)**	**4,116,937**

Cash flow for the period ended June 30, 2021

	Note	Jun. 30, 2021 Ksh Thousands	Jun. 30, 2020 Ksh Thousands
Cash flows from operating activities			
Loss / profit before taxation		**15,465**	(169,368)
Adjustments for:			
Loss from disposal of property, plant and equipment		**58**	-
Fixed assets depreciation	*22*	**42,502**	41,737
Intangible assets amortization	*23*	**10,314**	23,944
Depreciation of right-of-use assets	*33*	**18,796**	18,477
Finance costs - leases	*34*	**8,972**	10,187
Operating income/(loss) before changes in operating assets and liabilities		**96,108**	(75,023)
Working capital changes:			
Decrease (Increase) in financial assets at amortized cost		**198,892**	(135,691)
Increase in financial assets at fair value through OCI		**(1,314,267)**	(645,530)
Increase in loans and advances to customers		**(671,927)**	97,086
Decrease/(increase) in derivative financial instruments	*20*	**(130)**	(1,130)
Increase in other assets	*21*	**(33,997)**	(318,225)
Increase in customer deposits	*25*	**215,970**	1,144,971
Decrease/(increase) in cash reserve ratio balances		**(31,998)**	(90,815)
Increase/(decrease) in other liabilities	*26*	**18,201**	222,193
Net cash generated from/(used in) operating activities		**(1,523,150)**	197,837
Cash flows from investing activities			
Purchases of property, plant and equipment	*22*	**(44,039)**	(10,505)
Purchase of computer software	*23*	**(3,015)**	-
Net cash used in investing activities		**(47,054)**	(10,505)
Cash flows from financing activities			
Capital increase		**-**	3,422,414
Payment of lease liabilities	*34*	**(19,892)**	(18,039)
Net cash used in financing activities		**(19,892)**	3,404,375
Net increase/(decrease) in cash and cash equivalent during the year		**(1,590,095)**	3,591,706
Beginning balance of cash and cash equivalent		**3,793,362**	1,605,886
Cash and cash equivalent at the end of the year		**2,203,267**	5,197,592
Cash and cash equivalent comprise:			
Cash and balances with the CBK - available for use by the bank	*15*	**317,209**	797,371
Due from banks	*16*	**1,908,500**	4,460,026
Amounts due to other banks	*24*	**(22,442)**	(59,805)
Total cash and cash equivalent		**2,203,267**	5,197,592

Notes to the financial statements for the period ended June 30, 2021.

1. Statement of compliance

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

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

2. 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 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.

2.2Revenue recognition

2.3 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.

2.31 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 as per below;

	Useful life
Leasehold improvements	12.5%
Furniture and fittings	20%
Motor vehicle	20%
Computer equipment	33%
Office equipment	20%
Right of use asset	Dependent on lease period/ 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

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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 profit of Ksh 10,901,000 for the period ended June. 30, 2021 (June. 30, 2020: net loss of Ksh 169,368,000) and as at that date it had an accumulated deficit of Ksh 1,632,358,000 (December 31, 2020: Ksh 1,643,259,000).

The Bank reported improved revenues driven by increase in net interest income by 187% year on year to close at Ksh 311m up from 108m in June 2020. The impact of growth in revenues resulted in the Bank breaking even.

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

5. Financial risk management

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

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

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

5.1. Credit risk

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

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

5.1.1. Credit risk measurement

The Board of Directors has delegated responsibility for the management of credit risk to the 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.

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:

On balance sheet items exposed to credit risk	**Jun. 30, 2021** **Ksh Thousands**	Dec. 31, 2020 Ksh Thousands
Cash and balances with central bank	**662,786**	1,005,909
Due from banks	**1,912,287**	2,921,165
Less:Impairment provision	**(3,787)**	(5,826)
Gross loans and advances to customers	**5,706,260**	5,047,239
Individual:		
- Overdraft	**31,803**	55,335
- Personal loans	**549,436**	609,226
- Mortgages	**71,850**	52,425
Corporate:		
- Overdraft	**1,155,605**	1,065,442
- Direct loans	**3,897,565**	3,264,811
Impairment provision	**(252,386)**	(265,292)
Financial investments:		
-Debt instruments	**4,115,176**	3,218,475
Other assets	**386,626**	352,629
Total	**12,526,962**	**11,921,670**
Off balance sheet items exposed to credit risk		
Other contingent liabilities	**231,985**	-
Letters of credit (import and export)	**371,767**	85,506
Letter of guarantee	**393,157**	247,572
Total	**996,909**	**333,078**

The above table represents the Bank's Maximum exposure to credit risk on June 30, 2021, before taking into account any held collateral. For assets recognized on balance sheet, the exposures set out above are based on net carrying amounts as reported in the balance sheet. As shown above, 45.55% of the total maximum exposure is derived from loans and advances to customers, 20.56% due from banks while investments in debt instruments represent 32.85%.

Management is confident in its ability to continue to control and sustain minimal exposure of credit risk resulting from both the bank's loans and advances portfolio and debt instruments based on the following:

- 96.54% of the loans and advances are concentrated in the top two grades of the internal credit risk rating system.
- 83.20% 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 June 30, 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 30 June 2021 (2020: nil).

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

	Jun. 30, 2021	Dec. 31, 2020
	Ksh Thousands	Ksh Thousands
Stage 1 assets		
Property	**8,768,732**	9,756,090
Other	**5,369,804**	3,858,094
Stage 2 assets		
Property	**1,487,320**	1,349,882
Other	**305,460**	947,985
Stage 3 assets		
Property	**973,250**	343,250
Other	**165,403**	80,535
Total	**17,069,969**	**16,335,836**

The main types of collateral and the types of assets these are associated with are listed in the table below. The collateral presented relates to instruments that are measured at FVTOCI, 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 30 June 2021. There was no change in the Bank's collateral policy during the year. More details with regards to collateral held for certain classes of financial assets is listed above.

5.1.8. Credit quality

Concentrations of risk

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

Advances to customers

	Jun. 30, 2021 Ksh Thousands	Jun. 30, 2021 %	Dec. 31, 2020 Ksh Thousands	Dec. 31, 2020 %
Agriculture	46,774	1%	-	0%
Building and Construction	750,972	13%	664,411	13%
Business Services	403,520	7%	417,217	8%
Electricity and Water	7,329	0%	13,417	0%
Finance and Insurance	894,623	16%	227,711	5%
Manufacturing	519,238	9%	518,378	10%
Mining and Quarrying	156,968	3%	172,411	3%
Other Activities and Enterprises	587,878	10%	607,533	12%
Real Estate	239,615	4%	236,274	5%
Personal/Household	744,614	13%	716,986	14%
Transport & Communication	247,496	4%	343,657	7%
Wholesale and Retail Trade	1,107,233	19%	1,129,245	22%
Total	**5,706,260**	**100%**	**5,047,239**	**100%**

Customer Deposits

	Jun. 30, 2021 Ksh Thousands	Jun. 30, 2021 %	Dec. 31, 2020 Ksh Thousands	Dec. 31, 2020 %
Non-profit institutions and individuals	4,836,822	58%	4,964,796	62%
Private enterprises	3,367,640	41%	2,716,542	34%
Insurance companies	80,022	1.0%	387,176	5%
Total	**8,284,484**	**100%**	**8,068,514**	**100%**

Off balance sheet items

	Jun. 30, 2021 Ksh Thousands	Jun. 30, 2021 %	Dec. 31, 2020 Ksh Thousands	Dec. 31, 2020 %
Building and Construction	298,017	62%	207,818	62%
Electricity and Water	48,383	13%	44,538	13%
Finance and Insurance	239,611	3%	9,152	3%
Manufacturing	48,409	8%	28,104	8%
Other Activities and Enterprises	100,688	5%	18,280	5%
Real Estate	1,000	1%	3,036	1%
Wholesale and Retail Trade	260,801	7%	22,150	7%
Total	**996,909**	**100%**	**333,078**	**100%**

5.1.9. Loans and advances

Loans and advances are summarized as follows:

	Jun.30, 2021 Ksh Thousands		Dec.31, 2020 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	**5,706,260**	**-**	5,047,239	-
Less:				
Impairment provision	**(252,386)**	**-**	(265,292)	-
Net	**5,453,874**	**-**	4,781,947	-

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

Jun.30, 2021 — **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	**502,373**	**69,244**	**81,472**	**-**	**653,089**
Corporate and Business Banking	**4,245,382**	**700,043**	**107,745**	**-**	**5,053,170**
Total	**4,747,756**	**769,287**	**189,217**	**-**	**5,706,260**

Dec.31, 2020

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

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

Jun.30, 2021 — **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	**7,996**	**118**	**61,638**	**-**	**69,752**
Corporate and Business Banking	**59,179**	**47,112**	**76,342**	**-**	**182,634**
Total	**67,175**	**47,231**	**137,980**	**-**	**252,386**

Dec.31, 2020

	Stage 1: Expected credit losses over 12 months	Stage 2: Expected credit losses Over a lifetime that is not creditworthy	Stage 3: Expected credit losses Over a lifetime Credit default	Individually impaired	Total
Individuals	42,302	17,299	55,519	-	115,120
Corporate and Business Banking	52,717	33,281	64,174	-	150,171
Total	95,019	50,579	119,693	-	265,292

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

Corporate and Business Banking loans: Ksh Thousands

Jun.30, 2021	Scope of probability of default (PD)	Stage 1: Expected credit losses over 12 months	Stage 2: Expected credit losses Over a lifetime that is not creditworthy	Stage 3: Expected credit losses Over a lifetime Credit default	Individually impaired	Total
Grade 1: Normal	1%-14%	4,245,382	-	-	-	4,245,382
Grade 2: Watch	14%-28%	-	700,043	-	-	700,043
Grade 3: Substandard	100%	-	-	46,395	-	46,395
Grade 4: Doubtful	100%	-	-	59,256	-	59,256
Grade 5: Loss	100%	-	-	2,094	-	2,094

Individual Loans:

Jun.30, 2021	Scope of probability of default (PD)	Stage 1: Expected credit losses over 12 months	Stage 2: Expected credit losses Over a lifetime that is not creditworthy	Stage 3: Expected credit losses Over a lifetime Credit default	Individually impaired	Total
Grade 1: Normal	1%-15%	502,373	-	-	-	502,373
Grade 2: Watch	15%-30%	-	69,244	-	-	69,244
Grade 3: Substandard	100%	-	-	33,798	-	33,798
Grade 4: Doubtful	100%	-	-	24,249	-	24,249
Grade 5: Loss	100%	-	-	23,425	-	23,425

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%-15%	3,681,918	-	-	-	3,681,918
Grade 2: Watch	15%-27%	-	584,160	-	-	584,160
Grade 3: Substandard	100%	-	-	61,804	-	61,804
Grade 4: Doubtful	100%	-	-	2,371	-	2,371
Grade 5: Loss	100%	-	-	-	-	-

Individual Loans:

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

Expected credit losses divided by internal classification:

Corporate and Business Banking loans:

Ksh Thousands

Jun.30, 2021	**Scope of probability of default (PD)**	**Stage 1: Expected credit losses over 12 months**	**Stage 2: Expected credit losses Over a lifetime that is not creditworthy**	**Stage 3: Expected credit losses Over a lifetime Credit default**	**Individually impaired**	**Total**
Grade 1: Normal	**1%-14%**	**59,179**	**-**	**-**	**-**	**59,179**
Grade 2: Watch	**14%-28%**	**-**	**47,112**	**-**	**-**	**47,112**
Grade 3: Substandard	**100%**	**-**	**-**	**40,562**	**-**	**40,562**
Grade 4: Doubtful	**100%**	**-**	**-**	**33,686**	**-**	**33,686**
Grade 5: Loss	**100%**	**-**	**-**	**2,094**	**-**	**2,094**

Individual Loans:

Jun.30, 2021	**Scope of probability of default (PD)**	**Stage 1: Expected credit losses over 12 months**	**Stage 2: Expected credit losses Over a lifetime that is not creditworthy**	**Stage 3: Expected credit losses Over a lifetime Credit default**	**Individually impaired**	**Total**
Grade 1: Normal	**1%-15%**	**7,996**	**-**	**-**	**-**	**7,996**
Grade 2: Watch	**15%-30%**	**-**	**118**	**-**	**-**	**118**
Grade 3: Substandard	**100%**	**-**	**-**	**13,964**	**-**	**13,964**
Grade 4: Doubtful	**100%**	**-**	**-**	**24,249**	**-**	**24,249**
Grade 5: Loss	**100%**	**-**	**-**	**23,425**	**-**	**23,425**

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%-15%	52,716	-	-	-	52,716
Grade 2: Watch	15%-27%	-	33,281	-	-	33,281
Grade 3: Substandard	100%	-	-	61,410	-	61,410
Grade 4: Doubtful	100%	-	-	2,765	-	2,765
Grade 5: Loss	100%	-	-	-	-	-

Individual Loans:

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

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

Jun.30, 2021 Ksh Thousands

Due from banks	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Credit rating	**12 months**	**Life time**	**Life time**	
Grade 1: Normal	1,912,287	-	-	1,912,287
Grade 2: Watch	-	-	-	-
Grade 3: Substandard	-	-	-	-
Grade 4: Doubtful	-	-	-	-
Grade 5: Loss	-	-	-	-
Total	1,912,287	-	-	1,912,287
Less:Impairment provision	(3,787)	-	-	(3,787)
Net	1,908,500	-	-	1,908,500

Individual Loans:	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Credit rating	**12 months**	**Life time**	**Life time**	
Grade 1: Normal	502,373	-	-	502,373
Grade 2: Watch	-	69,244	-	69,244
Grade 3: Substandard	-	-	33,798	33,798
Grade 4: Doubtful	-	-	24,249	24,249
Grade 5: Loss	-	-	23,425	23,425
Total	502,373	69,244	81,472	653,089
Less:Impairment provision	(7,996)	(118)	(61,638)	(69,752)
Net	494,378	69,126	19,835	583,338

Corporate and Business Banking loans:	**Stage 1**		**Stage 3**	**Total**
Credit rating	**12 months**	**Life time**	**Life time**	
Grade 1: Normal	4,245,382	-	-	4,245,382
Grade 2: Watch	-	700,043	-	700,043
Grade 3: Substandard	-	-	46,395	46,395
Grade 4: Doubtful	-	-	59,256	59,256
Grade 5: Loss	-	-	2,094	2,094
Total	4,245,382	700,043	107,745	5,053,170
Less:Impairment provision	(59,179)	(47,112)	(76,342)	(182,634)
Net	4,186,203	652,931	31,402	4,870,536

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	2,519,036	-	-	2,519,036
Grade 2: Watch	-	-	-	-
Grade 3: Substandard	-	-	-	-
Grade 4: Doubtful	-	-	-	-
Grade 5: Loss	-	-	-	-
Total	2,519,036	-	-	2,519,036
Less:Impairment provision	-	-	-	-
Net	2,519,036	-	-	2,519,036

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)	(17,299)	(55,520)	(115,120)
Net	581,539	20,327	(0)	601,865

Corporate and Business Banking loans:	Stage 1		Stage 3	Total
Credit rating	12 months	Life time	Life time	
Grade 1: Normal	3,681,918	-	-	3,681,918
Grade 2: Watch	-	584,160	-	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)	(33,281)	(64,175)	(150,172)
Net	3,629,202	550,880	-	4,180,082

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

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

Jun.30, 2021 — **Ksh Thousands**

Due from banks	Stage 1	Stage 2	Stage 3	Total
Provision for credit losses on 1 January 2020	5,826	-	-	5,826
New financial assets purchased or issued	3,787	-	-	3,787
Matured or disposed financial assets	(5,826)	-	-	(5,826)
Transferred to stage 1	-	-	-	-
Transferred to stage 2	-	-	-	-
Transferred to stage 3	-	-	-	-
Changes in the probability of default and loss in case of default and the exposure at default	-	-	-	-
Changes to model assumptions and methodology	-	-	-	-
Write off during the period	-	-	-	-
Cumulative foreign currencies translation differences	-	-	-	-
Ending balance	3,787	-	-	3,787

Individual Loans:	Stage 1	Stage 2	Stage 3	Total
Provision for credit losses on 1 January 2020	42,302	17,299	55,519	115,120
Impairment during the period	(34,306)	(17,181)	6,119	(45,368)
Write off during the period	-	-	-	-
Recoveries	-	-	-	-
Cumulative foreign currencies translation differences	-	-	-	-
Ending balance	7,996	118	61,638	69,752

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	52,716	33,280	64,175	150,171
New financial assets purchased or issued	38,042	19,700	196	57,938
Matured or disposed financial assets	(2,016)	(5,395)	(2,280)	(9,691)
Transferred to stage 1	34,760	(671)	(9,605)	24,483
Transferred to stage 2	(21,366)	26,007	-	4,641
Transferred to stage 3	(36,758)	(21,659)	139,714	81,297
Changes in the probability of default and loss in case of default and the exposure at default	-	-	-	-
Changes to model assumptions and methodology	(6,199)	(4,149)	(115,857)	(126,205)
Recoveries	-	-	-	-
Write off during the period	-	-	-	-
Cumulative foreign currencies translation differences	-	-	-	-
Ending balance	59,179	47,112	76,342	182,634

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, 2020

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

Individual Loans:	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Provision for credit losses on 1 January 2020	10,430	1,906	49	12,384
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	115,121

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	150,171

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
Jun.30, 2021	
IFRS 9 Stage 1 (0- 30 days)	**4,747,756**
IFRS 9 Stage 2 (31- 90 days)	**769,287**
IFRS 9 Stage 3(Over 90 days)	**189,217**
Total	**5,706,260**
Dec.31, 2019	
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

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. Restructured loans at the end of the preiod were as below:

Loans and advances to customer	Jun.30, 2021 Ksh Thousands	Dec.31, 2020 Ksh Thousands
Corporates	**5,053,170**	4,330,253
Individuals	**653,089**	716,986
Total	**5,706,260**	5,047,239

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.

Jun.30, 2021

Ksh Thousands

Amortized cost	Stage 1: Expected credit losses over 12 months	Stage 2: Expected credit losses Over a lifetime that is not creditworthy	Stage 3: Expected credit losses Over a lifetime Credit default	Individually impaired	Total
AAA	-	-	-	-	-
AA+ to -AA	-	-	-	-	-
A to -A+	-	-	-	-	-
Less than -A	1,596,139		-	-	1,596,139
Not rated	-	-	-	-	-
Total	1,596,139	-	-	-	1,596,139

Jun.30, 2021

Fair value through OCI	Stage 1: Expected credit losses over 12 months	Stage 2: Expected credit losses Over a lifetime that is not creditworthy	Stage 3: Expected credit losses Over a lifetime Credit default	Individually impaired	Total
AAA	-	-	-	-	-
AA+ to -AA	-	-	-	-	-
A to -A+	-	-	-	-	-
Less than -A	2,519,036	-	-	-	2,519,036
Not rated	-	-	-	-	-
Total	2,519,036	-	-	-	2,519,036

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, 2020

Ksh Thousands

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

Dec.31, 2020

Ksh Thousands

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

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

Jun.30, 2021

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

Dec.31, 2020

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

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

5.1.11.1. Geographical sectors

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

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

Ksh Thousands

Jun.30, 2021	Nairobi	Coast	Rift valley	Total
Cash and balances with Central Bank of Kenya	625,898	23,237	13,651	662,786
Due from banks	1,912,287	-	-	1,912,287
Less:Impairment provision	(3,787)	-	-	(3,787)
Gross loans and advances to customers				
Individual:				
- Overdrafts	29,279	2,524	-	31,803
- Personal loans	472,469	72,392	4,575	549,436
- Mortgages	38,684	18,375	14,791	71,850
Corporate:				
- Overdrafts	847,590	204,717	103,298	1,155,605
- Other loans	2,203,604	1,262,156	431,804	3,897,565
Impairment provision	(179,070)	(62,227)	(11,089)	(252,386)
Financial investments:				
-Debt instruments	4,115,176	-	-	4,115,176
Total	10,062,129	1,521,176	557,030	12,140,336

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

Jun.30, 2021	Agriculture	Building and Construction	Business Services	Electricity and Water	Finance and Insurance	Individual	Manufacturing	Government sector	Mining and Quarrying	Other Activities and	Real estate	Transport and Communication	Wholesale and retail trade	Total
Cash and balances with Central Bank of Kenya	-	-	-	-	662,786	-	-	-	-	-	-	-	-	662,786
Due from banks	-	-	-	-	1,912,287	-	-	-	-	-	-	-	-	1,912,287
Less:Impairment provision	-	-	-	-	(3,787)	-	-	-	-	-	-	-	-	(3,787)
Gross loans and advances to customers														
Individual:														
- Overdrafts	-	-	-	-	-	31,803	-	-	-	-	-	-	-	31,803
- Personal loans	-	-	-	-	-	549,436	-	-	-	-	-	-	-	549,436
- Mortgages	-	-	-	-	-	71,850	-	-	-	-	-	-	-	71,850
Corporate:														
- Overdrafts	-	192,522	46,003		76,956	7,390	95,946	-		296,500	21,025	5,684	413,579	1,155,605
- Direct loans	46,774	558,450	357,517	7,329	817,667	84,134	423,293	-	156,968	291,378	218,590	241,812	693,653	3,897,565
Impairment provision	-	(26,974)	(18,978)	(28)	(6,291)	(79,878)	(13,273)	-	(81)	(35,848)	(982)	(44,444)	(25,609)	(252,386)
Net loans and advances to customers	46,774	723,998	384,542	7,300	888,332	664,736	505,965	-	156,887	552,030	238,634	203,052	1,081,624	5,453,874
Financial investments:														
-Debt instruments	-	-	-	-	-	-	-	4,115,176	-	-	-	-	-	4,115,176
Total	46,774	723,998	384,542	7,300	3,459,618	664,736	505,965	4,115,176	156,887	552,030	238,634	203,052	1,081,624	12,140,336

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 30 June 2021. 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 30 June 2021. Included in the table are the Bank's financial instruments at carrying amounts categorised by currency.

						Ksh Thousands
Jun.30, 2021	**Ksh**	**USD**	**EUR**	**GBP**	**Other**	**Total**
Financial assets						
Cash and balances with central bank	528,331	115,480	10,817	8,158	-	662,786
Gross due from banks	803,421	1,083,696	11,974	9,079	330	1,908,500
Gross loans and advances to customers	4,663,529	1,042,729	1	-		5,706,260
Derivative financial instruments	-	130	-	-	-	130
Financial investments						
Gross financial investment securities	4,115,176	-	-	-	-	4,115,176
Total financial assets	10,110,457	2,242,036	22,791	17,237	330	12,392,851
Financial liabilities						
Due to banks	-	-	22,442	-	-	22,442
Due to customers	7,241,038	1,024,647	1,294	17,505	-	8,284,484
Derivative financial instruments	-	-	-	-	-	-
Total financial liabilities	7,241,038	1,024,647	23,736	17,505	-	8,306,926
Net on-balance sheet financial position	2,869,419	1,217,389	(945)	(267)	330	4,085,925

Dec.31, 2020	Ksh	USD	EUR	GBP	Other	Total
Total financial assets	9,101,230	3,018,223	22,939	42,907	1,664	12,186,962
Total financial liabilities	7,258,939	767,255	14,607	41,118	-	8,081,918
Net on statement of financial position	1,842,291	2,250,968	8,332	1,789	1,664	4,105,044

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 3 months from 1 January 2021.

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

Jun.30, 2021			Ksh Thousands
	Amount	Scenario 1 10% appreciation	Scenario 2 10% depreciation
Adjusted Core Capital	4,056,964	4,057,255	4,056,672
Adjusted Total Capital	4,056,964	4,057,255	4,056,672
Risk Weighted Assets (RWA)	9,869,459	9,869,459	9,869,459
Adjusted Core Capital to RWA	41.11%	41.11%	41.10%
Adjusted Total Capital to RWA*	41.11%	41.11%	41.10%

*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
Jun.30, 2021							
Financial assets							
Cash and balances with central bank	-	-	-	-	-	662,786	662,786
Gross due from banks	427,127	1,393,744	-	-	-	87,629	1,908,500
Gross loans and advances to customers	5,706,260	-	-	-	-	-	5,706,260
Financial investments	-	-	-	-	-	-	
Gross financial investment securities	-	-	-	-	4,115,176	-	4,115,176
Total financial assets	6,133,387	1,393,744	-	-	4,115,176	750,415	12,392,721
Financial liabilities							
Due to banks	22,442	-	-	-	-	-	22,442
Due to customers	852,640	2,645,278	4,060,290	27,868	-	698,407	8,284,484
Total financial liabilities	875,082	2,645,278	4,060,290	27,868	-	698,407	8,306,926
Total interest re-pricing gap	5,258,304	(1,251,534)	(4,060,290)	(27,868)	4,115,176	52,008	4,085,795
Dec.31, 2020							
Total financial assets	6,773,449	1,516,422	-	611,877	2,407,501	877,713	12,186,962
Total financial liabilities	811,168	3,970,957	2,618,035	-	-	681,759	8,081,918
Total interest re-pricing gap	5,962,281	(2,454,535)	(2,618,035)	611,877	2,407,501	195,954	4,105,044

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 6 months from 1 January 2021.

Jun.30, 2021			**Ksh Thousands**
	Amount	**Scenario 1** **Increase net interest margin by 10%**	**Scenario 2** **Decrease net interest margin by 10%**
Profit before taxation	**15,465**	**46,641**	**(15,711)**
Adjusted Core Capital	**4,056,964**	**4,088,140**	**4,025,788**
Adjusted Total Capital	**4,056,964**	**4,088,140**	**4,025,788**
Risk Weighted Assets (RWA)	**9,869,459**	**9,869,459**	**9,869,459**
Adjusted Core Capital to RWA	**41.11%**	**41.42%**	**40.79%**
Adjusted Total Capital to RWA	**41.11%**	**41.42%**	**40.79%**

*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:

	Jun.30, 2021	Dec.31, 2020
At period end	**79.1%**	87.4%
Average for the year	**82.0%**	71.5%
Maximum for the year	**88.3%**	93.8%
Minimum for the year	**78.5%**	44.0%

5.3.3. Non-derivative cash flows

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

Jun.30, 2021	**Up to 1 month**	**One to three months**	**Three months to one year**	**One year to five years**	**Over five years**	**Total**
Financial liabilities						
Due to banks	**22,442**	**-**	**-**	**-**	**-**	**22,442**
Due to customers	**1,551,047**	**2,645,278**	**4,060,290**	**27,868**	**-**	**8,284,484**
Total liabilities (contractual and non contractual maturity dates)	**1,573,489**	**2,645,278**	**4,060,290**	**27,868**	**-**	**8,306,926**
Total financial assets (contractual and non contractual maturity dates)	**6,883,801**	**1,393,744**	**-**	**-**	**4,115,176**	**12,392,721**

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

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**
Jun.30, 2021	**Up to 1 year**	**1-5 years**	**Over 5 years**	**Total**
Other contingent liabilities	**231,985**	**-**	**-**	**231,985**
Letters of credit, guarantees and other commitments	**517,983**	**244,611**	**2,330**	**764,924**
Total	**517,983**	**244,611**	**2,330**	**996,909**

						Ksh Thousand
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

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

5.4. Fair value of financial assets and liabilities

5.4.1. Financial instruments not measured at fair value

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

	Book value		Fair value	
	Jun.30, 2021	Dec.31, 2020	Jun.30, 2021	Dec.31, 2020
Financial assets				
Due from banks	**1,908,500**	2,915,339	**1,908,500**	2,915,339
Gross loans and advances to banks	-	-	-	-
Gross loans and advances to customers	**5,706,260**	5,047,239	**5,706,260**	5,047,239
- Individual	**653,089**	716,986	**653,089**	716,986
- Corporate	**5,053,170**	4,330,253	**5,053,170**	4,330,253
Financial investments:				
Amortized cost	**1,596,139**	1,795,031	**1,596,139**	1,795,031
Total financial assets	**9,210,899**	9,757,609	**9,210,899**	9,757,609
Financial liabilities				
Due to banks	**22,442**	13,404	**22,442**	13,404
Due to customers	**8,284,484**	8,068,514	**8,284,484**	8,068,514
Total financial liabilities	**8,306,926**	8,081,918	**8,306,926**	8,081,918

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

Due from banks

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

Fair values of financial instruments

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

Quantitative disclosures fair value measurement hierarchy for assets as at 30 June 2021:

instruments:

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

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

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

			Fair value measurement using		
Jun.30, 2021	**Date of Valuation**	**Total**	**Quoted prices in active markets (Level 1)**	**Significant observable inputs (level 2)**	**Valuation techniques (level 3)**
Measured at fair value:					
Financial assets					
Financial Assets at Fair value through OCI	**30-Jun-21**	**2,519,036**	**2,519,036**	**-**	**-**
Total		**2,519,036**	**2,519,036**	**-**	**-**
Liabilities for which fair values are disclosed:					
Due to customers	**30-Jun-21**	**8,284,484**	**-**	**-**	**8,284,484**
Total		**8,284,484**	**-**	**-**	**8,284,484**

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

Fair value of financial assets and liabilities

Loans and advances to banks

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

Loans and advances to customers

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

Financial Investments

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

Due to other banks and customers

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

5.5 Capital management

The Bank's objectives when managing capital are:
•To safeguard the Bank's ability to continue as a going concern in order to provide acceptable returns to the shareholders and benefits for other stakeholders while maintaining an optimal capital structure.
•To comply with capital requirements set by 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 30 June was as follows as per Central Bank of Kenya:

1-The capital adequacy ratio	**Jun.30, 2021**	Dec.31, 2020
	Ksh Thousands	Ksh Thousands
Tier 1 capital		
Ordinary share capital	**4,081,633**	4,081,633
Share premium	**1,613,139**	1,613,139
Accumulated deficit	**(1,643,259)**	(1,643,259)
Net After tax profits, current year to-date (50% only)	**5,450**	-
Total qualifying tier 1 capital	**4,056,964**	4,051,513
Tier 2 capital		
Revaluation reserve	**-**	-
Total qualifying tier 2 capital	**-**	-
Total capital 1+2	**4,056,964**	4,051,513
Risk weighted assets		
On balance sheet items	**6,041,247**	5,559,905
Off balance sheet items	**757,094**	320,926
Market risk	**2,419,220**	1,378,835
Operational risk	**651,898**	364,938
Total Risk-weighted assets	**9,869,459**	7,624,604
Core capital to Total Risk Weighted assets ratio	**41.11%**	53.14%
Total capital to Total Risk Weighted Assets ratio	**41.11%**	53.14%

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

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

The risk weighted assets are as follows:

	Jun.30, 2021			Dec.31, 2020		
	Amount	**Weight**	**Risk Weighted**	Amount	Weight	Risk Weighted
On balance sheet assets	**Ksh Thousands**	**%**	**Ksh Thousands**	Ksh Thousands	%	Ksh Thousands
Cash (including foreign notes and coins)	**99,632**	**0%**	**-**	93,687	0%	-
Balances with Central Bank of Kenya	**563,153**	**0%**	**-**	912,222	0%	-
Kenya Government Treasury Bills	**-**	**0%**	**-**	199,097	0%	-
Kenya Government Treasury Bonds	**4,115,176**	**0%**	**-**	3,019,378	0%	-
Deposits and balances due from local institutions	**1,826,563**	**20%**	**365,313**	2,808,972	20%	561,794
Deposits and balances due from foreign institutions	**81,938**	**20%**	**16,388**	106,368	20%	21,274
Lending fully secured by cash	**599,931**	**0%**	**-**	586,626	0%	-
Loans and receivables Secured by residential property	**71,756**	**50%**	**35,878**	52,348	50%	26,174
Other Loans and advances (net of provisions)	**4,782,187**	**100%**	**4,782,187**	4,142,974	100%	4,142,974
Fixed Assets(net of depreciation)	**454,725**	**100%**	**454,725**	455,060	100%	455,061
Other assets	**386,757**	**100%**	**386,757**	352,629	100%	352,629
Total	**12,981,818**		**6,041,247**	12,729,360		5,559,905
Local Financial Institutions (Notional amount of swap deals)	**215,800**	**20%**	**43,160**	-	20%	-
Off balance sheet assets						
Transactions Secured by Cash	**67,176**	**0%**	**-**	12,152	0%	-
Others	**713,934**	**100%**	**713,934**	320,926	100%	320,926
Total	**996,909**		**713,934**	333,078		320,926

Capital allocation

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

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

6. Segment analysis

6.1. By business segment

The Bank is divided into three main business segments:

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

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

Ksh Thousands

	Corporate banking	Investments	Retail banking	Total
Jun.30, 2021				
Revenue according to business segment	**309,537**	**304,076**	**41,363**	**654,976**
Expenses according to business segment	**(138,939)**	**(307,178)**	**(193,394)**	**(639,511)**
Profit before tax	**170,599**	**(3,103)**	**(152,031)**	**15,465**
Tax	**(3,212)**	**(932)**	**(420)**	**(4,564)**
Profit for the year	**167,387**	**(4,035)**	**(152,451)**	**10,901**
Total assets	**4,031,366**	**5,271,694**	**3,678,758**	**12,981,818**

	Corporate banking	Investments	Retail banking	Total
Dec.31, 2020				
Revenue according to business segment	457,869	229,370	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)	(22,053)	(2,904)	(27,358)
Profit for the year	(3,109)	(76,012)	(300,152)	(379,275)
Total assets	3,979,216	3,938,642	4,811,502	12,729,360

6.2. By geographical segment

Ksh Thousands

Jun.30, 2021	**Nairobi**	**Coast**	**Rift valley**	**Total**
Revenue according to geographical segment	**528,478**	**91,632**	**34,867**	**654,976**
Expenses according to geographical segment	**(491,267)**	**(120,153)**	**(28,092)**	**(639,511)**
Profit before tax	**37,211**	**(28,521)**	**6,775**	**15,465**
Tax	**(3,299)**	**(916)**	**(349)**	**(4,564)**
Profit for the year	**33,912**	**(29,437)**	**6,426**	**10,901**
Total assets	**11,480,053**	**1,274,005**	**227,759**	**12,981,818**

	Nairobi	Coast	Rift valley	Total
Dec.31, 2020				
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)	(27,358)
Profit for the year	(298,626)	(63,737)	(16,911)	(379,275)
Total assets	10,763,703	1,459,063	506,594	12,729,360

7 . Net interest income

	Jun.30, 2021 Ksh Thousands	Jun.30, 2020 Ksh Thousands
Interest and similar income		
- Banks	**30,325**	37,938
- Clients	**312,475**	262,114
Total	**342,800**	300,052
Government securities – treasury bills at amortised cost	**903**	51,455
Government securities – treasury bonds	**229,485**	49,064
Total	**230,388**	100,519
Total interet income	**573,189**	400,570
Interest and similar expense		
- Banks	**(44)**	(18)
- Clients	**(252,515)**	(281,895)
Lease liability interest expense	**(8,869)**	(10,187)
Total	**(261,428)**	(292,100)
Net interest income	**311,761**	108,470

8 . Net fee and commission income

	Jun.30, 2021 Ksh Thousands	Jun.30, 2020 Ksh Thousands
Fee and commission income		
Fee and commissions related to credit	**28,683**	15,185
Other fee	**7,691**	6,911
Total	**36,374**	22,096
Net income from fee and commission	**36,374**	22,096

9 . Net trading income

	Jun.30, 2021 Ksh Thousands	Jun.30, 2020 Ksh Thousands
Gain from foreign exchange	**(15,602)**	30,588
Gain from bond trading	**56,526**	-
Total	**40,923**	30,588

10 . Administrative expenses

	Jun.30, 2021 Ksh Thousands	Jun.30, 2020 Ksh Thousands
Employee benefits*	**214,896**	152,504
Depreciation - property plant & equipment	**42,502**	41,737
Depreciation - right of use asset	**18,796**	18,477
Amortization	**10,314**	23,944
Audit fees	**4,800**	3,900
Directors' emoluments - fees	**3,071**	6,338
Other operating expenses	**88,407**	74,079
Total	**382,787**	320,980

*** Employee benefits**

	Jun.30, 2021 Ksh Thousands	Jun.30, 2020 Ksh Thousands
Staff costs		
Salaries and allowances	**189,101**	134,234
Retirement benefits costs:		
-Defined contribution benefits scheme	**6,373**	5,502
-National social security fund	**424**	102
Staff insurance	**10,135**	11,468
Other staff expenses	**8,862**	1,198
Total	**214,896**	152,504

11 . Other operating income

	Jun.30, 2021 Ksh Thousands	Jun.30, 2020 Ksh Thousands
Profits from selling property, plant and equipment	**-**	-
Other income/expenses	**4,490**	1,339
Total	**4,490**	1,339

12 . Impairment charge for credit losses

	Jun.30, 2021 Ksh Thousands	Jun.30, 2020 Ksh Thousands
	12,906	(14,960)
Write back/(charge) due from banks impairment	**2,038**	(4,891)
Charge/(write back) for off balance sheet items	**(10,241)**	8,970
Total	**4,703**	(10,881)

13 . Taxation

	Jun.30, 2021 Ksh Thousands	Jun.30, 2020 Ksh Thousands
Taxation charge		
Gross taxable amount	**456,384**	-
1 % minimum tax on gross taxable amount	**4,564**	-

14 . Profit (loss) per share

	Jun.30, 2021 Ksh Thousands	Jun.30, 2020 Ksh Thousands
Net profit (loss) for the year, available for distribution	**10,901**	(169,368)
Profit (loss) shareholders' Stake	**10,901**	(169,368)
Weighted Average number of shares	**4,081,633**	3,214,286
Basic Loss per share	**2.67**	(52.69)

15 . Cash and balances with central bank

	Jun.30, 2021 Ksh Thousands	Dec.31, 2020 Ksh Thousands
Cash	99,632	93,687
Cash reserve ratio*	345,577	313,579
Balances with the CBK - available for use by the bank	217,576	598,643
Total	662,786	1,005,909
Fixed interest bearing balances	-	250,046
Non-interest bearing balances	662,786	755,863
Total	662,786	1,005,909

* 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 June.30, 2021 the cash reserve ratio requirement for Kenya was 4.25% of all customer deposits under certain conditions prescribed by CBK. (June.30, 2020 - 4.25%). These funds are not available for the day to day operations of the bank.

16 . Due from banks

	Jun.30, 2021 Ksh Thousands	Dec.31, 2020 Ksh Thousands
Current accounts	87,629	121,850
Deposits	1,824,658	2,799,315
Expected credit losses	(3,787)	(5,826)
Total	1,908,500	2,915,339
Local banks	1,826,563	2,808,971
Foreign banks	81,938	106,368
Total	1,908,500	2,915,339
Non-interest bearing balances	87,629	121,850
Floating interest bearing balances	-	-
Fixed interest bearing balances	1,820,871	2,793,489
Total	1,908,500	2,915,339
Current balances	1,908,500	2,915,339

Due from banks

	Stage 1	Stage 1
Gross due from banks	1,912,287	2,921,165
Expected credit losses	(3,787)	(5,826)
Net due from banks	1,908,500	2,915,339

The weighted average effective interest rate at June.30, 2021 for deposits due from Banking institutions was (LCY - 8.22% FCY – 2.59%) (Dec.31, 2020 LCY - 7.40% FCY – 2.46%).

17 . Treasury bills and other governmental notes

	Jun.30, 2021 Ksh Thousands	Dec.31, 2020 Ksh Thousands
364 Days maturity	-	200,000
Unearned interest	-	(903)
Net	-	199,097

Governmental bonds	Jun.30, 2021 Ksh Thousands	Dec.31, 2020 Ksh Thousands
At Fair value through OCI	**2,519,036**	1,423,444
At amortized cost	**1,596,139**	1,595,934
Total	**4,115,176**	3,019,378

The weighted average effective interest rate on treasury bills (2020 – 9.80%) and the rate for bonds was 30th June 2021 11.86% (2020 – 11.10%).

18 . Loans and advances to customers, net

	Jun.30, 2021 Ksh Thousands	Dec.31, 2020 Ksh Thousands
Individual		
- Overdraft	**31,803**	55,335
- Personal loans	**549,436**	609,226
- Mortgages	**71,850**	52,425
Total 1	**653,089**	1,326,212
Corporate		
- Overdraft	**1,155,605**	1,065,442
- Direct loans	**3,897,565**	3,264,811
Total 2	**5,053,170**	4,330,253
Total Loans and advances to customers (1+2)	**5,706,260**	5,047,239
Less:		
Impairment provision	**(252,386)**	(265,292)
Net loans and advances to customers	**5,453,874**	4,781,947

The weighted average effective interest rate on LCY loans and receivables to customers as at June.30, 2020 was 12.38% (2020 – 12.36%). The weighted average effective interest rate on FCY loans as at June.30, 2020 was 8.11% (2020 – 8.40%).

Analysis of gross advances by maturity:	Jun.30, 2021 Ksh Thousands	Dec.31, 2020 Ksh Thousands
Maturing within one month	**324,718**	583,153
Maturing within 90 days	**706,791**	266,111
Maturing after 90 days and within one year	**1,252,786**	1,270,926
Maturing after one to five years	**2,984,803**	2,441,298
Over 5 years	**437,162**	485,751
Total	5,706,260	5,047,239

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

	Jun.30, 2021				
Individual Loans:	**Overdrafts**	**Credit cards**	**Personal loans**	**Mortgages**	**Total**
Beginning balance	**27,402**	**-**	**86,620**	**1,098**	**115,120**
Impairment	**(3,085)**	**-**	**(43,363)**	**1,079**	**(45,369)**
Written off amounts		**-**	**-**	**-**	**-**
Recoveries	**-**	**-**	**-**	**-**	**-**
Ending balance	**24,318**	**-**	**43,257**	**2,177**	**69,752**

	Jun.30, 2021				
Corporate and Business Banking loans:	**Overdraft**	**Direct loans**	**Syndicated loans**	**Other loans**	**Total**
Beginning balance	**10,009**	**140,163**	**-**	**-**	**150,172**
Impairment	**4,459**	**28,004**	**-**	**-**	**32,462**
Written off amounts	**-**	**-**	**-**	**-**	**-**
Recoveries	**-**	**-**	**-**	**-**	**-**
foreign currencies translation differences	**-**	**-**	**-**	**-**	**-**
Ending balance	**14,467**	**168,166**	**-**	**-**	**182,634**

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

19 . Financial investments securities

Jun.30, 2021	**Financial Assets at Fair value through OCI**	**Amortized cost**	**Total**
			Ksh Thousands
Investments listed in the market			
Governmental bonds	**2,519,036**	**1,596,139**	**4,115,176**
Investments not listed in the market			
Treasury bills and other governmental notes	**-**	**-**	**-**
Total	**2,519,036**	**1,596,139**	**4,115,176**

Ksh Thousands

Dec.31, 2020	Financial Assets at Fair value through OCI	Amortized cost	Total
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

Jun.30, 2021	**Financial Assets at Fair value through OCI**	**Amortized cost**	**Total**
Beginning balance	**1,423,444**	**1,795,031**	**3,218,475**
Addition	**2,261,529**	**-**	**2,261,529**
Deduction	**(1,151,025)**	**(198,892)**	**(1,349,917)**
Profit (losses) from fair value difference	**(14,911)**	**-**	**(14,911)**
Ending Balance as of June.30, 2020	**2,519,036**	**1,596,139**	**4,115,176**

Dec.31, 2020	Financial Assets at Fair value through OCI	Amortized cost	Total
Beginning balance	504,962	927,405	1,432,367
Addition	852,897	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

20.0 . Derivative financial instruments

20.1 . 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:

20.1.1 . For trading derivatives

			Ksh Thousands			Ksh Thousands
	Jun.30, 2021			Dec.31, 2020		
Foreign currencies derivatives	**Notional amount**	**Assets**	**Liabilities**	Notional amount	Assets	Liabilities
- Forward foreign exchange contracts	-	-	-	-	-	-
- Currency swap	-	**130**	-	-	-	-
- Options	-	-	-	-	-	-
Total (1)	-	**130**	-	-	-	-

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

Jun.30, 2021	Amortized cost	Debt financial Assets at Fair value through OCI	Equity financial Assets at Fair value through OCI	Financial Assets at Fair value through P&L	Total book value
Cash and balances with central bank	662,786	-	-	-	662,786
Due from banks	1,908,500	-	-	-	1,908,500
Amortized cost	1,596,139	-	-	-	1,596,139
Loans and advances to customers, net	5,453,874	-	-	-	5,453,874
Derivative financial instruments	130	-	-	-	130
Financial Assets at Fair value through OCI	-	2,519,036	-	-	2,519,036
Total 1	9,621,430	2,519,036	-	-	12,140,466
Due to banks	22,442	-	-	-	22,442
Due to customers	8,284,484	-	-	-	8,284,484
Total 2	8,306,926	-	-	-	8,306,926

21 Other assets	Jun.30, 2021 Ksh Thousands	Dec.31, 2020 Ksh Thousands
Accrued revenues	-	-
Prepaid expenses	50,382	39,482
Advances to purchase of fixed assets	-	-
Accounts receivable and other assets	336,244	313,147
Total	386,626	352,629

22 . Property, plant and equipment

Jun.30, 2021	Computer equipment	Motor vehicles	Leasehold Improvements	Office equipment	Furniture, and fittings	Capital work in progress	Total
							Ksh Thousands
Beginning gross assets (1)	**73,966**	**6,900**	**166,721**	**216,431**	**26,213**	**55,761**	**545,992**
Additions during the year	**4,264**	**27,000**	**-**	**122**	**-**	**12,653**	**44,039**
Disposals during the year	**(916)**	**-**	**-**	**-**	**-**	**-**	**(916)**
Transfer from work in progress	**-**	**-**	**16,462**	**7,991**	**-**	**(47,754)**	**(23,301)**
Ending gross assets (2)	**77,313**	**33,900**	**183,183**	**224,544**	**26,213**	**20,660**	**565,814**
Accumulated depreciation at beginning of the period (3)	**51,524**	**6,792**	**65,312**	**158,045**	**13,481**	**-**	**295,153**
Current period depreciation	**7,578**	**2,253**	**11,449**	**18,602**	**2,621**	**-**	**42,502**
Disposals during the year	**(858)**	**-**	**-**	**-**	**-**	**-**	**(858)**
Accumulated depreciation at end of the period (4)	**58,244**	**9,044**	**76,761**	**176,647**	**16,102**	**-**	**336,797**
Ending net assets (2-4)	**19,069**	**24,856**	**106,422**	**47,897**	**10,112**	**20,660**	**229,016**
Beginning net assets (1-3)	**22,442**	**108**	**101,409**	**58,386**	**12,732**	**55,761**	**250,839**
Depreciation rates	**33.33%**	**20.00%**	**12.50%**	**20.00%**	**20.00%**		

Dec.31, 2020	Computer equipment	Motor vehicles	Leasehold Improvements	Office equipment	Furniture, and fittings	Capital work in progress	Total
Beginning gross assets (1)	70,288	6,900	165,843	212,261	21,338	25,853	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 year (3)	33,772	6,030	44,723	111,977	8,809	-	205,310
Current year depreciation	17,805	762	20,589	46,068	4,672	-	89,896
Disposals during the year*	(53)	-	-	-	-	-	(53)
Accumulated depreciation at end of the year (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
	36,516	870	121,120	100,284	12,529	25,853	297,172
Depreciation rates	33.3%	20.0%	12.5%	20.0%	20.0%		

23 Intangible assets

	Jun. 30, 2021 Ksh Thousands	Dec.31, 2020 Ksh Thousands
Computer software		
Cost		
At 1 January and 31 December	**239,848**	231,768
Additions	**3,015**	8,080
Transfer from Work in progress	**23,301**	-
Total 1	**266,164**	239,848
Amortisation		
At 1 January	**158,151**	110,861
Current year amortization	**10,314**	47,290
Total 2	**168,465**	158,151
Net book value at period end (1-2)	**97,699**	81,697

24 Due to banks

	Jun.30, 2021 Ksh Thousands	Dec.31, 2020 Ksh Thousands
Current accounts	-	-
Deposits	**22,442**	13,404
Total	**22,442**	13,404
Local banks	-	-
Foreign banks	**22,442**	13,404
Total	**22,442**	13,404
Non-interest bearing balances	-	-
Floating bearing interest balances	-	-
Fixed interest bearing balances	**22,442**	13,404
Total	**22,442**	13,404
Current balances	**22,442**	13,404
Non-current balances	-	-
Total	**22,442**	13,404

The weighted average effective interest rate of FCY balances due to banks at June.30, 2021 was 0% (2020 – 0%).

25 Due to customers

	Jun.30, 2021 Ksh Thousands	Dec.31, 2020 Ksh Thousands
Demand deposits	**907,011**	766,509
Time deposits	**6,918,507**	6,802,401
Saving deposits	**450,234**	468,037
Other deposits (Call)	**8,732**	31,567
Total	**8,284,484**	8,068,514
Corporate deposits	**3,520,969**	3,172,789
Individual deposits	**4,763,515**	4,895,725
Total	**8,284,484**	8,068,514
Non-interest bearing balances	**907,011**	766,509
Floating interest bearing balances	**450,234**	468,037
Fixed interest bearing balances	**6,927,239**	6,833,968
Total	**8,284,484**	8,068,514
Current balances	**8,284,484**	8,068,514
Total	**8,284,484**	8,068,514

The weighted average effective interest rate on LCY customer deposits at June.30, 2021 was 6.81% (2020 - 7.67%) and the rate for FCY was 2.14% (2020 - 3.03%).

26 Other liabilities

	Jun.30, 2021 Ksh Thousands	Dec.31, 2020 Ksh Thousands
Accrued expenses	**20,784**	30,389
Accounts payable	**275,982**	277,001
Other credit balances	**82,896**	54,072
Total	**379,662**	361,462

27 . Share Capital

	Jun.30, 2021 Ksh Thousands	Dec.31, 2020 Ksh Thousands
Authorised:		
4,081,633 ordinary shares of Sh 1,000 each (2020:4,081,633)	**4,081,633**	4,081,633
Issued and fully paid:		
4,081,633 ordinary shares of Sh 1,000 each (2020:4,081,633)	**4,081,633**	4,081,633

28 . Share Premium

	Jun.30, 2021 Ksh Thousands	Dec.31, 2020 Ksh Thousands
Share Premium	**1,613,139**	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) Jun.30, 2021 Ksh Thousands	Assets (Liabilities) Dec.31, 2020 Ksh Thousands
Fixed assets (depreciation)	**(7,682)**	(7,682)
Tax losses carried forward	**764,314**	385,040
Provision for non-performing loans	**81,360**	81,360
Leave pay provision	**1,358**	1,358
Provision for asset removal under IFRS 16	**1,383**	1,383
Other provisions	**2,046**	2,046
Deferred tax asset not recognised	**(850,461)**	(471,187)
	(7,682)	(7,682)
Deferred tax on fair value gain on government securities through OCI	**(19,675)**	(19,675)
	-	-
Deferred tax liability	**(27,357)**	(27,357)

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 30 June 2021, the bank had accumulated tax losses amounting to Sh 1.63 Billion (2020 Sh 1.64 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 June.30, 2021.

30.2 . Capital commitments

	Jun.30, 2021 Ksh Thousands	Dec.31, 2020 Ksh Thousands
Authorised but not contracted for	**113,984**	113,984

30.3 . Letters of credit, guarantees and other commitments

	Jun.30, 2021 Ksh Thousands	Dec.31, 2020 Ksh Thousands
Letters of guarantee	**393,157**	247,572
Letters of credit (import and export)	**371,767**	85,506
Other contingent liabilities	**231,985**	-
Total	**996,909**	333,078

31 . Transactions with related parties

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

Placements at 30 June 2021 include placements made in the bank by directors, their associates and companies associated to directors. Advances to customers and deposits at 30 June 2021 include loans and advances to companies associated to directors, employees of the bank and, also deposits held with related parties respectively.

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

	Directors' associated companies		Employees/staff	
	Jun.30, 2021 Ksh Thousands	Dec.31, 2020 Ksh Thousands	**Jun.30, 2021 Ksh Thousands**	Dec.31, 2020 Ksh Thousands
Movement in related party balances was as follows:				
Loans and advances:				
At 1 January	**883,031**	770,551	**80,618**	69,893
Net movement during the year/period	**(114,723)**	112,480	**15,235**	10,725
At period end	**768,308**	883,031	**95,854**	80,618
Interest earned year/period	**43,317**	89,524	**3,448**	5,952
Letter of credit, guarantees	**30,210**	22,118	**-**	-
Deposits:				
At 1 January	**3,565,924**	3,214,169	**18,347**	37,684
Net movement during the year/period	**(343,687)**	593,895	**10,057**	(19,337)
At period end	**3,222,236**	3,565,924	**28,405**	18,347
Interest paid year/period	**128,536**	285,274	**708**	1,219

Key management compensation

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

	Jun.30, 2021 Ksh Thousands	Jun.30, 2020 Ksh Thousands
Key management salaries and other benefits	**98,882**	58,834
Directors emoluments	**3,071**	6,338

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.

	Jun.30, 2021 Ksh Thousands	Jun.30, 2020 Ksh Thousands
Other transactions with related parties		
Balances due from CIB Bank	**72,840**	-
Balances due to CIB Bank	**22,442**	-
Amount due to Copy Cat Ltd	**51,404**	50,580
Payments during the year to Copy Cat Ltd	**31,604**	26,980
Payments during the year to Mayfair Insurance Ltd	**3,493**	4,953
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**	**Jun.30, 2021**	Dec.31, 2020
	Ksh Thousands	Ksh Thousands
US dollar	**3,796**	33,783
Sterling pound	**(267)**	1,789
Euro	**(944)**	8,333
Other	**330**	1,663

33 . **Right of use asset**

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

		2021	
	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**
Adjustment on adoption of IFRS 16	**103**		**103**
Additions/lease asset recognized	**24,179**	**-**	**24,179**
Derecognition of lease	**(9,687)**	**-**	**(9,687)**
At 30 June	**149,913**	**57,655**	**207,568**
Depreciation			
At 1 January	**47,387**	**23,062**	**70,449**
Write off Depreciation ROUA	**(9,687)**	**-**	**(9,687)**
Current year depreciation	**13,031**	**5,765**	**18,796**
At 30 June	**50,730**	**28,828**	**79,558**
Net book value	**99,183**	**28,827**	**128,010**

Amounts recognised in profit and loss			
Depreciation expense on right-of-use assets	**13,031**	**5,765**	**18,796**
Interest expense on lease liabilities	**6,155**	**2,715**	**8,869**
Total	**19,185**	**8,480**	**27,665**

The Bank is not committed to any arrangements that are short term as at June 30,2021.
The total cash outflow for leases amount to Sh 20 million.
There are no restrictions or covenants imposed by lessors and the Bank did not enter into any sale and leaseback transactions during the year (2020: Nil)

		2020	
	Ksh Thousands	Ksh Thousands	Ksh Thousands
	Office space	IT Equipment	Total
Amounts recognised in 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

34 . Lease liabilities

	Jun. 30, 2021 Ksh Thousands	Dec. 31, 2020 Ksh Thousands
The movement in the lease liabilities is as follows:		
Balance at 1 January	**137,676**	162,502
Payment of lease liabilities	**(19,892)**	(43,660)
Interest on lease liabilities	**8,972**	18,834
Additions/lease asset recognized	**24,179**	-
At period end	**150,936**	137,676
Amounts due for settlement within 12 months	**38,254**	26,609
Amounts due for settlement after 12 months	**112,682**	111,067
Total	**150,936**	137,676
Maturity Analysis of undiscounted cashflows	**Ksh Thousands**	Ksh Thousands
Year 1	**51,522**	45,877
Year 2	**58,312**	50,733
Year 3	**48,329**	46,734
Year 4	**30,143**	29,495
Year 5	**4,615**	7,754
Above 5 years	**1,461**	-
Total	**194,382**	180,593

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

Events after the reporting date

The Board of Directors approved the financial statements on 24 August 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/period, 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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