Prime Bank

PUTTING YOU FIRST

ANNUAL REPORT
& FINANCIAL STATEMENTS
2020


Prime Bank

Contents

"Deliver value and success will follow."

~ Albert Einstein

About Prime Bank

Who we are

Welcome to Prime Bank Limited, one of the leading private banks in Kenya founded in 1992. Serving its customers for over 29 years, with a network of 23 branches, Prime Bank has the expertise to provide flexible, efficient and personalized financial services.

Over the years, the Bank has developed its business interests in other African countries such as Malawi, Botswana, Mozambique, Zambia, and in Zimbabwe where it recently acquired Barclays Bank of Zimbabwe through its associate bank First Capital Bank.

In 2017, the group acquired 80.72% shareholding of Tausi Assurance Limited.

In 2018, the Bank issued a private placement which was successfully subscribed by longstanding customers and long serving staff. The private placement raised over KShs. 2 Billion.

The Bank also partnered with new investors Afric Invest Azure SPV, a Special Purpose Vehicle, jointly formed by Afric Invest and Catalyst Principle Partners, holding 24.2% stake in the Bank.

Bank has developed its business interests in other African countries such as Malawi, Botswana, Mozambique, Zambia, and in Zimbabwe where it recently acquired Barclays Bank of Zimbabwe through its associate bank First Capital Bank.

AfricInvest and Catalyst, both private equity funds with interests in the region and beyond, are backed by various institutional investors such as DFIs including Afrivcan development Bank (AfDB), BIO, CDC, DEG, IFC, Finnfund, FMO, IFU Norfund, Proparco and Swedfund amongst others, as well as by North American, European, Asian and local institutional investors, pension funds and family offices.

The capital injection further strengthens the Bank's capital base to bolster:

- Expansion of local and regional network
- Optimization of services
- New products and services
- Further digitalizing of operations while continuing to provide enhanced services to our customers.

Over time, the Bank has built strong partnerships with international organizations to enable it provide long term foreign currency finance to its clients. The partners include:

- PROPARCO, French DFI
- European Investment Bank

The Bank also has correspondent relationships with other banks across the globe to enable its customers meet their international business obligations.

Our Value System

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.

Integrity

We practice the highest standard of personal and corporate ethics in all our dealings.

Respect

We respect the unique contributions of every employee, valuing the diversity of their experiences, ideas and initiatives.

Teamwork

We become stronger as an organization through teamwork with our associates from all of our business areas.

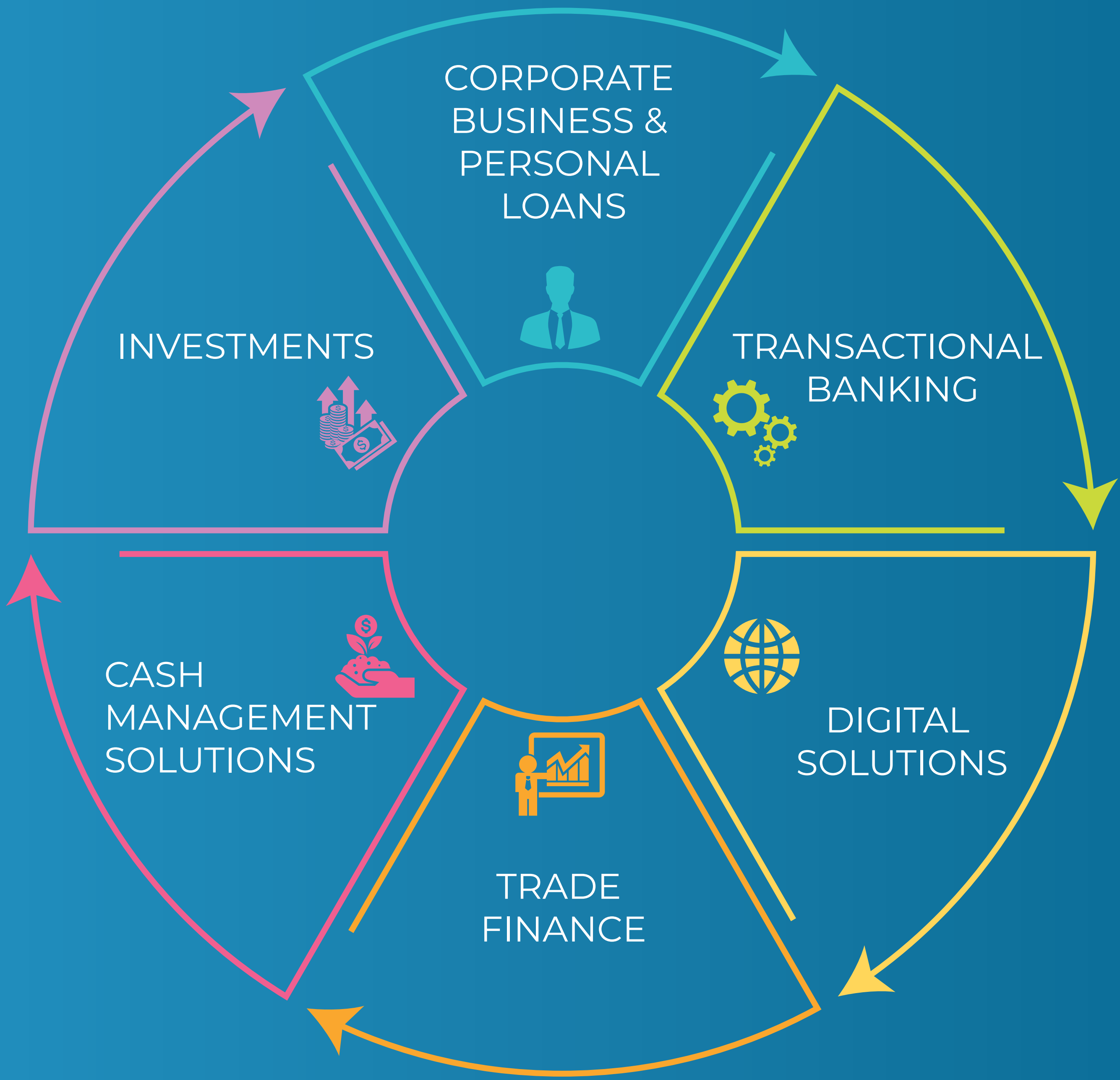
Quality

We are committed to upholding the highest standards of professionalism, service and performance.

Social Responsibility

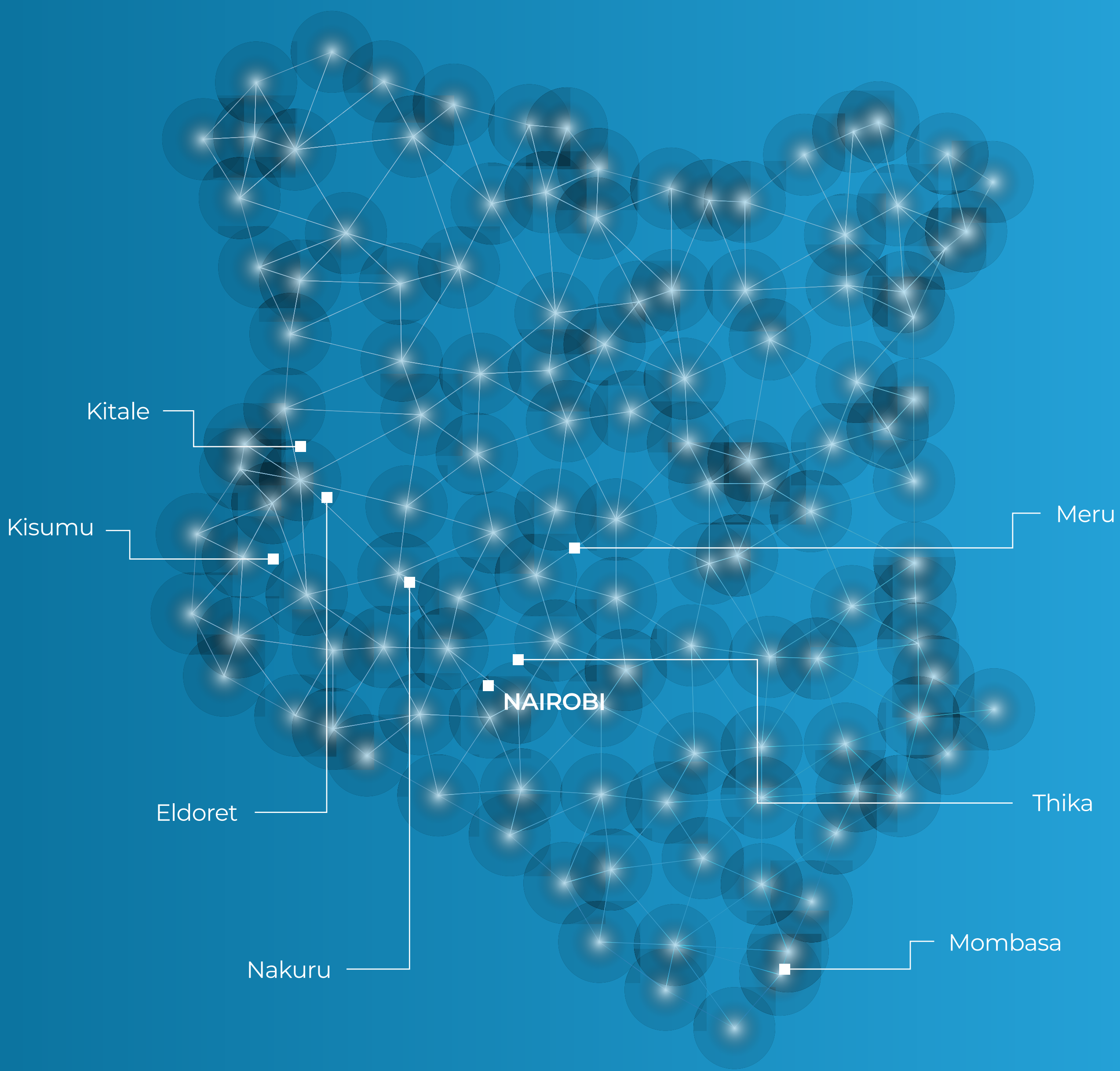
We care for and contribute to our communities.

Product Portfolio Solutions



Local Network

23 Branches Countrywide



Regional Presence

Our Partners

FIRST CAPITAL BANK

FMBcapital Holdings plc is the Mauritius-based holding company of the FMBcapital Group. It is listed on the Malawi Stock Exchange and has banking and finance operations in five SADC countries, namely Botswana, Malawi, Mozambique, Zambia and Zimbabwe.

The FMBcapital Group has consolidated its position as a leading regional commercial bank and its growing SADC footprint serves the cross-border banking needs of businesses operating in the sub-Sahara region.

AFRICINVEST

AfricInvest is an investment and financial services company based in Tunisia. Uniquely positioned as one of the most experienced private equity investors on the continent, AfricInvest has dedicated investment teams focused on Africa, and employs 70 professionals based in ten offices.

TAUSI ASSURANCE

Tausi Assurance Company limited is committed to providing individuals and businesses with a wide range of general Insurance products to protect the things they value most.

We offer, Industrial all risks, Fire and Allied perils, Consequential Loss and Business Interruption, Engineering, Burglary, Marine, Contractors All Risks, Workmen's Compensation, Public Liability, Group Personal Accident, Political Violence and Terrorism, Money, Fidelity Guarantee, Domestic Package, Motor, Personal Accident and many more.

CATALYST PRINCIPAL PARTNERS

Established in 2009 as an Eastern Africa focused private equity fund manager, Catalyst brings together a highly experienced team of seasoned investment professionals with a depth of regional and international credentials and expertise of private equity investing in Africa and across emerging markets. With its depth of experience in investment management, financial advisory, management consulting and strategic planning across a diversity of sectors, Catalyst has substantial capability to proactively provide strategic and operational input to its investee companies.

> Success today requires agility and drive to constantly rethink, reinvigorate, react, and reinvent.
>
> ~ Bill Gates

Corporate Information

Board of Directors

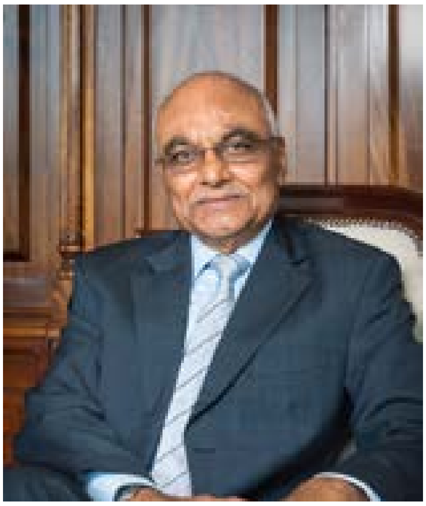
Dr. Rasik C. Kantaria
CHAIRMAN

Dr. Rasik Kantaria is the founder and Chairman of Prime Bank Limited. He holds a Bsc (Economics) degree from London.

Dr. Kantaria is also the founder and Chairman of Prime Captial Holdings Limited. He is a co-founder and former Chairman of First Capital Bank previously known as First Merchant Bank Limited Malawi and Tausi Assurance Company Limited.

Dr. Kantaria served as a director at the Deposit Protection Fund Board appointed by the Central Bank of Kenya. He is chairman and director of many other companies in the tourism, real estate, and manufacturing industries.

He is a long standing Rotarian and for his outstanding contribution towards humanity, he was conferred an Honorary Doctor of Humanities Degree by The United Graduate College & Seminary, USA.



Mr. Shantilal K. Shah
VICE-CHAIRMAN

A Bachelor of Commerce (Honours) graduate and a practicing Accountant, Mr. Shantilal Shah is an FCA (Chartered Accountant, UK), an FCPA (Certified Public Accountant, Kenya) and a CPS (Certified Public Secretary, Kenya).

Mr. Shah is also a director at Tausi Assurance Company Limited.

Mr. Bharat Jani
MANAGING DIRECTOR

Mr. Bharat Jani has vast experience in international banking spanning over 40 years.

He joined Prime Bank in 2001 and was appointed as the CEO in October 2008, having served in the position of General Manager for a period of five years. In 2014, Mr. Jani was elevated to the position of Managing Director of the bank.

He is a qualified, experienced and result oriented banker holding a Masters Degree in Commerce with specialization in Accountancy & Economics.

Mr. Jani holds professional qualifications in Banking & Financial Management.

Board of Directors (continued)

Mr. Amar Kantaria
EXECUTIVE DIRECTOR

Mr. Amar Kantaria is a Bachelor of Arts (Honours) graduate and holds an MBA in International Management.

Mr. Amar Kantaria was appointed as the Executive Director of Prime Bank Limited in 2008 after serving as Deputy Chief Executive for over five years.

Mr. Amar Kantaria is also a Director at Tausi Assurance Company Limited since July 2010.

Mr. James N. Mungai
DIRECTOR

Mr. James Mungai, a Certified Public Accountant is currently the Finance and Administration Director at Pelican Insurance Brokers Ltd.

He has served as the Chairman of the Board of National Hospital Insurance Fund (NHIF) and as a Director of Mayfair Group.

He has worked at the Nairobi City Council and the Ministry of Co-operative and Social Services.

Mr. Terry Davidson
DIRECTOR

Terry Davidson is a veteran banker having spent over 3 decades with Citibank in various geographies and capacities, including Region Head for East and Southern Africa.

He was also Chief Executive Officer of Kenya Commercial Bank for 5 years. For the past few years, Terry has worked as an independent consultant and is on the board of various companies, including First Capital Bank, Zambia, publicly listed KenolKobil, KK Security Group, and Asilia Ltd as well as being Chairman of The New Forests Company.

Mr. Davidson is an adviser to Falcon Investment Advisers for their activities in East Africa. He is a Trustee of Gertrudes Garden Children's Hospital, the Chairman of the Olare Orok and Motorogi Trust and an adviser to the Palmhouse Foundation.

He was previously a founder member of the Kenya Capital Markets Authority, a member of the Kenya Capital Markets Tribunal, Chairman of the Kenya Bankers Association and past council member of the University of Nairobi and the United States International University.

Mr Davidson currently serves as the Chairman of FMBcaptial Holdings plc, the Mauritius-based holding company of the FMBcapital Group.

Board of Directors (continued)

MR. DAVID .G.M HUTCHISON
DIRECTOR

Mr. David G. M. Hutchison joined Prime Bank Board as a director in 2006. He is the Chairman and Independent Non-Executive Director of SCANGROUP Limited, and East African Packaging Industries Limited. He is a Certified Public Accountant and a former Senior Partner of Ernst & Young Eastern Africa.

He has many years of experience in audit, tax advice and financial management, reconstruction and consulting covering various industry sectors, in a diversity of African countries.

He is a Non-Executive Director of ICEA Lion General Insurance Company Limited, ICEA Lion Life Assurance Company Limited, East Africa Reinsurance Company Limited, and Synresins Limited. He is also Chairman and CEO of companies in the Banda Educational and Property Group.

Mr. Jinaro K. Kibet
DIRECTOR

Mr. Jinaro Kipkemoi Kibet was appointed to the board in 2014. An Advocate of the High Court of Kenya for 25 years standing, Mr. Kibet is a founding partner of Triple O law LLP Advocates, a top tier City law firm.

He has had a highly successful career as a litigation practitioner at which time he handled several landmark cases.

He subsequently switched his attention to the Corporate – commercial world of practice and now heads the Corporate and Commercial Department of the Firm.

Mr. Kibet currently serves as the chairman of the Capital Markets Tribunal in addition to sitting on a number of other Boards.

Mr. Farid Mohamed
DIRECTOR

Mr. Mohamed was appointed to the Board in 2016.

A financial advisor to the private sector, Mr. Mohamed has over 25 years experience in structuring and arranging finance for projects ranging from large infrastructure in Europe, South East Asia and Latin America, to projects in East and Southern Africa, covering finance, industrial and energy sectors.

He has previously acted as an advisor to development finance institutions including the World Bank, IFC, DEG and KfW and currently advises public and private companies in Eastern Africa on the development of corporate business plans and arrangement of project and structured financing for new projects and for privatization of infrastructure.

Mr. Mohamed holds a Master of Science (MSc.) and Masters of Business Administration (MBA).

Board of Directors (continued)

Mr. Biniam Yohannes
DIRECTOR

Mr.Biniam Yohannes joined the Prime Bank Board on 8th February 2019. He has over 18 years of experience in private equity, investment banking and emerging markets.

He is the Managing Director of Catalyst Principal Partners, a private equity fund that invests across eastern Africa. Biniam previously worked as a Vice President at Goldman Sachs focused on the infrastructure, technology, media, telecom and project finance sectors.

He holds a Bachelor of Arts in Mathematics from Saint Anselm College, a Bachelor of Engineering and Masters of Engineering Management from Dartmouth College.

Mr. Yohannes is also a director at Tausi Assurance Co. Ltd.

Mr. Skander Khalil Oueslati
DIRECTOR

Mr. Skander K. Oueslati joined Prime Bank Board on 8th February 2019. He holds a Master's degree from Massachusetts Institute of Technology, USA, and Engineering degrees from France's Ecole Polytechnique and Ecole Nationale des Ponts et Chaussées.

Prior to joining AfricInvest Group as a Senior Partner to oversee investments in Africa, he worked for BMCE Bank International in London and the International Finance Corporation in Washington DC, USA. Mr. Oueslati has extensive investment management experience as well as board experience, the latest being his nomination to the board of Tausi Assurance Co. Ltd.

Arun Shah
COMPANY SECRETARY

Mr. Arun Shah has vast experience in accounting and secretarial practice spanning over 40 years.

He was appointed Company Secretary of Prime Bank in 1992, having been involved in the formation of the Bank the same year.

He is a fellow of the Institute of Chartered Accountants in England & Wales. He is also an Associate Member of Institute of Certified Public Accountants of Kenya and Institute of Certified Secretaries of Kenya.

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


Prime Bank
PUTTING YOU FIRST
Send
money abroad
using Prime Bank's
mobile banking app
SimbaPay

Chairman's Statement

> "Operating Environment Following an already sluggish global growth in 2019, strong economic recovery was expected in 2020."

I am delighted to present to you Prime Bank Group's Annual Report and Financial Statements for the year ended December 31st, 2020. Against the backdrop of a challenging year characterized by a global pandemic, the group demonstrated resilience by posting commendable results.

Operating Environment

Following an already sluggish global growth in 2019, strong economic recovery was expected in 2020.

However, such was thwarted by the global outbreak of the COVID-19 pandemic. The pandemic reached every corner of the world, resulting in over 100 million infections and sadly, a death toll of over 2 million people.

The outbreak of the virus restricted movement of people, goods and services with containment measures such as business closures, government mandated 'lock-downs', sharply decelerating the global economy.

The impact on the rest of the world through curtailment of business travel and tourism, unprecedented unemployment, disruption of supply chains, drastic reduction in commodity prices dampened any hope of economic growth.

Economies around the world responded promptly to mitigate the health and economic devastation occasioned by the pandemic through fiscal and monetary stimulus packages.

Kenya, like other sub-Saharan countries was hard hit by the pandemic, with the World Bank estimating the contraction of its GDP by 1 per cent in 2020.

In response to the crisis, the Kenya government deployed both fiscal and monetary policies to support the private sector to help preserve jobs, incomes and the economy at large.

Tax revenue dropped below target, due to the slowdown in economic activities as well as additional tax relief granted to the taxpayers as part of the government's fiscal response.

At the same time, additional expenditure was incurred to strengthen the capacity of the healthcare system to manage infections and protect the most vulnerable households.

The Kenya Shilling depreciated by 7.7 per cent against the US Dollar to close the year at KShs. 109.2 compared to KShs. 101.3 at the end of 2019. This was as a result of unprecedented trade and travel disruption which adversely affected the country's key foreign currency earners.

The banking industry witnessed heightened restructuring and reclassification of loans to cushion borrowers amid the upsurge of Covid-19 pandemic. This in turn led to the industry's decreased earnings.

The Insurance sector maintained stable growth and profitability through the Covid-19 pandemic. The Insurance Regulatory Authority implemented its long-awaited risk-based supervision regime to include the new capital adequacy requirements.

Group Performance
I am pleased to report that the Group, comprising of Prime Bank Limited and Tausi Assurance Company Limited weathered a stormy year to register good performance in 2020 despite a very uncertain and challenging operating environment.

The group recorded a net profit of KShs. 2.39 billion in 2020 compared to KShs. 2.566 billion registered in 2019.

Corporate Governance
As a strong and reputable financial institution with a solid background of 29 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.

Dividends
I am pleased to inform our shareholders that the Board of Directors have recommended a final dividend of KShs. 81 per share.

Corporate Social Initiatives
Prime Bank has continued with its commitment towards caring for the Kenyan society. During the period under review, we refocused our corporate social responsibility programmes towards mitigation and management of Covid-19.

The Bank donated KShs. 2 million to Rotary District 9212 Emergency Response Team, a ventilator to PCEA Kikuyu Hospital, and ultrasound equipment to Kiambu County's Tigoni Hospital.

We also joined hands with community-based organizations such Nyumbani Childrens Home, Hindu Council of Kenya, Giants Group of Nairobi, East Africa Swaminarayan Temple, and Ramgarhia Youth Association among others to support vulnerable families during the pandemic.

The heavy rainfall in March 2020 displaced more than 100,000 people and devastated homes and crops in Western and Nyanza regions. Prime Bank in partnership with the Shree Lohana Mahajan Mandal Kisumu and Sikh Aid launched a food donation drive to provide cooked food to families affected by the floods within Kisumu County.

Looking Ahead
Following the devastating health and economic crisis caused by COVID-19, the global economy appears to be emerging from one of its deepest recessions with recovery being projected in 2021.

The roll out of the Covid-19 vaccines has brightened the economic outlook across the globe, raising hopes of a turnaround. However, renewed waves and new variants of the virus pose concerns for the year ahead.

The World Bank forecasts that the global economy will expand by 4 per cent while Kenya's economy has been tipped to register the fastest growth rate in Africa with a predicted expansion of 6.9 per cent in 2021.

The optimistic global outlook is anchored in the containment of the Covid – 19 pandemic. Whilst locally, favourable weather conditions, increased exports, resumption of tourism, continuing foreign direct investment and the Kenya government's fast tracking of the Big Four Agenda anchored on health, housing, agriculture, and manufacturing are expected to spur economic growth.

Appreciation
In 2020, we continued to make steady progress in product development, digitization of channels and processes, efficient service delivery and improvements in internal controls.

On behalf of the Board of Directors, I thank the management and staff led by the Managing Director Mr. Bharat Jani and Executive Director Mr. Amar Kantaria for delivering commendable results notwithstanding the challenging operating environment.

I take this opportunity to thank my fellow Board members for their wise counsel and support throughout the year.

I extend my appreciation to our regulators, in particular Central Bank of Kenya, Capital Markets Authority, the Treasury, and the Insurance Regulatory Authority for their invaluable guidance and support.

Finally, to our shareholders and customers, I wholeheartedly thank you for your continued loyalty and support. We on our part, assure you of our steadfast commitment to growth and steady progress of your Bank.

Dr. Rasik Kantaria
Chairman

Managing Directors Statement

"The growth outlook for the year 2021 looks promising with the turnaround in trade and tourism as economies recover from Covid-19 pandemic. This has been boosted by the roll out of vaccines and the expected favorable weather to support agricultural activities.."

When the new decade dawned in 2020, nobody anticipated the challenges we would face globally. It was a very extraordinary year. Like in the rest of the world the Covid -19 pandemic dealt a severe blow to the Kenyan economy during 2020, devastating households and businesses across all sectors although some were more affected than others.

That notwithstanding, the Group remained resilient thereby posting satisfactory results.

I am pleased to present to you, our partners, shareholders, and customers the highlights of Prime Bank's financial performance for the year 2020 and our outlook for 2021.

Operating Environment

The year 2020 witnessed a sharp rise in loan provisioning with over 50 per cent of the banking industry's loan book being restructured to cushion borrowers. The industry's focus changed from profitability to support customers and the Government and in turn the economy amid the upsurge of Covid-19 pandemic.

With the restructuring and reclassification of loans, banks interest income was negatively affected.

To help cushion Kenyans during the height of the pandemic, the government introduced stimulus measures of both fiscal and monetary nature. Fiscal measures included reducing Value-Added Tax, Corporation Tax, Personal Tax and Turnover Tax. Monetary measures included revision of the Central Bank Rate, Cash Reserve Ratio, and settlement of pending bills to contractors and acceleration of VAT refunds. Other measures introduced included extension of provisioning requirements, suspension of CRB listing and the establishment of the COVID Emergency Fund.

Internally the Bank constituted a Covid-19 subcommittee to review the Bank`s preparedness, mitigation and response to the pandemic.

In 2020, consolidations remained a key highlight in the banking sector with mergers and acquisitions leading to formations of relatively larger and well capitalized entities.

Bank Performance

The group's net profit closed the year at KShs. 2.39 billion while the Bank's profit stood at KShs. 2.11 billion, representing a 13.5 per cent decline from KShs. 2.44 Billion recorded for previous year.

The Group's balance sheet expanded by 7 per cent to KShs. 118. 25 billion from KShs. 110.68 billion while that of the Bank recorded a similar increase of 7 per cent from KShs. 108.76 billion recorded last year to KShs. 116.20 billion.

During the year under review, the Bank maintained strong capital adequacy, ending the year with core a capital of KShs. 22.56 billion against Central Bank of Kenya's minimum statutory requirements of KShs. 1 billion.

The Bank's capital adequacy ratio remained strong to close the year at 39 per cent against the minimum statutory requirement of 14.5 per cent.

The Bank's total deposits registered a growth of 8.9 per cent from KShs. 81.33 billion to KShs. 88.5 billion.

Loans and advances to customers closed the year at KShs. 35.97 billion while our net non- performing loans remained low at 5 per cent.

The Bank's liquidity ratio stood at 80.5 per cent well above the CBK's minimum statutory requirement of 20 per cent.

Operational Highlights

In the year 2020, we continued to invest in diversified delivery channels to ensure our customers access banking services both conveniently and efficiently.

To this end, we launched innovative banking solutions to offer our customers easy and comprehensive banking experiences to support their financial needs. The five transactional accounts launched have been aligned to support Personal, SME and Corporate business segments of the Bank's customer base.

We also upgraded our mobile banking App PrimeMobi to offer users additional features such as International Money Transfer through SimbaPay and E-Citizen service payments through PesaLink.

During the year, we re-aligned our local branch network to better serve our customers through merging our Two Rivers Mall with the newly opened branch at the Village Market in Nairobi. Our branch at Garden City was also merged with Parklands branch located at the Doctor's Park.

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

Measures such as wearing of masks, proper hand washing with running water and soap, use of hand sanitizers, wearing gloves for those handling cash were adopted by our staff

Regular disinfection of our office spaces and ATMs, measuring of temperature were instituted at all our contact points as precautionary measures to reduce the spread of Covid – 19.

Looking Ahead

The growth outlook for the year 2021 looks promising with the turnaround in trade and tourism as economies recover from Covid-19 pandemic. This has been boosted by the roll out of vaccines and the expected favorable weather to support agricultural activities.

Low growth in revenue, balance sheet, and domestic credit uptake are likely to persist in the banking industry as the country gradually overcomes the Covid-19 shocks.

At Prime Bank, we will continue to implement measures with the aim of facilitating our customers' access to financial services as we grapple with the COVID-19 pandemic.

Our transformation journey is in top gear as we continue to deepen customer centricity through building close and strong relationships and developing a deep understanding of our customers' businesses and needs through a newly adopted Customer Relationship Management System.

In line with our strategic plan of supporting MSME and SME segments and in recognizing the integral role they play in the growth of the economy including employment creation, we have this year rolled out financial literacy programmes with the aim of building awareness and capacity amongst our customers in the two segments.

Going forward, our local expansion program remains on course as we look to further tap into the Rift Valley and Nyanza Regions.

With our transformation plan coupled with conducive operating environment, we remain focused on meeting expectations of our customers, shareholders, partners, and regulators in 2021 and beyond.

Appreciation

On behalf of the management and staff of Prime Bank, I extend appreciation to the Board of Directors under the leadership of Dr. Rasik Kantaria for their continuous support, encouragement, and guidance during the 2020 financial year.

The support, loyalty and cooperation from our partners, shareholders, and customers throughout the year immensely contributed to the Bank's resilient performance in 2020.

To our staff, your dedication, commitment, and team work has always been the driving force behind the brand. At the height of the pandemic, you uninterruptedly rendered services to our customers, keeping true to our motto of always putting them first.

To our shareholders, on behalf of the management team, I assure you of the Bank's continuing progress in growth and profitability to maximum returns on your investment.

Mr. Bharat Jani
Managing Director

Report of Directors FOR THE YEAR ENDED 31 DECEMBER 2020

The Directors have pleasure in submitting their report together with the consolidated audited financial statements for the year ended 31 December 2020.

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 16.

Directorate
The directors who held office during the year and to the date of this report are set out on pages 12 to 16. In accordance with Article 91 of the Articles of Association Mr. S. Oueslati and Mr. B. Yohannes 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 subsidiaries provide general insurance services with the exception of aviation insurance services as well as Insurance agency services.

Dividend
The directors propose a final dividend of KShs. 81 per share (2019: KShs. Nil), equivalent to a total sum of KShs. 538.60 million (2019: KShs. Nil). During the year, the Company paid an interim dividend of KShs 68 per share (2019: KShs. 40 per share) equivalent to Kshs 452.15 million (2019 interim dividend: Kshs 265.98 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 7.4 million has been charged to profit or loss in the year.

Business review
Total assets of the Bank grew from Kshs 108.8 billion in 2019 to Kshs 116.3 billion in 2020; deposits grew from
Kshs 81.3 billion to Kshs 88.6 billion in 2020, while profit after tax decreased by 13.5% from Kshs 2.4 billion to Kshs 2.1 billion in 2020.

Management is aware of the liquidity risks that are inherent in the Banking sector and have maintained the Bank's liquidity ratio average at 79%, 59% 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 5.9% way below the industry average.
Business review (Continued)

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

Staff training and hiring of new talent is at the heart of Prime Bank's long-term growth plans.

Future outlook
Global GDP is estimated to have contracted by 3.5% in 2020 from a growth of 3.2% in 2019 mainly due to the adverse effects of the Covid 19 on businesses and households.

Kenyan GDP grew by an estimated 0.6% in 2020 from 5.9% in 2019 due to the same adverse effects of Covid 19.

The outlook for the global economy is positive with GDP expected to grow by 5.5% in 2021 supported by the roll out of Covid 19 vaccination programmes both globally and locally and the subsequent easing of containment measures.

The global expected recovery will support the recovery of the Kenyan economy which is expected to grow by 6.4% in 2021 although

Report of Directors FOR THE YEAR ENDED 31 DECEMBER 2020 (continued)

downside risks remain with regard to increase in Covid 19 infections and the emergence of new variants.

The Bank will continue to be vigilant in monitoring the effects of Covid 19 on its customers and staff in order to mitigate the inherent risks.

The Bank will advance its digital transformation journey to mitigate the risk of Covid 19 by embracing technology driven products and services. This is expected to reduce operational costs ,optimize on technological investments and also increase non funded income.

Approval of financial statements

The financial statements were approved at a meeting of the Board of Directors held on 22 March 2021.

By order of the board

....

Company Secretary

Nairobi, Kenya

Statement of Directors' Responsibility

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 22 March 2021 and signed on its behalf by:

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

Statement Of Corporate Governance on the Financial Statements

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 eight 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 2020 5

Name of Director	Number of meetings attended
Mr. R. C. Kantaria (Chairman)	5
Mr. S. K. Shah (Vice Chairman)	5
Mr. A. R. Kantaria (Executive)	5
Mr. Bharat Jani (Managing)	5
Mr. D. G. M. Hutchison	5
Mr. J. N. Mungai	5
Mr. T. M. Davidson	3
Mr. J. K. Kibet	4
Mr. F. Mohamed	5
Mr. S. Oueslati	5
Mr. B. Yohannes	5

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, Mr. A Kantaria, Executive Director, Head of Business Development, and Mr Bharat Jani, Managing Director are the other members of the committee. 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

Statement Of Corporate Governance on the Financial Statements (continued)

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, 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, Mr Biniam Yohannes and Mr. David Hutchison non - Executive Directors are members. The other members are 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.

Statement Of Corporate Governance on the Financial Statements (continued)

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 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 2020.

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 subsidiaries (together, the "Group"), set out on pages 32 to 126, each of which comprise a statement of financial position as at 31 December 2020 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 2020 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 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.

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

Report on the audit of the financial statements (continued)

Responsibilities of the Directors for the Financial Statements

The Directors are responsible for the preparation 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.

Report of the Independent Auditors

TO THE MEMBERS OF PRIME BANK LIMITED (continued)

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:

- 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 OF THE INDEPENDENT AUDITORS
TO THE MEMBERS OF PRIME BANK LIMITED
(Continued)

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 pages 3 to 4 is consistent with the accompanying bank and consolidated financial statements.

Deloitte & Touche

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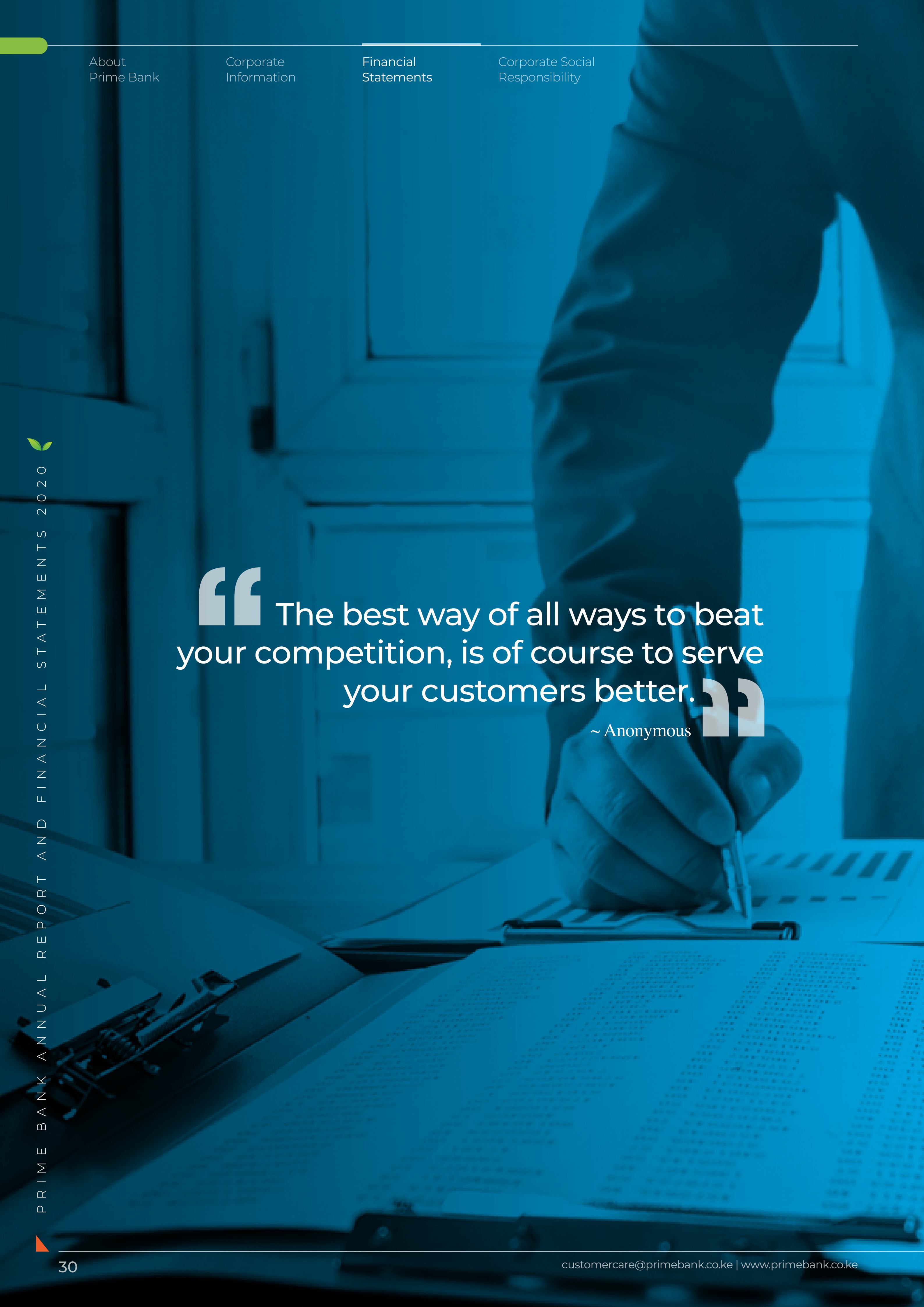
Certified Public Accountants (Kenya)

26 March 2021

CPA Charles Munkonge Luo,
Practising certificate No. 2294

Signing partner responsible for the independent audit



"The best way of all ways to beat your competition, is of course to serve your customers better."

~ Anonymous

Financial Statements

Consolidated Statement of Financial Position

AS AT 31 DECEMBER 2020

	Note	2020 KShs '000	2019 KShs '000
ASSETS			
Cash and balances with the Central Bank of Kenya	5	5,607,376	6,084,771
Placements and balances with other banks	6	10,330,438	5,637,819
Treasury bills and term notes	7	19,546,369	28,549,412
Investment in securities measured at amortised cost	8	23,604,068	18,522,498
Investment in securities at fair value through other comprehensive income	9	17,133,607	7,752,639
Investment in ordinary shares at fair value through other comprehensive income	10(a)	1,232,158	3,161,337
Investment in ordinary shares-at fair value through profit or loss	10(b)	92,456	108,815
Loans and advances	11	36,036,557	36,976,216
Other assets	12	1,014,943	1,003,660
Right of use - leasehold land	14	670,350	487,327
Property and equipment	15(a)	1,550,818	1,454,067
Right of use assets	16	287,436	161,456
Intangible assets	17	783,639	718,414
Tax recoverable	24	32,431	57,668
Deferred tax asset	18	330,721	-
TOTAL ASSETS		118,253,367	110,676,099
LIABILITIES AND EQUITY			
LIABILITIES			
Balances due to banks and financial institutions	19	345,079	648,906
Medium term note	20	1,094,000	1,014,000
Deposits from customers	21	88,230,074	80,988,623
Lease liabilities	22	317,970	187,169
Other liabilities	23	2,043,758	1,742,502
Corporate tax payable	24	12,838	-
Deferred tax liability	18	66,927	638,671
TOTAL LIABILITIES		92,110,646	85,219,871
EQUITY			
Share capital	25	6,649,390	6,649,390
Share premium	26	5,230,109	5,230,109
Other reserves	27	13,326,871	13,238,838
Proposed dividends	37	538,601	-
Equity attributable to equity holders of the parent		25,744,971	25,118,337
Non-controlling interests		397,750	337,891
TOTAL EQUITY		26,142,721	25,456,228
TOTAL LIABILITIES AND EQUITY		118,253,367	110,676,099

These financial statements on pages 32 to 126 were approved by the Board of Directors on 22 March 2021 and signed on its behalf by: -

Director | Director | Director | Director

Bank Statement of Financial Position

AS AT 31 DECEMBER 2020

	Note	2020 KShs '000	2019 KShs '000
ASSETS			
Cash and balances with the Central Bank of Kenya	5	5,605,588	6,083,892
Placements and balances with other banks	6	10,268,955	5,559,913
Treasury bills and term notes	7	19,546,369	28,549,412
Investment securities measured at amortised cost	8	22,663,839	17,659,263
Investment in bonds at fair value through other comprehensive income	9	16,399,465	7,171,052
Investment in ordinary shares at fair value through other comprehensive income	10(a)	1,138,296	3,044,657
Loans and advances	11	35,968,295	36,894,918
Other assets	12	589,360	567,216
Investment in subsidiaries	13	1,395,692	1,395,692
Right of use - leasehold land	14	579,117	394,827
Property and equipment	15(b)	1,304,502	1,202,706
Right of use assets	16	287,436	161,456
Intangible assets	17	125,956	70,953
Tax recoverable	24	-	29,570
Deferred Tax	18	330,721	-
TOTAL ASSETS		116,203,591	108,785,527
LIABILITIES AND EQUITY			
LIABILITIES			
Balances due to banks and financial institutions	19	345,079	648,906
Medium term note	20	1,094,000	1,014,000
Deposits from customers	21	88,588,626	81,337,811
Lease liability	22	317,970	187,169
Other liabilities	23	943,477	571,837
Deferred tax liability	18	-	570,441
Tax payable	24	12,838	-
TOTAL LIABILITIES		91,301,990	84,330,164
EQUITY			
Share capital	25	6,649,390	6,649,390
Share premium	26	5,230,109	5,230,109
Other reserves	27	12,483,501	12,575,864
Proposed dividends	37	538,601	-
TOTAL EQUITY		24,901,601	24,455,363
TOTAL LIABILITIES AND EQUITY		116,203,591	108,785,527

These financial statements on pages 32 to 126 were approved by the Board of Directors on 22 March 2021 and signed on its behalf by: --

Director Director Director Director

Consolidated Statement of Profit or Loss

AS AT 31 DECEMBER 2020

	Note	2020 KShs '000	2019 KShs '000
Interest income	28	9,659,840	9,236,588
Interest expense	29	(5,012,609)	(4,847,473)
Net interest income		4,647,231	4,389,115
Fees and commission income	30	457,821	554,597
Foreign exchange gains		411,483	346,956
Dividend income		14,265	1,524
Other income	31	1,356,983	1,259,101
		6,887,783	6,551,293
Allowance for impairment of financial instruments	32	(1,159,953)	(351,743)
Other operating expenses	33	(3,536,076)	(3,507,711)
Profit before tax	34	2,191,754	2,691,839
Income tax credit/(expense)	24	195,988	(72,490)
Profit for the year		2,387,742	2,619,349
Attributable to:			
Equity holders of the parent		2,304,645	2,566,788
Non-controlling interests		83,097	52,561
		2,387,742	2,619,349
Earnings per share (basic and diluted) (KShs):			
Attributed to:			
Equity holders of the parent (Kshs)	35	347	386

Consolidated Statement of Comprehensive Income

AS AT 31 DECEMBER 2020

	Note	2020 KShs '000	2019 KShs '000
Profit for the year		2,387,742	2,619,349
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		216,047	23,741
Deferred income tax on fair value gain		(61,724)	(7,522)
		154,323	16,219
Items that will not be reclassified to profit or loss in subsequent periods:			
Fair value loss on fair value through other comprehensive income - Equity investments	10(a)	(1,965,346)	(1,055,082)
Deferred income tax on equity investments		582,758	323,401
Revaluation surplus on property and equipment		-	22,440
Revaluation surplus on leasehold land		-	2,534
Deferred income tax on revaluation surplus		-	(7,492)
		(1,382,588)	(714,199)
Other comprehensive loss for the year, net of tax		(1,228,265)	(697,980)
Total comprehensive income for the year, net of tax		1,159,477	1,921,369
Attributable to:			
Equity holders of the parent		1,078,793	1,861,274
Non-controlling Interest		80,684	60,095
		1,159,477	1,921,369

Bank Statement of Profit or Loss

AS AT 31 DECEMBER 2020

	Note	2020 KShs '000	2019 KShs '000
Interest income	28	9,659,840	9,236,588
Interest expense	29	(5,012,609)	(4,847,473)
Net interest income		4,647,231	4,389,115
Fees and commission income	30	457,821	554,597
Foreign exchange gains		411,483	346,956
Dividend income		101,440	98,385
Other income	31	133,993	77,566
		5,751,968	5,466,619
Allowance for impairment of financial instruments	32	(1,158,133)	(351,743)
Other operating expenses	33	(2,744,541)	(2,658,382)
Profit before tax	34	1,849,294	2,456,494
Income tax credit/ (expense)	24	264,852	(12,902)
Profit for the year		2,114,146	2,443,592
Earnings per share (basic and diluted) (Kshs)	35	318	368

Bank Statement of Comprehensive Income

AS AT 31 DECEMBER 2020

	Note	2020 KShs '000	2019 KShs '000
Profit for the year		2,114,146	2,443,592
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		205,745	25,074
Deferred income tax on fair value gain		(61,724)	(7,522)
		144,021	17,552
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)	(1,942,528)	(1,078,004)
Deferred income tax on equity investments		582,758	323,401
		(1,359,770)	(754,603)
Other comprehensive loss for the year, net of tax		(1,215,749)	(737,051)
Total comprehensive income for the year, net of tax		898,397	1,706,541

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 2020

	Share capital KShs '000	Share Premium KShs '000	Retained earnings KShs '000	Proposed Dividends KShs '000	FVTOCI reserve KShs '000	Asset revaluation reserve KShs '000	Total KShs '000	Non-controlling interests KShs '000	Total Equity KShs '000
At January 2019 (as previously 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)	-	-	(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	-	-	-	-	(719,625)	14,111	(705,514)	7,534	(697,680)
As at 31 December 2019	6,649,390	5,230,109	10,819,755	-	1,860,519	558,564	25,118,337	337,891	25,456,228
Balance at 1 January 2020	6,649,390	5,230,109	10,819,755	-	1,860,519	558,564	25,118,337	337,891	25,456,228
Dividend paid-2020	-	-	(452,159)	-	-	-	(452,159)	(20,825)	(472,984)
Total comprehensive income:									
- profit for the year	-	-	2,304,645	-	-	-	2,304,645	83,097	2,387,742
- other comprehensive loss –FVTOCI	-	-	-	-	(1,225,852)	-	(1,225,852)	(2,413)	(1,228,265)
Proposed dividends	-	-	(538,601)	538,601	-	-	-	-	-
As at 31 December 2020	6,649,390	5,230,109	12,133,640	538,601	634,667	558,564	25,744,971	397,750	26,142,721

Bank Statement of Changes in Equity

AS AT 31 DECEMBER 2020

	Share capital KShs '000	Share Premium KShs '000	Retained earnings KShs '000	Proposed Dividends KShs '000	FVTOCI reserve KShs '000	Reval-uation Reserve (Fixed Assets) KShs '000	Total equity KShs '000
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	-	-	(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
Balance at 1 January 2020	6,649,390	5,230,109	10,188,271		1,845,587	542,006	24,455,363
Dividend paid-2020	-	-	(452,159)	-	-	-	(452,159)
Total comprehensive income:							
– Profit for the year	-	-	2,114,146	-	-	-	2,114,146
Other comprehensive loss	-	-	-	-	(1,215,749)	-	(1,215,749)
Proposed dividends	-	-	(538,601)	538,601	-	-	-
At 31 December 2020	6,649,390	5,230,109	11,311,657	538,601	629,838	542,006	24,901,601

Consolidated Statement of Cash flows

FOR THE YEAR ENDED 31 DECEMBER 2020

	Note	2020 KShs '000	2019 KShs '000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		2,191,754	2,691,839
Adjustments for:			
Gain on disposal of property and equipment		(5,332)	(3,778)
Dividends received		(14,265)	(1,524)
Unrealised foreign exchange loss/(gain)		59,237	(293)
Investment in privately held shares written off	10(a)	-	25,318
Fair value loss/(gain) on fair value through profit or loss	10(b)	16,359	(3,838)
Provision for staff leave		-	2,515
Allowances for impairment of financial instruments	32	1,159,953	351,743
Amortisation of leasehold land	14	11,977	9,109
Depreciation of property and equipment	15	204,171	189,797
Depreciation of right of use assets	16	98,289	71,210
Amortisation of intangible assets	17	61,218	44,814
Operating cash flows before movements in working capital		3,783,361	3,376,912
Increase in cash ratio reserve		(275,067)	(395,275)
Decrease /(increase) in loans and advances to customers		188,325	(973,606)
Increase in other assets		(11,283)	(122,889)
Increase in deposits from customers		7,241,451	9,886,570
Increase / (decrease) in other liabilities		131,307	(365,949)
Cash flows generated from operating activities		11,058,094	11,405,763
Income taxes paid	24	(147,368)	(209,459)
NET CASH FLOWS FROM OPERATING ACTIVITIES		10,910,726	11,196,304
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from sale of property and equipment		12,471	4,354
Dividend income		14,265	1,524
Proceeds from redemption of investment securities measured at amortised cost	8	1,248,232	3,242,505
Proceeds from redemption of treasury bills and term notes	7	31,100,000	6,650,000
Proceeds from sale of investments in bonds measured at FVTOCI	9	2,340,330	11,731,774
Purchase of investments in ordinary shares at FVTPL	10(b)	-	11,906
Purchase of investment securities measured at amortised cost	8	(6,411,652)	(5,274,551)
Purchase of treasury bills and term notes	7	(22,178,591)	(31,383,791)
Purchase of investments in bonds measured at FVTOCI	9	(11,581,487)	(4,517,479)
Purchase of investments in ordinary shares at FVTOCI	10(a)	(14,354)	(88,932)
Purchase of leasehold land	14	(195,000)	-
Purchase of property and equipment	15	(308,061)	(246,774)
Purchase of intangible assets	17	(126,443)	(29,850)
NET CASH FLOWS USED IN INVESTING ACTIVITIES		(6,100,290)	(19,899,314)

Consolidated Statement of Cash flows (continued)

FOR THE YEAR ENDED 31 DECEMBER 2020

	Note	2020 KShs '000	2019 KShs '000
CASH FLOWS FROM FINANCING ACTIVITIES			
Dividends paid to equity holders of the parent	37	(452,159)	(265,975)
Dividends paid to non -controlling interests		(20,825)	(9,253)
Repayment of lease liability	22	(93,468)	(69,673)
NET CASH FLOWS USED IN FINANCING ACTIVITIES		(566,452)	(344,901)
Net increase/(decrease) in cash and cash equivalents		4,243,984	(9,047,911)
Cash and cash equivalents at 1 January		8,681,408	17,729,319
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	38	12,925,392	8,681,408

Bank Statement of Cash flows

FOR THE YEAR ENDED 31 DECEMBER 2020

	Note	2020 KShs '000	2019 KShs '000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		1,849,294	2,456,494
Adjustments for:			
Gain on disposal of property and equipment		(5,312)	(3,405)
Dividends received		(101,440)	(98,385)
Unrealised foreign exchange loss/(gain)		59,237	(293)
Provision for staff leave		-	2,515
Investment in privately held shares written off	10(a)	-	25,318
Allowances for impairment of loans and advances	32	1,158,133	351,743
Amortisation of leasehold land	14	10,710	7,842
Depreciation of property and equipment	15(b)	192,842	178,752
Depreciation of right of use assets	16	98,289	71,210
Amortisation of intangible assets	17	56,913	43,402
Operating cash flows before movements in working capital		3,318,666	3,035,193
Increase in cash ratio reserve		(275,066)	(395,275)
Decrease/(increase) in loans and advances to customers		176,906	(1,027,281)
Increase in other assets		(22,144)	(103,729)
Increase in deposits from customers		7,250,815	9,888,107
Increase/(decrease) in other liabilities		201,691	(503,417)
Cash flows from operating activities		10,650,868	10,893,598
Income taxes paid	24	(72,868)	(112,202)
NET CASH FLOWS FROM OPERATING ACTIVITIES		10,578,000	10,781,396
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from sale of property and equipment		12,379	3,815
Dividend income		101,440	98,385
Proceeds from redemption of treasury bills and term notes	7	31,100,000	6,650,000
Proceeds from redemption of investment securities measured at amortised cost	8	1,169,875	3,219,539
Proceeds from sale of investments in bonds measured at FVTOCI	9	2,340,330	11,719,170
Purchase of treasury bills and term notes	7	(22,178,591)	(31,383,791)
Purchase of investment securities measured at amortised cost	8	(6,256,227)	(5,251,390)
Purchase of investments in securities measured at FVTOCI	9	(11,439,105)	(4,221,252)
Purchase of shares at FVTOCI	10	(14,354)	(78,979)
Purchase of leasehold land	14	(195,000)	-
Purchase of property and equipment	15	(301,705)	(236,850)
Purchase of intangible assets	17	(111,916)	(25,076)
NET CASH FLOWS USED IN INVESTING ACTIVITIES		(5,772,874)	(19,506,429)

Bank Statement of Cash flows (continued)

FOR THE YEAR ENDED 31 DECEMBER 2020

	Note	2020 KShs '000	2019 KShs '000
CASH FLOWS FROM FINANCING ACTIVITIES			
Dividends paid during the year	37	(452,159)	(265,975)
Repayment of lease liabilities	22	(93,468)	(69,673)
NET CASH FLOWS USED IN FINANCING ACTIVITIES		(545,627)	(335,648)
Net increase/(decrease) in cash and cash equivalents		4,259,499	(9,060,681)
Cash and cash equivalents at 1 January		8,602,623	17,663,304
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	38	12,862,122	8,602,623

Notes to the Consolidated Financial Statements

AS AT 31 DECEMBER 2020

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

The following new and revised IFRSs were effective in the current year but had no material impact on the amounts reported in these financial statements.

Impact of the initial application of Covid-19-Related Rent Concessions Amendment to IFRS 16

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

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

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

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

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

The adoption of the amendment has not had a material impact on the amounts reported in these financial statements or the accompanying disclosures.

Amendments to References to the Conceptual Framework in IFRS Standards

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

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

Amendments to IAS 1 and IAS 8 Definition of material

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

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

Notes to the Consolidated Financial Statements (continued)

AS AT 31 DECEMBER 2020

2. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

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

(i) Relevant new standards and amendments to published standards effective for the year ended 31 December 2020 (continued)

Amendments to IAS 1 and IAS 8 Definition of material (continued)

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

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

(ii) New and revised IFRS Standards in issue but not yet effective for the year ended 31 December 2020

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

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

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

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 anticipate that the application of these amendments may have an impact on the financial statements in future periods should such transactions arise.

Amendments to IAS 1 – Classification of liabilities as Current or Non-current

The amendments to IAS 1 affect only the presentation of liabilities as current or non-current in the statement of financial position and not the amount or timing of recognition of any asset, liability, income or expenses, or the information disclosed about those items.

The amendments clarify that the classification of liabilities as current or non-current is based on rights that are in existence at the end of the reporting period, specify that classification is unaffected by expectations about whether an entity will exercise its right to defer settlement of a liability, explain that rights are in existence if covenants are complied with at the end of the reporting period, and introduce a definition of 'settlement' to make clear that settlement refers to the transfer to the counterparty of cash, equity instruments, other assets or services.
The amendments are applied retrospectively for annual periods beginning on or after 1 January 2023, with early application permitted.

Notes to the Consolidated Financial Statements (continued)

AS AT 31 DECEMBER 2020

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 for the year ended 31 December 2020 (continued)

Amendments to IAS 37 – Onerous Contracts—Cost of Fulfilling a Contract

The amendments specify that the 'cost of fulfilling' a contract comprises the 'costs that relate directly to the contract'. Costs that relate directly to a contract consist of both the incremental costs of fulfilling that contract (examples would be direct labour or materials) and an allocation of other costs that relate directly to fulfilling contracts (an example would be the allocation of the depreciation charge for an item of property, plant and equipment used in fulfilling the contract).

The amendments apply to contracts for which the entity has not yet fulfilled all its obligations at the beginning of the annual reporting period in which the entity first applies the amendments. Comparatives are not restated. Instead, the entity shall recognise the cumulative effect of initially applying the amendments as an adjustment to the opening balance of retained earnings or other component of equity, as appropriate, at the date of initial application. The amendments are effective for annual periods beginning on or after 1 January 2022, with early application permitted.

Annual Improvements to IFRS Standards 2018–2020

The annual improvements include amendments to the following standards relevant to the Group:

IFRS 9 Financial Instruments

The amendment clarifies that in applying the '10 per cent' test to assess whether to derecognise a financial liability, an entity includes only fees paid or received between the entity (the borrower) and the lender, including fees paid or received by either the entity or the lender on the other's behalf. The amendment is applied prospectively to modifications and exchanges that occur on or after the date the entity first applies the amendment. The amendment is effective for annual periods beginning on or after 1 January 2022, with early application permitted.

IFRS 16 Leases

The amendment removes the illustration of the reimbursement of leasehold improvements. As the amendment to IFRS 16 only regards an illustrative example, no effective date is stated.

(iii) Early adoption of standards

The Group and the Bank did not early-adopt any new or amended standards in 2020.

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.

(b) Basis of consolidation

The consolidated financial statements comprise the financial statements of the Bank and its subsidiaries as at 31 December 2020. 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

Notes to the Consolidated Financial Statements (continued)

AS AT 31 DECEMBER 2020

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(b) Basis of consolidation (continued)

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.

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

Notes to the Consolidated Financial Statements (continued)

AS AT 31 DECEMBER 2020

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(c) Business combinations and goodwill (continued)

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.

(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.

Notes to the Consolidated Financial Statements (continued)

AS AT 31 DECEMBER 2020

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(e) Financial assets and liabilities

Measurement methods (continued)

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.

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,

Notes to the Consolidated Financial Statements (continued)

AS AT 31 DECEMBER 2020

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(e) Financial assets and liabilities (continued)

Financial assets (continued)

(i) Classification and subsequent measurement (continued)

Debt instruments (continued)

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 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.

Notes to the Consolidated Financial Statements (continued)

AS AT 31 DECEMBER 2020

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(e) Financial assets and liabilities

(i) Classification and subsequent measurement (continued)

Equity instruments (continued)

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.

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

Notes to the Consolidated Financial Statements (continued)

AS AT 31 DECEMBER 2020

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(e) Financial assets and liabilities (continued)

Financial liabilities (continued)

(i) Derecognition (continued)

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.

(ii) 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

(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

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

Notes to the Consolidated Financial Statements (continued)

AS AT 31 DECEMBER 2020

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(g) Recognition of income and expenses (continued)

(i) Interest income and expense (continued)

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.

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.

Notes to the Consolidated Financial Statements (continued)

AS AT 31 DECEMBER 2020

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(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.

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.

Notes to the Consolidated Financial Statements (continued)

AS AT 31 DECEMBER 2020

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(k) Taxation (continued)

2. Deferred tax (continued)

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 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.

Notes to the Consolidated Financial Statements (continued)

AS AT 31 DECEMBER 2020

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(m) Leases (continued)

- 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 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

Notes to the Consolidated Financial Statements (continued)

AS AT 31 DECEMBER 2020

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(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.

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.

(r) Comparatives

Where necessary, comparative figures have been adjusted to conform with changes in presentation in the current year.

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

Control over Prime Merchant Insurance Agency

Note 13 describes that Prime Merchant Insurance Agency Limited (PMIA) is a subsidiary of the Bank even though the Group only has a 40% ownership interest and voting rights. The Directors of the Bank assessed whether or not the Bank has control over PMIA based on whether the Bank has practical ability to direct the relevant activities of PMIA unilaterally. In making their judgement, the directors considered the control it has over the activities of PMIA. If the directors had concluded that the 40% ownership interest was insufficient to give the Bank control, PMIA would instead have been classified as an associate and the Bank would have accounted for it using the equity method of accounting instead of consolidation of its financial performance, financial position and cash flows.

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

Notes to the Consolidated Financial Statements (continued)

AS AT 31 DECEMBER 2020

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

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

Business model assessment (continued)

their performance measured, the risks that affect the performance of the assets and how these are managed and how the managers of the assets are compensated. The Bank monitors financial assets measured at amortised cost that are derecognised prior to their maturity to understand the reason for their disposal and whether the reasons are consistent with the objective of the business for which the asset was held. Monitoring is part of the Bank's continuous assessment of whether the business model for which the remaining financial assets are held continues to be appropriate and if it is not appropriate whether there has been a change in business model and so a prospective change to the classification of those assets. No such changes were required during the periods presented.

Significant increase in credit risk

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

Establishing groups of assets with similar credit risk characteristics

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

Models and assumptions used

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

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. COVID-19 related judgements are disclosed under note 45(a).

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 accounting for operating leases 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 2020

5. CASH AND BALANCES WITH CENTRAL BANK OF KENYA

	GROUP		BANK	
	2020 KShs'000	**2019 KShs'000**	**2020 KShs '000**	**2019 KShs'000**
Cash in hand	490,935	510,763	489,148	509,885
Balances with Central Bank of Kenya:				
-Restricted balances (Cash Reserve Ratio)	2,687,342	2,412,276	2,687,342	2,412,276
-Unrestricted balances	2,061,860	2,852,003	2,061,859	2,852,003
Cheques and items for clearing	367,239	309,729	367,239	309,728
	5,607,376	6,084,771	5,605,588	6,083,892

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 2020, the Cash Reserve Ratio requirement was 4.25% (2019 – 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 4.25%.

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

6. PLACEMENTS AND BALANCES WITH OTHER BANKS

	GROUP		BANK	
	2020 KShs'000	**2019 KShs'000**	**2020 KShs '000**	**2019 KShs'000**
Lending to other banks and financial institutions	949,340	931,769	887,857	853,862
Lending and balances with banks outside Kenya	9,381,098	4,706,050	9,381,098	4,706,051
	10,330,438	5,637,819	10,268,955	5,559,913

Notes to the Consolidated Financial Statements (continued)

AS AT 31 DECEMBER 2020

7. TREASURY BILLS AND TERM NOTES

	Group and Bank	
	2020 KShs '000	2019 KShs '000
At 1 January	28,549,412	3,841,412
Purchase of investment securities maturing after 91 days	22,178,591	31,383,791
Purchase of investment securities maturing within 91 days	-	602
IFRS 9 provision	(81,634)	(26,393)
Retirement of investment securities	(31,100,000)	(6,650,000)
At 31 December	19,546,369	28,549,412
Treasury bills:		
Maturing within 91 days of the date of acquisition	-	-
Maturing after 91 days to 182 days of the date of acquisition	699,132	-
Maturing after 182 days of the date of acquisition	18,908,871	28,555,805
IFRS 9 provision	(81,634)	(26,393)
Term notes:		
Maturing within 91 days of the date of acquisition	20,000	20,000
	19,546,369	28,549,412

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 2020 was 8.39% (2019: 9.22%).

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

8. INVESTMENT IN SECURITIES MEASURED AT AMORTISED COST

	GROUP		BANK	
	2020 KShs'000	2019 KShs'000	2020 KShs '000	2019 KShs'000
At 1 January	18,522,498	16,506,914	17,659,263	15,643,082
Purchase of investment securities	6,411,652	5,274,551	6,256,227	5,251,390
Retirement of investment securities	(1,248,232)	(3,242,505)	(1,169,875)	(3,219,539)
IFRS 9 provision	(81,850)	(16,462)	(81,776)	(15,670)
At 31 December	23,604,068	18,522,498	22,663,839	17,659,263
Treasury bonds maturing after 182 days of the date of acquisition	23,604,068	18,522,498	22,663,839	17,659,263

Notes to the Consolidated Financial Statements (continued)

AS AT 31 DECEMBER 2020

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	
	2020 KShs'000	2019 KShs'000	2020 KShs '000	2019 KShs'000
As at 1 January	7,752,639	14,954,169	7,171,052	14,654,392
- Purchase of investment securities	11,581,487	4,517,479	11,439,105	4,221,252
Sales (maturity) of investment securities	(2,340,330)	(11,731,774)	(2,340,330)	(11,719,170)
Foreign exchange loss	(1,050)	(4,309)	(1,050)	(4,309)
IFRS 9 provision	(75,186)	(6,667)	(75,057)	(6,187)
Gain on fair valuation	216,047	23,741	205,745	25,074
As at 31 December	17,133,607	7,752,639	16,399,465	7,171,052
The maturity profile is as follows:				
Within one year	4,850,977	1,009,088	4,850,977	988,970
After one year but within two years	-	315,591	-	62,500
After two but within five years	2,597,610	465,315	2,597,610	2,145,703
After five years	9,760,206	5,969,312	9,025,935	3,980,066
IFRS 9 provision	(75,186)	(6,667)	(75,057)	(6,187)
	17,133,607	7,752,639	16,399,465	7,171,052

10. INVESTMENT IN ORDINARY SHARES

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

	GROUP		BANK	
	2020 KShs'000	2019 KShs'000	2020 KShs '000	2019 KShs'000
Investment in listed shares (note 10 (a)(i))	963,401	2,928,747	869,539	2,812,067
Investment in privately held shares (note 10 (a)(ii))	268,757	232,590	268,757	232,590
Total investment in ordinary	1,232,158	3,161,337	1,138,296	3,044,657
i) Investment in listed shares:				
Investment as at 1 January	2,928,747	3,891,293	2,812,067	3,807,488
Additions	-	9,953	-	-
Loss in fair value	(1,965,346)	(972,499)	(1,942,528)	(995,421)
As at 31 December	963,401	2,928,747	869,539	2,812,067

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 1.94 billion (2019: loss of Kshs 953 million).The fair value movement relating to locally held shares amounts to a loss of Kshs.5.6 million (2019: loss of Kshs 41 million).

Notes to the Consolidated Financial Statements (continued)

AS AT 31 DECEMBER 2020

10. INVESTMENT IN ORDINARY SHARES (continued)

	BANK	
	2020 KShs '000	**2019 KShs '000**
ii) Investment in privately held shares:		
First Capital Bank Limited, Botswana	136,951	126,936
First Capital Bank Mozambique	131,806	105,654
As at 31 December	268,757	232,590
The movement in these shares is summarised below:		
As at 1 January	232,590	262,910
Foreign exchange gain/(loss)	21,813	(1,398)
Additions	14,354	78,979
Write- offs	-	(25,318)
Fair value loss	-	(82,583)
As at 31 December	268,757	232,590

Investment in privately held shares comprises investments in shares of First Capital Bank Limited, Botswana and First 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 unquoted shares are measured at FVTOCI with unrealized gains/losses recognized as other comprehensive income until the investment in derecognized or impaired.

The fair value of the shares was measured using a combination of market approach (using market multiples) and net assets value approach. There was no material impairment noted on the unquoted shares in the current year (2019: KShs 82.5 million).

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

	2020 KShs '000	**2019 KShs '000**
At start of the year	108,815	116,883
Disposals	-	(11,906)
Fair value (loss)/gain	(16,359)	3,838
At end of the year	92,456	108,815

Notes to the Consolidated Financial Statements (continued)

AS AT 31 DECEMBER 2020

11. LOANS AND ADVANCES

	GROUP		BANK	
	2020 KShs'000	2019 KShs'000	2020 KShs '000	2019 KShs'000
Loans and advances to customers(gross)	37,856,748	38,115,769	37,786,869	38,034,471
Less – Allowances on impairment of loans and advances	(1,820,191)	(1,139,553)	(1,818,574)	(1,139,553)
Loans and advances to customers net of ECL allowances	36,036,557	36,976,216	35,968,295	36,894,918

a) Lending concentration

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

	2020 %	2019 %
Agriculture	-	-
Building & Construction	4	3
Energy &Water	-	-
Financial Services	-	-
Manufacturing	25	24
Mining & Quarrying	-	-
Personal/Household	6	6
Real Estate	14	11
Tourism, Restaurant & Hotels	4	2
Trade	42	50
Transport & Communication	5	4
Total	100%	100%

Notes to the Consolidated Financial Statements (continued)

AS AT 31 DECEMBER 2020

11. LOANS AND ADVANCES (continued)

a) Lending concentration (continued)

Maturity analysis - GROUP

2020	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	455	-	-	170,507	170,962
Building & construction	331,623	80,083	3,260	911,006	1,325,972
Energy &water	18,748		27,279	104,521	150,548
Financial services	193	-	45,019	9,949	55,161
Manufacturing	2,029,949	695,354	68,150	6,730,705	9,524,158
Mining & quarrying	-	-	-	44,823	44,823
Personal/household	464,969	8,478	5,057	1,607,797	2,086,301
Real estate	656,713	125,894	334,939	4,147,793	5,265,339
Tourism, restaurant & hotels	112,854	108,934	1,304	1,142,068	1,365,160
Trade	2,377,820	1,222,543	261,399	11,932,159	15,793,921
Transport & Communication	683,918	10,911	58,794	1,320,780	2,074,403
Total	6,677,242	2,252,197	805,201	28,122,108	37,856,748

Maturity analysis - BANK

2020	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	455	-	-	170,507	170,962
Building & construction	331,623	80,083	3,260	911,006	1,325,972
Energy &water	18,748		27,279	104,521	150,548
Financial services	193	-	45,019	9,949	55,161
Manufacturing	2,029,949	695,354	68,150	6,730,705	9,524,158
Mining & quarrying	-	-	-	44,823	44,823
Personal/household	464,969	8,478	5,057	1,607,797	2,086,301
Real estate	656,713	125,894	334,939	4,147,793	5,265,339
Tourism, restaurant & hotels	112,854	108,934	1,304	1,142,068	1,365,160
Trade	2,377,820	1,222,543	261,399	11,932,159	15,793,921
Transport & Communication	683,918	10,911	58,794	1,250,901	2,004,524
Total	6,677,242	2,252,197	805,201	28,052,229	37,786,869

Notes to the Consolidated Financial Statements (continued)

AS AT 31 DECEMBER 2020

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 2020

12. OTHER ASSETS

	GROUP		BANK	
	2020 KShs'000	2019 KShs'000	2020 KShs '000	2019 KShs'000
Prepayments and deposits	238,284	277,329	238,284	277,329
Accrued income	184,235	184,882	184,235	184,882
Others*	592,424	541,449	166,841	105,005
	1,014,943	1,003,660	589,360	567,216

** 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

Details of investment	Country of incorporation	Activity	2020 % of equity interest	2019 % of equity interest	2020 KShs '000	2019 KShs '000
Tausi Assurance Company Limited	Kenya	General insurance	80.72%	80.72%	1,395,692	1,395,692
Prime Merchant Insurance Agency Limited*	Kenya	Insurance agency	40%	40%	-	-
					1,395,692	1,395,692

** The Bank owns 40% of Prime Merchant Insurance Agency Limited ("PMIA") an Insurance Agency that was incorporated and began trading in 2014.*

As disclosed under note 4(i), even though the bank's ownership of PMIA is below the 50% threshold, the directors concluded that the Bank has sufficiently dominant power over the PMIA's relevant activities and how decisions about the relevant activities are made. In addition, the Bank's Executive Director directly oversees the day to day management of PMIA and has control over the decisions made by the management of PMIA.

Based on the overall assessment of the subsidiary including the scale of PMIA'a operations relative to the size of the Bank, the directors had opted not to consolidate the subsidiary in the prior years' nor account for it under the equity method of accounting. However, in the current year, on account of the continued growth of the subsidiary, the directors have consolidated the results of the subsidiary, as if it began operations on 1 January 2020. As such, the net assets of the subsidiary as at 31 December 2019 of KShs. 26.6 million were recognised through the statement of profit or loss. The directors further concluded that the amounts are not material to necessitate a prior year adjustment to the financial statements. If the prior year financial statements had been restated, the profit for the year would reduce by KShs. 26.6 million with no impact on equity as at 31 December 2020.

The condensed statement of financial position and statement of profit or loss of PMIA is as summarized below:

Notes to the Consolidated Financial Statements (continued)

AS AT 31 DECEMBER 2020

13. INVESTMENT IN SUBSIDIARY (continued)

	2020 KShs '000	2019 KShs '000
Summary statement of profit or loss		
Income	16,199	20,362
Expenses	(4,199)	(4,142)
Profit for the year	6,638	11,353
Summary statement of financial position		
Assets	37,944	30,488
Liabilities	4,693	3,874
Equity	33,251	26,614

14. RIGHT OF USE - LEASEHOLD LAND

	GROUP		BANK	
	2020 KShs'000	2019 KShs'000	2020 KShs '000	2019 KShs'000
COST				
At 1 January	510,844	510,844	418,344	418,344
Additions	195,000	-	195,000	-
At 31 December	705,844	510,844	613,344	418,344
AMORTISATION				
At 1 January	23,517	16,942	23,517	15,675
Charge for the year	11,977	9,109	10,710	7,842
Reversal on revaluation	-	(2,534)	-	-
At 31 December	35,494	23,517	34,227	23,517
NET CARRYING AMOUNT				
At 31 December	670,350	487,327	579,117	394,827

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.

Milestones 2020

BANK LAUNCHES SIMBAPAY INTERNATIONAL MONEY TRANSFER SERVICE

Prime Bank partnered with London-based FinTech SimbaPay, to launch an instant international money transfer service via the bank's digital platform PrimeMobi. Through SimbaPay, Prime Bank customers will now be able to instantly and securely send money directly to bank accounts or mobile wallets across 16 countries in Africa, Europe, and Asia including India, United Kingdom, China (WeChat Pay), Germany, Uganda among others.

BANK OPENS 22ND BRANCH AT VILLAGE MARKET

In the course of the year, Prime Bank opened its new branch at the Village Market Mall, Nairobi.

The branch, which is located on first floor of the old wing of the mall near Carrefour has been designed to enhance your banking experience with convenience and personalized services while relaxing at the state of the art outdoor patio enjoying a cup of coffee.

PRIME BANK AND DT DOBIE IN CHRISTMAS DEAL FOR HIGH END MERCEDES MODELS

In December 2020, Prime Bank partnered with DT Dobie to offer its customers financing for the purchase of top of range Mercedes Benz models. The partnership saw customers enjoy up to 100 per cent financing from Prime Bank for the purchase of the Mercedes Benz 180 and GLC 300 models.

In the spirit of celebrating Christmas, customers enjoyed zero processing fees with up to 48 months repayment period at an interest rate of 12.5 per cent per annum on Kenya Shilling and 7 percent on Euro financing.

Under the deal, customers got a 30 days repayment holiday while DT Dobie gave five years of free service.

Milestones 2020 (continued)

PRIME BANK RECOGNIZED IN CUSTOMER RESPONSIVENESS & SATISFACTORY DIGITAL EXPERIENCE

During the Kenya Bankers Association (KBA) Customer Satisfaction Survey (2020), the survey ranked Prime Bank the third best bank in Customer Responsiveness and Satisfactory Digital Experience in tier II.

BANK LAUNCHES NEW TRANSACTIONAL PRODUCTS

Prime Bank launched innovative banking solutions to offer its customers easy and comprehensive banking experiences to support their financial needs.

The five local currency transactional solutions have been aligned to will support Personal, SME and Corporate business segments of the Bank's customer base.

Notes to the Consolidated Financial Statements (continued)

AS AT 31 DECEMBER 2020

15. PROPERTY AND EQUIPMENT - GROUP

a) Year ended 31 December 2020

	Freehold land KShs '000	Buildings KShs '000	Leasehold improve-ments KShs '000	Furniture and fittings KShs '000	Office equip-ment KShs '000	Motor vehicles KShs '000	Computer equipment KShs '000	Total KShs '000
COST								
At 1 January 2020	49,000	1,023,856	433,002	166,522	178,848	131,794	610,173	2,593,195
Additions	-	128,029	17,691	8,145	21,661	27,574	104,961	308,061
Disposals	-	-	(11,869)	(40)	-	(17,263)	(202)	(29,374)
At 31 December 2020	49,000	1,151,885	438,824	174,627	200,509	142,105	714,932	2,871,882
DEPRECIATION								
At 1 January 2020	-	68,059	283,897	127,746	109,294	93,550	456,582	1,139,128
Charge for the year	-	20,606	33,072	9,191	18,793	23,535	98,974	204,171
Disposals	-	-	(7,271)	(5)	-	(14,903)	(56)	(22,235)
At 31 December 2020	-	88,665	309,698	136,932	128,087	102,182	555,500	1,321,064
NET CARRYING AMOUNT								
At 31 December 2020	49,000	1,063,220	129,126	37,695	72,422	39,923	159,432	1,550,818

The freehold land and buildings for the Bank were last revalued as at 31 December 2017 by Knight Frank, registered valuers, on the open market value basis while the freehold land and buildings for the subsidiary were professionally valued by R.R. Oswald & Company Limited, registered valuers, on the basis of open market value on 28 December 2019. The carrying amount of the freehold land and buildings was adjusted to the revalued amount and the resultant surplus, net of deferred tax, was recognised in other comprehensive income and credited to the asset revaluation reserve in equity. If freehold land and buildings were measured using the cost model, their net carrying amounts as at 31 December 2020 would have been KShs 15,645,000 and KShs 300,932,000 respectively.

Notes to the Consolidated Financial Statements (continued)

AS AT 31 DECEMBER 2020

15. PROPERTY AND EQUIPMENT - GROUP (continued)

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
Revaluation surplus	-	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

The freehold land and buildings for the Bank were last revalued as at 31 December 2017 by Knight Frank, registered valuers, on the open market value basis while the freehold land and buildings for the subsidiary were professionally valued by R.R. Oswald & Company Limited, registered valuers, on the basis of open market value on 28 December 2019. The carrying amount of the freehold land and buildings was adjusted to the revalued amount and the resultant surplus, net of deferred tax, was recognised in other comprehensive income and credited to the asset revaluation reserve in equity. If freehold land and buildings were measured using the cost model, their net carrying amounts as at 31 December 2019 would have been KShs 15,645,000 and KShs 300,932,000 respectively.

Notes to the Consolidated Financial Statements (continued)

AS AT 31 DECEMBER 2020

15. PROPERTY AND EQUIPMENT - BANK

b) Year ended 31 December 2020

	Freehold land KShs '000	Buildings KShs '000	Leasehold improve-ments KShs '000	Furniture and fittings KShs '000	Office equip-ment KShs '000	Motor vehicles KShs '000	Computer equip-ment KShs '000	Total KShs '000
COST OR VALUATION								
At 1 January 2020	49,000	786,515	430,547	103,761	178,848	124,371	538,280	2,211,322
Additions	-	128,029	17,691	5,474	21,661	27,574	101,276	301,705
Disposals	-	-	(11,869)	-	-	(17,263)	(109)	(29,241)
At 31 December 2020	49,000	914,544	436,369	109,235	200,509	134,682	639,447	2,483,786
DEPRECIATION								
At 1 January 2020	-	55,719	281,442	79,018	109,294	91,001	392,142	1,008,616
Charge for the year	-	16,106	33,072	7,035	18,793	22,316	95,520	192,842
Disposals	-	-	(7,271)	-	-	(14,903)	-	(22,174)
At 31 December 2020	-	71,825	307,243	86,053	128,087	98,414	487,662	1,179,284
NET CARRYING AMOUNT								
At 31 December 2020	49,000	842,719	129,126	23,182	72,422	36,268	151,785	1,304,502

The Bank's freehold land and buildings were last revalued as at 31 December 2017 by Knight Frank, registered valuers, on the open market value basis. The carrying amount of the freehold land and buildings was adjusted to the revalued amount and the resultant surplus, net of deferred tax, was recognised in other comprehensive income and credited to the asset revaluation reserve in equity. If freehold land and buildings were measured using the cost model, their net carrying amounts as at 31 December 2020 would have been KShs 15,645,000 and KShs 269,932,000 respectively.

Notes to the Consolidated Financial Statements (continued)

AS AT 31 DECEMBER 2020

15. PROPERTY AND EQUIPMENT - BANK (continued)

b) Year ended 31 December 2019

	Freehold land KShs '000	Buildings KShs '000	Leasehold improve-ments KShs '000	Furniture and fittings KShs '000	Office equip-ment KShs '000	Motor vehicles KShs '000	Computer equip-ment 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

The Bank's freehold land and buildings were last revalued as at 31 December 2017 by Knight Frank, registered valuers, on the open market value basis. The carrying amount of the freehold land and buildings was adjusted to the revalued amount and the resultant surplus, net of deferred tax, was recognised in other comprehensive income and credited to the asset revaluation reserve in equity. If freehold land and buildings were measured using the cost model, their net carrying amounts as at 31 December 2019 would have been KShs 15,645,000 and KShs 277,036,000 respectively.

Notes to the Consolidated Financial Statements (continued)

AS AT 31 DECEMBER 2020

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	
	2020 Kshs'000	2019 Kshs'000
COST		
At 1 January	232,666	-
Day 1 adoption of IFRS 16	-	232,666
Additions	224,269	-
At 31 December	456,935	232,666
DEPRECIATION		
At 1 January	71,210	-
Charge for the year	98,289	71,210
At 31 December	169,499	71,210
NET BOOK VALUE		
At 31 December	287,436	161,456
Amounts recognised in profit and loss		
Depreciation expense on right-of-use assets	98,289	71,210
Interest expense on lease liabilities (note 22)	19,925	12,779
At the end of the year	118,214	83,989

The group was not committed to any arrangements that are short term as at year end (2019 – KShs nil). 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. 104 million (2019: Kshs 82 million) being payment for both the principal and interest as disclosed in note 22. There are no restrictions or covenants imposed by lessors and the group did not enter into any sale and leaseback transactions during the year.

Notes to the Consolidated Financial Statements (continued)

AS AT 31 DECEMBER 2020

17. INTANGIBLE ASSETS

GROUP	Computer software and Visa license fees KShs'000'	Good will KShs'000'	Total KShs'000'
31 December 2020			
COST			
At 1 January	594,541	642,752	1,237,293
Additions	126,443	-	126,443
At 31 December	720,984	642,752	1,363,736
AMORTISATION			
At 1 January	518,879	-	518,879
Charge for the year	61,218	-	61,218
At 31 December	580,097	-	580,097
NET CARRYING AMOUNT			
At 31 December	140,887	642,752	783,639
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

The goodwill arose from the Bank's acquisition of Tausi Assurance Company Limited. Goodwill impairment reviews are undertaken annually or more frequently if events or changes in circumstances indicate a potential impairment. The carrying value of goodwill is compared to the recoverable amount, which is the higher of value in use and the fair value less costs to sell. Any impairment is recognised immediately as an expense and is not subsequently reversed.

The goodwill was tested for impairment at 31 December 2020. The recoverable amount was determined based on value in use calculations. Key assumptions relating to this valuation include the discount rate and cash flows used to determine the value in use. A five-year forecast was used as a basis for future cash flows, extrapolated in perpetuity to reflect the long-term plans for the entity, using a nominal growth rate of 1.0%. The after-tax discount rate used was based on an assessment of the risks applicable to Tausi Assurance Company Limited and the outlook of the Kenyan economy. The discount rate calculated for the forecast years was 11% per annum. These variables are established on the basis of management judgement and current market conditions. Management judgement is also applied in estimating the future cash flows of the cash-generating units. These values are sensitive to the cash flows projected for the periods for which detailed forecasts are not available and to the assumptions regarding the long-term sustainability of the cash flows thereafter. Based on the testing performed, the directors believe that the goodwill is not impaired.

Notes to the Consolidated Financial Statements (continued)

AS AT 31 DECEMBER 2020

17. INTANGIBLE ASSETS (continued)

BANK	2020 KShs '000	2019 KShs '000
COST		
At 1 January	565,000	539,924
Additions	111,916	25,076
At 31 December	676,916	565,000
AMORTISATION		
At 1 January	494,047	450,645
Charge for the year	56,913	43,402
At 31 December	550,960	494,047
NET CARRYING AMOUNT		
At 31 December	125,956	70,953

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 2020 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
2020				
Arising from:				
Property and equipment	(261,799)	22,612	-	(239,187)
Provision for staff leave	4,492	1,508	-	6,000
Other provision	-	29,946	-	29,946
Provision for loans and advances	297,092	327,365	-	624,457
FVTOCI	(678,456)	-	521,034	(157,422)
	(638,671)	381,431	521,034	263,794
2019				
Arising from:				
Property and equipment	(249,235)	(12,573)	-	(261,799)
Provision for staff leave	5,246	(754)	-	4,492
Provision for loans and advances	189,941	107,151	-	297,092
FVTOCI	(986,843)	-	308,387	(678,456)
	(1,039,625)	93,824	307,121	(638,671)

Notes to the Consolidated Financial Statements (continued)

AS AT 31 DECEMBER 2020

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
2020				
Arising from:				
Property and equipment	(190,184)	22,441	-	(167,743)
Provision for staff leave	4,492	1,508	-	6,000
Other provision	-	29,946	-	29,946
Provision for loans and advances	286,212	326,233	-	612,445
FVTOCI	(670,961)	-	521,034	(149,927)
	(570,441)	380,128	521,034	330,721
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)

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.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle on a tax basis. The following is the analysis of the deferred tax balances for financial reporting purposes.

	GROUP	
	2020 KShs'000	2019 KShs'000
Deferred tax liabilities	(66,927)	(638,680)
Deferred tax assets	330,721	-
	263,794	(638,680)

19. BALANCES DUE TO BANKS AND FINANCIAL INSTITUTIONS

	GROUP		BANK	
	2020 KShs'000	2019 KShs'000	2020 KShs '000	2019 KShs'000
Due to banks and financial institutions	345,079	648,906	345,079	648,906

Notes to the Consolidated Financial Statements (continued)

AS AT 31 DECEMBER 2020

20. MEDIUM TERM NOTE

	GROUP		BANK	
	2020 KShs'000	2019 KShs'000	2020 KShs '000	2019 KShs'000
Medium term note	1,094,000	1,014,000	1,094,000	1,014,000

The Bank issued a US Dollar denominated 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. The movement in the balance is attributed to foreign exchange loss of KShs. 80 million (2019: gain of KShs. 6 million)

21. DEPOSITS FROM CUSTOMERS

	GROUP		BANK	
	2020 KShs'000	2019 KShs'000	2020 KShs'000	2019 KShs'000
Current deposits	19,545,123	15,339,500	19,903,676	15,688,689
Savings deposits	693,513	518,349	693,513	518,348
Call deposits	135,409	214,119	135,409	214,119
Fixed deposits	67,856,029	64,916,655	67,856,028	64,916,655
	88,230,074	80,988,623	88,588,626	81,337,811

Included in deposits from customers, were deposits of KShs 416 million (2019: KShs 334 million) held as collateral for irrevocable commitments. The weighted average effective interest rate on interest bearing customer deposits as at 31 December 2020 was 5.8 % (2019: 6.2%).

Notes to the Consolidated Financial Statements (continued)

AS AT 31 DECEMBER 2020

22. LEASE LIABILITIES

	GROUP & BANK	
	2020 KShs'000	2019 KShs'000
Non-current	233,909	130,236
Current	84,061	56,933
	317,970	187,169
Maturity Analysis		
Year 1	84,061	56,933
Year 2	59,676	56,547
Year 3	64,256	37,162
Year 4	52,198	28,359
Year 5	42,006	7,975
Onwards	15,773	193
	317,970	187,169
The movement in lease liability is as follows:		
As at 1 January 2020	187,169	-
Day 1 adoption of IFRS 16	-	256,842
Additions	224,269	-
Interest on lease liability	19,925	12,779
Payment of lease liability – principal portion	(93,468)	(69,673)
Payment of lease liability – interest portion	(19,925)	(12,779)
At 31 December 2020	317,970	187,169

23. OTHER LIABILITIES

	GROUP		BANK	
	2020 KShs'000	2019 KShs'000	2020 KShs'000	2019 KShs'000
Pay orders issued	66,735	58,144	66,735	58,144
Bills payable	546,800	341,574	546,800	341,574
Sundry creditors and accruals	1,187,673	1,270,183	87,392	99,518
IFRS 9 provisions on financial guarantees and loan commitments	242,550	72,601	242,550	72,601
	2,043,758	1,742,502	943,477	571,837

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

Notes to the Consolidated Financial Statements (continued)

AS AT 31 DECEMBER 2020

24. INCOME TAX

GROUP	2020 KShs '000	2019 KShs '000
STATEMENT OF FINANCIAL POSITION		
Balance brought forward	(57,668)	(14,528)
Charge for the year	185,443	166,314
Paid during the year	(147,368)	(209,459)
Prior year under provision	-	5
Tax recoverable	(19,593)	(57,668)
Made up of:		
Tax recoverable	(32,431)	(57,668)
Tax payable	12,838	-
Tax recoverable	(19,593)	(57,668)
BANK		
STATEMENT OF FINANCIAL POSITION		
Balance brought forward	(29,570)	(22,286)
Charge for the year	115,276	104,918
Paid during the year	(72,868)	(112,202)
Tax payable / (recoverable)	12,838	(29,570)

(b) Income tax expense	**GROUP**		**BANK**	
	2020 KShs'000	**2019 KShs'000**	**2020 KShs'000**	**2019 KShs'000**
Current tax	185,443	166,314	115,276	104,918
Deferred tax credit (note 18)	(381,431)	(93,824)	(380,128)	(92,016)
Tax (credit)/ charge for the year	(195,988)	72,490	(264,852)	12,902
(c) Reconciliation of tax expense to tax based on accounting profit:				
Accounting profit before tax	2,191,754	2,691,839	1,849,294	2,456,494
Tax at applicable rate of 25% (2019 – 30%)	547,939	807,552	462,324	736,948
Other expenses not deductible for tax purposes	248,991	140,642	240,012	136,415
Other income not subject to tax	(930,589)	(875,704)	(905,075)	(860,461)
Effect of deferred tax calculated at 30%	(62,329)	-	(62,113)	-
Tax (credit)/charge for the year	(195,988)	72,490	(264,852)	12,902

Notes to the Consolidated Financial Statements (continued)

AS AT 31 DECEMBER 2020

25. SHARE CAPITAL

	2020 Ordinary shares of KShs 1,000 each	2019 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	6,649,390
	6,649,390	6,649,390

26. SHARE PREMIUM

	2020 Ordinary shares of KShs 1,000 each	2019 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

27. OTHER RESERVES

	GROUP		BANK	
	2020 KShs'000	2019 KShs'000	2020 KShs'000	2019 KShs'000
Retained earnings	12,133,640	10,819,755	11,311,657	10,188,271
FVTOCI reserve	634,667	1,860,519	629,838	1,845,587
Asset revaluation reserve	558,564	558,564	542,006	542,006
	13,326,871	13,238,838	12,483,501	12,575,864

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.

Notes to the Consolidated Financial Statements (continued)

AS AT 31 DECEMBER 2020

28. INTEREST INCOME (GROUP AND BANK)

	2020 KShs'000	2019 KShs'000
Loans and advances to customers	3,785,902	4,040,570
Placements and bank balances	145,758	330,202
Reverse repurchase agreements	-	-
Treasury bills and term notes	2,196,620	1,714,277
Government securities at amortised cost	2,469,074	1,978,615
FVTOCI investments	1,062,486	1,172,924
	9,659,840	9,236,588

29. INTEREST EXPENSE (GROUP AND BANK)

	2020 KShs'000	2019 KShs'000
Due to customers	4,986,467	4,799,867
Due to banks and other financial institutions	26,142	47,606
	5,012,609	4,847,473

30. FEES AND COMMISSION INCOME (GROUP AND BANK)

	2020 KShs'000	2019 KShs'000
Commission income	289,947	316,352
Fees income	167,874	238,245
	457,821	554,597

31. OTHER INCOME

	GROUP		BANK	
	2020 KShs'000	2019 KShs'000	2020 KShs'000	2019 KShs'000
Insurance business income	1,180,177	1,181,535	-	-
Miscellaneous income	173,619	73,784	130,806	73,784
Recoveries of loans and advances previously written off	3,187	3,782	3,187	3,782
	1,356,983	1,259,101	133,993	77,566

Notes to the Consolidated Financial Statements (continued)

AS AT 31 DECEMBER 2020

32. ALLOWANCES FOR IMPAIRMENT OF FINANCIAL INSTRUMENTS

	GROUP		BANK	
	2020 KShs'000	**2019 KShs'000**	**2020 KShs'000**	**2019 KShs'000**
Allowance on loans and advances to customers	680,638	322,301	679,021	322,301
Allowance on loan commitments	55,749	(4,581)	55,749	(4,581)
Allowance on financial guarantees	114,200	1,579	114,200	1,579
Allowance on term notes and bonds	7,593	(348)	7,593	(348)
Allowance on government securities	231,077	32,000	230,874	32,000
Write-off during the year	70,696	792	70,696	792
	1,159,953	351,743	1,158,133	351,743

33. OTHER OPERATING EXPENSES

	GROUP		BANK	
	2020 KShs'000	**2019 KShs'000**	**2020 KShs'000**	**2019 KShs'000**
Staff costs (note 36)	1,521,824	1,449,374	1,369,794	1,297,944
Depreciation on property and equipment	204,171	189,797	192,842	178,752
Depreciation on right of use asset	98,289	71,210	98,289	71,210
Amortisation of intangible assets	61,218	44,814	56,913	43,402
Amortisation of leasehold land	11,977	9,109	10,710	7,842
Auditors' remuneration	11,640	13,875	9,390	10,835
Directors' emoluments	141,329	130,066	131,549	123,886
Deposit protection fund levy	116,353	96,234	116,353	96,234
Rent and rates	42,035	62,719	41,895	62,682
Other general administration expenses	1,327,396	1,440,513	716,803	765,595
	3,536,076	3,507,711	2,744,541	2,658,382

34. PROFIT BEFORE TAX

	GROUP		BANK	
	2020 KShs'000	**2019 KShs'000**	**2020 KShs'000**	**2019 KShs'000**
Profit before tax is stated after charging/(crediting): -				
Depreciation on property and equipment	204,171	189,797	192,842	178,752
Depreciation on right of use assets	98,289	71,210	98,289	71,210
Amortisation of intangible assets	61,218	44,814	56,913	43,402
Amortisation of leasehold land	11,977	9109	10,710	7,842
Directors' emoluments	141,329	130,066	131,549	123,886
Auditors' remuneration	11,640	13,875	9,390	10,835
And after crediting: -				
Foreign exchange gains	411,483	346,956	411,483	346,956
Dividend income	14,265	1,524	101,440	98,385
Gain on sale of property and equipment	5,332	3,778	5,312	3,405

Notes to the Consolidated Financial Statements (continued)

AS AT 31 DECEMBER 2020

35. EARNINGS PER SHARE

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

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	
	2020 KShs'000	2019 KShs'000	2020 KShs'000	2019 KShs'000
Profit for the year attributable to equity holders of the parent (KShs '000)	2,304,645	2,566,788	2,114,146	2,443,592
Weighted average number of shares (Thousands)	6,649	6,649	6,649	6,649
Basic and diluted earnings per share (KShs)	347	386	318	368

36. STAFF COSTS

	GROUP		BANK	
	2020 KShs'000	2019 KShs'000	2020 KShs'000	2019 KShs'000
Salaries and wages	1,268,911	1,268,084	1,133,953	1,132,452
Contributions to pension scheme	76,302	68,451	69,817	61,245
Other staff costs	176,611	112,839	166,024	104,247
	1,521,824	1,449,374	1,369,794	1,297,944

37. DIVIDENDS PAID (GROUP AND BANK)

	2020 KShs'000	2019 KShs'000
Dividend declared and paid on ordinary shares	452,159	265,975
Interim dividend per ordinary share	68	40
Proposed final dividend for the year ended 31 December 2020*	538,601	-
Proposed final dividend per ordinary share	81	-

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

*The final dividend was proposed by the directors on 22 March 2021. Accordingly, it has not been included as a liability in these financial statements.

Notes to the Consolidated Financial Statements (continued)

AS AT 31 DECEMBER 2020

38. CASH AND CASH EQUIVALENTS

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

	GROUP		BANK	
	2020 KShs'000	2019 KShs'000	2020 KShs'000	2019 KShs'000
Cash in hand (note 5)	490,935	510,763	489,148	509,885
Balances with Central Bank of Kenya-unrestricted (note 5)	2,061,859	2,852,003	2,061,859	2,852,003
Cheques and items for clearing (note 5)	367,239	309,729	367,239	309,728
Placements and balances with other banks	10,330,438	5,637,819	10,268,955	5,559,913
Government securities and term notes maturing within 91 days (note 7)	20,000	20,000	20,000	20,000
Due to banks and financial institutions (note 19)	(345,079)	(648,906)	(345,079)	(648,906)
	12,925,392	8,681,408	12,862,122	8,602,623

39. CONTINGENT LIABILITIES

	GROUP		BANK	
	2020 KShs'000	2019 KShs'000	2020 KShs'000	2019 KShs'000
Letters of credit	2,157,353	1,789,036	2,157,353	1,789,036
Local guarantees	4,538,299	4,410,586	4,538,299	4,410,586
Bills for collection	3,593,667	3,303,409	3,593,667	3,303,409
Foreign currency bills for collection	75,790	77,385	75,790	77,385
Custodial treasury bonds	3,992,534	3,992,534	3,992,534	3,992,534
Spot sales/purchase	898,394	1,000,738	898,394	1,000,738
Swap sales/purchases	10,529,655	11,940,654	10,529,655	11,940,654
Forward contracts	1,837,744	2,686,037	1,837,744	2,686,037
Money Mkt Borrow/lend	226	-	226	-
Non CTS cheques	1,004	-	1,004	-
	27,624,666	29,200,379	27,624,666	29,200,379

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.

The Bank is also a defendant in various legal suits; after taking appropriate legal advice, the directors concluded that the outcome of such legal suits are unlikely to result in any significant loss.

40. CAPITAL COMMITMENTS

	2020 KShs'000	2019 KShs'000
Capital commitments contracted for	777,650	412,000

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 2020

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.

	2020 KShs'000	2019 KShs'000
a) Due from:		
i) Loans and advances to employees	394,976	336,685
ii) Loans and advances to directors and their associates	2,121,406	1,592,280
	2,516,382	1,928,965
Allowance during the year:		
At 1 January	6,122	3,570
Allowance during the year	55,666	2,552
At 31 December	61,788	6,122

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.

	2020 KShs'000	2019 KShs'000
b) Due to:		
i) Deposits from employees	742,870	415,341
ii) Deposits from directors and their associates	17,825,328	2,430,893
	18,568,198	2,846,234
c) Key management personnel compensation		
Salaries	543,056	428,566
Post-employment benefits	26,167	21,831
	569,223	450,397

	GROUP		BANK	
	2020 KShs'000	2019 KShs'000	2020 KShs'000	2019 KShs'000
d) Directors' emoluments				
As management	97,786	90,676	92,626	87,796
As executives	177,749	42,980	131,549	39,680
	275,535	133,656	224,175	127,476

e) Transactions with related parties

Included in interest income is KShs.188,286,235 (2019: KShs 202,192,282) being interest on loans and advances to related parties.

Included in interest expense is KShs 28,500,288 (2019: KShs 25,155,233) being interest on deposits from related parties.

Notes to the Consolidated Financial Statements (continued)

AS AT 31 DECEMBER 2020

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 2020 GROUP	**Within 12 months KShs '000**	**After 12 months KShs '000**	**Total KShs '000**
ASSETS			
Cash and balances with the Central Bank of Kenya	5,607,376	-	5,607,376
Placements and balances with other banks	9,974,888	355,550	10,330,438
Treasury bills and term notes	19,546,369	-	19,546,369
Investment securities measured at amortized cost	409,853	23,194,215	23,604,068
Investment in bonds-fair value through other comprehensive income	4,850,978	12,282,629	17,133,607
Investment in ordinary shares fair value through other comprehensive income	-	1,232,158	1,232,158
Investment in ordinary shares fair value through profit and loss		92,456	92,456
Loans and advances to customers	16,788,125	19,248,432	36,036,557
Other assets	375,730	639,213	1,014,943
Intangible assets	-	783,639	783,639
Right of use - leasehold land	-	670,350	670,350
Property and equipment	-	1,550,818	1,550,818
Right of use	-	287,436	287,436
Tax recoverable	-	32,431	32,431
Deferred Tax	-	330,721	330,721
TOTAL ASSETS	57,553,319	60,700,048	118,253,367
LIABILITIES			
Balances due to banks and financial institutions	39,104	305,975	345,079
Medium term note	1,094,000	-	1,094,000
Deposits from customers	88,230,074	-	88,230,074
Other liabilities	2,043,758	-	2,043,758
Lease liability	115,765	202,205	317,970
Tax payable	12,838	-	12,838
Deferred tax liability	66,927	-	66,927
TOTAL LIABILITIES	91,602,466	508,180	92,110,646
NET ASSETS	(34,049,147)	60,191,868	26,142,721

Notes to the Consolidated Financial Statements (continued)

AS AT 31 DECEMBER 2020

42. MATURITY ANALYSIS OF ASSETS AND LIABILITIES (continued)

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
Right of use - 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	609,802	648,906
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	2,333,877	85,219,871
NET ASSETS	(22,097,178)	47,553,406	25,456,228

Notes to the Consolidated Financial Statements (continued)

AS AT 31 DECEMBER 2020

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 2020 BANK	Within 12 months KShs '000	After 12 months KShs '000	Total KShs '000
ASSETS			
Cash and balances with the Central Bank of Kenya	5,605,588	-	5,605,588
Placements and balances with other banks	9,913,405	355,550	10,268,955
Treasury bills and term notes	19,546,369	-	19,546,369
Investment in securities measured at amortised cost	373,866	22,289,973	22,663,839
Investment in bonds- measured at FVTOCI	4,850,978	11,548,487	16,399,465
Investment in ordinary shares measured at FVTOCI	-	1,138,296	1,138,296
Loans and advances to customers	16,788,125	19,180,170	35,968,295
Other assets	375,730	213,630	589,360
Investment in Subsidiary	-	1,395,692	1,395,692
Intangible assets	-	125,956	125,956
Right of use - leasehold land	-	579,117	579,117
Property and equipment	-	1,304,502	1,304,502
Right of use assets	-	287,436	287,436
Deferred tax asset	-	330,721	330,721
TOTAL ASSETS	57,454,061	58,749,530	116,203,591
LIABILITIES			
Balances due to banks and financial institutions	39,104	305,975	345,079
Medium term note	1,094,000	-	1,094,000
Deposits from customers	88,588,626	-	88,588,626
Other liabilities	943,477	-	943,477
Lease liabilities	84,061	233,909	317,970
Tax Payable	12,838	-	12,838
TOTAL LIABILITIES	90,762,106	539,884	91,301,990
NET ASSETS	(33,308,045)	58,209,646	24,901,601

Notes to the Consolidated Financial Statements (continued)

AS AT 31 DECEMBER 2020

42. MATURITY ANALYSIS OF ASSETS AND LIABILITIES (continued)

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
Right of use - leasehold land	-	394,827	394,827
Property and equipment	-	1,202,706	1,202,706
Right of use assets	-	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 2020

43. FAIR VALUE MEASUREMENT

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

	GROUP				BANK			
	2020		2019		2020		2019	
	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	5,607,376	5,607,376	6,084,771	6,084,771	5,605,588	5,605,588	6,083,892	6,083,892
Placements and balances with other banks	10,330,438	10,330,438	5,637,819	5,637,819	10,268,955	10,268,955	5,559,913	5,559,913
Investment in security measured at amortised cost	23,681,371	23,681,371	18,522,498	18,522,498	22,541,142	22,770,743	17,659,263	17,659,263
Treasury bills	19,526,369	19,526,369	28,529,412	28,529,412	19,526,369	19,526,369	28,529,412	28,529,412
Term notes	20,000	20,000	20,000	20,000	20,000	20,000	20,000	20,000
Bonds-at FVTOCI	17,133,607	17,133,607	7,752,639	7,752,639	16,399,465	16,399,465	7,171,052	7,171,052
Ordinary shares- at FVTOCI	1,232,158	1,232,158	3,161,337	3,161,337	1,138,296	1,138,296	3,044,657	3,044,657
Investment in ordinary shares-at fair value through profit or loss	92,456	92,456	108,815	108,815				
Loans and advances to customers	36,036,557	36,036,557	36,976,216	36,976,216	35,968,295	35,968,295	36,894,918	36,894,918
Due to banks and other financial institutions	345,079	345,079	648,907	648,907	345,079	345,079	648,906	648,906
Medium term note	1,094,000	1,094,000	1,014,000	1,014,000	1,094,000	1,094,000	1,014,000	1,014,000
Deposits from customers	88,230,074	88,230,074	80,988,623	80,988,623	88,588,626	88,588,626	81,337,811	81,337,811

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.

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.

Notes to the Consolidated Financial Statements (continued)

AS AT 31 DECEMBER 2020

43. FAIR VALUE MEASUREMENT (continued)

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

GROUP 2020	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	17,133,607	-	-	17,133,607
Investments in ordinary shares at FVTOCI	10(a)	963,401	-	268,757	1,232,158
Investments in ordinary shares at fair value through profit or loss	10(b)	92,456	-	-	92,456
Investments securities at amortised cost	8	23,604,068	-	-	23,604,068
Property and equipment (Freehold land and buildings)	15	-	-	1,112,220	1,112,220
Right of use - leasehold land	14	-	-	670,350	670,350
		41,793,532	-	2,051,327	43,844,859

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	7,752,639	-	-	7,752,639
Investments in ordinary shares at FVTOCI	10(a)	2,928,747	-	232,590	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
Right of use - leasehold land	14	-	-	487,327	487,327
		29,312,699	-	1,724,714	31,037,413

Notes to the Consolidated Financial Statements (continued)

AS AT 31 DECEMBER 2020

43. FAIR VALUE MEASUREMENT (continued)

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

BANK 2020	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	16,399,465	-	-	16,399,465
Investments in ordinary shares at FVTOCI	10(a)	869,539	-	268,757	1,138,296
Investment securities measured at amortised cost	8	22,741,142	-	-	22,741,142
Property and equipment (Freehold land and buildings)	15	-	-	891,719	891,719
Leasehold land	14	-	-	579,117	579,117
		40,010,146	-	1,739,593	41,749,739

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 measured at FVTOCI	9	7,171,052	-	-	7,171,052
Investments in ordinary shares	10(a)	2,928,747	-	232,590	3,044,657
Investment securities measured at amortised cost	8	17,659,263	-	-	17,659,263
Property and equipment	15	-	-	779,796	779,796
Leasehold land	14	-	-	394,827	394,827
		27,759,062	-	1,407,213	29,049,595

Notes to the Consolidated Financial Statements (continued)

AS AT 31 DECEMBER 2020

43. FAIR VALUE MEASUREMENT (continued)

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

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.

Reconciliation of fair value measurement of the land and buildings

	2020 KShs'000	2019 KShs '000
Leasehold land		
As at 1 January	418,344	418,344
Additions	195,000	-
Accumulated depreciation	(34,227)	(23,517)
As at 31 December	579,117	394,827
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	786,515	784,215
Additions	128,029	2,300
	914 544	786,515
Accumulated depreciation	(71,825)	(55,719)
As at 31 December	842,719	730,796

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 2020

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:-

	2020		2019	
	Actual KShs '000	Required KShs '000	Actual KShs '000	Required KShs '000
Tier 1 Capital	23,097,651	1,000,000	21,471,831	1,000,000
Tier 2 Capital				
Term subordinated debt	-	-	208,884	-
Statutory Loan Loss Reserve	353,022	-	353,022	-
Total regulatory capital	23,450,673	1,000,000	22,033,737	1,000,000
Risk weighted assets	58,314,029	-	53,266,941	-
Capital Ratios				
Total regulatory capital expressed as a percentage of total risk-weighted assets	40%	14.50%	41%	14.50%
Total tier 1 capital expressed as a percentage of risk weighted assets	40%	10.50%	40%	10.50%

Notes to the Consolidated Financial Statements (continued)

AS AT 31 DECEMBER 2020

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.

Impairment

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.

Notes to the Consolidated Financial Statements (continued)

AS AT 31 DECEMBER 2020

45. FINANCIAL RISK MANAGEMENT (continued)

a) Credit risk (continued)

Impairment (continued)

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 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

Notes to the Consolidated Financial Statements (continued)

AS AT 31 DECEMBER 2020

45. FINANCIAL RISK MANAGEMENT (continued)

a) Credit risk (continued)

Definition of default (continued)

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.

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.

Notes to the Consolidated Financial Statements (continued)

AS AT 31 DECEMBER 2020

45. FINANCIAL RISK MANAGEMENT (continued)

a) Credit risk (continued)

Significant increase in credit risk (continued)

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 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

Notes to the Consolidated Financial Statements (continued)

AS AT 31 DECEMBER 2020

45. FINANCIAL RISK MANAGEMENT (continued)

a) Credit risk (continued)

Modification and derecognition of financial assets (continued)

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 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

Notes to the Consolidated Financial Statements (continued)

AS AT 31 DECEMBER 2020

45. FINANCIAL RISK MANAGEMENT (continued)

a) Credit risk (continued)

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.

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

Notes to the Consolidated Financial Statements (continued)

AS AT 31 DECEMBER 2020

45. FINANCIAL RISK MANAGEMENT (continued)

a) Credit risk (continued)

Critical judgements and key sources of estimation uncertainty (continued)

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.

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

Notes to the Consolidated Financial Statements (continued)

AS AT 31 DECEMBER 2020

45. FINANCIAL RISK MANAGEMENT (continued)

a) Credit risk (continued)

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, 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.

Impact of COVID-19
Determination of whether the credit risk of financial Instruments have Increased significantly since Initial recognition
Although COVID-19 has had a negative impact on the economies in which the Bank operates, in isolation COVID-19 initially reflected a liquidity constraint more than an Inherent increase in credit risk for the entire portfolio of advances held by the Bank. As such the Bank did not impose a blanket downgrade on all ECL stages.

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

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

We are also in compliance with Central Bank of Kenya, Banking Circular No 3 of 2020 regarding the Implementation of the Emergency measures to mitigate the Adverse impact of COVID-19 Pandemic on Loans and Advances.

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

SICR triggers are determined based on client behaviour, client internal Prime Bank rating

Notes to the Consolidated Financial Statements (continued)

AS AT 31 DECEMBER 2020

45. FINANCIAL RISK MANAGEMENT (continued)

a) Credit risk (continued)

Impact of COVID-19 (continued)

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

Additional judgmental triggers, such as belonging to an Industry in distress, are considered in the context of the initial impact of COVID-19. The Bank uses a relative movement in probability of default between reporting date and origination date to determine if there was a significant increase in credit risk, and the customers watch list status at a point in time. These levels are monitored and validated on a continuous basis.

Post model adjustments

In addition to the forward -looking macroeconomic information, the Bank applied Post-model adjustments by way of Industry specific COVID-19 Overlays and adjustments to the entire portfolio to reflect the impact of COVID-19 as below:

Probability of default COVID-19 overlay

SECTOR	COVID -19 Adjusted PD Overlay	COVID -19 IMPACT Adjusted PD Overlay
Personal/House Household	5%	15%
Real Estate	1%	5%
Trade	1%	5%
Manufacturing	1%	3%
Transport and Communication	1%	5%
Tourism	10%	15%
Building and Construction	0.10%	0.10%

Loss given default COVID-19 Overlay for secured facilities

Type of Collateral	COVID -19 Impact – Adjusted collateral values	Adjustment
Motor Vehicles	65% of Market Value	1 Year
Land and Building	70% of market value	2 years
Machinery	50% of market value	Remains unchanged

Loss given default COVID-19 Overlay for Un-secured facilities

SECTOR	COVID -19 Impact – Adjusted LGD Overlay
Personal/House Household	10.00%
Real Estate	20.00%
Trade	5.00%
Manufacturing	5.00%
Transport and Communication	20.00%

Exposure at Default

For accounts that were temporary restructured under the COVID-19 relief measures Amortisation of EAD had an indicative repayment period of annual.

Notes to the Consolidated Financial Statements (continued)

AS AT 31 DECEMBER 2020

45. FINANCIAL RISK MANAGEMENT (continued)

a) Credit risk (continued)

Impact of COVID-19 (continued)

Macro Economic Information

COVID -19 Impact – Adjustment to forecasted PDs (Base Case)	COVID -19 Impact – Adjustment to forecasted PDs (Upside Case)	COVID -19 Impact – Adjustments to forecasted PDs (Adverse case)
40%	10%	50%

Sensitivity Staging

As outlined above, when there is a SICR since initial recognition, the exposure is moved from stage 1 to stage 2 and the ECL is calculated based on the lifetime expected credit losses.
The move from 12-month expected credit loss to lifetime expected credit loss can result in a substantial increase in ECL.

The Bank applied the specific judgements in determining the ECL for the current year, namely:

a) The Bank did not apply a blanket downgrade to all ECL stages to advances that qualified and received a form of COVID-19 relief

b) The Bank applied a post – model adjustment against advances where COVID-19 relief had been provided, so as to allow for the impact of the delayed principal arrears recognition, which results from an inability to observe normal arrears behaviour.

c) The Bank applied post model adjustments against all advances to allow for the impact of COVID-19.

The following table sets out the additional ECL charge to the income statement if all advances which were subject to a form of COVID-19 relief and deemed to have suffered a SICR and were moved from stage 1 to stage 2.

The increase in the loss allowance is calculated as the difference between the impairment that would have been raised in stage 2 and the impairment recognised as at 31st December, 2020.The impairment recognised as at 31st December 2020 already includes the post-model adjustment for COVID-19 relief detailed in the post-model adjustment section in this note. The Bank has adequately made the below provisions despite not applying a blanket downgrade to all ECL stages to advances that qualified and received a form of COVID-19 relief.

	Stage 2 Kshs' 000
Additional provision	265,020

Treatment of financial relief offered in response to the Impacts of COVID-19

The Bank offered financial relief through various mechanisms in response to COVID- 19. These included the following:

a) Restructure of existing exposures by granting a moratorium on Principal repayments ranging from a period of 3months to 12 months.

b) Granting of additional facilities .

Prior to COVID-19 relief being granted, the customer was assessed against eligibility for relief criteria. In doing so, the Bank was able to identify customers who were in good standing but were facing financial distress due to the impact of COVID-19 directly or indirectly. The COVID-19 relief provided to these customers were deemed to be temporary and cash flow in nature. Where a customer was already experiencing financial distress and was in arrears prior to 31st March 2020, any restructuring of the customer's facilities was deemed to be permanent in nature.

Where relief is expected to be temporary in nature and as such qualifies as a non distressed restructure, the staging of the exposure as at 31st March 2020 has been maintained, and adjustments have been made to coverage to allow for incremental credit risk and potential masking of normal arrears. Where the relief is

Notes to the Consolidated Financial Statements (continued)

AS AT 31 DECEMBER 2020

45. FINANCIAL RISK MANAGEMENT (continued)

a) Credit risk (continued)

expected to be permanent in nature, the exposure has been treated as a distressed restructure and staging and coverage have been adjusted in line with the Bank's normal practice.
Where relief has been enacted through the issuance of a new loan as part of a non distressed restructure, the loan has been treated at initial recognition as a new exposure and coverage has been calculated on the basis of historical behaviour in similar products, including a post-model adjustment to allow for incremental credit risk attributable to COVID-19 relief provided.

The ECL for all exposures on which relief has been offered and for all emergency facilities has been adjusted to reflect the impact of forward-looking macroeconomic information in line with the rest of the portfolio.

Incorporation of forward-looking information
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.

	2020		
Macro-Economic Variable	**Base**	**Upside**	**Adverse**
	Weighting		
	40%	**10%**	**50%**
Savings Rate	3.05%	4.60%	1.50%
Lending Rates	11.62%	10.92%	12.32%
Housing Price Index	0%	-0.27%	0.27%
Public Debt to GDP	71.58%	75.21%	67.95%

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, 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

Notes to the Consolidated Financial Statements (continued)

AS AT 31 DECEMBER 2020

45. FINANCIAL RISK MANAGEMENT (continued)

a) Credit risk (continued)

Incorporation of forward-looking information (continued)

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.

Loans and advances to customers at amortised cost	**31-Dec-20 KShs '000**	**1-Jan-20 KShs '000**
Concentration by sector		
Agriculture	170,962	152,864
Building & Construction	1,325,972	1,145,457
Energy &Water	150,548	124,665
Financial Services	55,160	11,175
Manufacturing	9,524,158	9,208,577
Mining & Quarrying	44,823	12,287
Personal/Household	2,086,301	2,203,495
Real Estate	5,265,339	3,846,194
Tourism, Restaurant & Hotels	1,365,160	734,547
Trade	15,793,922	19,109,272
Transport & Communication	2,004,524	1,485,938
TOTAL	**37,786,869**	**38,034,471**

Notes to the Consolidated Financial Statements (continued)

AS AT 31 DECEMBER 2020

45. FINANCIAL RISK MANAGEMENT (continued)

a) Credit risk (continued)

Incorporation of forward-looking information (continued)

Loan commitments	31-Dec-20 KShs '000	1-Jan-20 KShs '000
Concentration by sector		
Agriculture	17,299	7,823
Building & Construction	111,292	150,508
Energy &Water	87,538	40,688
Financial Services	7,138	1,426
Manufacturing	1,213,019	949,913
Mining & Quarrying	-	-
Personal/Household	485,627	580,527
Real Estate	205,446	201,014
Tourism, Restaurant & Hotels	73,812	5,989
Trade	2,707,001	1,909,192
Transport & Communication	87,922	72,542
TOTAL	**4,996,094**	**3,919,622**

Financial guarantee contracts	31-Dec-20 KShs '000	1-Jan-20 KShs '000
Concentration by sector		
Agriculture	8,370	5,290
Building & Construction	847,782	1,050,388
Energy &Water	18,900	24,900
Financial Services	32,333	14,150
Manufacturing	3,751,594	1,785,463
Mining & Quarrying	6,095	420
Personal/Household	15,137	8,840
Real Estate	161,690	97,083
Tourism, Restaurant & Hotels	5,085	7,788
Trade	4,086,001	4,937,990
Transport & Communication	138,469	124,474
TOTAL	**9,071,456**	**8,056,786**

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.

Notes to the Consolidated Financial Statements (continued)

AS AT 31 DECEMBER 2020

45. FINANCIAL RISK MANAGEMENT (continued)

a) Credit risk (continued)

Incorporation of forward-looking information (continued)

Loans and advances to customers at amortised cost	31-Dec-20 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-20 Total KShs '000
Grades 1: Low to fair risk	30,555,419	-	-	-	30,555,419	32,563,078
Grades 2: Watch	-	3,311,281	-	-	3,311,281	1,734,032
Grades 3: Substandard	-	-	326,104	-	326,104	450,399
Grade 4: Doubtful	-	-	3,218,314	-	3,218,314	2,965,900
Grade 5: Impaired	-	-	375,751	-	375,751	321,062
Total gross carrying amount	30,555,419	3,311,281	3,920,169	-	37,786,869	38,034,471
Loss allowance	386,552	233,150	1,198,871	-	1,818,573	1,139,553
Carrying amount	**30,168,867**	**3,078,131**	**2,721,298**	**-**	**35,968,296**	**36,894,918**

Loan commitments	31-Dec-20 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-20 Total KShs '000
Grades 1: Low to fair risk	4,996,094	-	-	-	4,996,094	3,919,622
Grades 2: Watch	-	-	-	-	-	-
Grades 3: Substandard	-	-	-	-	-	-
Grade 4: Doubtful	-	-	-	-	-	-
Grade 5: Impaired	-	-	-	-	-	-
Total gross carrying amount	4,996,094	-	-	-	4,996,094	3,919,622
Loss allowance	95,822	-	-	-	95,822	16,724
Carrying amount	**4,900,272**	**-**	**-**	**-**	**4,900,272**	**3,902,898**

Notes to the Consolidated Financial Statements (continued)

AS AT 31 DECEMBER 2020

45. FINANCIAL RISK MANAGEMENT (continued)

a) Credit risk (continued)

Incorporation of forward-looking information (continued)

Financial guarantee contracts	31-Dec-20 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-20 Total KShs '000
Grades 1: Low to fair risk	9,071,456	-	-	-	9,071,456	8,056,786
Grades 2: Watch	-	-	-	-	-	-
Grades 3: Substandard	-	-	-	-	-	-
Grade 4: Doubtful	-	-	-	-	-	-
Grade 5: Impaired	-	-	-	-	-	-
Total gross carrying amount	9,071,456	-	-	-	9,071,456	8,056,786
Loss allowance	146,729	-	-	-	146,729	32,529
Carrying amount	8,924,727	-	-	-	8,924,727	8,024,257

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

Loss allowance by classes	31-Dec-2020	1-Jan-2020
Loans and advances to customers at amortised cost	1,818,574	1,139,553
Loan commitments	95,822	16,724
Financial guarantee contracts	146,729	32,529
Total	2,061,125	1,188,806

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 2020	83,997	79,962	975,594	-	**1,139,553**
Changes in the loss allowance					
– Transfer to stage 1	18,163	(18,100)	(63)	-	**-**
– Transfer to stage 2	(4,230)	4,230	-	-	**-**
– Transfer to stage 3	(755)	(10,137)	10,892	-	**-**
– Increases due to change in credit risk	188,070	181,871	294,132	-	**664,073**
– Decreases due to change in credit risk	(21,414)	(4,872)	(51,700)	-	**(77,986)**
– Write-offs	(34)	(57)	(64,334)	-	**(64,425)**
– Changes due to modifications that did not result derecognition	-	-	-	-	**-**
New financial assets originated or purchased	142,223	17,199	89,550	-	**248,972**
Financial assets that have been Settled	(19,468)	(16,946)	(55,199)	-	**(91,613)**
Loss allowance as at 31 December 2020	386,552	233,150	1,198,872	-	**1,818,574**

Notes to the Consolidated Financial Statements (continued)

AS AT 31 DECEMBER 2020

45. FINANCIAL RISK MANAGEMENT (continued)

a) Credit risk (continued)

Incorporation of forward-looking information (continued)

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 2020	**16,724**	**-**	**-**	**-**	**16,724**
Changes in the loss allowance					
– Transfer to stage 1	-	-	-	-	-
– Transfer to stage 2	-	-	-	-	-
– Transfer to stage 3	-	-	-	-	-
– Increases due to change in credit risk	55,601	-	-	-	55,601
– Decreases due to change in credit risk	(1,065)	-	-	-	(1,065)
– Write-offs	-	-	-	-	-
New financial assets originated or purchased	29,049	-	-	-	29,049
Financial assets that have been Settled derecognised	(4,487)	-	-	-	(4,487)
Loss allowance as at 31 December 2020	**95,822**	**-**	**-**	**-**	**95,822**

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 2020	**32,529**	**-**	**-**	**-**	**32,529**
Changes in the loss allowance					
– Transfer to stage 1	-	-	-	-	-
– Transfer to stage 2	-	-	-	-	-
– Transfer to stage 3	-	-	-	-	-
– Increases due to change in credit risk	22,235	-	-	-	22,235
– Decreases due to change in credit risk	(683)	-	-	-	(683)
– Write-offs	-	-	-	-	-
New financial assets originated or purchased	113,926	-	-	-	113,926
Financial assets that have been Settled derecognised	(21,278)	-	-	-	(21,278)
Loss allowance as at 31 December 2020	**146,729**	**-**	**-**	**-**	**146,729**

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 2020

45. FINANCIAL RISK MANAGEMENT (continued)

a) Credit risk (continued)

Incorporation of forward-looking information (continued)

	31-Dec-20		1-Jan-20	
	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	30,555,419	386,552	32,563,078	83,997
30-59 days	3,311,281	233,150	1,734,032	79,962
60-89 days	326,104	125,104	450,399	80,825
90-180 days	3,218,314	692,023	2,965,900	573,638
More than 181 days	375,751	381,744	321,062	321,131
	37,786,869	1,818,573	38,034,471	1,139,553
Loan Commitments				
0-29 days	4,996,094	95,822	3,919,622	18,271
30-59 days	-	-	-	-
60-89 days	-	-	-	-
90-180days	-	-	-	-
More than 181 days	-	-	-	-
	4,996,094	95,822	3,919,622	18,271

	31-Dec-19		1-Jan-19	
	Gross Carrying Amount KShs '000	Loss Allowance KShs '000	Gross Carrying Amount KShs '000	Loss Allowance KShs '000
0-29 days	9,071,456	146,729	8,056,786	32,529
30-59 days	-	-	-	-
60-89 days	-	-	-	-
90-180days	-	-	-	-
More than 181 days	-	-	-	-
	9,071,456	146,729	8,056,786	32,529

Notes to the Consolidated Financial Statements (continued)

AS AT 31 DECEMBER 2020

45. FINANCIAL RISK MANAGEMENT (continued)

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:

	2020	2019
At 31 December	80.5%	77.1%
Average for the year	79.4%	76.8%
Maximum for the year	80.5%	79.1%
Minimum for the year	78.2%	72.9%
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 2020

45. FINANCIAL RISK MANAGEMENT (continued)

b) Liquidity risk (continued)

Management of liquidity risk (continued)

As at 31 December 2020 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	5,607,376	-	-	-	-	5,607,376
Placements and balances with other banks	8,466,556	1,456,101	-	355,550	52,231	10,330,438
Treasury bills and term notes	-	-	19,546,369	-	-	19,546,369
Investment securities measured at amortised cost	-	202,525	171,341	12,213,446	11,016,756	23,604,068
Bonds- at fair value through other comprehensive income	-	60,978	4,790,000	2,597,611	9,685,018	17,133,607
Loans and advances to customers	5,889,195	2,970,600	7,928,330	9,786,593	9,461,839	36,036,557
Total assets	19,963,127	4,690,204	32,436,040	24,953,200	30,215,844	112,258,415
FINANCIAL LIABILITIES						
Due to banks and financial institutions	2,706	-	298,364	44,009	-	345,079
Medium term note	-	-	1,094,000	-	-	1,094,000
Deposits from customers	32,623,942	15,086,884	39,709,360	809,888	-	88,230,074
Other liabilities	-	-	142,205	-	-	142,205
Total liabilities	32,626,648	15,086,884	41,243,929	853,897	-	89,811,358
Net liquidity gap	(12,663,521)	(10,396,680)	(8,807,889)	24,099,303	30,215,844	22,447,057

Notes to the Consolidated Financial Statements (continued)

AS AT 31 DECEMBER 2020

45. FINANCIAL RISK MANAGEMENT (continued)

b) Liquidity risk (continued)

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
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 2020

45. FINANCIAL RISK MANAGEMENT (continued)

b) Liquidity risk (continued)

Management of liquidity risk (continued)

As at 31 December 2020 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	5,605,588	-	-	-	-	5,605,588
Placements and balances with other banks	8,466,556	1,394,618	-	355,550	52,230	10,268,954
Treasury bills and term notes	-	-	19,546,369	-	-	19,546,369
Investment securities measured at amortised cost		202,525	171,341	11,250,520	11,039,140	22,663,526
Bill & Bonds- at fair value through other comprehensive income	-	60,978	4,790,000	2,597,611	8,950,876	16,399,465
Loans and advances to customers	5,889,195	2,970,600	7,928,330	9,786,593	9,393,577	35,968,295
Total assets	19,961,339	4,628,721	32,436,040	23,990,274	29,435,823	110,452,197
FINANCIAL LIABILITIES						
Due to banks and financial institutions	2706		298,364	44,009	-	345,079
Medium term note	-	-	1,094,000	-	-	1,094,000
Deposits from customers	32,623,942	15,445,437	39,709,360	809,887	-	88,588,626
Other liabilities	-	-	142,205	-	-	142,205
Total liabilities	32,626,648	15,445,437	41,243,929	853,896	-	90,169,910
Net liquidity gap	(12,665,309)	(10,816,716)	(8,807,889)	23,136,378	29,435,823	20,282,287

Notes to the Consolidated Financial Statements (continued)

AS AT 31 DECEMBER 2020

45. FINANCIAL RISK MANAGEMENT (continued)

b) Liquidity risk (continued)

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	-	329,550.00	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
Other assets	-	61,583	-	-	-	61,583
Total assets	19,048,137	8,293,243	30,270,924	16,445,564	27,860,582	65,060,426
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	(18,280,467)

Notes to the Consolidated Financial Statements (continued)

AS AT 31 DECEMBER 2020

45. FINANCIAL RISK MANAGEMENT (continued)

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 2020 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	-	5,607,376	-	-	-	5,607,376
Placements and balances with other banks	-	10,330,438	-	-	-	10,330,438
Treasury bills and term notes	19,526,369	20,000	-	-	-	19,546,369
Investment securities measured at amortised cost	23,604,068	-	-	-	-	23,604,068
Investment in bonds- fair value through other comprehensive income	-	-	17,133,607	-	-	17,133,607
Investment in ordinary shares- fair value through other comprehensive income	-	-	1,232,158	-	-	1,232,158
Investment in ordinary shares- at fair value through profit or loss	-	-	-	92,456	-	92,456
Loans and advances to customers	-	36,036,557	-	-	-	36,036,557
Total assets	43,130,437	51,994,371	18,365,765	92,456	-	113,583,029
Liabilities						
Balances due to banks and financial institutions	-	-	-	-	345,079	345,079
Medium term note	-	-	-	-	1,094,000	1,094,000
Deposits from customers	-	-	-	-	88,230,074	88,230,074
Other liabilities	-	-	-	-	142,205	142,205
Total liabilities	-	-	-	-	89,811,358	89,811,358

Notes to the Consolidated Financial Statements (continued)

AS AT 31 DECEMBER 2020

45. FINANCIAL RISK MANAGEMENT (continued)

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 comprehen-sive income	-	-	7,752,639	-	-	7,752,639
Investment in ordinary shares fair value through other comprehensive income	-	-	3,161,337	-	-	3,161,337
Loans and advances to customers	-	-	-	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 2020

45. FINANCIAL RISK MANAGEMENT (continued)

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 2020 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	-	5,605,588	-	-	5,605,588
Placements and balances with other banks	-	10,268,955	-	-	10,268,955
Treasury bills and term notes	19,526,369	20,000	-	-	19,613,076
Investment securities measured at amortised cost	22,663,839	-	-	-	22,541,142
Investment in bonds-fair value through other comprehensive income	-	-	16,399,465	-	16,455,455
Investment in ordinary shares fair value through other comprehensive income	-	-	1,138,296	-	1,138,296
Loans and advances to customers	-	35,968,295	-	-	35,968,295
Total assets	42,190,208	51,862,838	17,537,761	-	111,590,807
Liabilities					
Balances due to banks and financial institutions	-	-	-	345,079	345,079
Medium term note	-	-	-	1,094,000	1,094,000
Deposits from customers	-	-	-	88,588,626	88,588,626
Other liabilities	-	-	-	142,205	142,205
Total liabilities	-	-	-	90,169,910	90,169,910

Notes to the Consolidated Financial Statements (continued)

AS AT 31 DECEMBER 2020

45. FINANCIAL RISK MANAGEMENT (continued)

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 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		-	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	-	7,171,052	-	7,171,052	36,168,128
	-	36,894,918	-	-	36,894,918
Total assets	46,188,675	48,562,350	10,215,710	-	104,966,783
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

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 2020 would have increased equity by Kshs 126 million (2019: Kshs 72 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 2020

45. FINANCIAL RISK MANAGEMENT (continued)

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 2020 **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	8,466,556	1,456,101	-	355,550	52,230	10,330,438
Treasury bills and term notes	-	-	19,546,369	-	-	19,613,076
Investment securities measured at amortised cost	-	202,525	171,341	12,213,446	11,016,756	23,604,068
Bonds- fair value through other comprehensive income	-	60,978	4,790,000	2,541,621	9,741,008	17,133,607
Loans and advances to customers	5,889,195	2,970,600	7,928,330	9,786,593	9,461,839	36,036,557
Total assets	14,355,751	4,690,204	32,436,040	24,897,210	30,271,833	106,651,038
LIABILITIES						
Due to banks & financial institutions	2,706	-	298,364	44,009	-	345,079
Medium term note	-	-	1,094,000	-	-	1,094,000
Deposits from customers	32,623,942	15,086,884	39,709,360	809,887	-	88,230,074
Total liabilities	32,626,648	15,086,884	41,101,724	853,896	-	89,669,153
Total interest sensitivity gap	(18,270,897)	(10,396,680)	(8,665,684)	24,043,314	30,271,833	16,981,885
As at 31 December 2019						
Total assets	13,038,089	14,731,725	30,318,565	17,413,061	28,372,071	97,435,028
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

Notes to the Consolidated Financial Statements (continued)

AS AT 31 DECEMBER 2020

45. FINANCIAL RISK MANAGEMENT (continued)

d) Market risk (continued)

Interest risk exposure (continued)

BANK **As at 31 December 2020**	**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	8,466,556	1,394,618	-	355,550	52,231	10,268,955
Treasury bills and term notes	-	-	19,546,369	-	-	19,546,369
Investment securities measured at amortised cost	-	202,525	171,341	11,273,217	11,016,756	22,663,839
Bills & Bonds- fair value through other comprehensive income	-	60,978	4,790,000	2,541,621	9,006,866	16,399,465
Loans and advances to customers	5,889,195	2,970,600	7,928,330	9,786,593	9,393,577	35,968,295
Total assets	14,355,751	4,628,721	32,436,040	23,956,981	29,469,430	104,846,923
LIABILITIES						
Due to banks & financial institutions	2,706	-	39,104	609,028	-	650,838
Medium term note	-	-	1,094,000	-	-	1,094,000
Deposits from customers	32,623,942	15,445,437	39,709,360	809,887	-	88,588,626
Total liabilities	32,626,648	15,445,437	40,842,464	1,418,915	-	90,333,464
Total interest sensitivity gap	(18,270,897)	(10,816,716)	(8,406,424)	22,538,066	29,469,430	14,513,459
As at 31 December 2019						
Total assets	12,964,245	8,293,243	30,270,924	16,445,564	27,860,582	95,834,558
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

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:

	2020 KShs '000	**2019 KShs '000**
Effect on profit before tax of a +1% change in interest rates	(102,686)	(116,904)
Effect on profit before tax of a -1% change in interest rates	102,686	116,904

Notes to the Consolidated Financial Statements (continued)

AS AT 31 DECEMBER 2020

45. FINANCIAL RISK MANAGEMENT (continued)

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 2020, 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 2,580,580 (2019: KShs 25,687,000) 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 2020, 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.26,427,530 (2019: KShs 22,687,000) 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:

As at 31 December 2020 *In KShs'000*	**USD**	**GBP**	**Euro**	**ZAR**	**JPY**	**Others**	**Total**
Assets							
Cash and cash equivalents (Group and Bank)	7,745,662	377,711	790,774	5,317	5,960	15,206	8,940,630
Investment in ordinary shares fair value through other comprehensive income	268,756	-	-	-	-	-	268,756
Offshore bonds	169,570	-	-	-	-	-	169,570
Offshore bonds	7,990,957	63,858	3,909,775				11,964,590
Loans and advances	3,024,747	2,486,633	443,023	29,871	-	9,217	5,993,491
Total assets	19,199,692	2,928,202	5,143,572	35,188	5,960	24,423	27,337,037
Liabilities							
Balances due to banks and financial institutions	300,782		44,103				344,885
Deposits	15,718,152	2,928,723	1,104,761	1,479	235	689	19,754,039
Others	2,950,168	936	3,971,409	33,422	5,511	5,627	6,967,073
Total liabilities	18,969,102	2,929,659	5,120,273	34,901	5,746	6,316	27,065,997
Net exposure as at 31 December	230,590	(1,457)	23,299	287	214	18,107	271,040

Notes to the Consolidated Financial Statements (continued)

AS AT 31 DECEMBER 2020

45. FINANCIAL RISK MANAGEMENT (continued)

d) Market risk (continued)

Foreign currency exchange risk (continued)

As at 31 December 2019 *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

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 2020

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

There were no significant adjusting events subsequent to the period end that required adjustment or disclosure in these financial statements

Corporate Social Responsibility

FIRST LADY HALF MARATHON

Prime Bank was among the corporate sponsors for the 2020 First Lady Half Marathon that took place on 8th March. 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.

VENTILATOR TO PCEA KIKUYU HOSPITAL IN FIGHT AGAINST COVID-19

As part of its commitment to support efforts to flatten the Covid-19 pandemic curve, Prime Bank donated a ventilator valued at KShs. 3Million to PCEA Kikuyu Hospital. Under the umbrella of Kenya Banking Industry Response to Coronavirus, the Bank refocused its corporate social responsibility programmes and budgets for the year 2020 towards the fight against the pandemic.

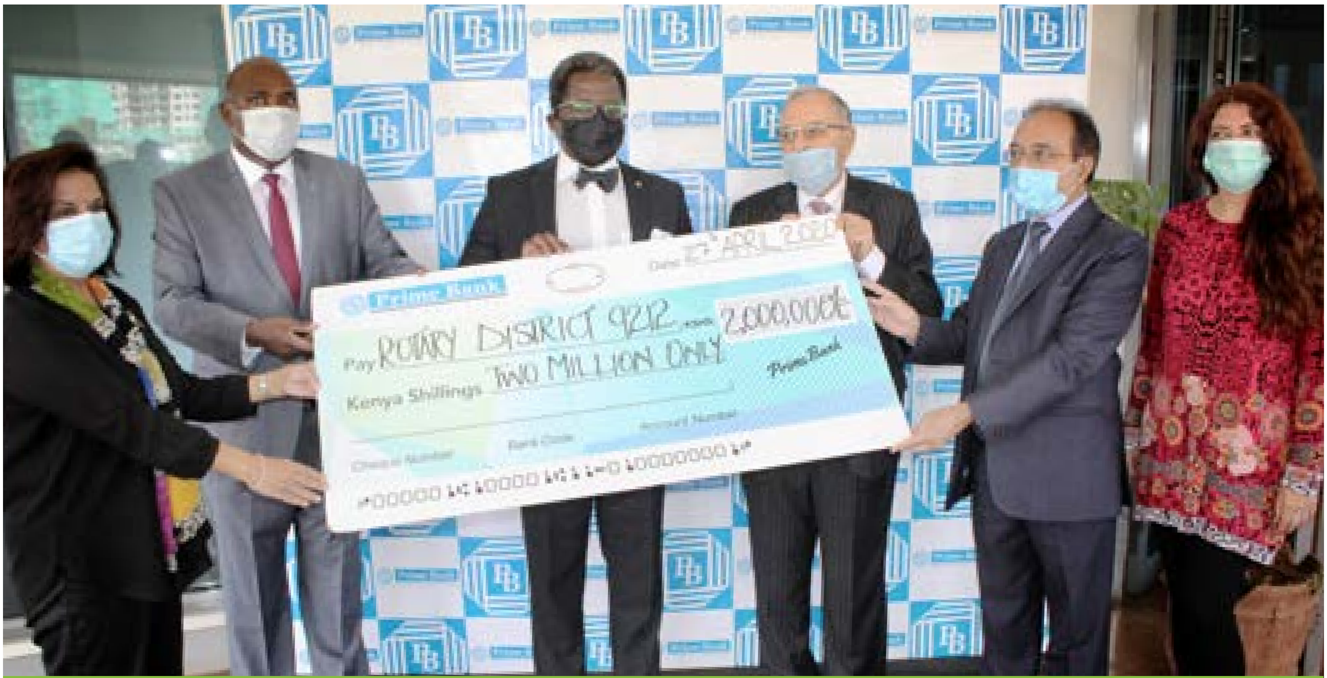
KISUMU BRANCH AIDES FAMILIES AFFECTED BY FLOODS

The heavy rainfall in March 2020 displaced more than 100,000 people and devastated homes and crops in Western and Nyanza regions.

Prime Bank in partnership with the Shree Lohana Mahajan Kisumu and Sikh Aid launched a food donation drive to provide cooked food to families affected by the floods within Kisumu County, an initiative that took places over a period of 24 days.

SUPPORT FOR NYUMBANI

The Bank donated 200 foodstuffs hampers worth KShs. 200,000 to complement Nyumbani Children's Home's efforts of feeding households with children under its care during the period of Covid-19 environment. The hampers contained a kilogram each of maize and wheat flour, rice, sugar, salt and a bar of soap.



PRIME BANK, ROTARY DISTRICT 9212 SUPPORT VULNERABLE FAMILIES DURING COVID-19 PANDEMIC

Prime Bank donated KShs. 2 Million to the Rotary District 9212 Emergency Response Team to ensure more than 1,000 families have food packs to sustain them during the pandemic.

BOOST TO KIAMBU COUNTY'S FIGHT AGAINST COVID-19

Kiambu County Government received a major boost in the fight against management of Covid-19 after a donation of an ultrasound system from Prime Bank.

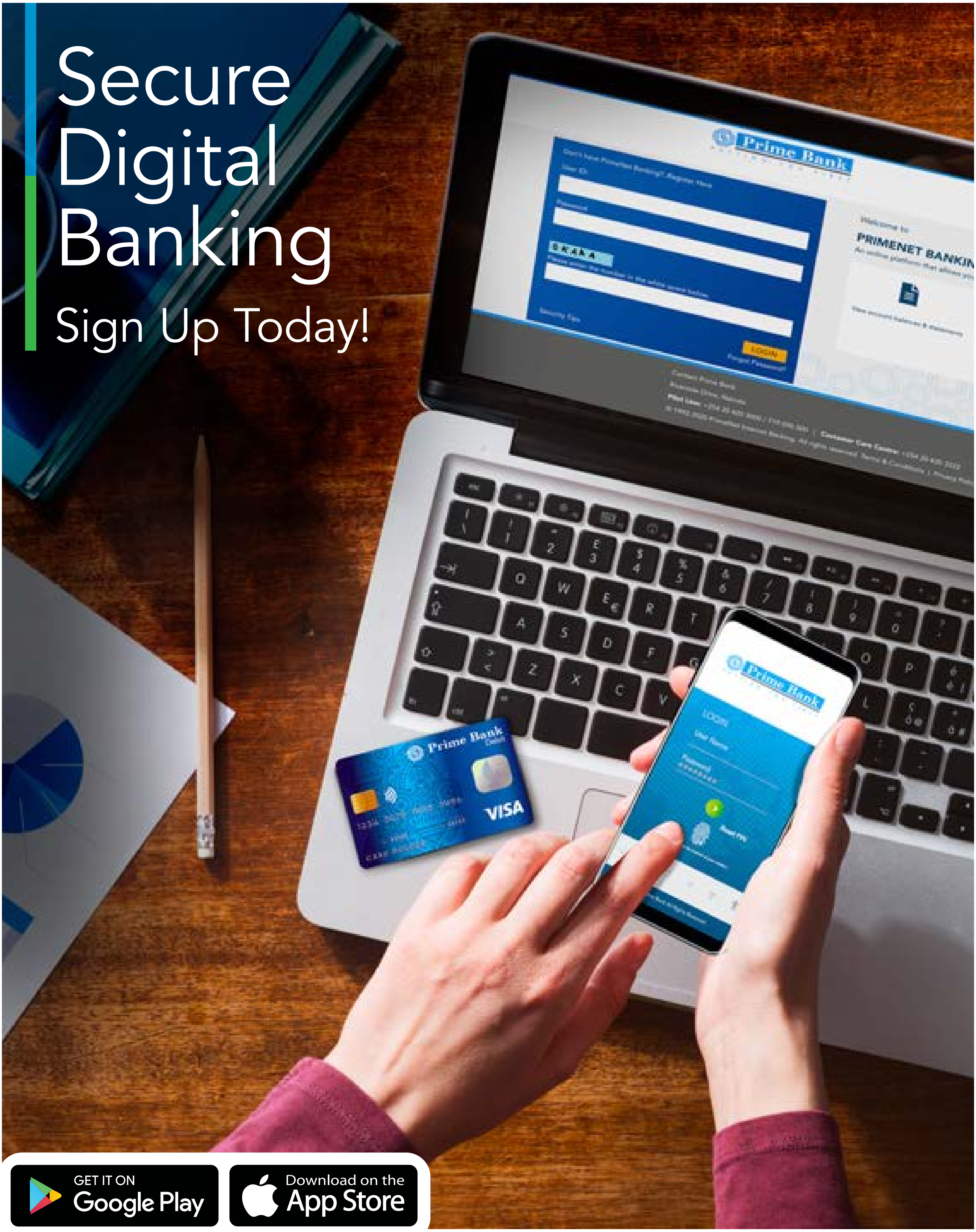
The digital color Doppler ultrasound system valued at approximately KShs. 1.5 Million was donated to Tigoni Level 4 Hospital.

JUNIOR GOLF FOUNDATION PARTNERSHIP

For five years running, Prime Bank has been supporting junior golfers nurture talent through its partnership with Junior Golf Foundation and Kenya Golf Union. To that effect, the Bank donated KShs. 1. 022 Million as proceeds of the partnership with JGF and KGU through the Prime Visa Golf Card for the year 2020. Since the inception of the program in 2015, Prime Bank has so far donated KShs. 5.322 Million to Junior Golf Foundation.

JOINED HANDS WITH COMMUNITY-BASED ORGANIZATIONS

In the course of the year, the Bank also joined hands with community-based organizations such as Ramgarhia Youth Association, Hindu Council of Kenya, Giants Group, East Africa Satsang Swaminarayan Temple, among others to support vulnerable families during the Covid-19 pandemic.



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