Prime Bank

PUTTING YOU FIRST

ANNUAL REPORT & FINANCIAL STATEMENTS 2019

OUR VISION

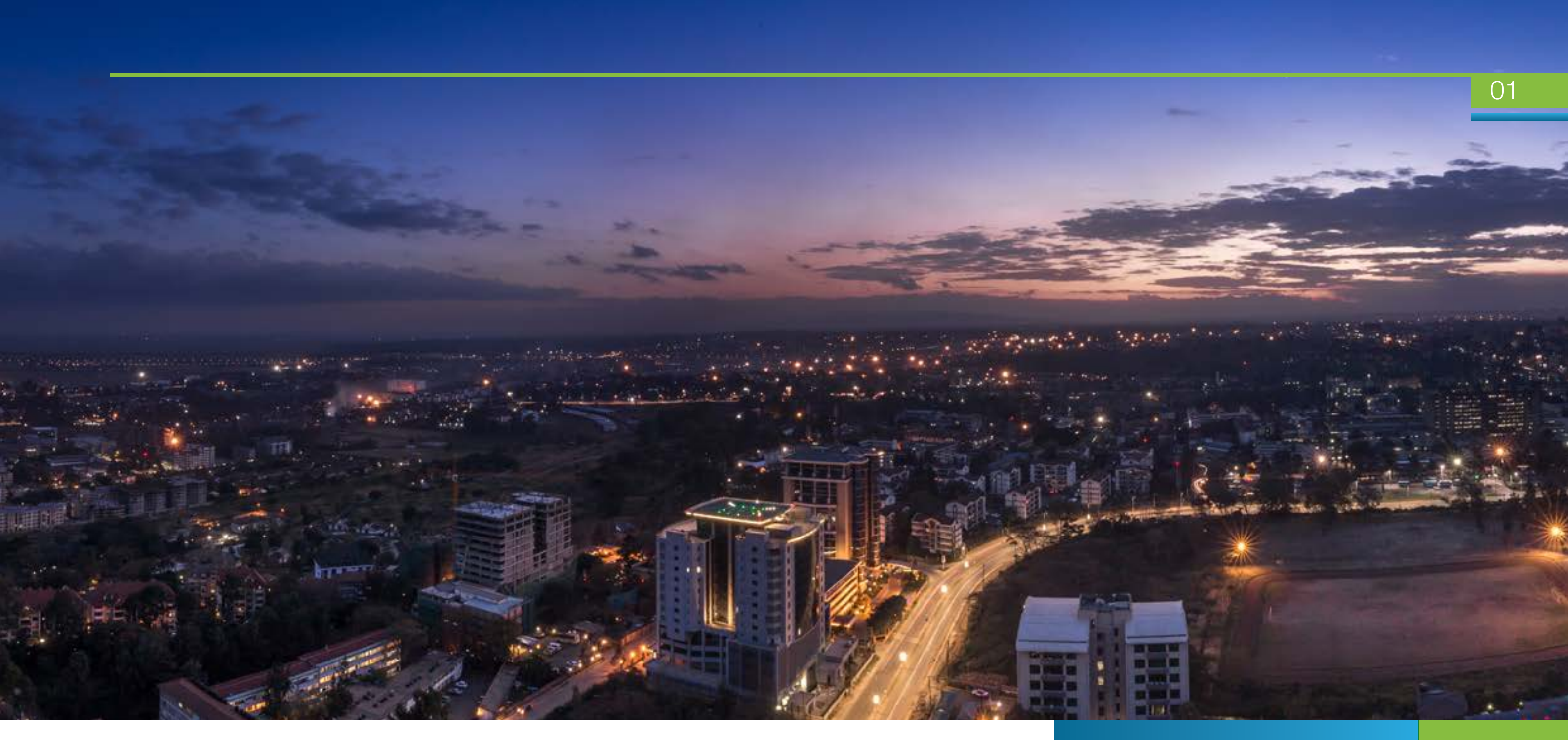
To be the financial service provider of first choice.

OUR MISSION

To provide quality and acceptable personalized financial services to our customers while observing compliance, growth and shareholder value.

OUR CORE VALUES

- **Integrity**
- **Quality**
- **Innovativeness**
- **Social Responsibility**
- **Teamwork**



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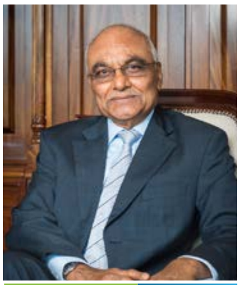
CORPORATE INFORMATION
BOARD OF DIRECTORS

CHAIRMAN
Mr. R. C. Kantaria



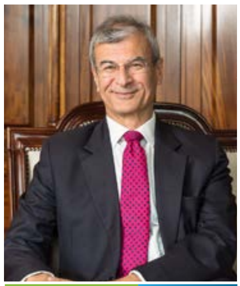
Vice Chairman
Mr. S. K. Shah

Director
Mr. T. M. Davidson

Director
Mr. J. N. Mungai

Director
Mr. D. G. M. Hutchison

Director
Mr. J. K. Kibet



Director
Mr. Farid Mohamed

Director
Mr. Biniam Yohannes

Director
Mr. Skander Khalil

Company Secretary
Mr. Arun Shah

Executive Director
Mr. A. R. Kantaria

Managing Director
Mr. Bharat Jani

BANK INFORMATION

PRINCIPAL PLACE OF BUSINESS
L.R. 209/8571
Prime Bank Building
Riverside Drive
P.O. Box 43825 – 00100
Nairobi

REGISTERED OFFICE
L.R. 209/8890
Kenindia House
Loita Street
P.O. Box 43825 - 00100
Nairobi

LAWYERS

KIRUTI & COMPANY ADVOCATES
P. O Box 13160 - 00100
Nairobi

MACHARIA MWANGI & NJERU ADVOCATES
P.O. Box 10627 - 00100
Nairobi

A B PATEL & PATEL ADVOCATES
P. O. Box 80274 - 80100
Mombasa

MANDLA & SEHMI ADVOCATES
P. O. Box 48642 - 00100
Nairobi

MAHINDA & MAINA COMPANY ADVOCATES
P. O. Box 42508 - 00100
Nairobi

SECRETARY

A.H. SHAH
Company Secretary
P.O. Box 46559 - 00100
Nairobi

AUDITOR

DELOITTE AND TOUCHE
Certified Public Accountants (Kenya)
Deloitte Place
Waiyaki Way, Muthangari
P. O. Box 40092 - 00100
Nairobi

CHAIRMAN'S STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2019

On behalf of the Board of Directors, Management and Staff of Prime Bank, it gives me great pleasure to present to our esteemed customers, shareholders and partners the Annual Report and Financial Statements of Prime Bank Group for the year ended December 31 2019.

Despite the negative outlook for the Kenyan economy, disruptions on the global arena including Brexit, and global trade wars, factors that had a significant impact on Kenya's growth trajectory, I am proud to report that Prime Bank navigated through a difficult operating environment to register satisfactory results.

OPERATING ENVIRONMENT

The year was characterized by a slow-down in global growth attributed to the negative effects of ongoing trade conflicts between US and China, political tensions between the US and Iran, the delays in Britain exiting from the European Union, and the general decline in global trade.

Africa's economic outlook continued to exhibit resilience in 2019 with its real GDP growth estimated at 3.4%. This has been attributed to the moderate expansion of the continent's "big five" — Algeria, Egypt, Morocco, Nigeria, and South Africa – whose joint growth was an average rate of 3.1%, compared with the average of 4% for the rest of the continent.

East Africa maintained its lead as the continent's fastest-growing region, with average growth estimated at 5% in 2019.

In 2019, the Kenyan economy recorded a subdued growth of 5.4% compared to an average of 6% in 2018 mainly due to decrease in agricultural production as a result of delayed long rains.

The year also had a fairly stable exchange rate regime with the help of by increased diaspora remittance. Inflation rate remained subdued while ease of doing business improved markedly.

> "The strong performance is partly attributed to the successful capital raising in 2018 which invited subscription of equity capital from our customers and staff and private equity firms Afric Invest and Catalyst Principal Partners"

BANKING SECTOR AND REGULATORY ENVIRONMENT

Kenyan banking sector remained stable in 2019 with mergers and acquisitions playing centre stage in the industry. This was aided by the improving economic conditions and a more conducive operating environment compared 2018.

The Central Bank of Kenya launched new generation notes of denominations KShs 1,000, KShs 500, KShs 200, KShs 100 and KShs 50.

CHAIRMAN'S STATEMENT (continued)
FOR THE YEAR ENDED 31 DECEMBER 2019

During the period under review, the Finance Act 2019 was passed, repealing section 33B of the Banking Act, which had previously capped interest rates at a maximum of 4.0% points above the Central Bank Rate (CBR) with the view to enhancing access to credit by the private sector and improve banking sector performance.

GROUP PERFORMANCE
The Group demonstrated resilience in 2019 against a challenging operating environment and recorded satisfactory results. The group's net profit for the year was KShs. 2.619 billion compared to KShs 2.274 billion for 2018.

The strong performance is partly attributed to the successful capital raising in 2018 which invited subscription of equity capital from our customers and staff and private equity firms Afric Invest and Catalyst Principal Partners.

The initiative made available funds for the group to further execute its strategic plan of expansion and further digitalization of its operations.

CORPORATE GOVERNANCE
As a strong and reputable financial institution with a solid background of over 27 years in the sector, we continued to maintain high standards of corporate governance coupled with a regular review of our corporate governance structures in line with regulatory requirements.

CORPORATE SOCIAL INITIATIVES
As a corporate citizen, we remained committed in maintaining the Bank's responsibility towards the society through our long standing commitment to initiatives focused on improvement of healthcare, education, support for the needy and nurturing of talent through sports, during the year under review.

Prime Bank in conjunction with Sunrise Walkers Group, Lions Loresho Sight First Eye Hospital, Rotary Districts of Nairobi, M P Shah Hospital, and Parklands Sports Club aided Kenyans afflicted by starvation due to drought, by donating 300 metric tonnes of famine relief food. Under the umbrella of Famine Relief Activity Initiative, the group on 2nd April 2019 flagged off 30 trucks of relief food to be distributed to over one million Kenyans who were facing starvation in all the drought prone areas of our beloved country.

In its flagship Corporate Social Responsibility (CSR) project – Freedom for Girls, which the Bank has been supporting for 11 years running, during the year donated KShs. 1.5 million towards ensuring girls do not miss school during their monthly cycle. The Bank donated a full year's supply of sanitary towels, undergarments and health education booklets to 2,727 needy girls. Since its inception, Prime Bank has donated KShs. 12 million thereby ensuring 27,171 girls are guaranteed full year's supply of sanitary towels and undergarments.

The 2019 Junior Golf Foundation (JGF) Annual Gala was held on 10th December at the Sigona Golf Club and Prime Bank presented a cheque of KShs. 1 million as proceeds of the partnership with JGF and Kenya Golf Union through the Prime Visa Golf Card for the year 2019. Since the inception of the program in 2015, Prime bank has so far donated KShs. 4.4 million to Junior Golf Foundation.

The fourth edition of the First Lady Half Marathon (FLHM) was held on 10th March 2019. The event was held to support provision of quality health care for mothers and newborn children around the country. In supporting this laudable initiative, Prime Bank staff joined more than 20,000 participants in the event.

As it has always been their tradition during the festive season, Prime Bank staff paid a visit to Nyumbani Children's Home in Nairobi, interacted and shared special moments with the children through various sporting activities and sharing a meal - a true reflection of the Bank's spirit of caring for the communities.

Prime Bank in partnership with its subsidiary, Tausi Assurance Co Ltd sponsored a Charity Golf Tournament at the Vet Lab Sports Club on 24th February 2019 with the aim of raising funds to enable elderly patients receive free cataract operations. Through this project, over 18,000 free cataract operations have been performed in Kisumu, Kisii, Nyamira, Siaya, Migori, Uasin Gishu, and Nandi Counties.

Throughout the year, the Bank continued to support charitable institutions, non-governmental organizations, schools, and trusts, offering bursaries to needy and deserving students among other initiatives.

GOING FORWARD
The World Bank had projected the world economy to grow by 2.5% pegged on reduced global trade tensions.

However, this growth remains uncertain due to the global outbreak of coronavirus Covid-19 which has so far claimed over 200,000 lives with over 2 million infections across the globe.

CHAIRMAN'S STATEMENT (continued)
FOR THE YEAR ENDED 31 DECEMBER 2019

The outbreak of the virus has restricted movement of people, goods and services with containment measures such as factories closures sharply cutting manufacturing in China. The impact on the rest of the world through curtailment of business travel and tourism, disruption of supply chains, drastic reduction in commodity prices has indeed lowered any favorable prospects of economic growth in 2020.

Back at home, improved private sector credit growth, and expectations of a recovery in the agriculture sector had boosted growth prospects to between 5.6% to 5.8% – according to World Bank - for the year 2020. The Central Bank of Kenya has downgraded the outlook to a paltry 3.4% due to the pandemic which has disrupted domestic production and supply chains as well as trade with the country's main trading partners.

The Government has introduced a series of stimulus measures to minimize the economic impact in the wake of the pandemic, including the reduction of individual income tax, value added tax and corporation tax.

This being an unprecedented period in our country and the whole world, as a responsible corporate citizen, we pledge to support all Government's measures concerning the financial sector.

APPRECIATION

In 2019, we continued to build a strong financial institution in the banking industry.

This could not have been possible without the support of our customers, and in turn I assure them that we will remain true to our promise – "Putting You First". I take this opportunity to thank our partners and shareholders for their unstinting support throughout the year. I wish to express my gratitude to the management team and staff for their hard work and unwavering commitment towards achieving the Group's objectives.

On behalf of my colleagues on the Board I extend my appreciation to our regulators, in particular Central Bank of Kenya, Capital Markets Authority and the Treasury for their invaluable guidance and support. Finally, I take this opportunity to sincerely thank my colleagues on the Board for their wise counsel and support throughout the year.

R.C Kantaria
Chairman

MANAGING DIRECTOR'S STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2019

"We remain confident that all our stakeholders will begin to feel the effect of the transformation in increasing measure over the year.."

Kenya recorded a slow growth of 5.4% in the economy in 2019 on the back of a fairly stable exchange rate and inflation rate coupled with increased Diaspora remittances and improved ease of doing business.

It is against this background that I present to you, our partners, shareholders and customers the highlights of Prime Bank's financial performance for the year 2019 and our outlook for the year 2020.

OPERATING ENVIRONMENT
In 2019 consolidations remained one of the key highlights in the banking industry with unprecedented mergers and acquisitions in the sector's history.
The period under review also witnessed the adoption of the Banking Sector Charter to guide service provision, risk-based credit pricing, and enhance transparency and information disclosure in the sector.

The Central Bank of Kenya successfully concluded the withdrawal of the older KShs. 1,000 banknotes.

Private sector credit growth remained low at 5.2% in 2019 perhaps signaling the repeal of section 33B of the Banking Act which provided for the capping of interest rates at 4% above the Central Bank Rate which eventually was withdrawn albeit towards the end of the year having hardly any impact on the credit growth.

PERFORMANCE
In 2019, the Bank's growth maintained a steady momentum with strong performance with strategic plans of strengthening the capital base for future growth.

The group's net profit at the close of the year was KShs. 2.619 billion while the Bank's profit stood at KShs. 2.443 billion representing a 21% increase from KShs. 2.021 billion recorded last year.

During the year under review, the Bank maintained strong capital adequacy, ending the year with core capital of KShs. 21.47 billion against Central Bank of Kenya's minimum statutory requirements of KShs. 1 billion.

The Bank's balance sheet expanded by 10% to KShs. 108.785 billion from KShs. 98.534 billion recorded last year.

The Bank's total deposits registered a 13.8% growth from KShs 71.450 billion to KShs 81.33 billion.
Loans and advances at the close of the year were KShs. 36.92 billion while non- performing loans remaining low at 6.8%.

The Bank's liquidity ratio stood at 77.1% being above the CBK's minimum statutory requirement of 20%.

OPERATIONAL HIGHLIGHTS
Over and above our 21 branches across the country, we expanded our local network, in line with our strategic plan by opening a branch at Lavington Mall. We also moved our Westlands Branch to Sarit Centre, a bigger and spacious premise with 7-Day Banking for convenience of our customers.

On products and solutions innovation, we continued to invest heavily in technology with the setting up of a Digital Hub to boost our digital banking platforms PrimeMobi and PrimeNet to meet our customers' banking needs.

To that effect, we upgraded our mobile banking app PrimeMobi to offer users easy navigation, with additional functionalities.

MANAGING DIRECTOR'S STATEMENT (continued)
FOR THE YEAR ENDED 31 DECEMBER 2019

We continued with the broadening of our countrywide network of ATMs and the installation of the virtual branches-Smart ATMs - in new locations.

In the same year, we fast-tracked the installation of Cash Deposit Machines (CDMs) in strategic locations.
In response to our customers' needs, the Bank is providing an innovative time saving service – "Bank on Wheels"- a specially designed truck that goes to the customers for their banking needs. The Bank now operates three such trucks in Nairobi and one at the lakeside county of Kisumu.

THE YEAR AHEAD
The year 2020 started in turmoil, not only in Kenya but throughout the world.

The locust outbreak in Kenya earlier in the year and the global outbreak of Coronavirus – COVID-19 are set to deal an inevitable blow to the country's growth for the first half of 2020. The Global economic projections are getting adversely affected and appear dimmer by day as COVID-19 ravages.

To help cushion the economy during this period, the government has introduced a series of stimulus measures, including reduction in value-added tax, corporation tax and individual income tax.

In the spirit of the outlined financial mitigation guidelines by the Central bank of Kenya, the Bank has undertaken a raft of measures to continue facilitating customers' access to financial services during this uncertain period of the evolving Coronavirus – COVID-19 pandemic.

GOING FORWARD
With presence in Malawi, Botswana, Mozambique, Zambia, and Zimbabwe through our stake in FMB Capital Holdings, Malawi, the Bank is exploring further regional expansion into the SADC market.
Going forward, our local expansion program still remains on course as plans are underway to open two more branches in the year 2020.

As a bank we remain alive and cognizant of the need to evolve with the changing times in order to meet and exceed the changing expectations of our customers, shareholders, partners and regulators. To this end we have begun a holistic transformation journey with the aim of making us a world class financial solutions provider offering first class experiences to our customers.

We aim to deepen customer centrism through building close and strong relationships and developing a deep understanding of our customers' businesses and needs. We are accelerating innovation through rolling out new product propositions aligned to the needs of the various customer segments.

We are optimizing our processes and automating others so as to enhance efficiency and achieve better response times for our customers. We are also re-skilling and adding new talent to create the critical mass required to drive this transformation.

We remain confident that all our stakeholders will begin to feel the effect of the transformation in increasing measure over the year.

We have also embarked on refining our wide range of Visa Debit and Credit cards to allow you more benefits and services with the access to your money 24/7 across the globe. We will also be launching a multicurrency prepaid card for the convenience of our customers in the course of the year.

We continue to restructure our Investment arm Custodial Services and Bancassurance services to provide a wide range of products and services to fulfill your financial needs.

APPRECIATION
The progress made in 2019 would not have been possible without the immense support, loyalty and cooperation of our partners, shareholders, and customers throughout the year.

On behalf of the management and staff of Prime Bank, I extend appreciation to Board of Directors under the leadership of Dr. Rasik Kantaria for their continuous support, encouragement and guidance during the financial year under review.

The dedication, commitment and team work of our staff has always been exemplary and I thank them for keeping true to our motto of putting our customers first. To our shareholders, I assure you that the Bank's growth and profitability are on an upward trajectory, and will yield you a good return on your investment.

Bharat Jani
Managing Director

REPORT OF THE DIRECTORS
FOR THE YEAR ENDED 31 DECEMBER 2019

The Directors have pleasure in submitting their report together with the consolidated audited financial statements for the year ended 31 December 2019.

Incorporation
The Bank is domiciled in Kenya where it is incorporated as a private company limited by shares under the Kenyan Companies Act, 2015. The address of the registered office is set out on page 3.

Directorate
The directors who held office during the year and to the date of this report are set out on page 2. In accordance with Article 91 of the Articles of Association, J. K. Kibet and F. Mohamed retire by rotation and, being eligible, offer themselves for re- election.

Principal activities
The principal activities of the Bank are corporate and retail banking services while its subsidiary provides general insurance services with the exception of aviation insurance services.

Recommended dividend
The directors recommended and paid an interim dividend payment of KShs 265.98 million (2018: KShs 258.5 million).

Statement as to disclosure to the Bank's auditor
With respect to each director at the time this report was approved:

(a) there is, so far as the person is aware, no relevant audit information of which the Bank 's auditor is unaware; and

(b) The person has taken all the steps that the person ought to have taken as a director so as to be aware of any relevant audit information and to establish that the Bank's auditor is aware of that information.

Terms of appointment of the auditor
Deloitte& Touche continue in office in accordance with the Company's Articles of Association and section 719 of the Kenya Companies Act, 2015. The directors monitor the effectiveness, objectivity and independence of the auditor. The directors also approve the annual audit engagement contract which sets out the terms of the auditor's appointment and the related fees. The agreed auditor's remuneration of KShs 6.3 million has been charged to profit or loss in the year.

Business review
Total assets of the Bank grew from KShs 98.5 billion in 2018 to KShs 108.8 billion in 2019; deposits grew from KShs 71.4 billion to KShs 81.3 billion in 2019, while profit after tax increased by 20% from KShs 2.0 billion to KShs 2.4 billion in 2019.

Management is aware of the liquidity risks that are inherent in the Banking sector and have maintained the Bank's liquidity ratio average at 76.8%, 56.8% over and above the 20% requirement under CBK regulations.

As regards the credit risk, a rigorous monitoring and close supervision of our credit portfolio throughout the year ensured that the non-performing loans were well under control at 6.9% way below the industry average.

The Bank continues to cross sell products and services between banking and insurance clients which is expected to boost performance in future.

Staff training and hiring of new talent is at the heart of Prime Bank's long-term growth plans. European Investment Bank, which is the Bank's partner in financing of SME sector, is also providing training to the Bank's staff.

Future outlook
Real GDP grew by an estimated 5.9% in 2019, from 4.9% in 2018, supported by good weather, a stable political dispensation, improved business confidence, and stable macro-economic conditions. The Bank is optimistic of maintaining the growth momentum witnessed in 2019 to ensure profitability going forward. The Bank also expects to enhance its credit monitoring processes in all economic sectors in order to mitigate the impact of IFRS 9. There is also growing concern around the effects of COVID-19 both locally and globally.

The bank will also explore different avenues of revenue generation, in a bid to increase non-funded income and further diversify revenue sources. In a bid to minimize costs, the bank will embrace technology to reduce operational costs and thereby increase efficiency as well as implement cost monitoring and reduction strategies to eliminate waste.

Approval of financial statements
The financial statements were approved at a meeting of the Board of Directors held on 23 March 2020.

By order of the board

....
Company Secretary
Nairobi

STATEMENT OF DIRECTORS' RESPONSIBILITIES
FOR THE YEAR ENDED 31 DECEMBER 2019

The Kenya Companies Act, 2015 requires the directors to prepare financial statements for each financial year that give a true and fair view of the financial position of the Bank as at the end of the financial year and of its profit or loss for that year. It also requires the directors to ensure that the Bank keeps proper accounting records that: (a) show and explain the transactions of the Bank; (b) disclose, with reasonable accuracy, the financial position of the Bank; and (c) enable the directors to ensure that every financial statement required to be prepared complies with the requirements of the Companies Act, 2015.

The directors accept responsibility for the preparation and presentation of these financial statements in accordance with International Financial Reporting Standards and in the manner required by the Kenyan Companies Act, 2015.

They also accept responsibility for:

(i) Designing, implementing and maintaining such internal control as they determine necessary to enable the presentation of financial statements that are free from material misstatement, whether due to fraud or error;

(ii) Selecting suitable accounting policies and applying them consistently; and

(iii) Making accounting estimates and judgements that are reasonable in the circumstances.

Having made an assessment of the Bank's ability to continue as a going concern, the directors are not aware of any material uncertainties related to events or conditions that may cast doubt upon the Bank's ability to continue as a going concern.

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

Approved by the board of directors on 23 March 2020 and signed on its behalf by:

.... Director	.... Director
.... Director	.... Secretary

STATEMENT OF CORPORATE GOVERNANCE ON THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019

INTRODUCTION

Prime Bank Limited recognises the need to conduct its business with integrity and in line with the generally accepted corporate practice. The Bank will strive to maintain the highest standards of corporate governance.

SHAREHOLDERS' RESPONSIBILITIES

The shareholders' role is to appoint the Board of Directors and independent auditors. The role of the shareholders is to ensure that the Board is accountable for effective and efficient governance.

BOARD OF DIRECTORS

The Board of Directors is responsible for the governance of the Bank and to ensure that the Bank complies with the law and the highest standards of corporate governance and business ethics. The Board is responsible for the long term growth and profitability of the Bank.

The Directors guide the management and maintain full and effective control over financial, strategic, operational and compliance issues of the Bank. The Board is chaired by a non-executive director and has six other non-executive directors, an executive director and the Managing Director. The Board meets regularly and holds special meetings as and when the situation demands.

ATTENDANCE OF DIRECTORS AT BOARD MEETINGS

Number of Board Meetings held in 2019 6

Name of Director	Number of meetings attended
Mr. R. C. Kantaria (Chairman)	6
Mr. S. K. Shah (Vice Chairman)	5
Mr. A. R. Kantaria (Executive)	5
Mr. Bharat Jani (Managing)	6
Mr. D. G. M. Hutchison	6
Mr. J. N. Mungai	6
Mr. T. M. Davidson	5
Mr. J. K. Kibet	5
Mr. F. Mohamed	5
Mr. S. Oueslati	6
Mr. B. Yohannes	6

BOARD PERFORMANCE EVALUATION

As per the Prudential Guidelines of the Central Bank of Kenya, the Board is responsible for ensuring that an evaluation of its performance as well as that of the individual directors and various committees is done. The results of such an evaluation are to be provided to the Central Bank of Kenya.

The Board conducted its evaluation and that of the members, the Chairman and the Board Committees. The aim was to assess their capacity and effectiveness relative to their mandates, and identify challenges that need to be addressed in the coming year. Each Board member was provided with the questionnaire before the Board meeting convened to discuss the evaluation. At the Board meeting, the ratings given by each member of the Board and its committees were discussed by all members under the direction of the Chairman of the Board. Overall ratings were agreed taking into account the individual ratings and comments. Overall, the Board concluded that it was operating in an effective manner.

The Board has appointed 9 committees – Credit, Debt Management, Audit, Risk and Compliance, IT, Assets and Liability Management, Operations, Strategy and Human Resource Nomination Committee. These committees have been given terms of reference and they meet regularly. These committees make recommendations to the Board on matters which fall under their mandates.

STRATEGY COMMITTEE

The Strategy Committee is headed by Mr. T.Davidson who is a non-Executive Director. Mr. Skander Oueslati, non - Executive Director, Mr. Biniam Yohannes, non-Executive Director. The other members are Mr. A Kantaria, Executive Director, Head of Business Development, and Mr Bharat Jani, Managing Director. Its objectives are to discuss, review and recommend to the Board the overall strategy and changes thereto including the business plan and to adopt appropriate business strategy, approve annual budgets, capital raising plans, asset acquisitions and disposals, incurrence of overhead or capital expenditures, any re-organizational changes and other strategy related matters

CREDIT COMMITTEE

Mr. Farid Mohamed, a non-Executive Director chairs the Credit Committee. Mr. J. N. Mungai a non-Executive Director, Skander Oueslati a non-Executive Director, Mr. A. R. Kantaria, Executive Director, Mr. Bharat. Jani, Managing Director and Deputy General Manager (Credit) are the other members of the Committee. Specific responsibilities of the committee are:

i) To provide direction to credit management from a credit strategy perspective.

ii) Overview credit portfolio, terms & conditions of all credit facilities granted by sanctioning authorities within their delegation powers and ratify them,

STATEMENT OF CORPORATE GOVERNANCE ON THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2019

granting facilities falling under the jurisdiction of the Committee and recommending proposals beyond the power of the committee to the Board for approval.

DEBT MANAGEMENT COMMITTEE

This Committee is chaired by Mr. Jinaro Kibet who is a non - Executive Director. Mr. A. Kantaria, Executive Director, Mr Bharat Jani, the Managing Director and the Deputy General Manager (Credit) are the other members of this Committee. Specific responsibilities of the committee are to periodically review the health of the credit portfolio and take corrective measures for recovery and follow up to ensure that NPA is kept minimum.

AUDIT COMMITTEE

The Audit Committee is headed by Mr. S. K. Shah who is a non-Executive Director. Mr. T. Davidson, non - Executive Director, Mr. J.K. Kibet, non-Executive Director and the Head of internal audit department are the other members of this Committee. The Committee assists the board in discharging its duties in relation to financial reporting, asset management, internal control systems, processes and procedures and monitors the quality of both the external and internal audit functions and then discusses risk exposure areas. Wherever review process reveals cause for concern or scope for improvement, it makes recommendations to the board on remedial actions. The objective of Internal Audit is to provide the committee with reliable, valued, insightful and timely assurance on the effectiveness of governance, risk management and controls over current and evolving risks in the context of the current and expected business environment.

RISK AND COMPLIANCE COMMITTEE

The Risk and Compliance Committee is headed by Mr. S. K. Shah who is a non-Executive Director. Mr. T. Davidson, non-Executive Director, Head of risk department and Head of compliance are the other members of this Committee. The committee reviews the risk, ascertains causes of concern and suggests the scope of improvement

IT COMMITTEE

Mr. T. Davidson, a non-Executive Director chairs this Committee and Mr. David Hutchison another non - Executive Director is a member. The other members are Mr. Biniam Yohannes Non Executive Director , Mr. A. Kantaria, Executive Director, Mr Bharat Jani the Managing Director , and the Chief Operating Officer. Its main objectives are to review and approve most effective mechanism for supplying IT facilities and infrastructures to deliver in terms of business requirements and to recommend IT strategy in light of changing technology and other external factors and also to review IT projects and providing guidance. It also ensures compliance and tracking of regulatory IT requirements including cyber security risks besides addressing the risks as determined by internal and external regulators.

ASSETS AND LIABILITY MANAGEMENT COMMITTEE (ALCO)

This Committee is chaired by the Managing Director. The Executive Director, the Chief Operating Officer, Chief Manager (Treasury), Deputy General Manager (Credit) and the Chief Finance Officer are the other members of the Committee. This Committee monitors the liquidity position of the Bank and the compliance with regard to statutory liquidity ratio, cash reserve ratio and foreign exchange exposure as per the prudential guidelines of the Central Bank of Kenya. The Committee decides on investments in various securities to maximise the returns. It also analyses the interest rate risk and fixes the interest rates in line with the market trends.

OPERATIONS COMMITTEE

The Operations Committee is chaired by the Chief Operating Officer and comprises the Head of Risk, Head of audit, Chief Finance Officer, Assistant General Manager (IT) and two Branch Managers. The Committee reviews various operational procedures of the Bank and decides on changes to be effected to improve operational efficiency, improve service delivery and minimise manual procedures.

HUMAN RESOURCE & NOMINATION COMMITTEE (HRNC):

The HR and Nomination Committee is headed by J. Kibet , a non Executive Director. Other members are Mr S Oueslati non-Executive Director, Mr. Biniam Yohannes Non Executive Director , Mr A. Kantaria, Executive Director, Mr Bharat Jani the Managing Director and is responsible for providing development opportunities for Senior Management staff that relate to performance in order to achieve organizational and individual needs and regular review and improve where necessary human resource structures and processes in line with the direction of the board. This committee was set up in 2019.

EMPLOYEES

The Bank adheres to the Banking code of ethics which requires all employees to conduct business with high integrity. The staff members sign a declaration of fidelity and secrecy.

PUBLICATION OF ACCOUNTS

The Bank publishes its results every quarter in the newspapers as per the Prudential Guidelines of Central Bank of Kenya. Financial statements are prepared in accordance with International Financial Reporting Standards (IFRS) and the requirements of all relevant statutes, rules and regulations.

REPORT OF THE INDEPENDENT AUDITORS
TO THE MEMBERS OF PRIME BANK LIMITED

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

Our opinion
We have audited the accompanying financial statements of Prime Bank Limited (the "Bank") and the consolidated financial statements of the Bank and its subsidiary (together, the "Group"), set out on pages 15 to 112, each of which comprise a statement of financial position as at 31 December 2019 and statements of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the financial statements give a true and fair view of the financial position of the Group and of the Bank as at 31 December 2019 and of their financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Kenyan Companies Act, 2015.

Basis for Opinion
We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We are independent of the Group and the Bank in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements that are relevant to our audit of the financial statements in Kenya, and we have fulfilled our ethical responsibilities in accordance with these requirements and the IESBA Code.

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

Other Information
The Directors are responsible for the other information. The other information comprises the Report of the Directors and as required by the Kenyan Companies Act, 2015 and the Statement of Corporate Governance, which were obtained prior to the date of this report. The other information does not include the Group and the Bank financial statements and our auditors' report thereon.

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

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

Responsibilities of the Directors for the Financial Statements
The Directors are responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards and the requirements of the Kenyan Companies Act, 2015, and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error. In preparing the financial statements, the directors are responsible for assessing the Group's and the Bank's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Bank and/or its subsidiary or to cease their operations, or have no realistic alternative but to do so.

Auditors' Responsibilities for the Audit of the Financial Statements
Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements. As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional skepticism throughout the audit. We also:

REPORT OF THE INDEPENDENT AUDITORS (continued)
TO THE MEMBERS OF PRIME BANK LIMITED

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's and the Bank's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors.

- Conclude on the appropriateness of the Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's and the Bank's ability to continue as going concerns. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause Bank and/or its subsidiary to cease to continue as going concerns.

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

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

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

REPORT ON OTHER MATTERS PRESCRIBED BY THE KENYAN COMPANIES ACT, 2015

Report of the Directors

In our opinion, the information given in the report of the directors on page 9-10 is consistent with the accompanying bank and consolidated financial statements.

Deloitte & Touche

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Certified Public Accountants (Kenya)
Nairobi, Kenya

24 March 2020

CPA Charles Munkonge Luo,
Practicing Certificate No. 2294
Signing Partner Responsible for the Independent Audit

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2019

	Note	2019 KShs '000	2018 KShs '000
ASSETS			
Cash and balances with the Central Bank of Kenya	5	6,084,771	9,175,285
Placements and balances with other banks	6	5,637,819	11,587,459
Treasury bills and term notes	7	28,549,412	3,841,412
Investment in securities measured at amortised cost	8	18,522,498	16,506,914
Investment in securities at fair value through other comprehensive income	9	7,752,639	14,954,169
Investment in ordinary shares at fair value through other comprehensive income	10(a)	3,161,337	4,154,203
Investment in ordinary shares-at fair value through profit or loss	10(b)	108,815	116,883
Loans and advances	11	36,976,216	36,301,829
Other assets	12	1,003,660	880,771
Leasehold land	14	487,327	493,902
Property and equipment	15(a)	1,454,067	1,375,226
Right of use	16	161,456	-
Intangible assets	17	718,414	733,378
Tax recoverable	24	57,668	14,528
TOTAL ASSETS		110,676,099	100,135,959
LIABILITIES AND EQUITY			
LIABILITIES			
Balances due to banks and financial institutions	19	648,906	1,035,822
Medium term note	20	1,014,000	1,020,000
Deposits from customers	21	80,988,623	71,102,053
Other liabilities	23	1,742,502	2,104,196
Lease liability	22	187,169	-
Deferred tax liability	18	638,671	1,039,625
TOTAL LIABILITIES		85,219,871	76,301,696
EQUITY			
Share capital	25	6,649,390	6,649,390
Share premium	26	5,230,109	5,230,109
Reserves	27	13,238,838	11,667,715
Equity attributable to equity holders of the parent		25,118,337	23,547,214
Non-controlling interests		337,891	287,049
TOTAL EQUITY		25,456,228	23,834,263
TOTAL LIABILITIES AND EQUITY		110,676,099	100,135,959

These financial statements on pages 15 to 112 were approved by the Board of Directors on 23 March 2020 and signed on its behalf by: -

.... Director

.... Director

.... Director

.... Secretary

BANK STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2019

	Note	2019 KShs '000	2018 KShs '000
ASSETS			
Cash and balances with the Central Bank of Kenya	5	6,083,892	9,172,657
Placements and balances with other banks	6	5,559,913	11,524,072
Treasury bills and term notes	7	28,549,412	3,841,412
Investment securities measured at amortised cost	8	17,659,263	15,643,082
Investment in bonds at fair value through other comprehensive income	9	7,171,052	14,654,392
Investment in ordinary shares at fair value through other comprehensive income	10(a)	3,044,657	4,070,398
Loans and advances	11	36,894,918	36,168,128
Other assets	12	567,216	463,487
Investment in subsidiary	13	1,395,692	1,337,575
Leasehold land	14	394,827	402,669
Property and equipment	15(b)	1,202,706	1,145,018
Right of use	16	161,456	-
Intangible assets	17	70,953	89,279
Tax recoverable	24	29,570	22,286
TOTAL ASSETS		108,785,527	98,534,455
LIABILITIES AND EQUITY			
LIABILITIES			
Balances due to banks and financial institutions	19	648,906	1,035,822
Medium term note	20	1,014,000	1,020,000
Deposits from customers	21	81,337,811	71,449,704
Other liabilities	23	571,837	1,011,620
Lease liability	22	187,169	-
Deferred tax liability	18	570,441	978,336
TOTAL LIABILITIES		84,330,164	75,495,482
EQUITY			
Share capital	25	6,649,390	6,649,390
Share premium	26	5,230,109	5,230,109
Reserves	27	12,575,864	11,159,474
TOTAL EQUITY		24,455,363	23,038,973
TOTAL LIABILITIES AND EQUITY		108,785,527	98,534,455

These financial statements on pages 15 to 112 were approved by the Board of Directors on 23 March 2020 and signed on its behalf by: -

.... Director

.... Director

.... Director

.... Secretary

CONSOLIDATED STATEMENT OF PROFIT OR LOSS
AS AT 31 DECEMBER 2019

	Note	2019 KShs '000	2018 KShs '000
Interest income	28	9,236,588	8,007,362
Interest expense	29	(4,847,473)	(4,245,145)
Net interest income		4,389,115	3,762,217
Fees and commission income	30	554,597	546,843
Foreign exchange gains		346,956	270,269
Dividend income		1,524	1,973
Other income	31	1,259,101	1,158,726
		6,551,293	5,740,028
Allowance for impairment of financial instruments	32	(351,743)	(188,110)
Other operating expenses	33	(3,507,711)	(3,132,861)
Profit before tax	34	2,691,839	2,419,057
Income tax expense	24	(72,490)	(145,005)
Profit for the year		2,619,349	2,274,052
Attributable to:			
Equity holders of the parent		2,566,788	2,225,327
Non-controlling interests		52,561	48,725
		2,619,349	2,274,052
Earnings per share (basic and diluted) (KShs):			
Attributed to:			
Equity holders of the parent (Kshs)	35	386	335

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
AS AT 31 DECEMBER 2019

	Note	2019 KShs '000	2018 KShs '000
Profit for the year		2,619,349	2,274,052
Other comprehensive income			
Items that may be reclassified to profit or loss in subsequent periods:			
Fair value through other comprehensive income financial assets:			
Gain arising during the year		48,715	107,080
Deferred income tax on fair value gain		(15,014)	(32,124)
		33,701	74,956
Items that will not be reclassified to profit or loss in subsequent periods:			
Fair value (loss)/ gain on fair value through other comprehensive income - Equity investments	10(a)	(1,055,082)	1,112,394
Deferred income tax on equity investments		323,401	(333,718)
		(731,681)	778,676
Other comprehensive (loss)/income for the year, net of tax		(697,980)	853,632
Total comprehensive income for the year, net of tax		1,921,369	3,127,684
Equity holders of the parent		1,861,274	3,080,554
Non controlling Interest		60,095	47,130

BANK STATEMENT OF PROFIT OR LOSS
AS AT 31 DECEMBER 2019

	Note	2019 KShs '000	2018 KShs '000
Interest income	28	9,236,588	8,007,362
Interest expense	29	(4,847,473)	(4,245,145)
Net interest income		4,389,115	3,762,217
Fees and commission income	30	554,597	546,843
Foreign exchange gains		346,956	270,269
Dividend income		98,385	1,973
Other income	31	77,566	69,325
		5,466,619	4,650,627
Allowance for impairment of financial instruments	32	(351,743)	(188,110)
Other operating expenses	33	(2,658,382)	(2,374,042)
Profit before tax	34	2,456,494	2,088,475
Profit before tax		2,456,494	2,088,475
Income tax expense	24	(12,902)	(67,150)
Profit for the year		2,443,592	2,021,325
Earnings per share (basic and diluted) (Kshs)	35	368	304

BANK STATEMENT OF COMPREHENSIVE INCOME
AS AT 31 DECEMBER 2019

	Note	2019 KShs '000	2018 KShs '000 Restated
Profit for the year		2,443,592	2,021,325
Other comprehensive income			
Items that may be reclassified to profit or loss in subsequent periods:			
Fair value through other comprehensive income financial assets:			
Gain arising during the year		25,074	103,527
Deferred income tax on fair value gain		(7,522)	(31,058)
		17,552	72,469
Items that will not be reclassified to profit or loss in subsequent periods:			
Fair value (loss)/gain on fair value through other comprehensive income - Equity investments	10(a)	(1,078,004)	1,124,222
Deferred income tax on equity investments		323,401	(337,267)
		(754,603)	786,955
Other comprehensive (loss)/income for the year, net of tax		(737,051)	859,424
Total comprehensive income for the year, net of tax		1,706,541	2,880,749

All of the profit for the year and total comprehensive income are attributable to equity holders of the Bank.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

AS AT 31 DECEMBER 2019

	Share capital KShs '000	Share Premium KShs '000	Retained earnings KShs '000	FVTOCI reserve KShs '000	Asset revaluation reserve KShs '000	Total KShs '000	Non-con-trolling interests KShs '000	Total Equity KShs '000
At January 2018	5,000,000	-	6,772,851	1,724,917	544,453	14,042,221	256,789	14,299,010
Share issue @ KShs.1,000@ share	1,649,390	-	-	-	-	1,649,390	-	1,649,390
Share premium @ Kshs. 3,334 @ share	-	5,230,109	-	-	-	5,230,109	-	5,230,109
Dividends paid –2018 (note37)	-	-	(335,000)	-	-	(335,000)	-	(335,000)
Dividend payable-2019	-	-	(258,500)	-	-	(258,500)	(13,882)	(272,382)
Adjustment for 2018 NCI	-	-	(400)	-	-	(400)	400	-
Total comprehensive income:								
- profit for the year	-	-	2,225,327	-	-	2,225,327	48,725	2,274,052
- other comprehensive income –FVTOCI	-	-	-	855,227	-	855,227	(1,595)	853,632
IFRS 9 day 1 adjustment (Bank)	-	-	153,021	-	-	153,021	-	153,021
IFRS 9 day 1 adjustment (Subsidiary)	-	-	(14,181)	-	-	(14,181)	(3,388)	(17,569)
At 31 December 2018	6,649,390	5,230,109	8,543,118	2,580,144	544,453	23,547,214	287,049	23,834,263
At January 2019 (as previ-ously reported)	6,649,390	5,230,109	8,543,118	2,580,144	544,453	23,547,214	287,049	23,834,263
IFRS 16 day 1 adjustment (Bank) (note 2(d))	-	-	(24,176)	-	-	(24,176)	-	(24,176)
Balance at 1 January 2019 – As restated	6,649,390	5,230,109	8,518,942	2,580,144	544,453	23,523,038	287,049	23,810,087
Dividend paid-2019	-	-	(265,975)	-	-	(265,975)	(9,253)	(275,228)
Total comprehensive income:								
- profit for the year	-	-	2,566,788	-	-	2,566,788	52,561	2,619,349
- other comprehensive loss –FVTOCI	-	-	-	(705,514)	-	(705,514)	7,534	(697,980)
As at 31 December 2019	6,649,390	5,230,109	10,819,755	1,874,630	544,453	25,118,337	337,891	25,456,228

BANK STATEMENT OF CHANGES IN EQUITY
AS AT 31 DECEMBER 2019

	Share capital KShs '000	Share Premium KShs '000	Retained earnings KShs '000	FVTOCI reserve KShs '000	Revaluation Reserve (Fixed Assets) KShs '000	Total equity KShs '000
At January 2018	5,000,000	-	6,453,984	1,723,214	542,006	13,719,204
Issue of shares	1,649,390	-	-	-	-	1,649,390
Share premium	-	5,230,109	-	-	-	5,230,109
Dividends paid –2018 (note 37)	-	-	(335,000)	-	-	(335,000)
Dividend payable-2019	-	-	(258,500)	-	-	(258,500)
Total comprehensive income:						
– profit for the year	-	-	2,021,325	-	-	2,021,325
- other comprehensive income	-	-	-	859,424	-	859,424
IFRS 9 day 1 adjustment	-	-	153,021	-	-	153,021
At 31 December 2018	6,649,390	5,230,109	8,034,830	2,582,638	542,006	23,038,973
At January 2019 (as previously reported)	6,649,390	5,230,109	8,034,830	2,582,638	542,006	23,038,973
IFRS 16 day 1 adjustment (note 2(d))	-	-	(24,176)	-	-	(24,176)
Balance at 1 January 2019 – As restated	6,649,390	5,230,109	8,010,654	2,582,638	542,006	23,014,797
Dividend payable-2019	-	-	(265,975)	-	-	(265,975)
Total comprehensive income:						
– Profit for the year	-	-	2,443,592	-	-	2,443,592
- other comprehensive loss	-	-	-	(737,051)	-	(737,051)
At 31 December 2019	6,649,390	5,230,109	10,188,271	1,845,587	542,006	24,455,363

CONSOLIDATED STATEMENT OF CASH FLOWS
AS AT 31 DECEMBER 2019

	Note	2019 KShs '000	2018 KShs '000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		2,691,839	2,419,057
Adjustments for:			
(Gain)/loss on disposal of property and equipment		(3,778)	4,606
Dividends received		(1,524)	(1,973)
Effect of foreign exchange gain on translation of foreign currency balances held		(346,956)	(270,269)
Fair value loss/(gain) on fair value through other comprehensive income shares	10(b)	(3,838)	24,239
Provision for staff leave		2,515	2,188
Allowances for impairment of financial instruments	32	351,743	188,110
Amortisation of leasehold land	14	9,109	9,109
Depreciation on property and equipment	15	189,797	156,134
Amortisation of intangible assets	17	44,814	67,473
Gain on sale of fair value of investments measured at FVTOCI		-	(3,276)
Depreciation on lease	16	71,210	-
CASH FLOWS GENERATED FROM OPERATING ACTIVITIES BEFORE CHANGES IN OPERATING ASSETS AND LIABILITIES		3,004,931	2,595,398
Increase in cash ratio reserve		(395,275)	(372,337)
Increase in securities maturing after 91 days		(287,400)	(388,961)
(Increase)/decrease in loans and advances to customers		(674,387)	2,101,843
Increase in other assets		(122,889)	(22,536)
Increase in deposits from customers		9,886,570	13,818,811
(Decrease)/increase in other liabilities		(361,694)	277,011
Cash flows from operating activities		11,049,856	18,009,229
Income taxes paid	24	(209,449)	(145,340)
NET CASH FLOWS FROM OPERATING ACTIVITIES		10,840,407	17,863,889

CONSOLIDATED STATEMENT OF CASH FLOWS (continued)

AS AT 31 DECEMBER 2019

	Note	2019 KShs '000	2018 KShs '000
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from sale of property and equipment		4,354	2,850
Dividend from subsidiary		-	58,116
Dividend income		1,524	1,973
Proceeds from redemption of Investment securities measured at amortised cost	8	3,242,505	1,486,993
Proceeds from redemption of treasury bills and term notes	7	6,650,000	9,485,000
Proceeds from sale of investments in bonds measured at FVTOCI	9	11,731,670	2,209,096
Purchase of shares measured at FVTOCI		(88,932)	100
Purchase of Investment securities measured at amortised cost	8	(5,274,551)	(5,194,168)
Purchase of treasury bills and term notes	7	(31,384,393)	(5,434,496)
Purchase of investments in bonds measured at FVTOCI	9	(4,492,401)	(13,316,252)
Purchase of property and equipment	15	(246,774)	(164,758)
Purchase of intangible assets	17	(29,850)	(31,402)
NET CASH FLOWS USED IN INVESTING ACTIVITIES		(19,886,848)	(10,896,948)
CASH FLOWS FROM FINANCING ACTIVITIES			
Issue of shares		-	1,649,390
Share premium		-	5,230,109
Dividends paid to equity holders of the parent	37	(265,975)	(335,000)
Repayment of lease liability		(82,451)	-
NET CASH FLOWS (USED IN)/GENERATED FROM FINANCING ACTIVITIES		(348,426)	6,544,499
Net (decrease)/increase in cash and cash equivalents		(9,394,867)	13,511,440
Effect of foreign exchange gain on translation of foreign currency balances held		346,956	270,269
Cash and cash equivalents at 1 January		17,729,319	3,947,610
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	38	8,681,408	17,729,319

BANK STATEMENT OF CASH FLOWS
AS AT 31 DECEMBER 2019

	Notes	2019 KShs '000	2018 KShs '000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		2,456,494	2,088,475
Adjustments for:			
(Gain)/loss on disposal of property and equipment		(3,405)	4,606
Dividends received		(98,385)	(1,973)
Effect of foreign exchange gain on translation of foreign currency balances held		(346,956)	(270,269)
Provision for staff leave		2,515	2,188
Allowances for impairment of loans and advances	32	351,743	188,110
Amortisation of leasehold land	14	7,842	7,842
Depreciation on property and equipment	15	178,752	146,376
Amortisation of intangible assets	17	43,402	66,853
Depreciation on lease	16	71,210	-
Gain on sale of fair value of investments measured at FVTOCI		-	(982)
CASH FLOWS FROM OPERATING ACTIVITIES BEFORE CHANGES IN OPERATING ASSETS AND LIABILITIES		2,663,212	2,231,226
Increase in cash ratio reserve		(395,275)	(372,337)
Increase in securities maturing after 91 days		(325,730)	(295,913)
(Increase)/decrease in loans and advances to customers		(726,790)	2,087,339
Increase in other assets		(103,729)	(80,030)
Increase in deposits from customers		9,888,107	13,894,982
(Decrease)/increase in other liabilities		(439,783)	354,578
Cash flows from operating activities		10,560,012	17,813,938
Income taxes paid	24	(112,192)	(88,517)
NET CASH FLOWS FROM OPERATING ACTIVITIES		10,447,820	17,725,421

BANK STATEMENT OF CASH FLOWS (continued)

AS AT 31 DECEMBER 2019

	Notes	2019 KShs '000	2018 KShs '000
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from sale of property and equipment		3,815	2,144
Dividend income		98,385	1,973
Proceeds from redemption of investment securities measured at amortised cost	8	3,219,539	1,434,024
Proceeds from redemption of treasury bills and term notes	7	6,650,000	9,485,000
Proceeds from sale of investments in bonds measured at FVTOCI	9	11,719,170	2,197,696
Purchase of shares at FVTOCI	10	(78,979)	-
Dividend from subsidiary		-	58,116
Purchase of investment securities measured at amortised cost	8	(5,251,390)	(5,170,529)
Purchase of treasury bills and term notes	7	(31,384,393)	(5,434,496)
Purchase of investments in securities measured at FVTOCI	9	(4,221,252)	(13,107,662)
Purchase of property and equipment	15	(236,850)	(152,398)
Purchase of intangible assets	17	(25,076)	(31,401)
NET CASH FLOWS USED IN INVESTING ACTIVITIES		(19,507,031)	(10,717,533)
CASH FLOWS FROM FINANCING ACTIVITIES			
Issue of shares		-	1,649,390
Share Premium		-	5,230,109
Dividends paid during the year	37	(265,975)	(335,000)
Repayment of lease liabilities		(82,451)	-
NET CASH FLOWS (USED IN)/FROM FINANCING ACTIVITIES		(348,426)	6,544,499
Net (decrease)/increase in cash and cash equivalents		(9,407,637)	13,552,387
Effect of foreign exchange gain on translation of foreign currency balances held		346,956	270,269
Cash and cash equivalents at 1 January		17,663,304	3,840,648
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	38	8,602,623	17,663,304

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
AS AT 31 DECEMBER 2019

1. GENERAL INFORMATION

Prime Bank Limited is a financial institution licensed under the Kenyan Banking Act, Cap 488 that provides corporate and retail banking services in various parts of the country. The Bank is incorporated and domiciled in Kenya under the Kenyan Companies Act, 2015. The consolidated financial statements comprise the Bank and its subsidiaries together referred to as "the Group". The Group is primarily involved in corporate and retail banking and all classes of general insurance with the exception of aviation insurance services as defined by section 31 of the insurance Act (Cap 487).

2. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

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

i) New standards and amendments to published standards effective for the year ended 31 December 2019

Impact of initial application of IFRS 16 Leases

In the current year, the Group and the Bank has applied IFRS 16 Leases (as issued by the IASB in January 2016) that is effective for annual periods that begin on or after 1 January 2019.

IFRS 16 introduces new or amended requirements with respect to lease accounting. It introduces significant changes to lessee accounting by removing the distinction between operating and finance lease and requiring the recognition of a right-of-use asset and a lease liability at commencement for all leases, except for short-term leases and leases of low value assets when such recognition exemptions are adopted. In contrast to lessee accounting, the requirements for lessor accounting have remained largely unchanged. Details of these new requirements are described in this note. The impact of the adoption of IFRS 16 on the Group and the Bank's consolidated financial statements is described below.

The date of initial application of IFRS 16 for the Group and the Bank is 1 January 2019.

The Group and the Bank has applied IFRS 16 using the cumulative catch-up approach which:

- Requires the Group and the Bank to recognise the cumulative effect of initially applying IFRS 16 as an adjustment to the opening balance of retained earnings at the date of initial application.
- Does not permit restatement of comparatives, which continue to be presented under IAS 17 and IFRIC 4.

(a) Impact of the new definition of a lease

The Group and the Bank has made use of the practical expedient available on transition to IFRS 16 not to reassess whether a contract is or contains a lease. Accordingly, the definition of a lease in accordance with IAS 17 and IFRIC 4 will continue to be applied to those contracts entered or modified before 1 January 2019.

The change in definition of a lease mainly relates to the concept of control. IFRS 16 determines whether a contract contains a lease on the basis of whether the customer has the right to control the use of an identified asset for a period of time in exchange for consideration. This is in contrast to the focus on 'risks and rewards' in IAS 17 and IFRIC 4.

The Group and the Bank applies the definition of a lease and related guidance set out in IFRS 16 to all contracts entered into or changed on or after 1 January 2019. In preparation for the first-time application of IFRS 16, the Group and the Bank has carried out a review of all the lease contracts. The review has shown that the new definition in IFRS 16 will not significantly change the scope of contracts that meet the definition of a lease for the Group and the Bank.

b) Impact on Lessee Accounting

(i) Former operating leases

IFRS 16 changes how the Group and the Bank accounts for leases previously classified as operating leases under IAS 17, which were off balance sheet.

Applying IFRS 16, for all leases (except as noted below), the Group and the Bank:

a) Recognises right-of-use assets and lease liabilities in the statement of financial position, initially measured at the present value of the future lease payments;

b) Recognises depreciation of right-of-use assets and interest on lease liabilities in profit or loss;

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
AS AT 31 DECEMBER 2019

2. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

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

i) New standards and amendments to published standards effective for the year ended 31 December 2019 (continued)

Impact of initial application of IFRS 16 Leases (continued)

b) Impact on Lessee Accounting (continued)

(i) Former operating leases

c) Separates the total amount of cash paid into a principal portion (presented within financing activities) and interest (presented within financing activities) in the statement of cash flows.

Lease incentives (e.g. rent-free period) are recognised as part of the measurement of the right-of-use assets and lease liabilities whereas under IAS 17 they resulted in the recognition of a lease incentive, amortised as a reduction of rental expenses generally on a straight-line basis.

Under IFRS 16, right-of-use assets are tested for impairment in accordance with IAS 36.

For short-term leases (lease term of 12 months or less) and leases of low-value assets (such as tablet and personal computers, small items of office furniture and telephones), the Group and the Bank has opted to recognise a lease expense on a straight-line basis as permitted by IFRS 16. This expense is presented within 'other expenses' in profit or loss.

The Group and the Bank has used the following practical expedients when applying the cumulative catch-up approach to leases previously classified as operating leases applying IAS 17.

The Group and the Bank has applied a single discount rate to a portfolio of leases with reasonably similar characteristics.

- The Group and the Bank has adjusted the right-of-use asset at the date of initial application by the amount of provision for onerous leases recognised under IAS 37 in the statement of financial position immediately before the date of initial application as an alternative to performing an impairment review.
- The Group and the Bank has elected not to recognise right-of-use assets and lease liabilities to leases for which the lease term ends within 12 months of the date of initial application.
- The Group and the Bank has excluded initial direct costs from the measurement of the right-of-use asset at the date of initial application.
- The Group and the Bank has used hindsight when determining the lease term when the contract contains options to extend or terminate the lease.

(ii) Former finance leases

For leases that were classified as finance leases applying IAS 17, the carrying amount of the leased assets and obligations under finance leases measured applying IAS 17 immediately before the date of initial application is reclassified to right-of-use assets and lease liabilities respectively without any adjustments, except in cases where the Group and the Bank has elected to apply the low-value lease recognition exemption.

The right-of-use asset and the lease liability are accounted for applying IFRS 16 from 1 January 2019.

(c) Impact on Lessor Accounting

IFRS 16 does not change substantially how a lessor accounts for leases. Under IFRS 16, a lessor continues to classify leases as either finance leases or operating leases and account for those two types of leases differently.

However, IFRS 16 has changed and expanded the disclosures required, in particular regarding how a lessor manages the risks arising from its residual interest in leased assets. Under IFRS 16, an intermediate lessor accounts for the head lease and the sublease as two separate contracts. The intermediate lessor is required to classify the sublease as a finance or operating lease by reference to the right-of-use asset arising from the head lease (and not by reference to the underlying asset as was the case under IAS 17).

Because of this change, the Group and the Bank has reclassified certain of its operating sublease agreements as finance leases and accounted for them as new finance leases entered into at the date of initial application.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
AS AT 31 DECEMBER 2019

2. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

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

i) New standards and amendments to published standards effective for the year ended 31 December 2019 (continued)

Impact of initial application of IFRS 16 Leases (continued)

(c) Impact on Lessor Accounting (continued)

As required by IFRS 9, an allowance for expected credit losses has been recognised on the finance lease receivables.

(d) Financial impact of the initial application of IFRS 16

The weighted average lessees incremental borrowing rate applied to lease liabilities recognised in the statement of financial position on 1 January 2019 is 11.3%.

The following table shows the operating lease commitments disclosed applying IAS 17 at 31 December 2018, discounted using the incremental borrowing rate at the date of initial application and the lease liabilities recognised in the statement of financial position at the date of initial application.

Impact on assets, liabilities and equity as at 1st January 2019	As previously Reported	IFRS 16 adjustments	After IFRS 16 Adjustments
Right-of- Use assets	-	259,203	259,203
Lease Liabilities	-	283,379	283,379
Retained Earnings	8,543,118	(24,176)	8,518,942

The Group and the Bank has recognised Kshs 161,456,000 of right-of-use assets and Kshs 187,169,000 of lease liabilities upon transition to IFRS 16.

Impact on profit or loss for year ended 31 December 2019	2019 Sh'000
Increase in depreciation of right-of-use asset	71,210
Increase in finance cost	12,779
Decrease in rent expense	(82,451)
Decrease in profit for the year	1,538

For tax purposes the Group and the Bank receives tax deductions in respect of the right-of-use assets and the lease liabilities in a manner consistent with the accounting treatment.

The application of IFRS 16 has an impact on the statement of cash flows of the Group and the Bank. Under IFRS 16, lessees must present:

- Cash paid for the interest portion of a lease liability as either operating activities or financing activities, as permitted by IAS 7 (the Group and the Bank has opted to include interest paid as part of financing activities); and
- Cash payments for the principal portion for a lease liability, as part of financing activities.

Under IAS 17, all lease payments on operating leases were presented as part of cash flows from operating activities.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

AS AT 31 DECEMBER 2019

2. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

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

i) New standards and amendments to published standards effective for the year ended 31 December 2019 (continued)

Impact of initial application of IFRS 16 Leases (continued)

(d) Financial impact of the initial application of IFRS 16 (continued)

Consequently, the net cash generated by operating activities has increased by Kshs 82,451,000 (2018: Nil), being the lease payments, and net cash used in financing activities has increased by the same amount.

The adoption of IFRS 16 did not have an impact on net cash flows.

In the current year, the Group and the Bank has applied a number of amendments to IFRS Standards and Interpretations issued by the IASB that are effective for an annual period that begins on or after 1 January 2019. Their adoption has not had any material impact on the disclosures or on the amounts reported in these financial statements.

Amendments to IFRS 9 Prepayment Features with Negative Compensation

The Group and the Bank has adopted the amendments to IFRS 9 for the first time in the current year. The amendments to IFRS 9 clarify that for the purpose of assessing whether a prepayment feature meets the 'solely payments of principal and interest' (SPPI) condition, the party exercising the option may pay or receive reasonable compensation for the prepayment irrespective of the reason for prepayment. In other words, financial assets with prepayment features with negative compensation do not automatically fail SPPI.

Amendments to IAS 28 Long-term Interests in Associates and Joint Ventures

The Group and the Bank has adopted the amendments to IAS 28 for the first time in the current year. The amendment clarifies that IFRS 9, including its impairment requirements, applies to other financial instruments in an associate or joint venture to which the equity method is not applied. These include long-term interests that, in substance, form part of the entity's net investment in an associate or joint venture. The Group and the Bank applies IFRS 9 to such long-term interests before it applies IAS 28. In applying IFRS 9, the Group and the Bank does not take account of any adjustments to the carrying amount of long-term interests required by IAS 28 (i.e., adjustments to the carrying amount of long-term interests arising from the allocation of losses of the investee or assessment of impairment in accordance with IAS 28).

Annual Improvements to IFRS Standards 2015–2017 Cycle Amendments to IFRS 3 Business Combinations, IFRS 11 Joint Arrangements, IAS 12 Income Taxes and IAS 23 Borrowing Costs

The Group and the Bank has adopted the amendments included in the Annual Improvements to IFRS Standards 2015–2017 Cycle for the first time in the current year. The Annual Improvements include amendments to four Standards:

IAS 12 Income Taxes

The amendments clarify that the Group and the Bank should recognise the income tax consequences of dividends in profit or loss, other comprehensive income or equity according to where the Group and the Bank originally recognised the transactions that generated the distributable profits. This is the case irrespective of whether different tax rates apply to distributed and undistributed profits.

IAS 23 Borrowing Costs

The amendments clarify that if any specific borrowing remains outstanding after the related asset is ready for its intended use or sale, that borrowing becomes part of the funds that an entity borrows generally when calculating the capitalisation rate on general borrowings.

IFRS 11 Joint Arrangements

The amendments clarify that when a party that participates in, but does not have joint control of, a joint operation that is a business obtains joint control of such a joint operation, the Group and the Bank does not remeasure its PHI in the joint operation.

Amendments to IAS 19 Employee Benefits Plan Amendment, Curtailment or Settlement

The Group and the Bank has adopted the amendments of IAS 19 for the first time in the current year. The amendments clarify that the past service cost (or of the gain or loss on settlement) is calculated by measuring the defined benefit liability (asset) using updated assumptions and comparing benefits offered and plan assets before and after the plan amendment (or curtailment or settlement) but ignoring the effect of the asset ceiling (that may arise when the defined

2. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

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

i) New standards and amendments to published standards effective for the year ended 31 December 2019 (continued)

Amendments to IAS 19 Employee Benefits Plan Amendment, Curtailment or Settlement (continued)

benefit plan is in a surplus position). IAS 19 is now clear that the change in the effect of the asset ceiling that may result from the plan amendment (or curtailment or settlement) is determined in a second step and is recognised in the normal manner in other comprehensive income.

The paragraphs that relate to measuring the current service cost and the net interest on the net defined benefit liability (asset) have also been amended. The Group and the Bank will now be required to use the updated assumptions from this remeasurement to determine current service cost and net interest for the remainder of the reporting period after the change to the plan. In the case of the net interest, the amendments make it clear that for the period post plan amendment, the net interest is calculated by multiplying the net defined benefit liability (asset) as remeasured under IAS 19:99 with the discount rate used in the remeasurement (also taking into account the effect of contributions and benefit payments on the net defined benefit liability (asset)).

IFRIC 23 Uncertainty over Income Tax Treatments

The Group and the Bank has adopted IFRIC 23 for the first time in the current year. IFRIC 23 sets out how to determine the accounting tax position when there is uncertainty over income tax treatments. The Interpretation requires the Group and the Bank to:

- determine whether uncertain tax positions are assessed separately or as a Bank; and
- assess whether it is probable that a tax authority will accept an uncertain tax treatment used, or proposed to be used, by an entity in its income tax filings:
  - If yes, the Group and the Bank should determine its accounting tax position consistently with the tax treatment used or planned to be used in its income tax filings.
  - If no, the Group and the Bank should reflect the effect of uncertainty in determining its accounting tax position using either the most likely amount or the expected value method.

(ii) New and revised IFRS Standards in issue but not yet effective

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

New and Amendments to standards	Effective for annual periods beginning on or after
IFRS 17-Insurance	1 January 2021, with earlier application permitted
Amendments to IAS 10 and IAS 28 Sale or Contribution of Assets between an investor and its Associate or Joint Venture	Yet to be set, however earlier application permitted
Amendments to IFRS 3 Definition of a business	1 January 2020, with earlier application permitted
Amendments to IAS 1 and IAS 8- Definition of material	1 January 2020, with earlier application permitted
Conceptual Framework: Amendments to References to the Conceptual Framework in IFRS standards	1 January 2020, with earlier application permitted

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
AS AT 31 DECEMBER 2019

2. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)
Application of new and revised International Financial Reporting Standards (IFRSs) (continued)
(ii) New and revised IFRS Standards in issue but not yet effective (continued)

The Directors do not expect that the adoption of the Standards listed above will have a material impact on the financial statements of the Group and the Bank in future periods, except as noted below:

IFRS 17 Insurance Contracts
IFRS 17 establishes the principles for the recognition, measurement, presentation and disclosure of insurance contracts and supersedes IFRS 4 Insurance Contracts.

IFRS 17 outlines a general model, which is modified for insurance contracts with direct participation features, described as the variable fee approach. The general model is simplified if certain criteria are met by measuring the liability for remaining coverage using the premium allocation approach.

The general model uses current assumptions to estimate the amount, timing and uncertainty of future cash flows and it explicitly measures the cost of that uncertainty. It takes into account market interest rates and the impact of policyholders' options and guarantees.

The Standard is effective for annual reporting periods beginning on or after 1 January 2021, with early application permitted. It is applied retrospectively unless impracticable, in which case the modified retrospective approach or the fair value approach is applied. An exposure draft Amendments to IFRS 17 addresses concerns and implementation challenges that were identified after IFRS 17 was published. One of the main changes proposed is the deferral of the date of initial application of IFRS 17 by one year to annual periods beginning on or after 1 January 2022.

For the purpose of the transition requirements, the date of initial application is the start if the annual reporting period in which the entity first applies the Standard, and the transition date is the beginning of the period immediately preceding the date of initial application.

IFRS 10 and IAS 28 (amendments)
Sale or Contribution of Assets between an Investor and its Associate or Joint Venture
The amendments to IFRS 10 and IAS 28 deal with situations where there is a sale or contribution of assets between an investor and its associate or joint venture. Specifically, the amendments state that gains or losses resulting from the loss of control of a subsidiary that does not contain a business in a transaction with an associate or a joint venture that is accounted for using the equity method, are recognised in the parent's profit or loss only to the extent of the unrelated investors' interests in that associate or joint venture. Similarly, gains and losses resulting from the remeasurement of investments retained in any former subsidiary (that has become an associate or a joint venture that is accounted for using the equity method) to fair value are recognised in the former parent's profit or loss only to the extent of the unrelated investors' interests in the new associate or joint venture.

The effective date of the amendments has yet to be set by the IASB; however, earlier application of the amendments is permitted. The directors of the Group and the Bank anticipate that the application of these amendments may have an impact on the financial statements in future periods should such transactions arise.

Amendments to IFRS 3
Definition of a business
The amendments clarify that while businesses usually have outputs, outputs are not required for an integrated set of activities and assets to qualify as a business. To be considered a business an acquired set of activities and assets must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create outputs.

Additional guidance is provided that helps to determine whether a substantive process has been acquired.

The amendments introduce an optional concentration test that permits a simplified assessment of whether an acquired set of activities and assets is not a business. Under the optional concentration test, the acquired set of activities and assets is not a business if substantially all of the fair value of the gross assets acquired is concentrated in a single identifiable asset or group of similar assets.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
AS AT 31 DECEMBER 2019

2. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

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

(ii) New and revised IFRS Standards in issue but not yet effective (continued)

Amendments to IFRS 3 *Definition of a business* (continued)

The amendments are applied prospectively to all business combinations and asset acquisitions for which the acquisition date is on or after the first annual reporting period beginning on or after 1 January 2020, with early application permitted.

Amendments to IAS 1 and IAS 8 Definition of material

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

The threshold for materiality influencing users has been changed from 'could influence' to 'could reasonably be expected to influence'.

The definition of material in IAS 8 has been replaced by a reference to the definition of material in IAS 1. In addition, the IASB amended other Standards and the Conceptual Framework that contain a definition of material or refer to the term 'material' to ensure consistency.

The amendments are applied prospectively for annual periods beginning on or after 1 January 2020, with earlier application permitted.

Amendments to References to the Conceptual Framework in IFRS Standards

Together with the revised Conceptual Framework, which became effective upon publication on 29 March 2018, the IASB has also issued Amendments to References to the Conceptual Framework in IFRS Standards. The document contains amendments to IFRS 2, IFRS 3, IFRS 6, IFRS 14, IAS 1, IAS 8, IAS 34, IAS 37, IAS 38, IFRIC 12, IFRIC 19, IFRIC 20, IFRIC 22, and SIC-32.

Not all amendments, however, update those pronouncements with regard to references to and quotes from the framework so that they refer to the revised Conceptual Framework. Some pronouncements are only updated to indicate which version of the Framework they are referencing to (the IASC Framework adopted by the IASB in 2001, the IASB Framework of 2010, or the new revised Framework of 2018) or to indicate that definitions in the Standard have not been updated with the new definitions developed in the revised Conceptual Framework.

The amendments, where they actually are updates, are effective for annual periods beginning on or after 1 January 2020, with early application permitted.

(iii) Early adoption of standards

The Group and the Bank did not early-adopt any new or amended standards in 2019.

The principal accounting policies applied in the preparation of the financial statements are set out below. These policies have been applied consistently.

3. SIGNIFICANT ACCOUNTING POLICIES

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

(a) Basis of preparation

The consolidated financial statements of the Bank have been prepared in accordance with International Financial Reporting Standards (IFRS), which comprise standards and interpretations, as issued by the International Accounting Standard Board (IASB) and the requirements of the Kenyan Companies Act, 2015. The financial statements are presented in the functional currency, Kenya Shillings, rounded to the nearest thousand (KShs '000),except where otherwise indicated and have been prepared on a historical basis except for fair value through other comprehensive income investments, investments at fair value through profit or loss and land and buildings which have been measured at fair value.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

AS AT 31 DECEMBER 2019

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(b) Basis of consolidation

The consolidated financial statements comprise the financial statements of the Bank and its subsidiaries as at 31 December 2019. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

Specifically, the Group controls an investee if, and only if, the Group has:

- Power over the investee (i.e., existing rights that give it the current ability to direct the relevant activities of the investee)
- Exposure, or rights, to variable returns from its involvement with the investee
- The ability to use its power over the investee to affect its returns

Generally, there is a presumption that a majority of voting rights results in control. To support this presumption and when the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- The contractual arrangement(s) with the other vote holders of the investee
- Rights arising from other contractual arrangements
- The Group's voting rights and potential voting rights

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated financial statements from the date the Group gains control until the date the Group ceases to control the subsidiary.

Profit or loss and each component of OCI are attributed to the equity holders of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. If the Group loses control over a subsidiary, it derecognises the related assets (including goodwill), liabilities, non-controlling interest and other components of equity, while any resultant gain or loss is recognised in profit or loss. Any investment retained is recognised at fair value.

(c) Business combinations and goodwill

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, which is measured at acquisition date fair value, and the amount of any non-controlling interests in the acquiree. For each business combination, the Group elects whether to measure the non-controlling interests in the acquiree at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition-related costs are expensed as incurred and included in administrative expenses.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Contingent consideration classified as equity is not remeasured and its subsequent settlement is accounted for within equity. Contingent consideration classified as an asset or liability that is a financial instrument and within the scope of IAS 39 Financial Instruments: Recognition and Measurement, is measured at fair value with the changes in fair value recognised in the statement of profit or loss in accordance with IAS 39.Other contingent consideration that is not within the scope of IAS 39 is measured at fair value at each reporting date with changes in fair value recognised in profit or loss.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
AS AT 31 DECEMBER 2019

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(c) Business combinations and goodwill (continued)

Goodwill is initially measured at cost (being the excess of the aggregate of the consideration transferred and the amount recognised for non-controlling interests and any previous interest held over the net identifiable assets acquired and liabilities assumed). If the fair value of the net assets acquired is in excess of the aggregate consideration transferred, the Group re-assesses whether it has correctly identified all of the assets acquired and all of the liabilities assumed and reviews the procedures used to measure the amounts to be recognised at the acquisition date. If the reassessment still results in an excess of the fair value of net assets acquired over the aggregate consideration transferred, then the gain is recognised in profit or loss.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

Where goodwill has been allocated to a cash-generating unit (CGU) and part of the operation within that unit is disposed of, the goodwill associated with the disposed operation is included in the carrying amount of the operation when determining the gain or loss on disposal. Goodwill disposed in these circumstances is measured based on the relative values of the disposed operation and the portion of the cash-generating unit retained.

(d) Fair value measurement

The Bank measures financial instruments and land and buildings at fair value at each reporting date. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability, or
- In the absence of a principal market, in the most advantageous market for the asset or liability.

The principal or the most advantageous market must be accessible by the Bank. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest. Fair value related disclosures for financial instruments that are measured at fair value are made in note 42.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Bank uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 — Quoted (unadjusted) market prices in active markets for identical assets or liabilities
- Level 2 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
- Level 3 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Bank determines whether transfers have occurred between levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

External valuers are involved for valuation of significant assets, such as properties.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
AS AT 31 DECEMBER 2019

3. SIGNIFICANT ACCOUNTING POLICIES (continued)
(e) Financial assets and liabilities

Measurement methods

Amortised cost and effective interest rate

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

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

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

Interest income

Interest income is calculated by applying the effective interest rate to the gross carrying amount of financial assets, except for:

- Financial assets that are not impaired at initial recognition but have subsequently become credit-impaired (or 'stage 3'), for which interest revenue is calculated by applying the effective interest rate to their amortised cost (i.e. net of the expected credit loss provision).

Initial recognition and measurement

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

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

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

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

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

Financial assets

(i) Classification and subsequent measurement

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
AS AT 31 DECEMBER 2019

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(e) Financial assets and liabilities (continued)

Financial assets (continued)

(i) Classification and subsequent measurement (continued)

The classification requirements for debt and equity instruments are described below:

Debt instruments

These are those instruments that meet the definition of a financial liability from the issuer's perspective, such as loans, government and corporate bonds, cash and bank balances, bank deposits.

Classification and measurement of debt instruments depend on:

- The Bank's business model for managing the asset; and
- The cash flow characteristics of the asset.

Based on these factors, The Bank classifies its debt instruments into one of the following three measurement categories:

- **Amortised cost:** Financial assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest, and that are not designated at FVPL, are measured at amortised cost. A gain or loss on a debt investment that is subsequently measured at amortised cost and is not part of a hedging relationship is recognized in profit or loss when the asset is derecognized or impaired. Interest income from these financial assets is included in finance income using the effective interest rate method.
- **Fair value through other comprehensive income (FVTOCI)**: Financial assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and interest, are measured at fair value through other comprehensive income (FVTOCI). Movements in the carrying amount are taken through OCI, except for the recognition of impairment gains or losses, interest revenue and foreign exchange gains and losses which are recognized in profit and loss. When the financial asset is derecognized, the cumulative gain or loss previously recognized in OCI is reclassified from equity to profit or loss and recognized in other gains/(losses). Interest income from these financial assets is included in finance income using the effective interest rate method.
- **Fair value through profit or loss:** Financial assets that do not meet the criteria for amortised cost or FVTOCI are measured at fair value through profit or loss. A business model in which an entity manages financial assets with the objective of realizing cash flows through solely the sale of the assets, would result in an FVTPL business model.
- A gain or loss on a debt investment that is subsequently measured at fair value through profit or loss and is not part of a hedging relationship is recognized in profit or loss and presented net in the profit or loss statement within other gains/(losses) in the period in which it arises. Interest income from these financial assets is included in the finance income.

Business model: The business model reflects how the Bank manages the assets in order to generate cash flows. That is, whether the Bank's objective is solely to collect the contractual cash flows from the assets or is to collect both the contractual cash flows and cash flows arising from the sale of assets. If neither of these is applicable, then the financial assets are classified as part of 'other' business model and measured at FVPL. Factors considered by the Bank in determining the business model for assets include past experience on how the cash flows of these assets were collected, how the performance of the assets is evaluated and reported to key management personnel, the risks that affect the performance of the business model (and the financial assets within) and in particular, the way that those risks are managed; and how assets managers are compensated

Cash flow characteristic of the asset: Where the business model is to hold assets to collect contractual cash flows or to collect contractual cash flows and sell, the Bank assesses whether the financial instruments' cash flows represent solely payments of principal and interest (the SPPI test). In making this assessment, the Bank considers whether the contractual cash flows are consistent with a basic lending arrangement i.e. interest includes only consideration for the time value of money, credit risk, other basic lending

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
AS AT 31 DECEMBER 2019

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(e) Financial assets and liabilities (continued)

Financial assets (continued)

(i) Classification and subsequent measurement (continued)

Debt instruments (continued)

risks and a profit margin that is consistent with a basic lending arrangement. Where the contractual terms introduce exposure to risk or volatility that are inconsistent with a basic lending arrangement, the related financial asset is classified and measured at FVPL.

The Bank reclassifies debt investments when and only when its business model for managing those assets changes. The reclassification takes place from the start of the first reporting period following the change. Such changes are expected to be very infrequent.

Equity instruments

These are instruments that meet the definition of equity from the issuer's perspective; that is, instruments that do not contain a contractual obligation to pay and that evidence a residual interest in the issuer's net assets. Examples of equity instruments include basic ordinary shares.

The Bank subsequently measures all equity investments at fair value. Where the Bank's management has elected to present fair value gains and losses on equity investments in other comprehensive income, there is no subsequent reclassification of fair value gains and losses to profit or loss. Dividends from such investments continue to be recognized in profit or loss as other income when the Bank's right to receive payments is established.

Changes in the fair value of financial assets at fair value through profit or loss are recognized in other gain/(losses) in the statement of profit or loss as applicable. Impairment losses (and reversal of impairment losses) on equity investments measured at FVTOCI are not reported separately from other changes in fair value.

When the Bank derecognizes investments in equity instruments measured at FVTOCI, it shall disclose:

- The reason for disposing the investments,
- The fair value of investments at the date of derecognition; and
- The cumulative gain or loss on disposal.

(ii) Impairment of financial assets

The Bank assesses on a forward-looking basis the expected credit losses ('ECL') associated with its debt instrument assets carried at amortised cost and FVTOCI and with the exposure arising from project finance loan and corporate loans. The Bank recognizes a loss allowance for such losses at each reporting date. The measurement of ECL reflects:

a) An unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes;

b) The time value of money; and

c) Reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

(iii) Modification of loans

The Bank sometimes renegotiates or otherwise modifies the contractual cash flows of loans to customers. When this happens, the Bank assesses whether or not the new terms are substantially different to the original terms. The Bank does this by considering, among others, the following factors:

(iv) Modification of loans

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
AS AT 31 DECEMBER 2019

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(e) Financial assets and liabilities (continued)

Financial assets (continued)

(iv) Modification of loans (continued)

If the terms are substantially different, the Bank derecognizes the original financial asset and recognizes a 'new' asset at fair value and recalculates a new effective interest rate for the asset. The date of renegotiation is consequently considered to be the date of initial recognition for impairment calculation purposes, including for the purpose of determining whether a significant increase in credit risk has occurred. However, the Bank also assesses whether the new financial asset recognized is deemed to be credit-impaired at initial recognition, especially in circumstances where the renegotiation was driven by the debtor being unable to make the originally agreed payments. Differences in the carrying amount are also recognized in profit or loss as a gain or loss on derecognition.

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

Financial liabilities

(i) Derecognition

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

The exchange between the Bank and its original lenders of debt instruments with substantially different terms, as well as substantial modifications of the terms of existing financial liabilities, are accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability. The terms are substantially different if the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective interest rate, is at least 10% different from the discounted present value of the remaining cash flows of the original financial liability. In addition, other qualitative factors, such as the currency that the instrument is denominated in, changes in the type of interest rate, new conversion features attached to the instrument and change in covenants are also taken into consideration. If an exchange of debt instruments or modification of terms is accounted for as an extinguishment, any costs or fees incurred are recognized as part of the gain or loss on the extinguishment. If the exchange or modification is not accounted for as an extinguishment, any costs or fees incurred adjust the carrying amount of the liability and are amortised over the remaining term of the modified liability.

Please refer to Credit Management for a detailed credit risk management and approach within note 45.

(i) Classification and subsequent measurement

Financial liabilities are classified as subsequently measured at amortised cost, except for;

- Financial liabilities at fair value through profit or loss; this classification is applied to derivatives, financial liabilities held for trading and other financial liabilities designated as such at initial recognition. Gains or losses on financial liabilities designated at fair value through profit or loss are presented partially in other comprehensive income (the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability, which is determined as the amount that is not attributable to changes in market conditions that give rise to market risk) and partially profit or loss (the remaining amount of change in the fair value of the liability). This is unless such a presentation would create, or enlarge, an accounting mismatch, in which case the gains and losses attributable to changes in the credit risk of the liability are also presented in profit or loss.

- Financial liabilities arising from the transfer of financial assets which did not qualify for derecognition or when the continuing involvement approach applies.

- Financial guarantee contracts and loan commitments

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

AS AT 31 DECEMBER 2019

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(f) Offsetting

Financial assets and financial liabilities are offset, and the net amount reported in the statement of financial position only when there is currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realize the assets and settle the liability simultaneously. Income and expense will not be offset in profit or loss unless required by an accounting standard or interpretation and is specifically disclosed in the accounting policies of the Group and the Bank.

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in profit or loss.

(g) Recognition of income and expenses

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Bank and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

(i) Interest income and expense assets

For all financial instruments measured at amortised cost and interest bearing financial instruments classified as at fair value through other comprehensive income financial investments, interest income or expense is recorded at the effective interest rate, which is the rate that exactly discounts estimated future cash payments through the expected life of the financial instrument or a shorter period where appropriate, to the net carrying amount of the financial asset or liability. The calculation takes into account all contractual terms of the financial instrument (for example, prepayment options) and includes any fees or incremental costs that are directly attributable to the instrument and are an integral part of the effective interest rate, but not future credit losses. The carrying amount of the financial asset or financial liability is adjusted if the Bank revises its payments or receipts. The adjusted carrying amount is calculated based on the original effective interest rate and the change in carrying amount is recorded as interest income or expense.

Once the recorded value of financial asset or a group of similar financial assets has been reduced due to an impairment loss, interest income continues to be recognised using the rate of interest rate used to discount the future cash flows for the purpose of measuring the impairment loss.

(ii) Fees and commission income

The Bank earns fees and commission income from a diverse range of services it provides to its customers. Fees earned for the provision of services over a period of time are accrued over that period.

Loan commitment fees for loans that are likely to be drawn down and other credit related fees are deferred (together with any incremental costs) and recognised as an adjustment to the effective interest rate on the loan.

Fees or components of fees that are linked to a certain performance are recognised after fulfilling the corresponding criteria.

(iii) Dividend income

Dividend income is recognised when the Bank's right to receive payment is established.

(h) Property and equipment

Property and equipment, except for land and buildings, are stated at cost less accumulated depreciation and impairment in value.

Land and buildings are measured at fair value at the dates of revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses on buildings. Valuations are performed every three years to ensure that the fair value of a revalued asset does not differ materially from its carrying amount.

A revaluation surplus is recorded in other comprehensive income and credited to the asset revaluation reserve in equity. However, to the extent that it reverses a revaluation deficit of the same asset previously recognised in profit or loss, the increase is recognised in profit and loss. A revaluation deficit is recognised in profit or loss, except to the extent that it offsets an existing surplus on the same asset recognised in the asset revaluation reserve.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
AS AT 31 DECEMBER 2019

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(h) Property and equipment (continued)

An annual transfer from the asset revaluation reserve to retained earnings is made for the difference between depreciation based on the revalued carrying amount of the asset and depreciation based on the asset's original cost. Additionally, accumulated depreciation as at the revaluation date is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset. Upon disposal, any revaluation reserve relating to the particular asset being sold is transferred to retained earnings.

Depreciation is calculated on the straight-line basis at annual rates estimated to write off carrying amounts of the assets over their expected useful lives.

The annual depreciation rates in use are: -	
Furniture and fittings	12.50%
Office equipment	12.50%
Motor vehicles	25.00%
Computer equipment	25% - 33.33%
Leasehold improvements	12.50%

Buildings are depreciated over their shorter of the estimated useful lives and the lease term.

Freehold land is not depreciated as it is deemed to have an indefinite life.

An item of property and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is recognised in 'other income' or 'other expenses' in profit or loss in the year the asset is derecognised.

The assets' residual values, useful lives and methods of depreciation are reviewed, and adjusted prospectively if appropriate, at each financial year-end.

(i) Foreign currency translation

Transactions in foreign currencies during the year are converted into Kenya shillings at rates ruling at the transaction dates. Monetary assets and liabilities at the reporting date which are expressed in foreign currencies are translated into Kenya shillings at rates ruling at that date.

The resulting differences from conversion and translation are dealt with in profit or loss.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

(j) Defined contribution plans

The Bank contributes to a statutory defined contribution provident scheme, the National Social Security Fund (NSSF). Contributions are determined by local statute and are currently limited to Kshs 200 per employee per month. The Bank also operates a defined contribution provident fund scheme for all its employees. The assets of the scheme are held in a separate trustee administered fund that is funded by both the Bank and employees.

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

(i) Employee benefits

(ii) Short-term benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided.

The liability for employees' accrued annual leave entitlement at the reporting date is recognised as an expense accrual.

(k) Taxation

1. Current tax

Current income tax is provided for on the basis of the results for the year as shown in the financial statements, adjusted in accordance with tax legislation. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the reporting date.

2. Deferred tax

Deferred taxation is provided using the liability method, for all temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes at the reporting date.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

AS AT 31 DECEMBER 2019

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(k) Taxation (continued)

2. Deferred tax (continued)

Deferred tax liabilities are recognised for all taxable temporary differences except:

- Where the deferred tax arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and,
- In respect of temporary differences associated with investments in subsidiaries and associates, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, carry forward of unused tax losses and unused tax credits to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences, unused tax losses and unused tax credits can be utilized except;

- Where the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and,
- In respect of deductible temporary differences associated with investments in subsidiaries and associates, deferred tax assets are recognised only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at reporting date and reduced to the extent that it is no-longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at each reporting date and are recognised to the extent that it is probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Current tax and deferred tax relating to items recognised directly in other comprehensive income or equity are also recognised in other comprehensive income or equity and not in profit or loss.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current income tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

3. Value added tax

Expenses and assets are recognised net of Value added tax, except:

- When the value added tax incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case the value added tax is recognised as part of the cost of acquisition of the asset or as part of the expense item, as applicable, and
- When receivables and payables are stated with the amount of value added tax included.

The net amount of value added tax recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the statement of financial position

(l) Guarantees, acceptances and letters of credit

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

(m) Leases

The Group and the Bank has applied IFRS 16 using the cumulative catch-up approach and therefore comparative information has not been

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

AS AT 31 DECEMBER 2019

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(m) Leases (continued)

restated and is presented under IAS 17. The details of accounting policies under both IAS 17 and IFRS 16 are presented separately below.

Policies applicable from 1 January 2019

The Group and the Bank as a lessee

The Group and the Bank assesses whether a contract is or contains a lease, at inception of the contract. The Group and 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 (such as tablets and personal computers, small items of office furniture and telephones). For these leases, the Group and 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 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 lessee uses its incremental borrowing rate.

Lease payments included in the measurement of the lease liability comprise:

- Fixed lease payments (including in-substance fixed payments), less any lease incentives receivable;
- Variable lease payments that depend on an index or rate, initially measured using the index or rate at the commencement date;
- The amount expected to be payable by the lessee under residual value guarantees;
- The exercise price of purchase options, if the lessee is reasonably certain to exercise the options; and
- Payments of penalties for terminating the lease, if the lease term reflects the exercise of an option to terminate the lease.

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 Group and the Bank remeasures 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 significant event or change in circumstances resulting in 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 an unchanged discount rate (unless the lease payments change is due to a change in a 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 based on the lease term of the modified lease by discounting the revised lease payments using a revised discount rate at the effective date of the modification.

The Group and the Bank did not make any such adjustments during the periods presented. The right-of-use assets comprise the initial measurement of the corresponding lease liability, lease payments made at or before the commencement day, less any lease incentives received and any initial direct costs. They are subsequently measured at cost less accumulated depreciation and impairment losses.

Whenever the Group and the Bank incurs an obligation for costs to dismantle and remove a leased asset, restore the site on which it is located or restore the underlying asset to the condition required by the terms and conditions of the lease, a provision is recognised and measured under IAS 37. To the extent that the costs relate to a right-of-use asset, the costs are included in the related right-of-use asset, unless those costs are incurred to produce inventories.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
AS AT 31 DECEMBER 2019

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(m) Leases (continued)

of the underlying asset or the cost of the right-of-use asset reflects that the Group and the Bank expects to exercise a purchase option, the related right-of-use asset is depreciated over the useful life of the underlying asset. The depreciation starts at the commencement date of the lease.

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

The Group and the Bank applies IAS 36 to determine whether a right-of-use asset is impaired and accounts for any identified impairment loss as described in the 'Property, Plant and Equipment' policy (not part of this Appendix).

Variable rents that do not depend on an index or rate are not included in the measurement of the lease liability and the right-of-use asset. The related payments are recognised as an expense in the period in which the event or condition that triggers those payments occurs and are included in 'Other operating expenses' in profit or loss (see Note 8b).

As a practical expedient, IFRS 16 permits a lessee not to separate non-lease components, and instead account for any lease and associated non-lease components as a single arrangement. The Group and the Bank has not used this practical expedient. For a contracts that contain a lease component and one or more additional lease or non-lease components, the Group and the Bank allocates the consideration in the contract to each lease component on the basis of the relative stand-alone price of the lease component and the aggregate stand-alone price of the non-lease components.

(n) Intangible assets

The Bank's intangible assets include the value of computer software (swift software, finacle software and other associated costs) and Visa license fees. Intangible assets acquired separately are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment loss.

The useful lives of intangible assets are assessed to be finite. Intangible assets are amortised over the useful economic life. The amortisation period and the amortisation method for an intangible asset are reviewed at least each financial year-end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in an asset are accounted for by changing the amortisation period and method, as appropriate, and treated as changes in accounting estimates. The amortisation expense on intangible assets is recognised in profit or loss in the expense category consistent with the function of the asset.

Amortisation is calculated using the straight-line method to write down the cost of intangible assets to their residual values over the estimated useful lives as follows:

- Computer software 5 years
- Visa license 5 years

(o) Dividends

Dividends are charged to equity in the year in which they are declared.

(p) Impairment of non - financial assets

The Bank assesses at each reporting date, or more frequently if events or changes in circumstances indicate that an asset may be impaired, whether there is an indication that a non-financial asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Bank makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's (CGU) fair value less costs of disposal and its value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs of disposal, recent market transactions are taken into account, if available. If no such transactions can be identified, an appropriate valuation model is used. Where the carrying amount of an asset (or cash-generating unit) exceeds its recoverable amount, the asset (or cash-generating unit) is considered impaired and is written down to its recoverable amount.

Impairment losses are recognised in the profit or loss in expense categories consistent with the function of the impaired asset, except for properties previously revalued with the revaluation surplus taken to OCI. For such properties, the impairment is recognised in OCI up to the amount of any previous revaluation.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
AS AT 31 DECEMBER 2019

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(p) Impairment of non - financial assets (continued)

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognised impairment loss is reversed if, and only if, there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the statement of profit or loss unless the asset is carried at a revalued amount, in which case, the reversal is treated as a revaluation increase.

(q) Provisions

Provisions are recognised when the Bank has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. The expense relating to any provision is presented in profit or loss net of any reimbursement.

4. SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

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:

(i) 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

AS AT 31 DECEMBER 2019

4. SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS (continued)

(i) Critical accounting judgements in applying the Bank's policies) (contiued)

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.

(ii) Key sources of estimation uncertainty

Establishing the number and relative weightings of forward-looking scenarios for each type of product and determining the forward-looking information relevant to each scenario: When measuring ECL the Bank uses reasonable and supportable forward-looking information, which is based on assumptions for the future movement of different economic drivers and how these drivers will affect each other.

Probability of default:

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

Loss Given Default:

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

Property and equipment

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

Fair value measurement and valuation

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
AS AT 31 DECEMBER 2019

5. CASH AND BALANCES WITH CENTRAL BANK OF KENYA

	GROUP		BANK	
	2019 KShs'000	2018 KShs'000	2019 KShs '000	2018 KShs'000
Cash in hand	510,763	638,844	509,885	636,216
Balances with Central Bank of Kenya:				
-Restricted balances (Cash Reserve Ratio)	2,412,276	2,017,001	2,412,276	2,017,001
-Unrestricted balances	2,852,003	6,113,088	2,852,003	6,113,088
Cheques and items for clearing	309,729	406,352	309,728	406,352
	6,084,771	9,175,285	6,083,892	9,172,657

The Cash Reserve Ratio is non-interest earning and is based on the value of deposits as adjusted for the Central Bank of Kenya requirements. At 31 December 2019, the Cash Reserve Ratio requirement was 5.25% (2018 – 5.25%) of all qualifying deposits.

These funds are available for use by the Bank in its day-to-day operations in a limited way provided that on any given day this balance does not fall below the 3.00% requirement and provided that the overall average in the month is at least 5.25%.

Cheques and items for clearing represent values of outward clearing instruments, which are awaiting clearance.

6. PLACEMENTS AND BALANCES WITH OTHER BANKS

	GROUP		BANK	
	2019 KShs'000	2018 KShs'000	2019 KShs '000	2018 KShs'000
Lending to other banks and financial institutions	931,769	2,074,030	853,862	2,010,643
Lending and balances with banks outside Kenya	4,706,050	9,513,429	4,706,051	9,513,429
	5,637,819	11,587,459	5,559,913	11,524,072

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

AS AT 31 DECEMBER 2019

7. TREASURY BILLS AND TERM NOTES

	Group and Bank	
	2019 KShs '000	2018 KShs '000
At 1 January	3,841,412	7,895,066
Purchase of investment securities	31,384,393	5,434,496
IFRS 9 provision	(26,393)	(3,150)
Retirement of investment securities	(6,650,000)	(9,485,000)
At 31 December	28,549,412	3,841,412
Treasury bills:		
Maturing within 91 days of the date of acquisition	-	299,505
Maturing after 91 days to 182 days of the date of acquisition	-	1,530,375
Maturing after 182 days of the date of acquisition	28,555,805	1,669,395
IFRS 9 provision	(26,393)	(3,150)
Term notes:		
Maturing within 91 days of the date of acquisition	20,000	19,398
Maturing after 182 days of the date of acquisition	-	325,889
	28,549,412	3,841,412

Treasury bills are debt securities issued by the Government of Kenya and are classified as loans and receivables. The weighted average effective interest rate on the treasury bills as at 31 December 2019 was 9.22% (2018: 10.35%).

Term notes are debt instruments issued by private and public entities for varied terms and maturity dates.

8. INVESTMENT IN SECUIRITY MEASURED AT AMORTISED COST

	GROUP		BANK	
	2019 KShs'000	2018 KShs'000	2019 KShs '000	2018 KShs'000
At 1 January	16,506,914	12,803,105	15,643,082	11,909,836
Purchase of investment securities	5,274,551	5,194,168	5,251,390	5,170,529
Retirement of investment securities	(3,242,505)	(1,486,993)	(3,219,539)	(1,434,024)
IFRS 9 provision	(16,462)	(3,366)	(15,670)	(3,259)
At 31 December	18,522,498	16,506,914	17,659,263	15,643,082
Treasury and corporate bonds are maturing after 182 days of the date of acquisition	18,522,498	16,506,914	17,659,263	15,643,082

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
AS AT 31 DECEMBER 2019

9. INVESTMENT IN BONDS- MEASURED AT FVTOCI

The bonds are debt securities and include bonds issued by the Government of Kenya and offshore bonds are classified as securities measured at fair value through other comprehensive income (FVTOCI). The fair value of the bonds is determined by reference to published price quotations in an active market.

	GROUP		BANK	
	2019 KShs'000	2018 KShs'000	2019 KShs '000	2018 KShs'000
As at 1 January	14,954,169	3,750,776	14,654,392	3,651,715
- Purchase of investment securities	4,492,401	13,316,252	4,221,252	13,107,662
- Sales (maturity) of investment securities	(11,731,670)	(2,209,096)	(11,719,170)	(2,197,696)
Foreign exchange loss	(4,309)	(975)	(4,309)	(975)
IFRS 9 provision	(6,667)	(9,868)	(6,187)	(9,841)
Gain on fair valuation	48,715	107,080	25,074	103,527
As at 31 December	7,752,639	14,954,169	7,171,052	14,654,392
The maturity profile is as follows:				
Within one year	1,009,088	9,996,497	988,970	9,996,497
After one year but within two years	315,591	63,355	62,500	63,355
After two but within five years	465,315	2,125,530	2,145,703	2,102,726
After five years	5,969,312	2,778,655	3,980,066	2,501,655
IFRS 9 provision	(6,667)	(9,868)	(6,187)	(9,841)
	7,752,639	14,954,169	7,171,052	14,654,392

10. INVESTMENT IN ORDINARY SHARES

a) At fair value through other comprehensive income (FVTOCI)

	GROUP		BANK	
	2019 KShs'000	2018 KShs'000	2019 KShs '000	2018 KShs'000
Investment in listed shares (note 10 (a)(i))	2,928,747	3,891,293	2,812,067	3,807,488
Investment in privately held shares (note 10 (a)(ii))	232,590	262,910	232,590	262,910
Total investment in ordinary	3,161,337	4,154,203	3,044,657	4,070,398
i) Investment in listed shares:				
Investment as at 1 January	3,891,293	2,778,899	3,807,488	2,683,266
Additions	9,953	-	-	-
(Loss)/gain in fair value	(972,499)	1,112,394	(995,421)	1,124,222
As at 31 December	2,928,747	3,891,293	2,812,067	3,807,488

The fair value of the listed shares is determined by reference to published price quotations in an active market. FVTOCI investments in ordinary shares have no fixed maturity date or coupon rate. The fair value movement relating to First Merchant Bank, Malawi amounts to a loss of Kshs 953mn (2018: gain of Kshs 1.18 million).The fair value movement relating to locally held shares amounts to a loss of Kshs 41 million (2018: loss of Kshs 53.2 million). Fair value loss on privately held shares is Kshs.82mn

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
AS AT 31 DECEMBER 2019

10. INVESTMENT IN ORDINARY SHARES (continued)

	BANK	
	2019 KShs '000	2018 KShs '000
ii) Investment in privately held shares:		
Capital Bank Limited, Botswana	126,936	96,067
Capital Bank Mozambique	105,654	141,525
Cooperative Bank Plc, United Kingdom	-	25,318
As at 31 December	232,590	262,910
The movement in these shares is summarised below:		
As at 1 Januray	262,910	267,876
Foreign exchange loss	(1,398)	(4,966)
Additional shares bought	78,979	-
Write- offs	(25,318)	-
Fair value loss	(82,583)	-
As at 31 December	232,590	262,910

Investment in privately held shares comprises investments in shares of Capital Bank Limited, Botswana and Capital Bank Limited, Mozambique, which are unquoted companies. These shares are intended to be held for an indefinite period of time and which may be sold in response to needs for liquidity or in response to changes in the market conditions. The directors have taken a conservative approach and equated the fair value of unquoted shares at cost. There were no material impairment noted on the unquoted shares.

All other securities measured at FVTOCI are carried at fair value, with unrealized gains/losses recognized as other comprehensive income until the investment is derecognized or impaired.

During the year, the bank performed a fair value analysis of its investments in associates and recognized a fair value loss for the Investment in Capital Bank Limited Mozambique by Kshs.82.5 Million. The bank also wrote off their investment of Kshs.25 Million in Cooperative Bank PLC, United Kingdom.

b) At fair value through profit and loss (GROUP)

	2019 KShs '000	2018 KShs '000
At start of the year	116,883	141,222
Disposals	(11,906)	(100)
Fair value gain/(loss)	3,838	(24,239)
At end of the year	108,815	116,883

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

AS AT 31 DECEMBER 2019

11. LOANS AND ADVANCES

	GROUP		BANK	
	2019 KShs'000	2018 KShs'000	2019 KShs '000	2018 KShs'000
Loans and advances to customers (gross)	38,115,769	37,119,400	38,034,471	36,985,699
Less – Allowances on impairment of loans and advances	(1,139,553)	(817,571)	(1,139,553)	(817,571)
Loans and advances to customers net of ECL allowances	36,976,216	36,301,829	36,894,918	36,168,128

a) Lending concentration

Economic sector risk concentrations within the customer loan portfolio were as follows:

	2019 %	2018 %
Agriculture	-	-
Building & Construction	3	3
Energy &Water	-	-
Financial Services	-	-
Manufacturing	24	22
Mining & Quarrying	-	-
Personal/Household	6	6
Real Estate	11	12
Tourism, Restaurant & Hotels	2	2
Trade	50	51
Transport & Communication	4	4
Total	100%	100%

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

AS AT 31 DECEMBER 2019

11. LOANS AND ADVANCES (continued)

a) Lending concentration (continued)

Maturity analysis - GROUP

2019	Within 30 days KShs '000	31-60 days KShs '000	61-90 days KShs '000	More than 90 days KShs '000	Total KShs '000
Agriculture	5,325	-	-	147,539	152,864
Building & construction	247,746	332	-	897,380	1,145,458
Energy &water	20,872	4,234	-	99,559	124,665
Financial services	-	-	-	11,174	11,174
Manufacturing	1,318,194	389,561	80,139	7,420,683	9,208,577
Mining & quarrying	-	-	-	12,287	12,287
Personal/household	390,922	54,606	531	1,838,734	2,284,793
Real Estate	1,037,737	93,096	1,294	2,714,067	3,846,194
Tourism, Restaurant & Hotels	127,119	-	-	607,428	734,547
Trade	3,765,953	784,008	57,869	14,501,442	19,109,272
Transport & communication	446,040	1,967	-	1,037,931	1,485,938
Other	-	-	-	-	-
Total	7,359,908	1,327,804	139,833	29,288,224	38,115,769

Maturity analysis - BANK

2019	Within 30 days KShs '000	31-60 days KShs '000	61-90 days KShs '000	More than 90 days KShs '000	Total KShs '000
Agriculture	5,325	-	-	147,539	152,864
Building & construction	247,746	332	-	897,380	1,145,458
Energy &water	20,872	4,234	-	99,559	124,665
Financial services	-	-	-	11,174	11,174
Manufacturing	1,318,194	389,561	80,139	7,420,683	9,208,577
Mining & quarrying	-	-	-	12,287	12,287
Personal/household	390,922	54,606	531	1,757,436	2,203,495
Real estate	1,037,737	93,096	1,294	2,714,067	3,846,194
Tourism, Restaurant & Hotels	127,119	-	-	607,428	734,547
Trade	3,765,953	784,008	57,869	14,501,442	19,109,272
Transport & Communication	446,040	1,967	-	1,037,931	1,485,938
Total	7,359,908	1,327,804	139,833	29,206,926	38,034,471

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

AS AT 31 DECEMBER 2019

11. LOANS AND ADVANCES (continued)

a) Lending concentration (continued)

Maturity analysis - GROUP

2018	Within 30 days KShs '000	31-60 days KShs '000	61-90 days KShs '000	More than 90 days KShs '000	Total KShs '000
Agriculture	1,458	-	23,726	109,419	134,603
Building & construction	177,918	39,111	-	921,770	1,138,799
Energy &water	-	481	-	121,969	122,450
Financial services	-	-	-	140,318	140,318
Manufacturing	1,366,120	151,778	425,398	6,217,320	8,160,616
Mining & quarrying	167	-	-	11,409	11,576
Personal/household	284,127	102,895	51,305	1,836,131	2,274,458
Real Estate	525,546	118,239	62,336	3,747,005	4,453,126
Tourism, Restaurant & Hotels	98,784	1,469	60,115	614,651	775,019
Trade	2,076,323	1,566,823	374,262	14,301,151	18,318,559
Transport & communication	332,180	67,174	2,062	1,188,460	1,589,876
Other	-	-	-	-	-
Total	4,862,623	2,047,970	999,204	29,209,603	37,119,400

Maturity analysis - BANK

2018	Within 30 days KShs '000	31-60 days KShs '000	61-90 days KShs '000	More than 90 days KShs '000	Total KShs '000
Agriculture	1,458	-	23,726	109,419	134,603
Building & construction	177,918	39,111	-	921,770	1,138,799
Energy &water	-	481	-	121,969	122,450
Financial services	-	-	-	140,318	140,318
Manufacturing	1,366,120	151,778	425,398	6,217,320	8,160,616
Mining & quarrying	167	-	-	11,409	11,576
Personal/household	284,127	102,895	51,305	1,702,430	2,140,757
Real estate	525,546	118,239	62,336	3,747,005	4,453,126
Tourism, Restaurant & hotels	98,784	1,469	60,115	614,651	775,019
Trade	2,076,323	1,566,823	374,262	14,301,151	18,318,559
Transport & Communication	332,180	67,174	2,062	1,188,460	1,589,876
Total	4,862,623	2,047,970	999,204	29,075,902	36,985,699

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

AS AT 31 DECEMBER 2019

12. OTHER ASSETS

	GROUP		BANK	
	2019 KShs'000	2018 KShs'000	2019 KShs '000	2018 KShs'000
Prepayments and deposits	277,329	187,453	277,329	187,453
Accrued income	184,882	61,583	184,882	61,583
Others*	541,449	631,735	105,005	214,451
	1,003,660	880,771	567,216	463,487

** Comprises amounts paid in advance for various projects being undertaken by the Bank, salary advances, deposits paid for properties to be acquired and withholding tax on interest on fixed deposits paid in advance. It also includes receivables arising out of insurance and reinsurance arrangements and reinsurer's share of contract liabilities.*

13. INVESTMENT IN SUBSIDIARY

	2019 KShs '000	2018 KShs '000
Investment in subsidiary	1,395,692	1,337,575

14. LEASEHOLD LAND

	GROUP		BANK	
	2019 KShs'000	2018 KShs'000	2019 KShs '000	2018 KShs'000
COST				
At 1 January	510,844	509,744	418,344	417,244
Additions	-	1,100	-	1,100
At 31 December	510,844	510,844	418,344	418,344
AMORTISATION				
At 1 January	16,942	7,833	15,675	7,833
Charge for the year	9,109	9,109	7,842	7,842
Reversal on revaluation	(2,534)	-	-	-
At 31 December	23,517	16,942	23,517	15,675
NET CARRYING AMOUNT				
At 31 December	487,327	493,902	394,827	402,669

Leasehold land relates to Right of use and there is no corresponding lease liability because it's fully paid.

Leasehold land for the subsidiary was professionally valued by R.R. Oswald & Company Limited. On the basis of open market value on 28 December 2019.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

AS AT 31 DECEMBER 2019

15. PROPERTY AND EQUIPMENT - GROUP

a) Year ended 31 December 2019

	Freehold land KShs '000	Buildings KShs '000	Leasehold improvements KShs '000	Furniture and fittings KShs '000	Office equipment KShs '000	Motor vehicles KShs '000	Computer equipment KShs '000	Total KShs '000
COST								
At 1 January 2019	49,000	999,116	391,986	157,475	159,202	117,142	463,408	2,337,329
Additions	-	2,300	41,016	9,405	20,923	26,365	146,765	246,774
Surplus on revaluation	-	22,440	-	-	-	-	-	22,440
Disposals	-	-	-	(358)	(1,277)	(11,713)	-	(13,348)
At 31 December 2019	49,000	1,023,856	433,002	166,522	178,848	131,794	610,173	2,593,195
DEPRECIATION								
At 1 January 2019	-	45,156	243,856	117,915	92,133	85,788	377,255	962,103
Charge for the year		22,903	40,041	10,144	18,074	19,308	79,327	189,797
Disposals	-	-	-	(313)	(913)	(11,546)	-	(12,772)
At 31 December 2019	-	68,059	283,897	127,746	109,294	93,550	456,582	1,139,128
NET CARRYING AMOUNT								
At 31 December 2019	49,000	955,797	149,105	38,776	69,554	38,244	153,591	1,454,067

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

AS AT 31 DECEMBER 2019

15. PROPERTY AND EQUIPMENT - GROUP (continued)

a) Year ended 31 December 2018

	Freehold land KShs '000	Buildings KShs '000	Leasehold improvements KShs '000	Furniture and fittings KShs '000	Office equipment KShs '000	Motor vehicles KShs '000	Computer equipment KShs '000	Total KShs '000
COST								
At 1 January 2018	49,000	999,116	352,002	176,980	176,775	95,893	413,794	2,263,560
Additions	-	-	49,452	11,562	26,997	27,133	49,614	164,758
Disposals	-	-	(9,468)	(31,067)	(44,570)	(5,884)	-	(90,989)
At 31 December 2018	49,000	999,116	391,986	157,475	159,202	117,142	463,408	2,337,329
DEPRECIATION								
At 1 January 2018	-	22,418	214,636	138,017	118,484	71,636	324,311	889,502
Charge for the year	-	22,738	36,155	9,458	16,469	18,370	52,944	156,134
Disposals	-	-	(6,935)	(29,560)	(42,820)	(4,218)	-	(83,533)
At 31 December 2018	-	45,156	243,856	117,915	92,133	85,788	377,255	962,103
NET CARRYING AMOUNT								
At 31 December 2018	49,000	953,960	148,130	39,560	67,069	31,354	86,153	1,375,226

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
AS AT 31 DECEMBER 2019

15. PROPERTY AND EQUIPMENT - BANK
b) Year ended 31 December 2019

	Freehold land KShs '000	Buildings KShs '000	Leasehold improvements KShs '000	Furniture and fittings KShs '000	Office equipment KShs '000	Motor vehicles KShs '000	Computer equipment KShs '000	Total KShs '000
COST OR VALUATION								
At 1 January 2019	49,000	784,215	389,531	95,750	159,202	112,863	396,008	1,986,569
Additions	-	2,300	41,016	8,369	20,923	21,970	142,272	236,850
Disposals	-	-	-	(358)	(1,277)	(10,462)	-	(12,097)
At 31 December 2019	49,000	786,515	430,547	103,761	178,848	124,371	538,280	2,211,322
DEPRECIATION								
At 1 January 2019	-	37,036	241,401	71,191	92,133	83,780	316,010	841,551
Charge for the year		18,683	40,041	8,139	18,074	17,683	76,132	178,752
Disposals	-	-	-	(312)	(913)	(10,462)	-	(11,687)
At 31 December 2019	-	55,719	281,442	79,018	109,294	91,001	392,142	1,008,616
NET CARRYING AMOUNT								
At 31 December 2019	49,000	730,796	149,105	24,743	69,554	33,370	146,138	1,202,706

PRIME BANK MILESTONES FOR THE YEAR 2019

LOCAL NETWORK

through During the period under review, we expanded our local network in line with our strategic plan by opening a branch at Lavington Mall. We also moved our Westlands Branch to Sarit Centre, a bigger and spacious premise.

DIGITAL HUB

Prime Bank continued to invest heavily in technology with the setting up a Digital Hub to boost our digital banking platforms PrimeMobi and PrimeNet.

PRIME BANK MILESTONES FOR THE YEAR 2019 (continued)

INNOVATION.2019

BANK ON WHEELS

Through our innovative service – "Bank on Wheels"- a specially designed truck, the Bank now operates three trucks in Nairobi and one at the lakeside county of Kisumu launched in 2019.

INNOVATION.2019

PRIME MOBI UPGRADE

The Bank upgraded our Mobile Banking App PrimeMobi to offer users friendly navigation, with additional functionalities.

INNOVATION.2019

CONTACTLESS CARDS

All Prime Bank credit and debit cards are now contactless enabled, with Pay Wave technologies from Visa, enabling customers make purchases quickly and safely with just a simple tap.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

AS AT 31 DECEMBER 2019

15. PROPERTY AND EQUIPMENT - BANK (continued)

b) Year ended 31 December 2018

	Freehold land KShs '000	Buildings KShs '000	Leasehold improvements KShs '000	Furniture and fittings KShs '000	Office equipment KShs '000	Motor vehicles KShs '000	Computer equipment KShs '000	Total KShs '000
COST OR VALUATION								
At 1 January 2018	49,000	784,215	349,547	121,136	176,775	92,156	350,101	1,922,930
Additions	-	-	49,452	5,681	26,997	24,361	45,907	152,398
Disposals	-	-	(9,468)	(31,067)	(44,570)	(3,654)	-	(88,759)
At 31 December 2018	49,000	784,215	389,531	95,750	159,202	112,863	396,008	1,986,569
DEPRECIATION								
At 1 January 2018	-	18,518	212,181	93,436	118,484	68,861	265,704	777,184
Charge for the year		18,518	36,155	7,315	16,469	17,613	50,306	146,376
Disposals	-	-	(6,935)	(29,560)	(42,820)	(2,694)	-	(82,009)
At 31 December 2018	-	37,036	241,401	71,191	92,133	83,780	316,010	841,551
NET CARRYING AMOUNT								
At 31 December 2018	49,000	747,179	148,130	24,559	67,069	29,083	79,998	1,145,018

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

AS AT 31 DECEMBER 2019

16. RIGHT-OF-USE ASSET

The Bank leases branch premises for its use. Information about the leases in which the Bank is a lessee is presented below:

	GROUP AND BANK 2019 Kshs'000
COST	
At start of year	-
Additions/lease asset recognised	232,666
At the end of the year	232,666
DEPRECIATION	
At start of year	-
Charge for the year	71,210
At the end of the year	71,210
NET BOOK VALUE	
At end of year	161,456
Amounts recognised in profit and loss	
Depreciation expense on right-of-use assets	71,210
Interest expense on lease liabilities	12,779
At the end of the year	83,989

The group was not committed to any arrangements that are short term as at year end. All the property leases in which the group is the lessee contain only fixed payments.

The total cash outflow for the leases amounted to Kshs.82,451,593.There are no restrictions or covenants imposed by lessors and the group did not enter into any sale and leaseback transactions during the year(2018:Nil).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

AS AT 31 DECEMBER 2019

17. INTANGIBLE ASSETS

GROUP	Computer software and Visa license fees KShs'000'	Good will KShs'000'	Total KShs'000'
Year ended 31 December 2019			
COST			
At 1 January	564,691	642,752	1,207,443
Additions	29,850	-	29,850
At 31 December	594,541	642,752	1,237,293
AMORTISATION			
At 1 January	474,065	-	474,065
Charge for the year	44,814	-	44,814
At 31 December	518,879	-	518,879
NET CARRYING AMOUNT			
At 31 December	75,662	642,752	718,414
Year ended 31 December 2018			
COST			
At 1 January	533,289	642,752	1,176,041
Additions	31,402	-	31,402
At 31 December	564,691	642,752	1,207,443
AMORTISATION			
At 1 January	406,592	-	406,592
Charge for the year	67,473	-	67,473
At 31 December	474,065	-	474,065
NET CARRYING AMOUNT			
At 31 December	90,626	642,752	733,378

For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units. The Group performed its annual impairment test in December 2019. The Group considers the relationship between its probable market capitalisation and its book value, among other factors, when reviewing for indicators of impairment. As at 31 December 2019, the market capitalisation of the Group was above the book value of its equity, indicating that no potential impairment of goodwill. In addition, the Banking industry in the country remains stable.

The Group has not identified separate cash generating units (CGUs) and as such goodwill has not been allocated.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
AS AT 31 DECEMBER 2019

17. INTANGIBLE ASSETS (continued)

BANK	2019 KShs '000	2018 KShs '000
COST		
At 1 January	539,924	508,523
Additions	25,076	31,401
At 31 December	565,000	539,924
AMORTISATION		
At 1 January	450,645	383,792
Charge for the year	43,402	66,853
At 31 December	494,047	450,645
NET CARRYING AMOUNT		
At 31 December	70,953	89,279

Intangible assets comprise computer software and Visa license fees. Computer software is what the entity paid to acquire the Bank's core banking system and other peripheral systems. Visa license fees is paid for the use of the Visa payment system. Most of these assets will be amortised in the next four years. The Bank has not pledged its intangible assets as security for liabilities and therefore the Bank has no restriction over title of its assets as at 31 December 2018 and 31 December 2019.

18. DEFERRED TAX

Movement of the deferred tax liability asset during the year is as follows:

GROUP	At 1 January KShs '000	Recognised in statement of profit or loss KShs '000	Recognised in other comprehensive income KShs '000	At 31 December KShs '000
2019				
Arising from:				
Property and equipment	(249,235)	(12,573)	-	(261,808)
Provision for staff leave	5,246	(754)	-	4,492
Provision for loans and advances	189,941	107,151	-	297,092
FVTOCI	(985,577)	-	308,387	(677,190)
Prior year under provision	-	-	(1,266)	(1,266)
	(1,039,625)	93,824	307,121	(638,680)
2018				
Arising from:				
Property and equipment	(267,284)	18,049	-	(249,235)
Provision for staff leave	4,589	657	-	5,246
Provision for loans and advances	135,245	54,696	-	189,941
FVTOCI	(619,735)	-	(365,842)	(985,577)
	(747,185)	73,402	(365,842)	(1,039,625)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

AS AT 31 DECEMBER 2019

18. DEFERRED TAX (continued)

BANK	At 1 January KShs '000	Recognised in statement of profit or loss KShs '000	Recognised in other comprehensive income KShs '000	At 31 December KShs '000
2019				
Arising from:				
Property and equipment	(177,669)	(12,515)	-	(190,184)
Provision for staff leave	5,246	(754)	-	4,492
Provision for loans and advances	180,927	105,285	-	286,212
FVTOCI	(986,840)	-	315,879	(670,961)
	(978,336)	92,016	315,879	(570,441)
2018				
Arising from:				
Property and equipment	(195,743)	18,074	-	(177,669)
Provision for staff leave	4,589	657	-	5,246
Provision for loans and advances	126,360	54,567	-	180,927
FVTOCI	(618,515)	-	(368,325)	(986,840)
	(683,309)	73,298	(368,325)	(978,336)

The deferred tax liability is mainly due to accelerated capital allowances and the tax effect of the revaluation surplus on leasehold land and buildings valued in the year as detailed in notes 14 and 15.

19. BALANCES DUE TO BANKS AND FINANCIAL INSTITUTIONS

	GROUP		BANK	
	2019 KShs'000	2018 KShs'000	2019 KShs '000	2018 KShs'000
Due to financial institutions	648,906	1,035,822	648,906	1,035,822

20. MEDIUM TERM NOTE

	GROUP		BANK	
	2019 KShs'000	2018 KShs'000	2019 KShs '000	2018 KShs'000
Medium term note	1,014,000	1,020,000	1,014,000	1,020,000

The Bank issued a medium term note on 1 February 2017 at a fixed rate of 7 % per annum. The note will be redeemed in full on 26 July 2021.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

AS AT 31 DECEMBER 2019

21. DEPOSITS FROM CUSTOMERS

	GROUP		BANK	
	2019 KShs'000	2018 KShs'000	2019 KShs '000	2018 KShs'000
Current deposits	15,339,500	17,473,061	15,688,689	17,512,238
Savings deposits	518,349	635,137	518,348	635,137
Call deposits	214,119	229,108	214,119	229,108
Fixed deposits	64,916,655	52,764,747	64,916,655	53,073,221
	80,988,623	71,102,053	81,337,811	71,449,704

Included in deposits from customers, were deposits of KShs 334 million (2018: KShs 431 million) held as collateral for irrevocable commitments. The weighted average effective interest rate on interest bearing customer deposits as at 31 December 2019 was 6.2 % (2018: 6.6%).

22. LEASE LIABILITY

	GROUP & BANK	
	2019 KShs'000	2018 KShs'000
Non Current	130,236	-
Current	56,933	-
	187,169	-
Maturity Analysis		
Year 1	56,933	-
Year 2	56,547	-
Year 3	37,162	-
Year 4	28,359	-
Year 5	7,975	-
Onwards	193	-
	187,169	-
The movement in lease liability is as follows:		
As at 1 January 2019	-	-
Additional lease liability	-	-
Interest on lease liability	12,779	-
Payment of lease liability	69,672	-
As at 31 December 2019	82,451	-

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

AS AT 31 DECEMBER 2019

23. OTHER LIABILITIES

	GROUP		BANK	
	2019 KShs'000	2018 KShs'000	2019 KShs '000	2018 KShs'000
Pay orders issued	58,144	63,221	58,144	63,221
Dividend payable	-	258,500	-	258,500
Bills payable	341,574	227,193	341,574	227,193
Sundry creditors and accruals	1,270,183	1,342,192	99,518	249,616
IFRS 9 provisions on financial guarantees and loan commitments	72,601	213,090	72,601	213,090
	1,742,502	2,104,196	571,837	1,011,620

Pay orders issued, bills payable and sundry creditors and accruals are payable on demand and are non-interest bearing.

24. INCOME TAX

GROUP	2019 KShs '000	2018 KShs '000
STATEMENT OF FINANCIAL POSITION		
Balance brought forward	(14,528)	(87,158)
Charge for the year	166,314	218,407
Withholding tax recovered	(10)	(437)
Paid during the year	(209,449)	(145,340)
Prior year adjustment	5	-
Income tax recoverable	(57,668)	(14,528)
BANK		
STATEMENT OF FINANCIAL POSITION		
Balance brought forward	(22,286)	(73,780)
Charge for the year	104,918	140,448
Withholding tax recovered	(10)	(437)
Paid during the year	(112,192)	(88,517)
Income tax recoverable	(29,570)	(22,286)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

AS AT 31 DECEMBER 2019

24. INCOME TAX (continued)

	GROUP		BANK	
STATEMENT OF PROFIT OR LOSS	**2019**	**2018**	**2019**	**2018**
Current income tax at 30% on the taxable profit for the year	166,314	218,407	104,918	140,448
Deferred tax credit (note 18)	(93,824)	(73,402)	(92,016)	(73,298)
Income tax expense	72,490	145,005	12,902	67,150
Reconciliation of tax expense to tax based on accounting profit:				
Accounting profit before tax	2,691,839	2,419,057	2,456,494	2,088,475
Tax applicable rate of 30%	807,552	725,717	736,948	626,543
Other expenses not deductible for tax purposes	140,642	88,749	136,415	74,782
Other income not subject to tax	(875,704)	(669,461)	(860,461)	(634,175)
Tax charge for the year	72,490	145,005	12,902	67,150

25. SHARE CAPITAL

	2019 Ordinary shares of KShs 1,000 each	**2018 Ordinary shares of KShs 1,000 each**
Authorised:		
Ordinary shares of KShs 1,000 each	8,000,000	8,000,000
Issued and fully paid:		
At 1 January and 31 December	6,649,390	5,000,000
500,000 shares of KShs 1,000 each	-	500,000
1,149,390 shares of KShs 1,000 each	-	1,149,390
	6,649,390	6,649,390

26. SHARE PREMIUM

	2019 Ordinary shares of KShs 1,000 each	**2018 Ordinary shares of KShs 1,000 each**
Share premium: 500,000 shares of KShs 3,334 each	1,667,000	1,667,000
Share premium: 1,149,390 shares of KShs 3,100 each	3,563,109	3,563,109
	5,230,109	5,230,109

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
AS AT 31 DECEMBER 2019

27. RESERVES

	GROUP		BANK	
	2019 KShs'000	2018 KShs'000	2019 KShs '000	2018 KShs'000
Retained earnings	10,819,755	8,543,118	10,188,271	8,034,830
FVTOCI reserve	1,874,630	2,580,144	1,845,587	2,582,638
Asset revaluation reserve	544,453	544,453	542,006	542,006
	13,238,838	11,667,715	12,575,864	11,159,474

The fair value through other comprehensive income reserve comprises changes in fair value of fair value through other comprehensive income investments.

The asset revaluation reserve is not distributable and is used to record increases in the fair value of land and buildings and decreases to the extent that such decrease relates an increase in the fair value of the same assets previously recognized in equity.

28. INTEREST INCOME (GROUP AND BANK)

	2019 KShs '000	2018 KShs '000
Loans and advances to customers	4,040,570	4,494,303
Placements and bank balances	330,202	217,872
Reverse repurchase agreements	-	3,594
Treasury bills and term notes	1,714,277	1,156,230
Government securities-held-to-maturity	1,978,615	1,690,225
FVTOCI investments	1,172,924	445,138
	9,236,588	8,007,362

29. INTEREST EXPENSE (GROUP AND BANK)

	2019 KShs '000	2018 KShs '000
Due to customers	4,799,867	4,090,268
Due to banks and other financial institutions	47,606	154,877
	4,847,473	4,245,145

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
AS AT 31 DECEMBER 2019

30. FEES AND COMMISSION INCOME (GROUP AND BANK)

	2019 KShs '000	2018 KShs '000
Commission income	316,352	304,660
Fees income	238,245	242,183
	554,597	546,843

31. OTHER INCOME

	GROUP		BANK	
	2019 KShs'000	2018 KShs'000	2019 KShs '000	2018 KShs'000
Insurance business income	1,181,535	1,089,401	-	-
Miscellaneous income	73,784	68,125	73,784	68,125
Recoveries of loans and advances previously written off	3,782	1,200	3,782	1,200
	1,259,101	1,158,726	77,566	69,325

32. ALLOWANCES FOR IMPAIRMENT OF FINANCIAL INSTRUMENTS

	GROUP		BANK	
	2019 KShs'000	2018 KShs'000	2019 KShs '000	2018 KShs'000
Allowance on loans and advances to customers	322,301	74,767	322,301	74,767
Allowance on loan commitments	(4,581)	138	(4,581)	138
Allowance on financial guarantees	1,579	(7,186)	1,579	(7,186)
Allowance on term notes and bonds	(348)	97,919	(348)	97,919
Allowance on government securities	32,000	16,250	32,000	16,250
Write-off during the year	792	6,222	792	6,222
	351,743	188,110	351,743	188,110

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

AS AT 31 DECEMBER 2019

33. OTHER OPERATING EXPENSES

	GROUP		BANK	
	2019 KShs'000	2018 KShs'000	2019 KShs '000	2018 KShs'000
Staff costs (note 36)	1,449,374	1,266,694	1,297,944	1,107,850
Depreciation on property and equipment	189,797	156,134	178,752	146,376
Depreciation on Right of Use	71,210	-	71,210	-
Amortisation of intangible assets	44,814	67,473	43,402	66,853
Amortisation of leasehold land	9,109	9,109	7,842	7,842
Auditors' remuneration	13,875	8,456	10,835	6,148
Directors' emoluments	130,066	140,136	123,886	134,245
Deposit protection fund levy	96,234	81,778	96,234	81,778
Rent and rates	62,719	134,901	62,682	134,901
Other general administration expenses	1,440,513	1,268,180	765,595	688,049
	3,507,711	3,132,861	2,658,382	2,374,042

34. PROFIT BEFORE TAX

	GROUP		BANK	
	2019 KShs'000	2018 KShs'000	2019 KShs '000	2018 KShs'000
Profit before tax is stated after charging/(crediting): -				
Depreciation on property and equipment	189,797	156,134	178,752	146,376
Depreciation on Right of Use	71,210	-	71,210	-
Amortisation of intangible assets	44,814	67,473	43,402	66,853
Amortisation of leasehold land	9,109	9,109	7,842	7,842
Directors' emoluments	130,066	140,136	123,886	134,245
Auditors' remuneration	13,875	8,456	10,835	6,148
And after crediting: -				
Foreign exchange gains	346,956	270,269	346,956	270,269
Dividend income	1,524	1,973	98,385	1,973
Loss/(gain) on sale of property and equipment	3,425	(4,606)	3,425	(4,606)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
AS AT 31 DECEMBER 2019

35. EARNINGS PER SHARE

a) Basic earnings per share is calculated on the profit for the year and on the weighted average number of shares outstanding during year.

b) Diluted earnings per share is calculated on the profit for the year and on the weighted average number of shares outstanding during the year plus the weighted average number of shares that would be issued on conversion of all the dilutive potential shares into shares. There are no such dilutive shares.

The following reflects the profit for the year and share data used in calculating the basic and diluted earnings per share:

	GROUP		BANK	
	2019 KShs'000	2018 KShs'000	2019 KShs '000	2018 KShs'000
Profit for the year attributable to equity holders of the parent (KShs '000)	2,566,788	2,225,327	2,443,592	2,021,325
Weighted average number of shares (Thousands)	6,649	6,649	6,649	6,649
Basic and diluted earnings per share (KShs)	386	335	368	304

36. STAFF COSTS

	GROUP		BANK	
	2019 KShs'000	2018 KShs'000	2019 KShs '000	2018 KShs'000
Salaries and wages	1,268,084	1,097,946	1,132,452	956,479
Contributions to pension scheme	68,451	63,019	61,245	56,162
Other staff costs	112,839	105,729	104,247	95,209
	1,449,374	1,266,694	1,297,944	1,107,850

37. DIVIDENDS PAID (GROUP AND BANK)

	2019 KShs '000	2018 KShs '000
Dividend declared and paid on ordinary shares	265,975	335,000
Dividend per ordinary share	40	67

Dividend per share is calculated based on the amount of the dividends and on the number of shares in issue at the reporting date.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
AS AT 31 DECEMBER 2019

38. CASH AND CASH EQUIVALENTS

For the purpose of the statement of cash flows, cash and cash equivalents comprise the following:

	GROUP		BANK	
	2019 KShs'000	2018 KShs'000	2019 KShs '000	2018 KShs'000
Cash in hand (note 5)	510,763	638,844	509,885	636,216
Balances with Central Bank of Kenya-unrestricted (note 5)	2,852,003	6,113,088	2,852,003	6,113,088
Cheques and items for clearing (note 5)	309,729	406,352	309,728	406,352
Placements and balances with other banks	5,637,819	11,587,459	5,559,913	11,524,072
Government securities and term notes maturing within 91 days (note 7)	20,000	19,398	20,000	19,398
Due to banks and financial institutions (note 19)	(648,906)	(1,035,822)	(648,906)	(1,035,822)
	8,681,408	17,729,319	8,602,623	17,663,304

39. CONTINGENT LIABILITIES

	GROUP		BANK	
	2019 KShs'000	2018 KShs'000	2019 KShs '000	2018 KShs'000
Letters of credit	1,789,036	1,105,497	1,789,036	1,105,497
Local guarantees	4,410,586	3,789,471	4,410,586	3,789,471
Bills for collection	3,303,409	3,561,642	3,303,409	3,561,642
Foreign currency bills for collection	77,385	271,429	77,385	271,429
Custodial treasury bonds	3,992,534	3,228,784	3,992,534	3,228,784
Spot sales/purchase	1,000,738	744,247	1,000,738	744,247
Swap sales/purchases	11,940,654	7,591,402	11,940,654	7,591,402
Forward contracts	2,686,037	1,019,063	2,686,037	1,019,063
	29,200,379	21,311,535	29,200,379	21,311,535

The contingent liabilities represent transactions entered into in the normal course of business and are represented by counter indemnities or cash securities from customers for the same amount. Letters of credit, guarantee and acceptance commit the Bank to make payments on behalf of the customers in the event of a specific act, generally relating to the import and export of goods.

40. CAPITAL COMMITMENTS

	2019 KShs '000	2018 KShs '000
Capital commitments contracted for	412,000	462,000

Capital commitments relate to expected capital expenditure to be incurred in leasehold improvements, furniture and fittings and other assets.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

AS AT 31 DECEMBER 2019

41. RELATED PARTY TRANSACTIONS

The Bank enters into transactions, arrangements and agreements involving directors, senior management and their related concerns in the ordinary course of business at commercial interest and commission rates.

	2019 KShs '000	2018 KShs '000
a) Due from:		
i) Loans and advances to employees	336,685	330,040
ii) Loans and advances to directors and their associates	1,592,280	1,622,068
	1,928,965	1,952,108
Allowance during the year:		
At 1 January	3,570	3,029
Allowance during the year	2,552	541
At 31 December	6,122	3,570

The loans to related parties are given in the ordinary course of business. The average term of the loans to related parties is 3 years. The loans are secured by titles to property and directors' guarantees

	2019 KShs '000	2018 KShs '000
b) Due to:		
i) Deposits from employees	415,341	451,412
ii) Deposits from directors and their associates	2,430,893	2,915,176
	2,846,234	3,366,588
c) Key management personnel compensation		
Salaries	428,566	375,657
Post-employment benefits	21,831	22,558
	450,397	398,215

	GROUP		BANK	
	2019 KShs'000	2018 KShs'000	2019 KShs '000	2018 KShs'000
d) Directors' emoluments				
As management	90,676	84,154	87,796	81,594
As executives	42,980	57,280	39,680	57,280
	133,656	141,434	127,476	138,874

e) Transactions with related parties

Included in interest income is KShs.202,192,282 (2018: KShs 215,647,050) being interest on loans and advances to related parties.

Included in interest expense is KShs 25,155,233 (2018: KShs 30,617,153) being interest on deposits from related parties.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

AS AT 31 DECEMBER 2019

42. MATURITY ANALYSIS OF ASSETS AND LIABILITIES

The table below shows an analysis of assets and liabilities analyzed according to when they are expected to be recovered or settled.

As at 31 December 2019 GROUP	Within 12 months KShs '000	After 12 months KShs '000	Total KShs '000
ASSETS			
Cash and balances with the Central Bank of Kenya	6,084,771	-	6,084,771
Placements and balances with other banks	5,308,269	329,550	5,637,819
Treasury bills and term notes	28,549,412	-	28,549,412
Investment securities measured at amortised cost	295,000	18,227,498	18,522,498
Investment in bonds-fair value through other comprehensive income	998,970	6,753,669	7,752,639
Investment in ordinary shares fair value through other comprehensive income	-	3,161,337	3,161,337
Investment in ordinary shares fair value through profit and loss	-	108,815	108,815
Loans and advances to customers	19,118,996	17,857,220	36,976,216
Other assets	375,730	627,930	1,003,660
Intangible assets	-	718,414	718,414
Tax recoverable	57,668	-	57,668
Leasehold land	-	487,327	487,327
Property and equipment	-	1,454,067	1,454,067
Right of Use	-	161,456	161,456
TOTAL ASSETS	60,788,816	49,887,283	110,676,099
LIABILITIES			
Balances due to banks and financial institutions	39,104	609,803	648,907
Medium term note	-	1,014,000	1,014,000
Deposits from customers	80,988,623	-	80,988,623
Other liabilities	1,742,502	-	1,742,502
Lease liability	115,765	71,404	187,169
Deferred tax liability	-	638,671	638,671
TOTAL LIABILITIES	82,885,994	2,333,878	85,219,872
NET ASSETS	(22,097,178)	47,553,405	25,456,227

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
AS AT 31 DECEMBER 2019

42. MATURITY ANALYSIS OF ASSETS AND LIABILITIES (continued)

As at 31 December 2018 GROUP	Within 12 months KShs '000	After 12 months KShs '000	Total KShs '000
ASSETS			
Cash and balances with the Central Bank of Kenya	9,175,285	-	9,175,285
Placements and balances with other banks	11,205,959	381,500	11,587,459
Treasury bills and term notes	3,680,562	160,850	3,841,412
Investment securities measured at amortised cost	1,125,882	15,381,032	16,506,914
Investment in bonds-fair value through other comprehensive income	9,986,655	4,967,514	14,954,169
Investment in ordinary shares fair value through other comprehensive income	-	4,154,203	4,154,203
Loans and advances to customers	19,122,623	17,179,208	36,301,831
Other assets	801,225	79,546	880,771
Intangible assets	-	733,376	733,376
Tax recoverable	14,528	-	14,528
Leasehold land	-	493,902	493,902
Property and equipment	-	1,375,226	1,375,226
Quoted shares at fair value through profit and loss	-	116,883	116,883
TOTAL ASSETS	55,112,719	45,023,240	100,135,959
LIABILITIES			
Balances due to banks and financial institutions	6,800	1,029,022	1,035,822
Medium term note	-	1,020,000	1,020,000
Deposits from customers	71,102,053	-	71,102,053
Other liabilities	2,104,196	-	2,104,196
Deferred tax liability	-	1,039,625	1,039,625
TOTAL LIABILITIES	73,213,049	3,088,647	76,301,696
NET ASSETS	(18,100,330)	41,934,593	23,834,263

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

AS AT 31 DECEMBER 2019

42. MATURITY ANALYSIS OF ASSETS AND LIABILITIES (continued)

The table below shows an analysis of assets and liabilities analyzed according to when they are expected to be recovered or settled.

As at 31 December 2019 BANK	Within 12 months KShs '000	After 12 months KShs '000	Total KShs '000
ASSETS			
Cash and balances with the Central Bank of Kenya	6,083,892	-	6,083,892
Placements and balances with other banks	5,230,363	329,550	5,559,913
Treasury bills and term notes	28,549,412	-	28,549,412
Investment in securities measured at amortised cost	250,000	17,409,263	17,659,263
Investment in bonds- measured at FVTOCI	998,970	6,172,082	7,171,052
Investment in ordinary shares measured at FVTOCI	-	3,044,657	3,044,657
Loans and advances to customers	19,118,996	17,775,922	36,894,918
Other assets	375,730	191,486	567,216
Investment in Subsidiary	1,395,692		1,395,692
Intangible assets	-	70,953	70,953
Tax recoverable	29,570	-	29,570
Leasehold land	-	394,827	394,827
Property and equipment	-	1,202,706	1,202,706
Right of Use	-	161,456	161,456
TOTAL ASSETS	62,032,625	46,752,902	108,785,527
LIABILITIES			
Balances due to banks and financial institutions	39,104	609,802	648,906
Medium term note	-	1,014,000	1,014,000
Deposits from customers	81,337,811	-	81,337,811
Other liabilities	571,837	-	571,837
Lease Liability	115,765	71,404	187,169
Deferred tax liability	-	570,441	570,441
TOTAL LIABILITIES	82,064,517	2,265,647	84,330,164
NET ASSETS	(20,031,892)	44,487,255	24,455,363

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
AS AT 31 DECEMBER 2019

42. MATURITY ANALYSIS OF ASSETS AND LIABILITIES (continued)

As at 31 December 2018 BANK	Within 12 months KShs '000	After 12 months KShs '000	Total KShs '000
ASSETS			
Cash and balances with the Central Bank of Kenya	9,172,657	-	9,172,657
Placements and balances with other banks	11,142,572	381,500	11,524,072
Treasury bills and term notes	3,680,562	160,850	3,841,412
Investment in securities measured at amortised cost	1,118,870	14,524,212	15,643,082
Investment in bonds- measured at FVTOCI	9,986,655	4,667,737	14,654,392
Investment in ordinary shares measured at FVTOCI	-	4,070,398	4,070,398
Loans and advances to customers	19,122,623	17,045,505	36,168,128
Other assets	383,941	79,546	463,487
Investment in Subsidiary	-	1,337,575	1,337,575
Intangible assets	-	89,279	89,279
Tax recoverable	22,286	-	22,286
Leasehold land	-	402,669	402,669
Property and equipment	-	1,145,018	1,145,018
TOTAL ASSETS	54,630,166	43,904,289	98,534,455
LIABILITIES			
Balances due to banks and financial institutions	6,800	1,029,022	1,035,822
Medium term note	-	1,020,000	1,020,000
Deposits from customers	71,449,704	-	71,449,704
Other liabilities	1,011,620	-	1,011,620
Deferred tax liability	-	978,336	978,336
TOTAL LIABILITIES	72,468,124	3,027,358	75,495,482
NET ASSETS	(17,837,958)	40,876,931	23,038,973

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
AS AT 31 DECEMBER 2019

43. FAIR VALUE MEASUREMENT

a) Comparison of the carrying amounts and fair values of the financial instruments

	GROUP				BANK			
	2019		2018		2019		2018	
	Carrying amount KShs '000	Fair value KShs '000	Carrying amount KShs '000	Fair value KShs '000	Carrying amount KShs '000	Fair value KShs '000	Carrying amount KShs '000	Fair value KShs '000
Cash and balances with Central Bank of Kenya	6,084,771	6,084,771	9,175,285	9,175,285	6,083,892	6,083,892	9,172,657	9,172,657
Placements and balances with other banks	5,637,819	5,637,819	11,587,459	11,587,459	5,559,913	5,559,913	11,524,072	11,524,072
Investment in security measured at amortised cost	18,522,498	18,522,498	16,506,914	16,506,914	17,659,263	17,659,263	15,643,082	15,643,082
Treasury bills	28,529,412	28,529,412	3,496,131	3,496,131	28,529,412	28,529,412	3,496,131	3,496,131
Term notes	20,000	20,000	345,281	345,281	20,000	20,000	345,281	345,281
Bills & Bonds-at FVTOCI	7,752,639	7,752,639	14,954,169	14,954,169	7,171,052	7,171,052	14,654,392	14,654,392
Ordinary shares- at FVTOCI	3,161,337	3,161,337	4,154,203	4,154,203	3,044,657	3,044,657	4,070,398	4,070,398
Investment in ordinary shares-at fair value through profit or loss	108,815	108,815	116,883	116,883			-	-
Loans and advances to customers	36,976,216	36,976,216	36,301,829	36,301,829	36,894,918	36,894,918	36,168,128	36,168,128
Due to banks and other financial institutions	648,907	648,907	1,035,822	1,035,822	648,906	648,906	1,035,822	1,035,822
Medium term note	1,014,000	1,014,000	1,020,000	1,020,000	1,014,000	1,014,000	1,020,000	1,020,000
Deposits from customers	80,988,623	80,988,623	71,102,053	71,102,053	81,337,811	81,337,811	71,449,704	71,449,704

b) Determination of fair value and fair value hierarchy

The Bank uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

Level 1:
Included in level 1 category are financial assets that are measured in whole or in part by reference to unadjusted, quoted prices in an active market for identical assets and liabilities. Quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service or regulatory agency and those prices represent actual and regularly occurring market transactions on an arm's length basis. The assets are traded in an active market and quoted prices are available

Level 2:
Included in level 2 category are financial assets measured using inputs other than quoted prices included within level 1 that are observable for the asset, either directly (i.e. as prices) or indirectly (i.e. derived from prices). For example, instruments measured using a valuation technique such as discounted cash flows, based on assumptions that are supported by prices from observable current market transactions are categorized as level 2.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
AS AT 31 DECEMBER 2019

43. FAIR VALUE MEASUREMENT (continued)

b) Determination of fair value and fair value hierarchy (continued)

Level 3:

Financial assets measured using inputs that are not based on observable market data are categorised as level 3. Non market observable inputs means that fair values are determined in whole or in part using a valuation technique (model) based on assumptions that are neither supported by prices from observable current market transactions in the same instrument nor are they based on available market data. Valuation techniques are used to the extent that observable inputs are not available, thereby allowing for situations for which there is little, if any, market activity for the asset or liability at the measurement date. However, the fair value measurement objective remains the same, that is, an exit price from the perspective of the Bank. Therefore, unobservable inputs reflect the Bank's own assumptions about the assumptions that market participants would use in pricing the asset (including assumptions about risk). These inputs are developed based on the best information available, which might include the Bank's own data. However, significant portion of the unquoted shares have been valued at cost and variation in inputs would not have significant fair value change.

GROUP 2019	Note	Level 1 KShs '000	Level 2 KShs '000	Level 3 KShs '000	Total KShs '000
Financial investments at FVTOCI:					
Investment in bonds at FVTOCI	9	6,753,669	998,970	-	7,752,639
Investments in ordinary shares at FVTOCI	10(a)	3,161,337	-	-	3,161,337
Investments in ordinary shares at fair value through profit or loss	10(b)	108,815	-	-	108,815
Investments securities at amortised cost	8	18,522,498	-	-	18,522,498
Property and equipment (Freehold land and buildings)	15	-	-	1,004,797	1,004,797
Leasehold land	14	-	-	487,327	487,327
		28,546,319	998,970	1,492,124	31,037,413

GROUP 2018	Note	Level 1 KShs '000	Level 2 KShs '000	Level 3 KShs '000	Total KShs '000
Financial investments at FVTOCI:					
Investment in bonds at FVTOCI	9	5,103,349	9,850,820	-	14,954,169
Investments in ordinary shares at FVTOCI	10(a)	3,891,293	262,910	-	4,154,203
Investments in ordinary shares at fair value through profit or loss	10(b)	116,883	-	-	116,883
Investments securities at amortised cost	8	16,506,914	-	-	16,506,914
Property and equipment (Freehold land and buildings)	15	-	-	1,002,960	1,002,960
Leasehold land	14	-	-	493,902	493,902
		25,618,439	10,113,730	1,496,862	37,229,031

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
AS AT 31 DECEMBER 2019

43. FAIR VALUE MEASUREMENT (continued)
b) Determination of fair value and fair value hierarchy (continued)

BANK 2019	Note	Level 1 KShs '000	Level 2 KShs '000	Level 3 KShs '000	Total KShs '000
Financial investments at FVTOCI:					
Investment in bonds at FVTOCI	9	6,172,082	998,970	-	7,171,052
Investments in ordinary shares at FVTOCI	10(a)	3,044,657	-	-	3,044,657
Investment securities measured at amortised cost	8	17,659,263	-	-	17,659,263
Property and equipment (Freehold land and buildings)	15	-	-	779,796	779,796
Leasehold land	14	-	-	394,827	394,827
		26,876,002	998,970	1,174,623	29,049,595

BANK 2018	Note	Level 1 KShs '000	Level 2 KShs '000	Level 3 KShs '000	Total KShs '000
Financial investments at FVTOCI:					
Investment in bonds measured at FVTOCI	9	4,803,572	9,850,820	-	14,654,392
Investments in ordinary shares	10(a)	4,070,398	-	-	4,070,398
Investment securities measured at amortised cost	8	15,643,082	-	-	15,643,082
Property and equipment	15	-	-	796,179	796,179
Leasehold land	14	-	-	402,669	402,669
		24,517,052	9,850,820	1,198,848	35,566,720

Description of valuation techniques used and key inputs to valuation on land and buildings:

	Valuation technique	Significant unobservable inputs	Range (Weighted Average)
Free hold land, leasehold land and buildings	Open market valuation	Estimated rental value per s.q.m. per month	KShs 180 –ground floor space KShs 120 –upper floor space
		Rent growth p.a.	8%
		Discount rate	8%

There were no transfers between levels 1, 2 and 3 in the year.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
AS AT 31 DECEMBER 2019

43. FAIR VALUE MEASUREMENT (continued)
b) Determination of fair value and fair value hierarchy (continued)

	2019 KShs'000	2018 KShs '000
Leasehold land		
As at 1 January	418,344	417,244
Additions	-	1,100
Accumulated depreciation	(23,517)	(15,675)
As at 31 December	394,827	402,669
Freehold land		
As at 1 January	49,000	49,000
Total gains and losses recognised in other comprehensive income	-	-
As at 31 December	49,000	49,000
Buildings		
As at 1 January	784,215	784,215
Additions	2,300	-
	786,515	784,215
Accumulated depreciation	(55,719)	(39,036)
As at 31 December	730,796	745,179

Significant increases/ (decreases) in estimated rental value per square metre in isolation would result in a significantly higher/ (lower) fair value on a linear basis.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

AS AT 31 DECEMBER 2019

44. CAPITAL MANAGEMENT

Regulatory capital

The Central Bank of Kenya sets and monitors capital requirements for the Banking industry as a whole. It has set among other measures, the rules and ratios to monitor adequacy of a bank's capital.

In implementing current capital requirements, the Central Bank of Kenya requires the Bank to maintain a prescribed ratio of total capital to total risk-weighted assets.

The Bank's regulatory capital is analysed in two tiers:

- Tier 1 capital, which includes ordinary share capital, share premium, retained earnings, after deductions for goodwill and intangible assets, and other regulatory adjustments relating to items that are included in equity but are treated differently for capital adequacy purposes.

- Tier 2 capital, which includes qualifying subordinated liabilities, collective impairment allowances and the element of fair value reserve relating to unrealised gains on equity instruments classified as fair value through other comprehensive income.

Various limits are applied to elements of the capital base; 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 are also restrictions on the amount of collective impairment allowances that may be included as part of tier 2 capital.

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 in addition to recognising the need to maintain a balance between the higher returns and that may be possible with greater gearing and the advantages and security afforded by sound capital position.

The Bank has complied with capital requirements.

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

	2019		2018	
	Actual KShs '000	Required KShs '000	Actual KShs '000	Required KShs '000
Tier 1 Capital	21,471,831	1,000,000	19,313,389	1,000,000
Tier 2 Capital				
Term subordinated debt	208,884	-	408,000	-
Statutory Loan Loss Reserve	353,022	-	353,022	-
Total regulatory capital	22,033,737	1,000,000	20,074,411	1,000,000
Risk weighted assets	53,266,941	-	53,837,765	-
Capital Ratios				
Total regulatory capital expressed as a percentage of total risk-weighted assets	41%	14.50%	37%	14.50%
Total tier 1 capital expressed as a percentage of risk weighted assets	40%	10.50%	36%	10.50%

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
AS AT 31 DECEMBER 2019

45. FINANCIAL RISK MANAGEMENT

Risk management framework

The Bank's activities expose it to a variety of financial risks including credit risk, liquidity risk and market risks. The Bank's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Bank's financial performance.

The Board of Directors (the Board) has overall responsibility for the establishment and oversight of the Bank's risk management framework. The Board has established various committees, which are responsible for developing and monitoring the Bank's risk management policies in their specified areas. All committees report regularly to the Board 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.

a) Credit risk

Credit risk is the risk of financial loss to the Bank if a customer or counterparty to a financial instrument fails to meet its contractual obligations and arises principally from the Bank's loans and advances to customers and other banks and investment securities. For risk management reporting purposes, the Bank considers and consolidates all elements of credit risk exposure.

The Bank considers all elements of credit risk exposure such as counterparty default risk, geographical risk and sector risk for risk management purposes.

Management of credit risk

The Board has delegated the responsibility for the management of credit risk to the Credit Committee chaired by a Non-Executive Director. The Credit Department, headed by the Assistant General Manager, oversees the operation under the guidance of top management responsible for overseeing of the Bank's credit risk including:

1. Formulating credit policies, covering collateral requirements, credit assessment, risk grading, documentary and legal procedures, and compliance with regulatory and statutory requirements.
2. Establishing the authorisation structure for the approval and renewal of credit facilities. Authorisation limits are allocated to various officers at different levels. Larger facilities require approval by Credit Committee or the Board as appropriate.
3. Reviewing and assessing credit risk. Credit Department assesses all credit exposures prior to facilities being committed to customers concerned. Renewals and reviews of facilities are subject to the same review process.
4. Limiting concentrations of exposure. The Board approved delegated authority restricts exposure for any sector.
5. Reviewing compliance of business units with agreed exposure limits, including those for selected industries, country risk and product types. Regular reports are provided to Credit Committee/Board in respect of large borrowers.
6. Providing advice, guidance and specialist skills to business units to promote best practice in the management of credit risk.
7. Developing and maintaining the Group's risk grading to categorise exposures according to the degree of risk of default. Risk grades are subject to regular reviews.
8. Developing and maintaining the Group's processes for measuring ECL including monitoring of credit risk, incorporation of forward-looking information and the method used to measure ECL.
9. Ensuring that the Bank has policies and procedures in place to appropriately maintain and validate models used to assess and measure ECL.

Regular audits of Credit Department processes are undertaken by Internal Audit Department.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
AS AT 31 DECEMBER 2019

45. FINANCIAL RISK MANAGEMENT (Continued)

Risk management framework

a) *Credit risk (continued)*

Impairment (continued)

The Bank recognises loss allowances for ECLs on the following financial instruments that are not measured at FVTPL:

Loans and advances to customers;

Debt investment securities;

Loan commitments issued; and

Financial guarantee contracts issued.

No impairment loss is recognised on equity investments.

With the exception of Purchased or Originated credit -impaired (POCI) financial assets (which are considered separately below), ECLs are required to be measured through a loss allowance at an amount equal to:

12-month ECL, i.e. lifetime ECL that result from those default events on the financial instrument that are possible within 12 months after the reporting date, (referred to as Stage 1); or full lifetime ECL, i.e. lifetime ECL that result from all possible default events over the life of the financial instrument, (referred to as Stage 2 and Stage 3).

A loss allowance for full lifetime ECL is required for a financial instrument if the credit risk on that financial instrument has increased significantly since initial recognition. For all other financial instruments, ECLs are measured at an amount equal to the 12-month ECL. More details on the determination of a significant increase in credit risk are provided below.

ECLs are a probability-weighted estimate of the present value of credit losses. These are measured as the present value of the difference between the cash flows due to the Bank under the contract and the cash flows that the Bank expects to receive arising from the weighting of multiple future economic scenarios, discounted at the asset's EIR.

For undrawn loan commitments, the ECL is the difference between the present value of the difference between the contractual cash flows that are due to the Bank if the holder of the commitment draws down the loan and the cash flows that the Bank expects to receive if the loan is drawn down; and

For financial guarantee contracts, the ECL is the difference between the expected payments to reimburse the holder of the guaranteed debt instrument less any amounts that the Bank expects to receive from the holder, the debtor or any other party.The Bank measures ECL on an individual basis, or on a collective basis for portfolios of loans that share similar economic risk characteristics. The measurement of the loss allowance is based on the present value of the asset's expected cash flows using the asset's original EIR, regardless of whether it is measured on an individual basis or a collective basis.

Credit-impaired financial assets

A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred. Credit-impaired financial assets are referred to as Stage 3 assets. Evidence of credit-impairment includes observable data about the following events:

a) significant financial difficulty of the borrower or issuer;

b) a breach of contract such as a default or past due event;

c) the lender of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession that the lender would not otherwise consider;

d) the disappearance of an active market for a security because of financial difficulties; or

e) the purchase of a financial asset at a deep discount that reflects the incurred credit losses.

It may not be possible to identify a single discrete event-instead, the combined effect of several events may have caused financial assets to become credit-impaired. The Bank assesses whether debt instruments that are financial assets measured at amortised cost or Fair Value through Other Comprehensive Income are credit-impaired at each reporting date. A loan is considered credit-impaired when a concession is granted to the borrower due to a deterioration in the borrower's financial condition, unless there is evidence that as a result of granting the concession the risk of not receiving the

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
AS AT 31 DECEMBER 2019

45. FINANCIAL RISK MANAGEMENT (Continued)

Risk management framework

a) *Credit risk (continued)*

Credit-impaired financial assets (continued)

contractual cash flows has reduced significantly and there are no other indicators of impairment. For financial assets where concessions are contemplated but not granted the asset is deemed credit impaired when there is observable evidence of credit-impairment including meeting the definition of default. The definition of default (see below) includes unlikeliness to pay indicators and a back- stop if amounts are overdue for 90 days or more.

Purchased or originated credit-impaired (POCI) financial assets

POCI financial assets are treated differently because the asset is credit-impaired at initial recognition. For these assets, the Bank recognises all changes in lifetime ECL since initial recognition as a loss allowance with any changes recognised in profit or loss. A favourable change for such assets creates an impairment gain.

Definition of default

Critical to the determination of ECL is the definition of default. The definition of default is used in measuring the amount of ECL and in the determination of whether the loss allowance is based on 12-month or lifetime ECL, as default is a component of the probability of default (PD) which affects both the measurement of ECLs and the identification of a significant increase in credit risk .

The Bank considers the following as constituting an event of default:

a) the borrower is past due more than 90 days on any material credit obligation to the Bank; or

b) the borrower is unlikely to pay its credit obligations to the Bank in full.

This definition of default is used by the Bank for accounting purposes as well as for internal credit risk management purposes and is broadly aligned to the regulatory definition of default. The definition of default is appropriately tailored to reflect different characteristics of different types of assets. Overdrafts are considered as being past due once the customer has breached an advised limit or has been advised of a limit smaller than the current amount outstanding.

When assessing if the borrower is unlikely to pay its credit obligation, the Bank takes into account both qualitative and quantitative indicators. As noted in the definition of credit impaired financial assets above, default is evidence that an asset is credit impaired. Therefore credit impaired assets will include defaulted assets, but will also include other non-defaulted given the definition of credit impaired is broader than the definition of default.

Significant increase in credit risk

The Group monitors all financial assets, issued loan commitments and financial guarantee contracts that are subject to the 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. The Bank's accounting policy is not to use the practical expedient that financial assets with 'low' credit risk at the reporting date are deemed not to have had a significant increase in credit risk. As a result the Bank monitors all financial assets, issued loan commitments and financial guarantee contracts that are subject to impairment for significant increase in credit risk.

In assessing whether the credit risk on a financial instrument has increased significantly since initial recognition, the Bank compares the risk of a default occurring on the financial instrument at the reporting date based on the remaining maturity of the instrument with the risk of a default occurring that was anticipated for the remaining maturity at the current reporting date when the financial instrument was first recognised. In making this assessment, the Bank considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort, based on the Group's historical experience and expert credit assessment including forward-looking information.

Multiple economic scenarios form the basis of determining the probability of default at initial recognition and at subsequent reporting dates. Different economic scenarios will lead to a different probability of default. It is the weighting of these different scenarios that forms the basis of a weighted average probability of default that is used to determine whether credit risk has significantly increased.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

AS AT 31 DECEMBER 2019

45. FINANCIAL RISK MANAGEMENT (Continued)

Risk management framework

a) *Credit risk (continued)*

Significant increase in credit risk (continued)

Forward-looking information includes the future prospects of the industries in which the Bank's counterparties operate, obtained from economic expert reports, financial analysts, governmental bodies and other similar organisations, as well as consideration of various internal and external sources of actual and forecast economic information. Also additional forecasts of local economic indicators, particularly for regions with a concentration to certain industries, as well as internally generated information of customer payment behaviour.

The Bank allocates its counterparties to a relevant internal credit risk grade depending on their credit quality. The quantitative information is a primary indicator of significant increase in credit risk and is based on the change in lifetime

- PD by comparing:
- the remaining lifetime PD at the reporting date; with
- the remaining lifetime PD for this point in time that was estimated based on facts and circumstances at the time of initial recognition of the exposure.

The PDs used are forward-looking and the Bank uses the same methodologies and data used to measure the loss allowance for ECL.

The qualitative factors that indicate significant increase in credit risk are reflected in PD models on a timely basis. However the Bank still considers separately some qualitative factors to assess if credit risk has increased significantly. For corporate lending there is particular focus on assets that are included on a 'watch list' given an exposure is on a watch list once there is a concern that the creditworthiness of the specific counterparty has deteriorated. For retail lending the Group considers the expectation of forbearance, credit scores and events such as unemployment, bankruptcy, divorce or death.

Given that a significant increase in credit risk since initial recognition is a relative measure, a given change, in absolute terms, in the PD will be more significant for a financial instrument with a lower initial PD than compared to a financial instrument with a higher PD.

As a back-stop when an asset becomes 30 days past due, the Group considers that a significant increase in credit risk has occurred and the asset is in stage 2 of the impairment model, i.e. the loss allowance is measured as the lifetime ECL. In addition loans that are individually assessed and are included on a watch list are in stage 2 of the impairment model. As noted if there is evidence of credit-impairment the assets are at stage 3 of the impairment model.

Modification and derecognition of financial assets

A modification of a financial asset occurs when the contractual terms governing the cash flows of a financial asset are renegotiated or otherwise modified between initial recognition and maturity of the financial asset. A modification affects the amount and/or timing of the contractual cash flows either immediately or at a future date. In addition, the introduction or adjustment of existing covenants of an existing loan would constitute a modification even if these new or adjusted covenants do not yet affect the cash flows immediately but may affect the cash flows depending on whether the covenant is or is not met (e.g. a change to the increase in the interest rate that arises when covenants are breached).

The Bank renegotiates loans to customers in financial difficulty to maximise collection and minimise the risk of default. A loan forbearance is granted in cases where although the borrower made all reasonable efforts to pay under the original contractual terms, there is a high risk of default or default has already happened and the borrower is expected to be able to meet the revised terms. The revised terms in most of the cases include an extension of the maturity of the loan, changes to the timing of the cash flows of the loan (principal and interest repayment), reduction in the amount of cash flows due (principal and interest forgiveness) and amendments to covenants.

When a financial asset is modified the Bank assesses whether this modification results in derecognition. In accordance with the Bank's definition a modification results in derecognition when it gives rise to substantially different terms. To determine if the modified terms are substantially different from the original contractual terms the Group considers the following:

Qualitative factors, such as contractual cash flows after modification are no longer SPPI, change in currency or when rights to cash flows

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

AS AT 31 DECEMBER 2019

45. FINANCIAL RISK MANAGEMENT (Continued)

Risk management framework

a) *Credit risk (continued)*

Modification and derecognition of financial assets (continued)

between the original counterparties expire because a new debtor replaces the original debtor (unless both debtors are under common control), the extent of change in interest rates, and maturity. If these do not clearly indicate a substantial modification, then;

A quantitative assessment is performed to compare the present value of the remaining contractual cash flows under the original terms with the contractual cash flows under the revised terms, both amounts discounted at the original effective interest.

If the difference in present value is greater than 10% the Group deems the arrangement is substantially different leading to derecognition. When performing a quantitative assessment of a modification or renegotiation of a credit-impaired financial asset or a purchased or originated credit-impaired financial asset that was subject to a write-off, the group considers the expected (rather than the contractual) cash flows before modification or renegotiation and compares those with the contractual cash flows after modification or renegotiation.

In the case where the financial asset is derecognised the loss allowance for ECL is remeasured at the date of derecognition to determine the net carrying amount of the asset at that date. The difference between this revised carrying amount and the fair value of the new financial asset with the new terms will lead to a gain or loss on derecognition. The new financial asset will have a loss allowance measured based on 12-month ECL except in the rare occasions where the new loan is considered to be originated- credit impaired. This applies only in the case where the fair value of the new loan is recognised at a significant discount to its revised par amount because there remains a high risk of default which has not been reduced by the modification. The Bank monitors credit risk of modified financial assets by evaluating qualitative and quantitative information, such as if the borrower is in past due status under the new terms.

When the contractual terms of a financial asset are modified and the modification does not result in derecognition, the Bank determines if the financial asset's credit risk has increased significantly since initial recognition by comparing:

a) the remaining lifetime PD estimated based on data at initial recognition and the original contractual terms; with

b) the remaining lifetime PD at the reporting date based on the modified terms.

Financial assets modified as part of the Bank's forbearance policy, where modification did not result in derecognition, the estimate of PD reflects the Group's ability to collect the modified cash flows taking into account the Group's previous experience of similar forbearance action, as well as various behavioural indicators, including the borrower's payment performance against the modified contractual terms. If the credit risk remains significantly higher than what was expected at initial recognition the loss allowance will continue to be measured at an amount equal to lifetime ECL. If a forborne loan is credit impaired due to the existence of evidence of credit impairment (see above), the Group performs an ongoing assessment to ascertain if the problems of the exposure are cured, to determine if the loan is no longer credit-impaired. The loss allowance on forborne loans will generally only be measured based on 12-month ECL when there is evidence of the borrower's improved repayment behaviour following modification leading to a reversal of the previous significant increase in credit risk.

Where a modification does not lead to derecognition the Bank calculates the modification loss by comparing the gross carrying amount before and after the modification (excluding the ECL allowance). Modification losses for financial assets are included in the profit or loss account in 'Losses on modification of financial assets'. Then the Group measures ECL for the modified asset, where the expected cash flows arising from the modified financial asset are included in calculating the expected cash shortfalls from the original asset.

The Group derecognises a financial asset only when the contractual rights to the asset's cash flows expire (including expiry arising from a modification with substantially different terms), or when the financial asset and substantially all the risks and rewards of ownership of the asset are transferred to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
AS AT 31 DECEMBER 2019

45. FINANCIAL RISK MANAGEMENT (Continued)

Risk management framework

a) Credit risk (continued)

Modification and derecognition of financial assets (continued)

recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain/loss that had been recognised in OCI and accumulated in equity is recognised in profit or loss, with the exception of equity investment designated as measured at FVTOCI, where the cumulative gain/loss previously recognised in OCI is not subsequently reclassified to profit or loss.

On derecognition of a financial asset other than in its entirety (e.g. when the Group retains an option to repurchase part of a transferred asset), the Group allocates the previous carrying amount of the financial asset between the part it continues to recognise under continuing involvement, and the part it no longer recognises on the basis of the relative fair values of those parts on the date of the transfer. The difference between the carrying amount allocated to the part that is no longer recognised and the sum of the consideration received for the part no longer recognised and any cumulative gain/loss allocated to it that had been recognised in OCI is recognised in profit or loss. A cumulative gain/loss that had been recognised in OCI is allocated between the part that continues to be recognised and the part that is no longer recognised on the basis of the relative fair values of those parts. This does not apply for equity investments designated as measured at FVTOCI, as the cumulative gain/loss previously recognised in OCI is not subsequently reclassified to profit or loss.

Write – off

Loans and debt securities are written off when the Bank has no reasonable expectations of recovering the financial asset (either in its entirety or a portion of it). This is the case when the Bank determines that the borrower does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. A write-off constitutes a derecognition event. The Group may apply enforcement activities to financial assets written off. Recoveries resulting from the Bank's enforcement activities will result in impairment gains, which will be presented in 'net impairment loss on financial assets' in the statement of profit or loss.

Presentation of allowance for ECL in the statement of financial position

Loss allowances for ECL are presented in the statement of financial position as follows:

- for financial assets measured at amortised cost: as a deduction from the gross carrying amount of the assets;
- for loan commitments and financial guarantee contracts: as a provision; and
- where a financial instrument includes both a drawn and an undrawn component, and the Bank cannot identify the ECL on the loan commitment component separately from those on the drawn component: the Bank presents a combined loss allowance for both components. The combined amount is presented as a deduction from the gross carrying amount of the drawn component. Any excess of the loss allowance over the gross amount of the drawn component is presented as a provision.

Critical judgements and key sources of estimation uncertainty

In the application of the Bank's policies, the directors are required to make judgements, estimates and assumptions about the carrying amounts of loans and Advances that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

AS AT 31 DECEMBER 2019

45. FINANCIAL RISK MANAGEMENT (Continued)

Risk management framework

a) ***Credit risk (continued)***

Critical judgements and key sources of estimation uncertainty (continued)

Critical judgements in applying the Bank's Lending policies

The following are the critical judgements, apart from those involving estimations (which are dealt with separately below), that the directors have made in the process of applying the Bank's lending policies and that have the most significant effect on the amounts recognised in financial statements:

Significant increase of 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 Group takes into account qualitative and quantitative reasonable and supportable forward-looking information. Refer to note 1 and note 3 for more details.

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 Group 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 measuring fair value of financial assets as well as 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.

Determination of life of revolving credit facilities: The Bank measures ECL considering the risk of default over the maximum contractual period. However, for financial instruments such as credit cards, revolving credit facilities and overdraft facilities that include both a loan and an undrawn commitment component, the Group's contractual ability to demand repayment and cancel the undrawn commitment does not limit the Group's exposure to credit losses to the contractual notice period. For such financial instruments the Group measures ECL over the period that it is exposed to credit risk and ECL would not be mitigated by credit risk management actions, even if that period extends beyond the maximum contractual period.

Key sources of estimation uncertainty

The following are key estimations that the directors have used in the process of applying the Bank's accounting policies and that have the most significant effect on the amounts recognised in financial statements:

Establishing the number and relative weightings of forward-looking scenarios for each type of product/market 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

AS AT 31 DECEMBER 2019

45. FINANCIAL RISK MANAGEMENT (Continued)

Risk management framework

a) *Credit risk (continued)*

Internal credit risk ratings

In order to minimise credit risk, the Group has tasked its credit management committee to develop and maintain the Group's credit risk grading to categorise exposures according to their degree of risk of default. The Group'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:

Payment record, including payment ratios and ageing analysis;

- Extent of utilisation of granted limit;
- Forbearances (both requested and granted);
- Changes in business, financial and economic conditions;
- Credit rating information supplied by external rating agencies;
- For retail exposures: internally generated data of customer behaviour, affordability metrics etc.; and
- For corporate exposures: information obtained by periodic review of customer files including audited financial statements review, changes in the financial sector the customer operates etc.

The Bank uses credit risk grades as a primary input into the determination of the term structure of the PD for exposures. The Bank collects performance and default information about its credit risk exposures analysed by jurisdiction or region and by type of product and borrower as well as by credit risk grading. The information used is both internal and external depending on the portfolio assessed. The table below provides a mapping of the Group's internal credit risk grades to external ratings.

Group Rating	Description
1	Low to fair risk
2	Watch list
3	Substandard
4	Doubtful
5	Impaired

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 Public debt to GDP, Saving Interest rates, lending Interest rates and House pricing index. The Bank generates a 'base case' scenario of the future direction of relevant economic variables 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. Loan commitments are assessed along with the category of loan the Bank is committed to provide, i.e. commitments to provide mortgages are assessed using similar criteria to mortgage loans, while commitments to provide a corporate loan are assessed using similar criteria to corporate loans.

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

The Bank has monitoring procedures in place to make sure that the criteria used to identify significant increases in credit are effective,

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
AS AT 31 DECEMBER 2019

45. FINANCIAL RISK MANAGEMENT (Continued)

Risk management framework

a) Credit risk (continued)

Internal credit risk ratings (continued)

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.

The Bank has controls and procedures in place to identify when the credit risk of an asset improves and the definition of significant increase in credit risk is no longer met. When this is the case the asset may move back to stage 1 from stage 2, subject to payments being up to date and the ability of the borrower to make future payments on time.

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 uses multiple scenarios to model the non-linear impact of assumptions about macroeconomic factors on ECL. The Bank applies probabilities to the forecast scenarios identified. The base case scenario is the single most-likely.

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. In addition to the base case scenario the Bank uses Upside and Adverse scenarios, with associated probability weightings. The probability weighting is such that the base scenario has the highest weighting, since it is the most likely outcome and the weighting of the Upside and adverse scenarios depend on the probability of the scenario.

The table below summarises the principal macroeconomic indicators included in the economic scenarios used at 31 December 2019 that has a material impact in ECLs.

	2019		
	Base	**Upside**	**Adverse**
	Weighting		
Macro-Economic Variable	**80%**	**10%**	**10%**
Savings Rate	4.09%	6.37%	1.81%
Lending Rates	12.44%	14.38%	10.50%
Housing Price Index	0%	0.83%	-0.83%
Public Debt to GDP	59.20%	65.32%	53.08%

Measurement of ECL

The key inputs used for measuring ECL are:

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

These figures are generally derived from internally developed statistical models and other historical data and they are adjusted to reflect probability-weighted forward-looking information.

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. These statistical models are based on market data , as well as internal data comprising both quantitative and qualitative factors. PDs are estimated considering the contractual maturities of exposures and estimated prepayment rates. The estimation is based on current conditions, adjusted to take into account estimates of future conditions that will impact PD.

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 any collateral. The LGD models for secured assets consider forecasts of future collateral valuation taking into account sale discounts, time to realisation of collateral,

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
AS AT 31 DECEMBER 2019

45. FINANCIAL RISK MANAGEMENT (Continued)

Risk management framework

a) Credit risk (continued)

Incorporation of forward-looking information (continued)

cross- collateralisation and seniority of claim, cost of realisation of collateral and cure rates (i.e. exit from non-performing status). 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.

EAD is an estimate of the exposure at a future default date, taking into account 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 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 credit cards, revolving credit facilities and overdraft facilities that include both a loan 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. For such financial instruments the Bank measures ECL over the period that it is exposed to credit risk and ECL would not be mitigated by credit risk management actions, even if that period extends beyond the maximum contractual period. These financial instruments do not have a fixed term or repayment structure and have a short contractual cancellation period. However, the Bank does not enforce in the normal day-to-day management the contractual right to cancel these financial instruments. This is because these financial instruments are managed on a collective basis and are cancelled only when the Bank becomes aware of an increase in credit risk at the facility level. This longer period is estimated taking into account the credit risk management actions that the Bank expects to take to mitigate ECL, e.g. reduction in limits or cancellation of the loan commitment.

The ECL calculation for accounting purposes is different to the ECL calculation for regulatory purposes, although many inputs used are similar. 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
AS AT 31 DECEMBER 2019

45. FINANCIAL RISK MANAGEMENT (Continued)
Risk management framework
a) *Credit risk (continued)*
Incorporation of forward-looking information (continued)

Loans and advances to customers at amortised cost	31-Dec-19 KShs '000	1-Jan-19 KShs '000
Concentration by sector		
Agriculture	152,864	134,603
Building & Construction	1,145,457	1,138,799
Energy &Water	124,665	122,450
Financial Services	11,175	140,318
Manufacturing	9,208,577	8,160,616
Mining & Quarrying	12,287	11,577
Personal/Household	2,203,495	2,140,757
Real Estate	3,846,194	4,453,126
Tourism, Restaurant & Hotels	734,547	775,019
Trade	19,109,272	18,318,558
Transport & Communication	1,485,938	1,589,876
TOTAL	38,034,471	36,985,699

Loan commitments	31-Dec-19 KShs '000	1-Jan-19 KShs '000
Concentration by sector		
Agriculture	7,823	12,199
Building & Construction	150,508	178,233
Energy &Water	40,688	14,849
Financial Services	1,426	2,594
Manufacturing	949,913	1,048,344
Mining & Quarrying	-	-
Personal/Household	580,527	610,408
Real Estate	201,014	183,876
Tourism, Restaurant & Hotels	5,989	21,085
Trade	1,909,192	2,167,658
Transport & Communication	72,542	56,210
TOTAL	3,919,622	4,295,456

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

AS AT 31 DECEMBER 2019

45. FINANCIAL RISK MANAGEMENT (Continued)

Risk management framework

a) *Credit risk (continued)*

Incorporation of forward-looking information (continued)

Financial guarantee contracts	31-Dec-19 KShs '000	1-Jan-19 KShs '000
Concentration by sector		
Agriculture	5,290	18,003
Building & Construction	1,050,388	605,803
Energy &Water	24,900	19,400
Financial Services	14,150	17,903
Manufacturing	1,785,463	1,169,886
Mining & Quarrying	420	6,018
Personal/Household	8,840	31,469
Real Estate	97,083	116,876
Tourism, Restaurant & Hotels	7,788	8,688
Trade	4,937,990	4,751,410
Transport & Communication	124,474	85,608
TOTAL	8,056,786	6,831,064

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

Impairment allowance reconciliations

	31-Dec-19					1-Jan-19
Loans and advances to customers at amortised cost	Stage 1 12-month ECL KShs '000	Stage 2 Lifetime ECL KShs '000	Stage 3 Lifetime ECL KShs '000	POCI KShs '000	Total KShs '000	Total KShs '000
Grades 1: Low to fair risk	32,563,078	-	-	-	32,563,078	32,102,885
Grades 2: Watch	-	1,734,032	-	-	1,734,032	2,799,481
Grades 3: Substandard	-	-	450,399	-	450,399	180,391
Grade 4: Doubtful	-	-	2,965,900	-	2,965,900	1,696,821
Grade 5: Impaired	-	-	321,062	-	321,062	206,121
Total gross carrying amount	32,563,078	1,734,032	3,737,361	-	38,034,471	36,985,699
Loss allowance	83,997	79,962	975,594	-	1,139,553	817,571
Carrying amount	32,479,081	1,654,070	2,761,767	-	36,894,918	36,168,128

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

AS AT 31 DECEMBER 2019

45. FINANCIAL RISK MANAGEMENT (Continued)

Risk management framework

a) *Credit risk (continued)*

Impairment allowance reconciliations (continued)

Loan commitments	31-Dec-19 Stage 1 12-month ECL KShs '000	Stage 2 Lifetime ECL KShs '000	Stage 3 Lifetime ECL KShs '000	POCI KShs '000	Total KShs '000	1-Jan-19 Total KShs '000
Grades 1: Low to fair risk	3,919,622	-	-	-	3,919,622	4,295,456
Grades 2: Watch	-	-	-	-	-	-
Grades 3: Substandard	-	-	-	-	-	-
Grade 4: Doubtful	-	-	-	-	-	-
Grade 5: Impaired	-	-	-	-	-	-
Total gross carrying amount	3,919,622	-	-	-	3,919,622	4,295,456
Loss allowance	16,724	-	-	-	16,724	21,305
Carrying amount	3,902,898	-	-	-	3,902,898	4,274,151

Financial guarantee contracts	31-Dec-19 Stage 1 12-month ECL KShs '000	Stage 2 Lifetime ECL KShs '000	Stage 3 Lifetime ECL KShs '000	POCI KShs '000	Total KShs '000	1-Jan-19 Total KShs '000
Grades 1: Low to fair risk	8,056,786	-	-	-	8,056,786	6,831,063
Grades 2: Watch	-	-	-	-	-	-
Grades 3: Substandard	-	-	-	-	-	-
Grade 4: Doubtful	-	-	-	-	-	-
Grade 5: Impaired	-	-	-	-	-	-
Total gross carrying amount	8,056,786	-	-	-	8,056,786	6,831,063
Loss allowance	32,529	-	-	-	32,529	30,951
Carrying amount	8,024,257	-	-	-	8,024,257	6,800,112

This table summarises the loss allowance as of the year-end by class of exposure/asset.

Loss allowance by classes	31-Dec-19	1-Jan-19
Loans and advances to customers at amortised cost	1,139,553	817,571
Loan commitments	16,724	21,305
Financial guarantee contracts	32,529	30,951
Total	1,188,806	869,827

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

AS AT 31 DECEMBER 2019

45. FINANCIAL RISK MANAGEMENT (Continued)

Risk management framework

a) *Credit risk (continued)*

Impairment allowance reconciliations (continued)

The tables below analyse the movement of the loss allowance during the year per class of assets.

Loss allowance – Loans and advances to Customers at amortised cost	Stage 1 12-month ECL KShs '000	Stage 2 Lifetime ECL KShs '000	Stage 3 Lifetime ECL KShs '000	POCI KShs '000	Total KShs '000
Loss allowance as at 1 January 2019	112,256	147,678	557,637	-	817,571
Changes in the loss allowance					
– Transfer to stage 1	44,252	(36,985)	(7,267)	-	-
– Transfer to stage 2	(3,703)	19,976	(16,273)	-	-
– Transfer to stage 3	(1,317)	(92,130)	93,447	-	-
– Increases due to change in credit risk	12,232	56,846	432,645	-	501,723
– Decreases due to change in credit risk	(83,286)	(21,357)	(114,993)	-	(219,636)
– Write-offs	-	(55)	(444)	-	(499)
– Changes due to modifications that did not result derecognition	-	-	-	-	-
New financial assets originated or purchased	23,824	12,425	60,450	-	96,699
Financial assets that have been Settled	(20,261)	(6,436)	(29,608)	-	(56,305)
Loss allowance as at 31 December 2019	83,997	79,962	975,594	-	1,139,553

Loss allowance – Loan Commitments	Stage 1 12-month ECL KShs '000	Stage 2 Lifetime ECL KShs '000	Stage 3 Lifetime ECL KShs '000	POCI KShs '000	Total KShs '000
Loss allowance as at 1 January 2019	21,305	-	-	-	21,305
Changes in the loss allowance					
– Transfer to stage 1	-	-	-	-	-
– Transfer to stage 2	-	-	-	-	-
– Transfer to stage 3	-	-	-	-	-
– Increases due to change in credit risk	4,654	-	-	-	4,654
– Decreases due to change in credit risk	(4,732)	-	-	-	(4,732)
– Write-offs	-	-	-	-	-
New financial assets originated or purchased	5,612	-	-	-	5,612
Financial assets that have been Settled derecognised	(10,115)	-	-	-	(10,115)
Loss allowance as at 31 December 2019	16,724	-	-	-	16,724

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

AS AT 31 DECEMBER 2019

45. FINANCIAL RISK MANAGEMENT (Continued)

Risk management framework

a) *Credit risk (continued)*

Impairment allowance reconciliations (continued)

Loss allowance – Financial guarantee contracts	Stage 1 12-month ECL KShs '000	Stage 2 Lifetime ECL KShs '000	Stage 3 Lifetime ECL KShs '000	POCI KShs '000	Total KShs '000
Loss allowance as at 1 January 2019	30,951	-	-	-	30,951
Changes in the loss allowance					
– Transfer to stage 1	-	-	-	-	-
– Transfer to stage 2	-	-	-	-	-
– Transfer to stage 3	-	-	-	-	-
– Increases due to change in credit risk	1,969	-	-	-	1,969
– Decreases due to change in credit risk	(1,591)	-	-	-	(1,591)
– Write-offs	-	-	-	-	-
New financial assets originated or purchased	24,674	-	-	-	24,674
Financial assets that have been Settled derecognised	(23,474)	-	-	-	(23,474)
Loss allowance as at 31 December 2019	32,529	-	-	-	32,529

As discussed above 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. This is the case mainly for loans and advances to customers and more specifically for retail lending exposures because for corporate lending and other exposures there is more borrower specific information available which is used to identify significant increase in credit risk. The table below provides an analysis of the gross carrying amount of loans and advances to customers by past due status.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
AS AT 31 DECEMBER 2019

45. FINANCIAL RISK MANAGEMENT (Continued)
Risk management framework

a) Credit risk (continued)

Impairment allowance reconciliations (continued

	31-Dec-19		1-Jan-19	
	Gross Carrying Amount KShs '000	Loss Allowance KShs '000	Gross Carrying Amount KShs '000	Loss Allowance KShs '000
Loans and Advances to Customers				
0-29 days	32,563,078	83,997	32,102,885	112,255
30-59 days	1,734,032	79,962	2,799,481	147,679
60-89 days	450,399	80,824	180,391	35,318
90-180days	2,965,900	573,638	1,696,821	315,751
More than 181 days	321,062	321,131	206,121	206,568
	38,034,471	1,139,553	36,985,699	817,571
Loan Commitments				
0-29 days	3,919,622	18,271	4,295,456	21,305
30-59 days	-	-	-	-
60-89 days	-	-	-	-
90-180days	-	-	-	-
More than 181 days	-	-	-	-
	3,919,622	18,271	4,295,456	21,305
Financial guarantee contracts				
0-29 days	8,056,786	32,529	6,831,063	30,951
30-59 days	-	-	-	-
60-89 days	-	-	-	-
90-180days	-	-	-	-
More than 181 days	-	-	-	-
	8,056,786	32,529	6,831,063	30,951

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

AS AT 31 DECEMBER 2019

45. FINANCIAL RISK MANAGEMENT (Continued)

Risk management framework

b) Liquidity risk

Liquidity risk is the risk that the Bank will encounter difficulty in meeting obligations from its financial liabilities.

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.

Details of the reported bank ratio of net liquid assets to deposits from customers at the reporting date and during the year were as follows:

	2019	2018
At 31 December	77.1%	71.5%
Average for the year	76.8%	59.4%
Maximum for the year	79.1%	71.5%
Minimum for the year	72.9%	49.7%
Central Bank of Kenya required minimum	20%	20%

Management of liquidity risk

The Bank's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Institution's reputation.

Treasury department maintains a portfolio of short-term liquid assets, largely made up of short-term liquid investment securities, loans and advances to financial institutions and other inter-bank facilities, to ensure that sufficient liquidity is maintained within the institution as a whole. All liquidity policies and procedures are subject to review and approval by an Assets and Liabilities Committee.

The Bank manages the liquidity structure of assets, liabilities and commitments so that cash flows are appropriately matched to ensure that all funding obligations are met when due. Banking operations are such that mismatch of assets and liabilities according to their maturity profiles cannot be avoided. However, management ensures that the mismatch is controlled in line with allowable risk levels. The table below analyses maturity profiles of the undiscounted cash flows of the financial assets and liabilities of the Bank based on the remaining period using 31 December 2019 as a base period to the contractual maturity date. Deposits from customers shown as maturing within 90 days relate to current, savings, call and fixed account balances. Although classified in this band, previous experience has shown these to be stable and of a long term nature.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
AS AT 31 DECEMBER 2019

45. FINANCIAL RISK MANAGEMENT (Continued)
Risk management framework

b) Liquidity risk

Management of liquidity risk (continued)

As at 31 December 2019 GROUP	Up to 1 Month KShs '000	1 to 3 Months KShs '000	3 Months – 1 year KShs '000	1 to 5 years KShs '000	Over 5 years KShs '000	Total KShs '000
FINANCIAL ASSETS						
Cash and balances with Central Bank of Kenya	6,084,771	-	-	-	-	6,084,771
Placements and balances with other banks	3,949,039	1,307,000	-	329,550	52,230	5,637,819
Treasury bills and term notes	1,389,840	5,523,046	21,636,526	-	-	28,549,412
Investment securities measured at amortised cost	-	-	283,440	4,885,274	13,353,784	18,522,498
Bonds- at fair value through other comprehensive income	998,713	-	-	784,559	5,969,367	7,752,639
Loans and advances to customers	6,704,052	1,463,197	8,424,384	11,387,893	8,996,690	36,976,216
Total assets	19,126,415	8,293,243	30,344,350	17,387,276	28,372,071	103,523,355
FINANCIAL LIABILITIES						
Due to banks and financial institutions	774	-	39,104	609,029	-	648,907
Medium term note	-	-	-	1,014,000	-	1,014,000
Deposits from customers	28,301,439	14,731,725	37,955,459	-	-	80,988,623
Other liabilities	-	58,144	282,032	-	-	340,176
Total liabilities	28,302,213	14,789,869	38,276,595	1,623,029	-	82,991,706
Net liquidity gap	(9,175,798)	(6,496,626)	(7,932,245)	15,764,247	28,372,071	20,531,649

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

AS AT 31 DECEMBER 2019

45. FINANCIAL RISK MANAGEMENT (Continued)

Risk management framework

b) Liquidity risk

Management of liquidity risk (continued)

As at 31 December 2018 GROUP	Up to 1 Month KShs '000	1 to 3 Months KShs '000	3 Months – 1 year KShs '000	1 to 5 years KShs '000	Over 5 years KShs '000	Total KShs '000
Cash and balances with Central Bank of Kenya	9,175,285	-	-	-	-	9,175,285
Placements and balances with other banks	9,385,959	500,000	1,320,000	-	381,500	11,587,459
Treasury bills and term notes	299,505	1,549,773	1,831,284	-	160,850	3,841,412
Investment securities measured at amortised cost	51,000	-	1,074,882	5,460,943	9,920,089	16,506,914
Bonds- at fair value through other comprehensive income	746,917	2,064,445	7,185,134	958,929	3,998,744	14,954,169
Loans and advances to customers	4,351,213	3,023,481	11,747,929	8,114,451	9,064,757	36,301,831
Other assets	-	-	61,583	-	-	61,583
Total assets	24,009,879	7,137,699	23,220,812	14,534,323	23,525,940	92,428,653
FINANCIAL LIABILITIES						
Due to banks and financial institutions	-	-	6,800	1,029,022	-	1,035,822
Medium term note	-	-	-	1,020,000	-	1,020,000
Deposits from customers	30,495,589	14,015,994	26,590,470	-	-	71,102,053
Other liabilities	258,500	1,409,912	-	-	-	1,668,412
Total liabilities	30,754,089	15,425,906	26,597,270	2,049,022	-	74,826,287
Net liquidity gap	(6,744,210)	(8,288,207)	(3,376,458)	12,485,301	23,525,940	17,602,366

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

AS AT 31 DECEMBER 2019

45. FINANCIAL RISK MANAGEMENT (Continued)

Risk management framework

b) Liquidity risk

Management of liquidity risk (continued)

As at 31 December 2019 BANK	Up to 1 Month KShs '000	1 to 3 Months KShs '000	3 Months – 1 year KShs '000	1 to 5 years KShs '000	Over 5 years KShs '000	Total KShs '000
Cash and balances with Central Bank of Kenya	6,083,892	-	-	-	-	6,083,892
Placements and balances with other banks	3,871,133	1,307,000	-	329,550	52,230	5,559,913
Treasury bills and term notes	1,389,840	5,523,046	21,636,526	-	-	28,549,412
Investment securities measured at amortised cost	-	-	210,014	4,277,950	13,171,299	17,659,263
Bill & Bonds- at fair value through other comprehensive income	999,220	-	-	531,469	5,640,363	7,171,051
Loans and advances to customers	6,704,052	1,463,197	8,424,384	11,306,595	8,996,690	36,894,918
Total assets	19,048,137	8,293,243	30,270,924	16,445,564	27,860,582	101,918,449
FINANCIAL LIABILITIES						
Due to banks and financial institutions	774	-	39,104	609,028	-	648,906
Medium term note	-	-	-	1,014,000	-	1,014,000
Deposits from customers	28,652,006	14,731,725	37,954,080	-	-	81,337,811
Other liabilities	-	58,144	282,032	-	-	340,176
Total liabilities	28,652,780	14,789,869	38,275,216	1,623,028	-	83,340,893
Net liquidity gap	(9,604,643)	(6,496,626)	(8,004,292)	14,822,536	27,860,582	(18,557,556)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

AS AT 31 DECEMBER 2019

45. FINANCIAL RISK MANAGEMENT (Continued)

Risk management framework

b) Liquidity risk

Management of liquidity risk (continued)

As at 31 December 2018 Bank	Up to 1 Month KShs '000	1 to 3 Months KShs '000	3 Months – 1 year KShs '000	1 to 5 years KShs '000	Over 5 years KShs '000	Total KShs '000
Cash and balances with Central Bank of Kenya	9,172,657	-	-	-	-	9,172,657
Placements and balances with other banks	9,322,572	500,000	1,320,000	-	381,500	11,524,072
Treasury bills and term notes	299,505	1,549,773	1,831,284	-	160,850	3,841,412
Investment securities measured at amortised cost	51,000	-	1,067,870	5,301,694	9,222,518	15,643,082
Bill & Bonds- at fair value through other comprehensive income	746,917	2,064,445	7,185,134	946,064	3,711,832	14,654,392
Loans and advances to customers	4,351,213	3,023,481	11,747,929	7,980,748	9,064,757	36,168,128
Other assets	-	61,583	-	-	-	61,583
Total assets	23,943,864	7,199,282	23,152,217	14,228,506	22,541,457	91,065,326
FINANCIAL LIABILITIES						
Due to banks and financial institutions	-	-	6,800	1,029,022	-	1,035,822
Medium term note	-	-	-	1,020,000	-	1,020,000
Deposits from customers	18,810,557	25,740,203	26,898,944	-	-	71,449,704
Other liabilities	258,500	290,413	-	-	-	548,913
Total liabilities	19,069,057	26,030,616	26,905,744	2,049,022	-	74,054,439
Net liquidity gap	4,874,807	(18,831,334)	(3,753,527)	12,179,484	22,541,457	17,010,887

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

AS AT 31 DECEMBER 2019

45. FINANCIAL RISK MANAGEMENT (Continued)

Risk management framework

c) *Classification of financial instruments*

The table below sets out the Bank's classification of each class of financial assets and liabilities. The amounts in the table are the carrying amounts of the financial instruments at the reporting date:

At 31 December 2019 GROUP	Armotised cost KShs'000	Armotised cost KShs'000	Fair value through other comprehensive income financial assets KShs'000	At fair value through profit or loss KShs'000	Financial liabilities measured at amortised cost KShs'000	Carrying amount KShs'000
Assets						
Cash and balances with Central Bank of Kenya	-	6,084,771	-	-	-	6,084,771
Placements and balances with other banks	-	5,637,819	-	-	-	5,637,819
Treasury bills and term notes	28,529,412	20,000	-	-	-	28,549,412
Investment securities measured at amortised cost	18,522,498	-	-	-	-	18,522,498
Investment in bonds- fair value through other comprehensive income	-	-	7,752,639	-	-	7,752,639
Investment in ordinary shares- fair value through other comprehensive income	-	-	3,161,337	-	-	3,161,337
Investment in ordinary shares- at fair value through profit or loss	-	-	-	108,815	-	108,815
Loans and advances to customers	-	36,976,216	-	-	-	36,976,216
Total assets	47,051,910	48,718,806	10,913,976	108,815	-	106,793,507
Liabilities	-	-	-	-		
Balances due to banks and financial institutions	-	-	-	-	648,907	648,907
Medium term note	-	-	-	-	1,014,000	1,014,000
Deposits from customers	-	-	-	-	80,988,623	80,988,623
Other liabilities	-	-	-	-	340,176	340,176
Total liabilities	-	-	-	-	82,991,706	82,991,706

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
AS AT 31 DECEMBER 2019

45. FINANCIAL RISK MANAGEMENT (Continued)

Risk management framework

c) *Classification of financial instruments (continued)*

The table below sets out the Bank's classification of each class of financial assets and liabilities. The amounts in the table are the carrying amounts of the financial instruments at the reporting date:

At 31 December 2018 GROUP	Armotised cost KShs'000	Armotised cost KShs'000	Fair value through other comprehensive income financial assets KShs'000	At fair value through profit or loss KShs'000	Financial liabilities measured at amortised cost KShs'000	Carrying amount KShs'000
Assets						
Cash and balances with Central Bank of Kenya	-	9,175,285	-	-	-	9,175,285
Placements and balances with other banks	-	11,587,459	-	-	-	11,587,459
Treasury bills and term notes	3,496,125	345,287	-	-	-	3,841,412
Investment securities measured at amortised cost	16,506,914	-	-	-	-	16,506,914
Investment in bonds- fair value through other comprehensive income	-	-	14,954,169	-	-	14,954,169
Investment in ordinary shares- fair value through other comprehensive income	-	-	4,154,203	-	-	4,154,203
Investment in ordinary shares- at fair value through profit or loss	-	-	-	116,883	-	116,883
Loans and advances to customers	-	36,301,829	-	-	-	36,301,829
Other assets	-	61,583	-	-	-	61,583
Total assets	20,003,039	57,471,443	19,108,372	116,883		96,699,737
Liabilities						
Balances due to banks and financial institutions	-	-	-	-	1,035,822	1,035,822
Medium term note	-	-	-	-	1,020,000	1,020,000
Deposits from customers	-	-	-	-	71,102,053	71,102,053
Other liabilities	-	-	-	-	1,668,412	1,668,412
Total liabilities	-	-	-	-	74,826,287	74,826,287

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

AS AT 31 DECEMBER 2019

45. FINANCIAL RISK MANAGEMENT (Continued)

Risk management framework

c) *Classification of financial instruments (continued)*

The table below sets out the Bank's classification of each class of financial assets and liabilities. The amounts in the table are the carrying amounts of the financial instruments at the reporting date:

At 31 December 2019 BANK	Armotised cost KShs'000	Armotised cost KShs'000	Fair value through other comprehensive income financial assets KShs'000	Financial liabilities measured at amortised cost KShs'000	Carrying amount KShs'000
Assets					
Cash and balances with Central Bank of Kenya	-	6,083,892	-	-	6,083,892
Placements and balances with other banks	-	5,559,913	-	-	5,559,913
Treasury bills and term notes	28,529,412	20,000	-	-	28,549,412
Investment securities measured at amortised cost	17,659,263	-	-	-	17,659,263
Investment in bonds-fair value through other comprehensive income	-	-	7,171,052	-	7,171,052
Investment in ordinary shares fair value through other comprehensive income	-	-	3,044,658	-	3,044,658
Loans and advances to customers	-	36,894,918	-	-	36,894,918
Total assets	46,188,675	48,558,723	10,215,710	-	104,963,108
Liabilities					
Balances due to banks and financial institutions	-	-	-	648,906	648,906
Medium term note	-	-	-	1,014,000	1,014,000
Deposits from customers	-	-	-	81,337,811	81,337,811
Other liabilities	-	-	-	340,176	340,176
Total liabilities	-	-	-	83,340,893	83,340,893

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

AS AT 31 DECEMBER 2019

45. FINANCIAL RISK MANAGEMENT (Continued)

Risk management framework

c) *Classification of financial instruments (continued)*

The table below sets out the Bank's classification of each class of financial assets and liabilities. The amounts in the table are the carrying amounts of the financial instruments at the reporting date:

At 31 December 2018 BANK	Armotised cost KShs'000	Armotised cost KShs'000	Fair value through other comprehensive income financial assets KShs'000	Financial liabilities measured at amortised cost KShs'000	Carrying amount KShs'000
Assets					
Cash and balances with Central Bank of Kenya	-	9,172,657	-	-	9,172,657
Placements and balances with other banks	-	11,524,072	-	-	11,524,072
Treasury bills and term notes	3,496,125	345,287	-	-	3,841,412
Investment securities measured at amortised cost	15,671,157	-	-	-	15,671,157
Investment in bonds-fair value through other comprehensive income	-	-	14,664,233	-	14,644,233
Investment in ordinary shares fair value through other comprehensive income	-	-	4,070,398	-	4,070,398
Loans and advances to customers	-	36,168,128	-	-	36,168,128
Other assets	-	64,150	-	-	64,150
Total assets	19,167,282	57,274,294	18,734,631	-	95,156,207
Liabilities					
Balances due to banks and financial institutions	-	-	-	1,035,822	1,035,822
Medium term note	-	-	-	1,020,000	1,020,000
Deposits from customers	-	-	-	71,449,704	71,449,704
Other liabilities	-	-	-	548,913	548,913
Total liabilities	-	-	-	74,054,439	74,054,439

d) *Market risk*

Market risk is the risk that fair value or future cash flows of financial instruments will fluctuate due to changes in market variables such as interest rates, foreign exchange rates and equity prices.

The objective of market risk management is to manage and control market risk exposure within acceptable levels, while optimising on return on the risk.

Equity price risk

Equity price risk is the risk that the fair value of equities fluctuates as a result of changes in the value of equity indices and individual stocks. A 10% increase in the value of the Bank's at fair value through other comprehensive income equities as at 31 December 2019 would have increased equity by KShs 72million (2018: KShs 69 million). An equivalent decrease would have resulted in an equivalent but opposite impact and would cause a potential impairment which would reduce profit before tax.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
AS AT 31 DECEMBER 2019

45. FINANCIAL RISK MANAGEMENT (Continued)
Risk management framework

d) Market risk (continued)

Interest risk exposure

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Bank is exposed to various risks associated with the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. Interest margins may increase as a result of changes in the prevailing levels of market rates but may also decrease or create losses in the event that unexpected movements arise. The Board sets limits on the level of mismatch of interest repricing that may be undertaken. Consequently, the interest sensitivity effect on profit or loss would not be significant given the repricing frequency.

The table below summarises the exposure to interest rates risks. Included in the table are the Bank's assets and liabilities at carrying amounts categorised by the earlier of contractual repricing or maturity dates:

As at 31 December 2019 GROUP	Up to 1 Month KShs '000	1 to 3 Months KShs '000	3 Months to 1 year KShs '000	1 to 5 years KShs '000	Over 5 years KShs '000	Total KShs '000
ASSETS						
Placements and balances with other banks	3,945,484	1,307,000	-	329,550	52,230	5,634,264
Treasury bills and term notes	1,389,840	5,523,046	21,636,526	-	-	28,549,412
Investment securities measured at amortised cost	-	-	257,655	4,911,059	13,353,784	18,522,498
Bonds- fair value through other comprehensive income	998,713	-	-	784,559	5,969,367	7,752,638
Loans and advances to customers	6,704,052	1,463,197	8,424,384	11,387,893	8,996,690	36,976,216
Total assets	13,038,089	8,293,243	30,318,565	17,413,061	28,372,071	97,435,028
LIABILITIES						
Due to banks & financial institutions	774	-	39,104	609,029	-	648,907
Medium term note	-	-	-	1,014,000	-	1,014,000
Deposits from customers	12,961,938	14,731,725	37,954,080	-	-	65,647,743
Total liabilities	12,962,712	14,731,725	37,993,184	1,623,029	-	67,310,650
Total interest sensitivity gap	75,377	(6,438,482)	(7,674,619)	15,790,032	28,372,071	30,124,378
As at 31 December 2018						
Total assets	12,708,412	7,137,699	23,162,592	14,929,210	23,147,377	81,085,290
Total liabilities	11,724,209	14,015,994	26,905,144	2,049,022	-	54,694,369
Total interest sensitivity gap	984,203	(6,878,295)	(3,742,552)	12,880,188	23,147,377	26,390,921

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

AS AT 31 DECEMBER 2019

45. FINANCIAL RISK MANAGEMENT (Continued)

Risk management framework

d) Market risk (continued)

Interest risk exposure (continued)

BANK **As at 31 December 2019**	**Up to 1 Month KShs '000**	**1 to 3 Months KShs '000**	**3 Months to 1 year KShs '000**	**1 to 5 years KShs '000**	**Over 5 years KShs '000**	**Total KShs '000**
ASSETS						
Placements and balances with other banks	3,871,133	1,307,000	-	329,550	52,230	5,559,913
Treasury bills and term notes	1,389,840	5,523,046	21,636,526	-	-	28,549,412
Investment securities measured at amortised cost	-	-	210,014	4,277,950	13,171,299	17,659,263
Bills & Bonds- fair value through other comprehensive income	999,220	-	-	531,469	5,640,363	7,171,052
Loans and advances to customers	6,704,052	1,463,197	8,424,384	11,306,595	8,996,690	36,894.918
Total assets	12,964,245	8,293,243	30,270,924	16,445,564	27,860,582	95,834,558
LIABILITIES						
Due to banks & financial institutions	774	-	39,104	609,028	-	648,906
Medium term note	-	-	-	1,014,000	-	1,014,000
Deposits from customers	12,963,317	14,731,725	37,954,080		-	65,649,122
Total liabilities	12,964,091	14,731,725	37,993,184	1,623,028	-	67,312,028
Total interest sensitivity gap	154	(6,438,482)	(7,722,260)	14,822,536	27,860,582	28,522,530
As at 31 December 2018						
Total assets	12,817,887	7,393,240	22,430,926	13,792,319	23,290,219	79,724,591
Total liabilities	11,724,209	14,015,994	26,905,144	2,049,022	-	54,694,369
Total interest sensitivity gap	1,093,678	(6,622,754)	(4,474,218)	11,743,297	23,290,219	25,030,222

The sensitivity computations assume that loan and advances and deposits maintain a constant rate of return from one year to the next. The effect on profit due to reasonable possible changes in interest rates, with all other variables held constant, is as follows:

	2019 KShs '000	2018 KShs '000
Effect on profit before tax of a +1% change in interest rates	(116,904)	(124,422)
Effect on profit before tax of a -1% change in interest rates	116,904	124,422

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
AS AT 31 DECEMBER 2019

45. FINANCIAL RISK MANAGEMENT (Continued)
Risk management framework
d) Market risk (continued)
Foreign currency exchange risk

The Bank records transactions in foreign currencies at the rates in effect at the date of the transaction. The Bank retranslates monetary assets and liabilities denominated in foreign currencies at the rates of exchange in effect at the reporting date. The Bank holds foreign currency denominated balances for cash and bank balances and placements, loans and advances and customer deposits. All the gains or losses arising from the changes in the currency exchange rates are accounted for in profit or loss.

The Bank's functional currency, the Shilling, has generally, over the recent past shown a weakening tendency against the US dollar and strengthening against the Euro, the two major currencies in which the Bank has significant foreign transactions.

The US dollar

At 31 December 2019, if the US dollar had strengthened by 1% against the Shilling, with all other variables held constant, the sensitised effect on profit or loss would have been a decrease in profit before tax of KShs 25,687,000 (2018: KShs 26,046,000) mainly as a result of the Dollar denominated net monetary liabilities. The reverse would also occur if the Kenya Shilling weakened with all other variables held constant.

The Euro

At 31 December 2019, if the Euro had strengthened against the Shilling by 6%, with all other variables held constant, the sensitised effect on profit or loss would have been an increase in profit before tax of KShs.22,687,000 (2018: KShs 22,127) mainly as a result of the Euro denominated net monetary assets. The reverse would also occur if the Kenya Shilling weakened with all other variables held constant.

In computing the percentage change in exchange rates, management has taken into consideration the direction of the published rates movement in the functional currency against the major foreign transactional currencies over the last two years.

The table below summarises foreign currency exposure to the group and bank:

As at 31 December 2019 *In KShs'000*	**USD**	**GBP**	**Euro**	**ZAR**	**JPY**	**Others**	**Total**
Assets							
Cash and cash equivalents (Group and Bank)	6,913,589	3,576,304	1,846,087	37,079	10,440	19,832	12,403,331
Investment in ordinary shares fair value through other comprehensive income	315,173	-	-	-	-	-	315,173
Offshore bonds	86,190	-	-	-	-	-	86,190
Loans and advances	7,531,253	54,592	4,294,447	-	-	-	11,880,292
Total assets	14,846,205	3,630,896	6,140,534	37,079	10,440	19,832	24,684,986
Liabilities							
Balances due to banks and financial institutions	598,963	-	56,075	-	-		655,038
Deposits	12,171,567	3,532,389	739,064	800	298	3,673	16,447,791
Others	2,035,305	100,417	5,324,761	36,303	10,145	6,647	7,513,578
Total liabilities	14,805,835	3,632,806	6,119,900	37,103	10,443	10,320	24,616,407
Net exposure as at 31 December	40,370	(1,910)	20,634	(24)	(3)	9,512	68,579

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
AS AT 31 DECEMBER 2019

45. FINANCIAL RISK MANAGEMENT (Continued)
Risk management framework
d) Market risk (continued)
Foreign currency exchange risk (continued)

As at 31 December 2018 *KShs'000*	USD	GBP	Euro	ZAR	JPY	Others	Total
Assets							
Cash and cash equivalents (Group and Bank)	7,107,099	1,285,052	1,512,972	(2,296)	5,587	18,313	9,926,727
Investment in ordinary shares fair value through other comprehensive income	237,592	-	-	-	-	3,733,158	3,970,750
Offshore bonds	323,936	-	-	-	-	-	323,936
Loans and advances	7,992,910	64,554	2,989,280	-	-	-	11,046,744
Total assets	15,661,537	1,349,606	4,502,252	(2,296)	5,587	3,751,471	25,268,157
Liabilities							
Balances due to banks and financial institutions	972,961	-	76,737	-	-		1,049,698
Deposits	12,083,944	3,813,322	1,841,959	11,671	348	6,671	17,757,915
Total liabilities	13,056,905	3,813,322	1,918,696	11,671	348	6,671	18,807,613
Net exposure as at 31 December	2,604,632	(2,463,716)	2,583,556	(13,967)	5,239	3,744,800	6,460,544

46. OPERATIONAL RISK

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Bank's processes, personnel, technology and infrastructure and from external factors other than credit, market and liquidity risks such as those arising from legal and regulatory requirements and generally accepted standards of corporate behaviour. Operational risks arise from all of the Bank's operations and are faced by all business units.

The Bank's objective is to manage operational risk so as to balance the avoidance of financial losses and damage to the Bank's reputation with overall cost effectiveness and to avoid control procedures that restrict initiative and creativity.

The primary responsibility for the development and implementation of controls to address operational risk is assigned to senior management within each business unit. This responsibility is supported by the development of overall bank standards for the management of operational risk in the following areas:

- Requirements for appropriate segregation of duties, including the independent authorisation of transactions
- Requirement for the reconciliation and monitoring of transactions
- Compliance with regulatory and other legal requirements
- Documentation of controls and procedures
- Requirements for the yearly assessment of operational risk faced, and the requirements of controls and procedures to address the risk identified

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
AS AT 31 DECEMBER 2019

46. OPERATIONAL RISK (continued)

- Requirements for the reporting of operational losses and proposed remedial action
- Development of contingency plans
- Training and professional development
- Ethical and business standards
- Risk mitigation, including insurance where this is effective

47. EVENTS AFTER THE REPORTING PERIOD

On Monday, March 16, 2020, the Central Bank of Kenya (CBK) announced a set of measures that commercial banks will undertake in order to alleviate the adverse economic effects banking customers may face from the Coronavirus pandemic (COVID-19). These measures include extension of loans for a period of up to one year and restructuring of loans. The Bank is required to meet all the costs related to the extension and restructuring of loans. It is anticipated that these measures may impact the Bank's profitability for the year ended 31 December 2020 in respect of interest income, administration costs and modification losses arising from IFRS 9 requirements. The Bank is however unable to quantify the impact of these measures announced by the Central Bank of Kenya.

CORPORATE SOCIAL RESPONSIBILITY ~ CSR
FOR THE YEAR 2019

1.

1. Bank Responds to Hunger Aid Appeal

Prime Bank in conjunction with Sunrise Walkers Group, Lions Loresho Sight First Eye Hospital, Rotary Districts of Nairobi, M P Shah Hospital, and Parklands Sports Club joined together in aid of Kenyans afflicted by starvation due to drought, by donating 300 metric tonnes of famine relief food.

Under the umbrella of Famine Relief Activity Initiative, the group on 2nd April flagged off 30 trucks of relief food to be distributed to over one million Kenyans who were facing starvation in parts of Wajir, Tana River, West Pokot, Tharaka Nithi, Samburu, Nyeri, Marsabit, Laikipia, Mandera, Lamu, Kitui, Kilifi, Isiolo, Garissa, Embu, Baringo and Turkana counties.

2.

2.

2. Freedom for Girls – Sanitary Towels Project

In its flagship Corporate Social Responsibility (CSR) projects – Freedom for Girls, the Bank for 11 years running donated KShs.

CORPORATE SOCIAL RESPONSIBILITY ~ CSR (continued)
FOR THE YEAR 2019

3.

4.


5.

1.5Million towards ensuring girls do not miss school during their monthly cycle. The Bank donated a full year's supply of sanitary towels, undergarments and health education booklets to 2,727 orphaned girls. Since its inception, Prime Bank has so far donated KShs. 12 Million hence ensuring 27,171 girls are guaranteed full year's supply of sanitary towels and undergarments.

3. First Lady Half Marathon
The Fourth Edition of the First Lady Half Marathon (FLHM) was held on 10th March 2019 at the Nyayo Stadium and First Lady Margaret Kenyatta led runners in 10km stretch. Prime Bank staff joined more than 20,000 participants in the event in a bid to support the enhancement of provision of quality health care for mothers and newborn children around the country.

4. Junior Golf Foundation Partnership
The 2019 Junior Golf Foundation Annual Gala was held on 10th December at the Sigona Golf Club and Prime Bank took the opportunity to present a cheque of KShs. 1 Million as proceeds of the partnership with JGF and KGU through the Prime Visa Golf Card for the year 2019. Since the inception

of the program in 2015, Prime bank has so far donated KShs. 4, 350,000 to Junior Golf Foundation.

5. Christmas at Nyumbani Children's Home

As it has always been its tradition during the festive season, Prime Bank staff paid a visit to Nyumbani Children's Home in Nairobi, interacted and shared special moments with the children through various sporting activities and sharing a meal in a true reflection of the Bank's spirit of caring for the communities in which it operates in.

6. Bursaries for Deserving Students

Shree Cutch Sastang Swaminarayan celebrated its 5th Annual School Day on 28th September. During the event, the Bank pledged its continued support to deserving students to attain education through its Corporate Social Initiatives policy of education.

CORPORATE SOCIAL RESPONSIBILITY ~ CSR (continued)

FOR THE YEAR 2019

7.

8.

9.

7. Donation to Lions Club of Mombasa - Pwani

Prime Bank's Mombasa branch took part in a fundraising charity walk organized by the Lions Club of Mombasa – Pwani. The Bank donated KShs. 600,000 for the fundraising.

8. Fun Day for Special Needs Children

Prime Bank in partnership with Lions Club of Nairobi sponsored the 10th Annual Sports and Fun Day for Special Needs Children which was held on 17th February.The Bank staff took part in various sports games and fun activities including, athletics, football, singing and dancing. They also interacted with the children to make the day memorable.

9. Charity Golf Day for Cataract Operations

Prime Bank in partnership with Tausi Assurance sponsored a Charity Golf Tournament at the Vet Lab Sports Club on 24th February with the aim of raising funds to enable elderly patients receive free cataract operation. Through this project, over 18,000 free cataract operations have been undertaken in Kisumu, Kisii, Nyamira, Siaya, Migori, Uasin Gishu, and Nandi Counties since its inception.

CATALYST PRINCIPAL PARTNERS

AFRICINVEST
Building trust, sharing success

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"A Symbol of Trust, Security and Progress"

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