Prime Bank

PUTTING YOU FIRST

2021 ANNUAL REPORT

& FINANCIAL STATEMENTS


Prime Bank

Contents

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 AfricInvest Azure SPV, a Special Purpose Vehicle, jointly formed by AfricInvest 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 African 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.

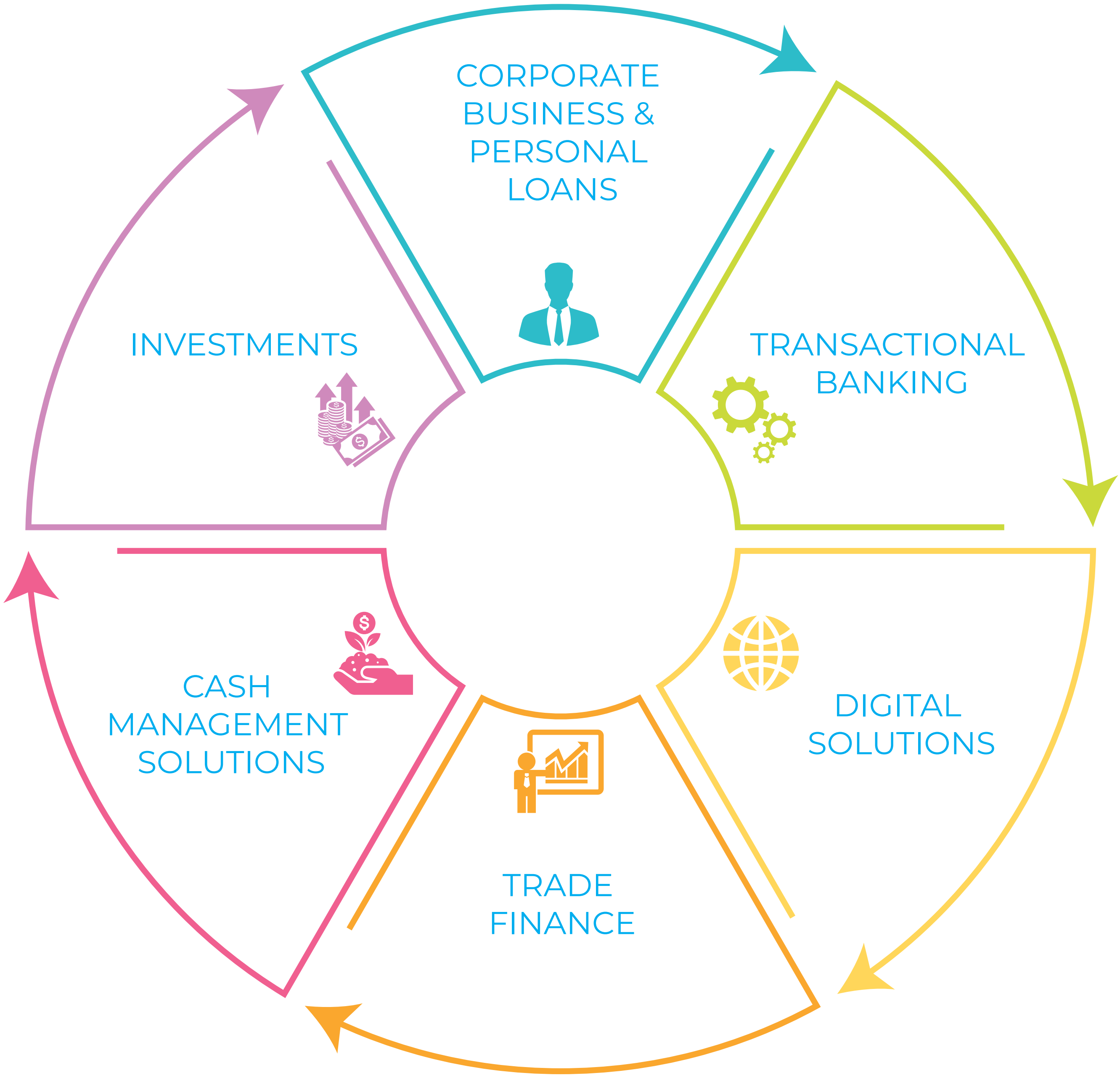
Quality

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

Social Responsibility

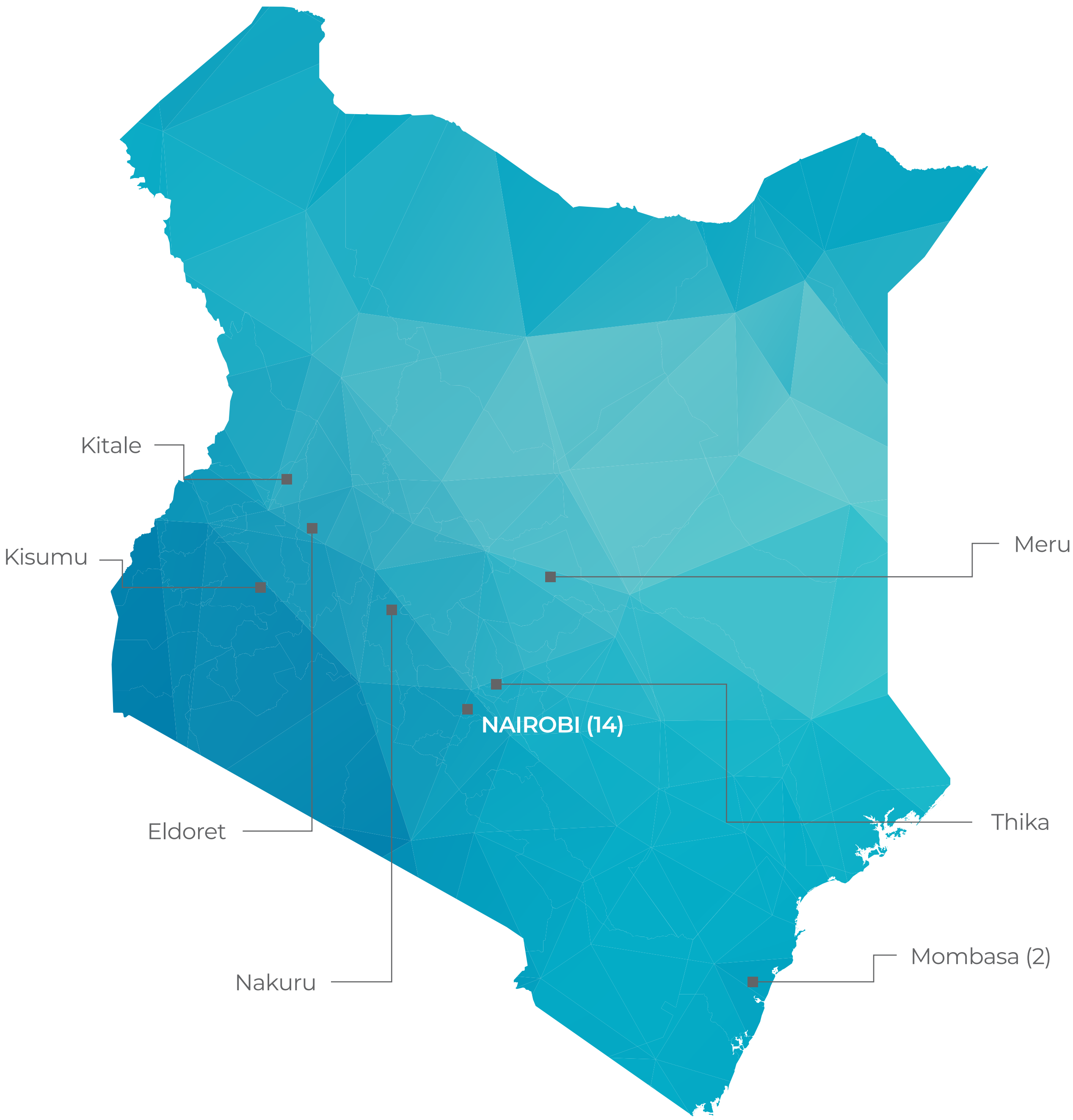
We care for and contribute to our communities.

Product Portfolio Solutions

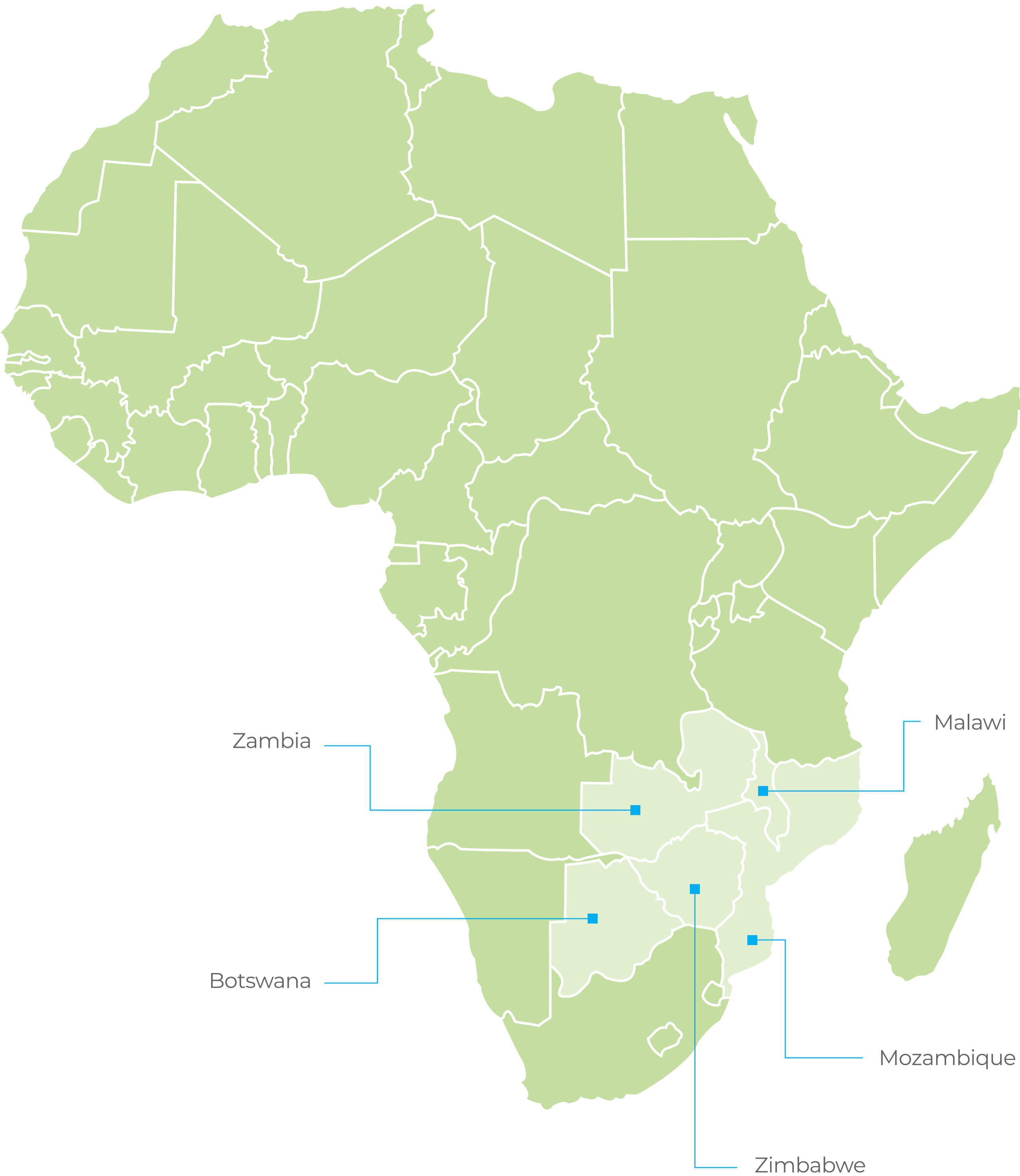


Local Network

22 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 90 professionals based in 11 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.

Corporate Information

Board of Directors

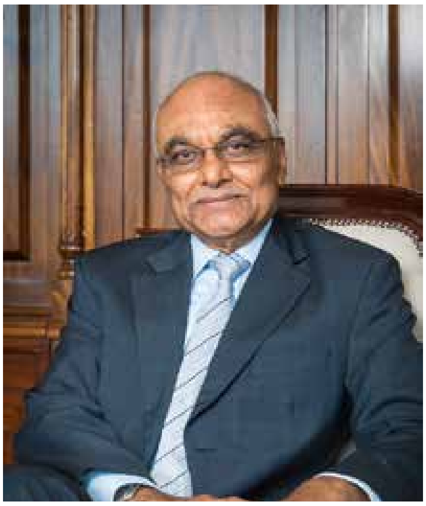
Dr. Rasik C. Kantaria
CHAIRMAN

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

Mr. Terry Davidson is a career banker having spent 3 decades with Citibank in various geographies and 5 years as CEO of Kenya Commercial Bank. For the past few years, he has worked as an independent consultant and is on the board of various companies, including Chairman of First Capital Bank Ltd and Asilia Ltd.

Mr. Davidson was a founder member of the Kenya Capital Markets Authority, a member of the Kenya Capital Markets Tribunal, the Kenya Deposit Protection Fund, Chairman of the Kenya Bankers Association and past council member of the University of Nairobi.

In addition to being a Trustee of Gertrudes Children's hospital, he is also Chairman of the Gertrudes Pension Fund and a Trustee of the Gertrudes Foundation.

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 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 the current Chairman of Banda Group Educational and Property Groups.

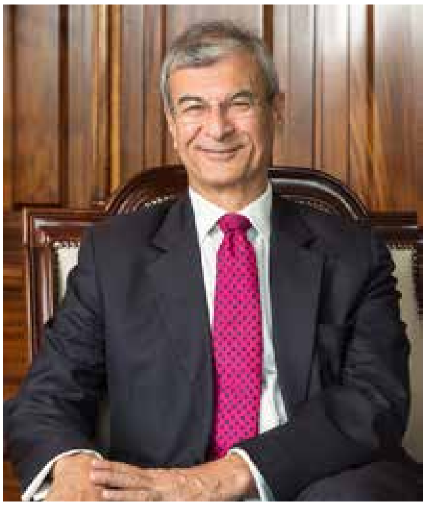
He is a Non-Executive Director of ICEA Lion General Insurance Company Limited, ICEA Lion Life Assurance Company Limited, East Africa Reinsurance Company Limited., among others.

Mr. Jinaro K. Kibet
DIRECTOR

Mr. Jinaro Kipkemoi Kibet was appointed to the board in 2014. An Advocate of the High Court of Kenya of 32 years standing. He is a founding Partner of TripleOKlaw LLP Advocates, a top tier City law firm where he is also the Senior Partner in the corporate and commercial department.

Prior to turning his attention to corporate- commercial work, he had a very successful career in litigation at which time he handled several landmark and high profile cases.

Mr. Kibet currently serves on several other boards including Unga Group PLC, Telkom Kenya, Athletics Kenya among others .



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 2020. 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.

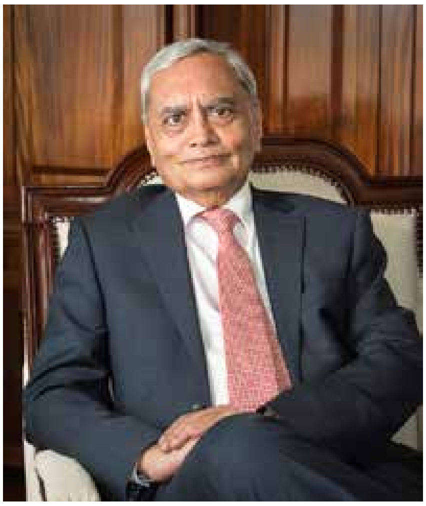
He holds a Bachelor of Arts in Mathematics from Saint Anselm College, a Bachelor of Engineering and Masters of Engineering Management from Dartmouth College.

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 2020. 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

Chairman's Statement

> "Operating Environment Following an already sluggish global growth in 2020, strong economic recovery was expected in 2021."

On behalf of the Board of Directors of Prime Bank, it gives me great pleasure to present to you the Group's Annual Report and Financial Statements for the Financial Year 2021.

I am proud to report that despite the headwinds occasioned by the Covid-19 pandemic, Prime Bank navigated through a challenging operating environment to register impressive results.

Operating Environment

During the period under review, economic development across the globe were both encouraging and challenging. After a sharp decline in output from major economies in 2020, 2021 saw a resilient rebound in terms of growth. This was occasioned by most vibrant economies reaching substantial vaccination rates, and international trade picking up.

Kenya's economy demonstrated resilience to the COVID-19 shocks, with output in the first half of the year rising above pre-pandemic levels. In 2021, Gross Domestic Product (GDP) grew by 5 per cent, one of the fastest recoveries among Sub-Saharan African countries.

The Kenya Shilling depreciated by 3.5 per cent against the US Dollar, touching an all-time low of KShs. 113 at the end of 2021 due to increased global oil prices and higher demand for Dollar following the reopening of most economies.

As at December 2021, the average inflation rate stood at 5.73 percent, mainly driven by the rise in the prices of food and non-alcoholic beverages, transport, housing, water, electricity, gas and other fuels.

Kenyan banking sector remained fairly stable in 2021 with regional expansion through mergers and acquisitions continuing to dominate headlines in the industry.

The 2021 financial year saw the Integration of Climate-Related Risk Management by the Central Bank of Kenya stipulating that all banks and mortgage finance companies ought to integrate the risks and opportunities arising from climate change in risk management, strategy and governance structures of their institutions.

Like many African countries, Kenya's insurance sector maintained stable growth and profitability however; high volumes of fraud in claims still persist.

Group Performance

I am pleased to report that the Group, Prime Bank Limited and Tausi Assurance registered impressive performance despite a very uncertain and challenging operating environment.

The group recorded a net profit of KShs.3.21 billion in 2021 compared to KShs. 2.39 billion registered in 2020.

Corporate Governance and Board Changes

As a reputable financial institution, we continue to carry out regular review of our corporate governance structures in line with regulatory requirements.

Dividends and Annual General Meeting

The directors recommended a final dividend of KShs. 81 per share for the year 2020 equivalent to a total sum of KShs. 538.6 million (Interim dividend declared and paid was KShs. 68 per share) and was paid in 2021. The directors recommended and paid an interim dividend of KShs. 81 per share for the year 2021 equivalent to a total sum of KShs. 538.6 million.

Corporate Social Initiatives

The Bank has a long history of active engagement with the communities through extending our support to a diverse range of community initiatives.

As a corporate citizen, we undertook the responsibility of ensuring needy students are availed an opportunity to pursue their studies. Needy students from SCS Swaminarayan Academy Langata and Gulab Lochab Academy Eldoret, and Jalaram Academy Kisumu, were beneficiaries of Prime Bank Bursary Program for the year 2021.

In our flagship program - Freedom for Girls, more than 300 girls from S. C. S. Swaminarayan Academy Langata benefited from this noble cause where they received a full year's supply of sanitary towels, undergarments and health education booklets. Since 2008 Prime Bank has donated over KShs. 11 million towards this project with over 25,000 girls benefiting countrywide.

During the year, the Bank donated seven Television sets and 250 chairs to the Mathari National Teaching and Referral Hospital. The Television sets will provide the much needed alternative entertainment and information to patients in the wards while the chairs will help solve the scarcity of seats in waiting areas that was being experienced in the hospital.

For five years running, Prime Bank has been supporting Junior Golf Foundation and Kenya Golf Union to nurture talent of young golfers. The Bank donated KShs. 1.022 Million through the Prime Visa Golf Card as proceeds of the partnership with these organisations for the year. Since the inception of the program in 2015, Prime Bank has donated KShs. 5.322 Million to Junior Golf Foundation.

The third edition of Eldoret City Marathon was held on Sunday 6th June 2021 in Eldoret. The aim of the Marathon was to raise funds towards this year's theme of 'Climate Action', by planting at least one million trees within various vocational training centres in the region. Prime Bank was one of the sponsors towards the cause.

Over the years, we have made long term commitment to support initiatives by various community based organizations.

Looking Ahead:

Global economic growth faces headwinds as we navigate through the year 2022. The potentially huge global supply shock that will reduce growth and push up inflation has been occasioned by the Russia and Ukraine conflict and economic sanctions on Russia, putting global energy supplies at risk.

For Kenyan economy, the outlook for 2022 shows promise with growth projections ranging from 4.5 percent to 6 percent. This is largely attributed to the continued recovery of businesses from the adverse effects of the pandemic.

That notwithstanding, political stability pre and post the General Election, a stable macroeconomic environment, an enabling business environment and stability of the Kenya shilling would further strengthen the economic outlook this year.

Prime Bank at 30

Prime Bank was established in 1992 which makes 2022 a special year for us as we celebrate 30 years of service to our customers.

At Prime Bank, we take great pride in witnessing the Bank grow by leaps and bounds, embracing strong value systems, building strong partnerships, long standing friendships, and achieving more than we ever thought was possible.

Appreciation

As we mark our 30th Anniversary, I thank our partners, directors and employees who have stood by the Bank since its inception. All the achievements of the Bank over the last 30 years would not have been possible without your dedication and input.

To our customers whose patronage and loyalty we do not take for granted, we remain true to our clarion call of "Putting you first'. We will always endeavor to exceed your expectations.

I thank my fellow Directors for their wise counsel – as always - and commitment at both Board and committee levels throughout the year.

To our partners and shareholders, I reiterate that we remain true to our long-term commitment to sustainably growing the returns on your investment.

On behalf of the Board of Directors, I thank the management and staff led by the Executive Director Mr. Amar Kantaria and Managing Director Mr. Bharat Jani, for their stewardship and for delivering impressive results for the 2021 financial year.

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

Dr. Rasik Kantaria

Chairman

Managing Director's 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.."

The global outbreak of COVID-19 dealt a major blow to the Kenya's growth trajectory which recorded negative growth of 0.3 % in 2020, the lowest in 12 years.

During the period under review, as the worldwide vaccination programs gained momentum, governments embarked on lifting curfews, which led to re-opening of borders across major economies and the resumption of international travel. This resulted to a strong economic recovery which recorded a 5.0% growth.

Operating Environment

In 2021, the Central Bank of Kenya issued a 12 months suspension of listing of negative credit information for borrowers with loans below KShs. 5 Million, whose loans were performing previously, but have become non-performing from 1st October, 2021. This was aimed at cushioning Micro Small and Medium Enterprises from adverse effects of the COVID-19 pandemic.

According the regulator, private sector credit grew by 8.6 percent in the year to December, highlighting increased business activity in various sectors. However, it remained well below the Central Bank of Kenya's target rate of 12-15 percent.

It is against this background that I present to you, our partners, shareholders and customers the highlights of Prime Bank's financial performance for the year 2021 and our outlook for the year 2022.

Bank Performance

Through investments in digitalization, improved customer experience, reduction of Non Performing Loans, and mobilization of deposits, Prime Bank remained resilient to post impressive results.

The Group's Net Profit closed the year at KShs. 3.21 Billion while the Bank's profit stood at KShs. KShs. 3.02 Billion, posting a whopping 43 percent increase from KShs. 2.1 Billion recorded the previous year.

The Group's balance sheet expanded by 9 per cent to KShs. 128.8 Billion from KShs. 118.3 Billion, while the Bank recorded an equal increase of 9 per cent from KShs. 116.2 Billion recorded last year to KShs.126.5 Billion.

During the year under review, the Bank maintained a strong capital adequacy, ending the year with core a capital of KShs. 24.2 Billion against Central Bank of Kenya's minimum statutory requirements of KShs. 1 billion.

The Bank's total deposits registered a 9 per cent growth from KShs. 88.5 Billion to KShs. 97 Billion.

Loans and advances to customers increased by 6 per cent at the close of the year to KShs. 38 Billion from KShs. 36 Billion while non- performing loans remaining low at 4 per cent.

The Bank's liquidity ratio stood close to 80 per cent being above the CBK's minimum statutory requirement of 20 per cent.

Operational Highlights

In the course of the year under review, our local expansion program remained key to our strategic plan. We continued to focus on our expansion program by opening of a branch in Trans Nzoia, Kitale town.

We also laid emphasis on upgrading our mobile banking platform PrimeMobi to offer users additional exciting features.

To enhance our customers' access to credit, we introduced PrimeKopa, a lending service on our mobile banking platform PrimeMobi. PrimeKopa is designed to provide easy access to finance anytime at a click of a button. PrimeKopa provides our customers with instant mobile loans of up to KShs. 150,000 with flexible repayment periods of up to 90 days.

We also integrated the E-Citizen payments on the PrimeMobi to enable customers make payments through PesaLink for services rendered by Government agencies such as NTSA, Immigration, Ministry of Lands, and State Law Office among others.

To ensure all debit and credit cards are safer, faster, and secure to use, we switched to contactless payment technology. This technology allows customers to simply tap to pay for goods and services through the contactless symbol.

In the course of the year 2021, the Bank launched five local currency transactional accounts which have been aligned to support Personal, SME and Corporate business segments of our customer base.

Through our guiding principal of always putting our customers first, during the year 2021, the Bank won the awards of Best Bank in Customer Satisfaction and Best Bank in Customer Satisfaction at the Think Business Banking Awards 2021.

The Year Ahead

The country's outlook for the year 2022 remains positive with projections pointing at a growth of 5.9 percent as the economy recovers from Covid-19 pandemic.

However, this growth is likely to be marginally slowed as a result of the rising external debt costs, higher energy and food costs occasioned by the Russia and Ukraine conflict, and reduced investor confidence ahead of the August 9th b General Elections.

There is also the likelihood of a slowdown of lending activity in the banking sector during the first half of the year as most lenders will adopt a wait-and-see approach in the run-up to the elections.

Beyond 30

The year 2022 signals a significant milestone in Prime Bank's history as we celebrate 30 years of service to our customers.

On our 30th Anniversary, we pause and look back the far we have come and also look ahead at the mountains we must still climb for the Bank to remain in the position of a leading financial in the coming years.

This year, we endeavor to renew our pledge to continuously innovate with dedication, and acquire the best technology backed by excellent customer experience in ensuring you get nothing but the best products and services.

Appreciation

To our staff, your dedication, commitment, and team work has always been the driving force behind the Bank's impressive performance. I applaud all our staff for keeping true to our motto of always putting our customers first.

The support, loyalty and cooperation from our partners, shareholders, and customers throughout the year immensely contributed to the Bank's stellar performance in 2021.

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 2021 financial year.

On behalf of the management team, I assure our shareholders of the Bank's continued trajectory in growth and profitability to ensure maximum returns on your investment.

Mr. Bharat Jani

Managing Director

Report of Directors FOR THE YEAR ENDED 31 DECEMBER 2021

The Directors have pleasure in submitting their report together with the consolidated audited financial statements for the year ended 31 December 2021.

Incorporation

The Bank is domiciled in Kenya where it is incorporated as a private company limited by shares. It is governed by the Companies Act, 2015 of the Laws of Kenya. 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 page 26. In accordance with Article 91 of the Articles of Association Mr. R. C. Kantaria and Mr. J. N. Mungai 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 recommended a final dividend of Kshs. 81 per share for the year 2020 equivalent to a total sum of Kshs. 538.6 million (Interim dividend declared and paid was Kshs. 68 per share) and was paid in 2021.

The directors recommended and paid an interim dividend of Kshs 81 per share for the year 2021 equivalent to a total sum of Kshs 538.6 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& Touché continue in office in accordance with the Company's Articles of Association and section 719 of the Kenya Companies Act, 2015. The directors monitor the effectiveness, objectivity and independence of the auditor. The directors also approve the annual audit engagement contract which sets out the terms of the auditor's appointment and the related fees. The agreed auditor's remuneration of Kshs. 6.6 million has been charged to profit or loss in the year.

Business review

Total assets of the Bank grew from Kshs. 116.2 billion in 2021 to Kshs. 126.5 billion in 2021; deposits grew from Kshs. 88.6 billion to Kshs. 97.2 billion in 2021, while profit after tax increased by 43% from Kshs. 2.1 billion to Kshs. 3.0 billion in 2021.

Management is aware of the liquidity risks that are inherent in the Banking sector and have maintained the Bank's liquidity ratio average at 80.3% which is 60.30% above the 20% requirement under CBK regulations.

As regards to 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.

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 rebounded to 5.9% in 2021 from a contraction of 4.4% in 2020 mainly due to the roll out of vaccines to curb Covid 19 infections and the lifting of containment measures.

Kenyan GDP grew by an estimated 5.0% in 2021 from a contraction of 0.3% in 2020 due to the same lifting of containment measures.
The outlook for the global economy is positive with GDP expected to grow by 4.9% in 2022 supported by the roll out of Covid 19 vaccination programmes both globally and locally and the subsequent easing of containment measures.

Report of Directors FOR THE YEAR ENDED 31 DECEMBER 2021 (continued)

The global expected recovery will support the recovery of the Kenyan economy which is expected to grow by 5.9% in 2022 although downside risks remain.

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 continues to 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 17th March 2022.

By order of the board

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Company Secretary

Nairobi, Kenya

Statement of Directors' Responsibilities

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 17th March 2022 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 2021 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)	4
Mr. Bharat Jani (Managing)	5
Mr. D. G. M. Hutchison	5
Mr. J. N. Mungai	4
Mr. T. M. Davidson	5
Mr. J. K. Kibet	5
Mr. F. Mohamed	5
Mr. S. Oueslati	4
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 7 board committees – Strategy, Credit, Debt Management, Audit, Risk and Compliance, IT, and Human Resource and Nomination Committee and 2 management committees – Operations and Assets and Liability Management committees. 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.

A. Board Committees

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, 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, Mr. David Hutchison, a non-Executive Director, Skander Oueslati a non-Executive Director, Mr. A. R. Kantaria, Executive Director and Mr. Bharat. Jani, Managing Director 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. Farid Mohamed, a non-Executive Director, Mr. A. Kantaria, Executive Director and Mr Bharat Jani, the Managing Director 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 and Mr. J.K. Kibet, non-Executive Director 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 is the other member 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, Mr David Hutchison non - Executive Directors, Mr A. Kantaria, Executive Director and Mr Bharat Jani the Managing Director are the other members of this Committee. 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.

Human Resource & Nomination Committee (HRNC):
The HR and Nomination Committee is headed by J. Kibet, a non-Executive Director. Other members are Mr S Oueslati non-Executive Director, Mr Biniam Yohannes non-Executive Director, Mr A. Kantaria, Executive Director and Mr Bharat Jani the Managing Director. The committee 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.

Statement Of Corporate Governance on the Financial Statements (continued)

B. Management Committees

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, Deputy 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.

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 12 to 108, each of which comprise a statement of financial position as at 31 December 2021 and statements of profit or loss, Statement of 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 2021 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.

Responsibilities of the Directors for the Financial Statements

The Directors are responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards and the requirements of the Kenyan Companies Act, 2015, and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements

Report of the Independent Auditors

TO THE MEMBERS OF PRIME BANK LIMITED (continued)

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 Directors

In our opinion, the information given in the report of the directors on pages 23 to 24 is consistent with the accompanying bank and consolidated financial statements.

Charles Luo

....

Certified Public Accountants (Kenya)

23rd March 2022

CPA Charles Munkonge Luo,

Practising certificate

No. 2294

Signing partner responsible for the independent audit


-15.50
50.153
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Financial Statements

Consolidated Statement of Financial Position

AS AT 31 DECEMBER 2021

	Note	2021 KShs '000	2020 KShs '000
ASSETS			
Cash and balances with the Central Bank of Kenya	5	6,330,041	5,607,376
Placements and balances with other banks	6	8,957,230	10,330,438
Treasury bills and term notes	7	20,499,366	19,546,369
Investment in securities measured at amortised cost	8	33,941,047	23,604,068
Investment in securities at fair value through other comprehensive income	9	12,657,390	17,133,607
Investment in ordinary shares at fair value through other comprehensive income	10(a)	3,973,133	1,232,158
Investment in ordinary shares-at fair value through profit or loss	10(b)	99,497	92,456
Loans and advances	11	37,974,486	36,036,557
Other assets	12	1,180,690	1,014,943
Right of use - leasehold land	14	658,373	670,350
Property and equipment	15(a)	1,434,634	1,550,818
Right of use assets	16	238,359	287,436
Intangible assets	17	796,197	783,639
Tax recoverable	24	87,396	32,431
Deferred tax asset	18	-	330,721
TOTAL ASSETS		128,827,839	118,253,367
LIABILITIES AND EQUITY			
LIABILITIES			
Balances due to banks and financial institutions	19	22,070	345,079
Medium term note	20	-	1,094,000
Deposits from customers	21	96,864,456	88,230,074
Lease liabilities	22	267,549	317,970
Other liabilities	23	1,981,137	2,043,758
Corporate tax payable	24	-	12,838
Deferred tax liability	18	119,711	66,927
TOTAL LIABILITIES		99,254,923	92,110,646
EQUITY			
Share capital	25	6,649,390	6,649,390
Share premium	26	5,230,109	5,230,109
Other reserves	27	17,276,155	13,326,871
Proposed dividends	37	-	538,601
Equity attributable to equity holders of the parent		29,155,654	25,744,971
Non-controlling interests		417,262	397,750
TOTAL EQUITY		29,572,916	26,142,721
TOTAL LIABILITIES AND EQUITY		128,827,839	118,253,367

These financial statements on pages 34 to 133 were approved by the Board of Directors on 17th March 2022 and signed on its behalf by: -

.... Director   .... Director   .... Director   .... Director

Bank Statement of Financial Position

AS AT 31 DECEMBER 2021

	Note	2021 KShs '000	2020 KShs '000
ASSETS			
Cash and balances with the Central Bank of Kenya	5	6,332,115	5,605,588
Placements and balances with other banks	6	8,894,382	10,268,955
Treasury bills and term notes	7	20,499,366	19,546,369
Investment securities measured at amortised cost	8	32,979,596	22,663,839
Investment in bonds at fair value through other comprehensive income	9	11,765,593	16,399,465
Investment in ordinary shares at fair value through other comprehensive income	10(a)	3,868,946	1,138,296
Loans and advances	11	37,917,560	35,968,295
Other assets	12	658,432	589,360
Investment in subsidiaries	13	1,405,692	1,395,692
Right of use - leasehold land	14	568,407	579,117
Property and equipment	15(b)	1,194,979	1,304,502
Right of use assets	16	238,359	287,436
Intangible assets	17	137,390	125,956
Tax recoverable	24	21,406	-
Deferred Tax Asset	18	-	330,721
TOTAL ASSETS		126,482,223	116,203,591
LIABILITIES AND EQUITY			
LIABILITIES			
Balances due to banks and financial institutions	19	22,070	345,079
Medium term note	20	-	1,094,000
Deposits from customers	21	97,221,176	88,588,626
Lease liability	22	267,549	317,970
Other liabilities	23	806,746	943,477
Deferred tax liability	18	53,645	-
Tax payable	24	-	12,838
TOTAL LIABILITIES		98,371,186	91,301,990
EQUITY			
Share capital	25	6,649,390	6,649,390
Share premium	26	5,230,109	5,230,109
Other reserves	27	16,231,538	12,483,501
Proposed dividends	37	-	538,601
TOTAL EQUITY		28,111,037	24,901,601
TOTAL LIABILITIES AND EQUITY		126,482,223	116,203,591

These financial statements on pages 34 to 133 were approved by the Board of Directors on 17th March 2022 and signed on its behalf by: --

.... Director   .... Director   .... Director   .... Director

Consolidated Statement of Profit or Loss

AS AT 31 DECEMBER 2021

	Note	2021 KShs '000	2020 KShs '000
Interest income	28	10,647,708	9,659,840
Interest expense	29	(5,101,115)	(5,012,609)
Net interest income		5,546,593	4,647,231
Fees and commission income	30	501,896	457,821
Foreign exchange gains		323,056	411,483
Dividend income		74,392	14,265
Other income	31	1,363,152	1,356,983
		7,809,089	6,887,783
Allowance for impairment of financial instruments	32	(857,562)	(1,159,953)
Other operating expenses	33	(3,753,759)	(3,536,076)
Profit before tax	34	3,197,768	2,191,754
Income tax credit	24	68,319	195,988
Profit for the year		3,266,087	2,387,742
Attributable to:			
Equity holders of the parent		3,206,041	2,304,645
Non-controlling interests		60,046	83,097
		3,266,087	2,387,742
Earnings per share (basic and diluted) (KShs):			
Attributed to:			
Equity holders of the parent (Kshs.)	35	482	347

Consolidated Statement of Comprehensive Income

AS AT 31 DECEMBER 2021

	Note	2021 KShs '000	2020 KShs '000
Profit for the year		3,266,087	2,387,742
Other comprehensive income			
Items that may be reclassified to profit or loss in subsequent periods:			
Fair value through other comprehensive income financial assets:			
(Loss)/gain arising during the year		(211,468)	216,047
Deferred income tax on fair value gain		(24,578)	(61,724)
		(236,046)	154,323
Items that will not be reclassified to profit or loss in subsequent periods:			
Fair value gain/(loss) on fair value through other comprehensive income - Equity investments	10(a)	2,132,546	(1,965,346)
Deferred income tax (expense)/credit on equity investments		(636,666)	582,758
		1,495,880	(1,382,588)
Other comprehensive income/(loss) for the year, net of tax		1,259,834	(1,228,265)
Total comprehensive income for the year, net of tax		4,525,921	1,159,477
Attributable to:			
Equity holders of the parent		4,467,038	1,078,793
Non-controlling Interest		58,883	80,684
		4,525,921	1,159,477

Bank Statement of Profit or Loss

AS AT 31 DECEMBER 2021

	Note	2021 KShs '000	2020 KShs '000
Interest income	28	10,647,708	9,659,840
Interest expense	29	(5,101,115)	(5,012,609)
Net interest income		5,546,593	4,647,231
Fees and commission income	30	501,896	457,821
Foreign exchange gains		323,056	411,483
Dividend income		156,724	101,440
Other income	31	89,234	133,993
		6,617,503	5,751,968
Allowance for impairment of financial instruments	32	(856,067)	(1,158,133)
Other operating expenses	33	(2,858,590)	(2,744,541)
Profit before tax	34	2,902,846	1,849,294
Income tax credit	24	117,925	264,852
Profit for the year		3,020,771	2,114,146
Earnings per share (basic and diluted) (Kshs.)	35	454	318

Bank Statement of Comprehensive Income

AS AT 31 DECEMBER 2021

	Note	2021 KShs '000	2020 KShs '000
Profit for the year		3,020,771	2,114,146
Other comprehensive income			
Items that may be reclassified to profit or loss in subsequent periods:			
Fair value through other comprehensive income financial assets:			
(Loss)/gain arising during the year		(195,110)	205,745
Deferred income tax on fair value gain		(24,578)	(61,724)
		(219,688)	144,021
Items that will not be reclassified to profit or loss in subsequent periods:			
Fair value gain/(loss) on fair value through other comprehensive income - Equity investments	10(a)	2,122,221	(1,942,528)
Deferred income tax (expense)/credit on equity investments		(636,666)	582,758
		1,485,555	(1,359,770)
Other comprehensive income/(loss) for the year, net of tax		1,265,867	(1,215,749)
Total comprehensive income for the year, net of tax		4,286,638	898,397

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 2021

	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
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
Balance at 1 January 2021	6,649,390	5,230,109	12,133,640	538,601	634,667	558,564	25,744,971	397,750	26,142,721
Dividend paid-2020	-	-	-	(538,601)	-	-	(538,601)	-	(538,601)
Dividend paid-2021	-	-	(538,601)	-	-	-	(538,601)	(19,665)	(558,266)
Total comprehensive income:									
- profit for the year	-	-	3,206,041	-	-	-	3,206,041	60,046	3,266,087
- other comprehensive loss –FVTOCI	-	-	-	-	1,260,998	-	1,260,998	(1,163)	1,259,835
Acquisition of Prime merchant	-	-	19,706	-	-	-	19,706	(19,706)	
Share capital adjustment	-	-	(1,000)	-	-	-	(1,000)	-	(1,000)
Increase in profit for PMIA	-	-	2,140	-	-	-	2,140	-	2,140
As at 31 December 2021	6,649,390	5,230,109	14,821,926	-	1,895,665	558,564	29,155,654	417,262	29,572,916

Bank Statement of Changes in Equity

AS AT 31 DECEMBER 2021

	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
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
Balance at 1 January 2021	6,649,390	5,230,109	11,311,657	538,601	629,838	542,006	24,901,601
Final Dividend paid-2020	-	-	-	(538,601)	-	-	(538,601)
Interim Dividend paid- 2021 (note 37)	-	-	(538,601)	-	-	-	(538,601)
Total comprehensive income:							
– Profit for the year	-	-	3,020,771	-	-	-	3,020,771
Other comprehensive loss	-	-	-	-	1,265,867	-	1,265,867
At 31 December 2021	6,649,390	5,230,109	13,793,827	-	1,895,705	542,006	28,111,037

Consolidated Statement of Cash flows

FOR THE YEAR ENDED 31 DECEMBER 2021

	Note	2021 KShs '000	2020 KShs '000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		3,197,768	2,191,754
Adjustments for:			
Gain/(loss) on disposal of property and equipment		4,190	(5,332)
Dividends received		(74,392)	(14,265)
Unrealised foreign exchange loss/(gain)		-	59,237
Fair value (gain)/ loss on fair value through profit or loss	10(b)	(7,041)	16,359
Provision for staff leave		-	-
Allowances for impairment of financial instruments	32	857,562	1,159,953
Amortisation of leasehold land	14	11,977	11,977
Depreciation of property and equipment	15	189,599	204,171
Depreciation of right of use assets	16	99,023	98,289
Amortisation of intangible assets	17	62,040	61,218
Operating cash flows before movements in working capital		4,340,726	3,783,361
Increase in cash ratio reserve		(173,490)	(275,067)
Increase in securities maturing after 91 days		(863,348)	-
(Increase)/decrease in loans and advances to customers		(1,937,929)	188,325
Decrease/(increase) in other assets		(165,739)	(11,283)
Increase in deposits from customers		8,634,382	7,241,451
(Decrease)/increase) in other liabilities		(62,621)	131,307
Cash flows generated from operating activities		9,771,981	11,058,094
Income taxes paid	24	(277,223)	(147,368)
NET CASH FLOWS FROM OPERATING ACTIVITIES		9,494,758	10,910,726
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from sale of property and equipment		1,986	12,471
Dividend income		74,392	14,265
Proceeds from redemption of investment securities measured at amortised cost	8	3,656,503	1,248,232
Proceeds from redemption of treasury bills and term notes	7	21,750,000	31,100,000
Proceeds from sale of investments in bonds measured at FVTOCI	9	6,596,704	2,340,330
Redemption of medium-term note paid off		(1,086,500)	
Purchase of investments in ordinary shares at FVTPL	10(b)	(598,848)	-
Purchase of investment securities measured at amortised cost	8	(14,014,237)	(6,411,652)
Purchase of treasury bills and term notes	7	(22,706,698)	(22,178,591)
Purchase of investments in bonds measured at FVTOCI	9	(2,316,066)	(11,581,487)
Purchase of investments in ordinary shares at FVTOCI	10(a)	-	(14,354)
Purchase of leasehold land	14	-	(195,000)
Purchase of property and equipment	15	(79,592)	(308,061)
Purchase of intangible assets	17	(74,598)	(126,443)
NET CASH FLOWS USED IN INVESTING ACTIVITIES		(8,796,954)	(6,100,290)

Consolidated Statement of Cash flows (continued)

FOR THE YEAR ENDED 31 DECEMBER 2021

	Note	2021 KShs '000	2020 KShs '000
CASH FLOWS FROM FINANCING ACTIVITIES			
Dividends paid to equity holders of the parent	37	(1,077,202)	(452,159)
Dividends paid to non -controlling interests		(19,665)	(20,825)
Repayment of lease liability	22	(101,961)	(93,468)
NET CASH FLOWS USED IN FINANCING ACTIVITIES		(1,198,828)	(566,452)
Net (decrease)/ increase in cash and cash equivalents		(501,024)	4,243,984
Cash and cash equivalents at 1 January		12,925,392	8,681,408
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	38	12,424,368	12,925,392

Bank Statement of Cash flows

FOR THE YEAR ENDED 31 DECEMBER 2021

	Note	2021 KShs '000	2020 KShs '000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		2,902,846	1,849,294
Adjustments for:			
Gain/(loss) on disposal of property and equipment		4,190	(5,312)
Dividends received/(paid)		156,724	(101,440)
Unrealised foreign exchange loss/(gain)			59,237
Allowances for impairment of loans and advances	32	856,067	1,158,133
Amortisation of leasehold land	14	10,710	10,710
Depreciation of property and equipment	15(b)	178,870	192,842
Depreciation of right of use assets	16	99,023	98,289
Amortisation of intangible assets	17	56,378	56,913
Operating cash flows before movements in working capital		4,264,808	3,318,666
Increase in cash ratio reserve		(173,490)	(275,066)
Increase in securities maturing after 91 days		(864,604)	-
(Increase)/ decrease in loans and advances to customers		(1,949,265)	176,906
Increase in other assets		(69,069)	(22,144)
Increase in deposits from customers		8,632,550	7,250,815
(decrease)/ Increase in other liabilities		(136,731)	201,691
Cash flows from operating activities		9,704,199	10,650,868
Income taxes paid	24	(193,197)	(72,868)
NET CASH FLOWS FROM OPERATING ACTIVITIES		9,511,002	10,578,000
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from sale of property and equipment		1,986	12,379
Dividend (income)/expense		(156,724)	101,440
Proceeds from redemption of treasury bills and term notes	7	21,750,000	31,100,000
Proceeds from redemption of investment securities measured at amortised cost	8	3,656,503	1,169,875
Proceeds from sale of investments in bonds measured at FVTOCI	9	6,560,996	2,340,330
Redemption of medium-term note paid off		(1,086,500)	-
Purchase of treasury bills and term note	7	(22,706,698)	(22,178,591)
Purchase of investment securities measured at amortised cost	8	(13,993,000)	(6,256,227)
Purchase of investment in securities measured at FVTOCI	9	(2,105,145)	(11,439,105)
Purchase of shares at FVTOCI	10	(598,848)	(14,354)
Investment in subsidiary		(9,600)	-
Purchase of leasehold land	14	-	(195,000)
Purchase of property and equipment	15	(75,524)	(301,705)
Purchase of intangible assets	17	(67,812)	(111,916)
NET CASH FLOWS USED IN INVESTING ACTIVITIES		(8,830,366)	(5,772,874)

Bank Statement of Cash flows (continued)

FOR THE YEAR ENDED 31 DECEMBER 2021

	Note	2021 KShs '000	2020 KShs '000
CASH FLOWS FROM FINANCING ACTIVITIES			
Dividends paid during the year	37	(1,077,202)	(452,159)
Repayment of lease liabilities	22	(101,961)	(93,468)
NET CASH FLOWS USED IN FINANCING ACTIVITIES		(1,179,163)	(545,627)
Net (decrease)/ increase/in cash and cash equivalents		(498,527)	4,259,499
Cash and cash equivalents at 1 January		12,862,122	8,602,623
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	38	12,363,595	12,862,122

Notes to the Consolidated Financial Statements

AS AT 31 DECEMBER 2021

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 except for 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 2021

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 beyond 30 June 2021—Amendment to IFRS 16

In the prior year, the Group early adopted Covid-19-Related Rent Concessions (Amendment to IFRS 16) that provided 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. This practical expedient was available to rent concessions for which any reduction in lease payments affected payments originally due on or before 30 June 2021.

In March 2021, the Board issued Covid-19-Related Rent Concessions beyond 30 June 2021 (Amendment to IFRS 16) that extends the practical expedient to apply to reduction in lease payments originally due on or before 30 June 2022.

In the current financial year, the Group has applied the amendment to IFRS 16 (as issued by the Board in May 2021) in advance of its effective date.

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 applying IFRS 16 as 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.

(ii) New and revised IFRS Standards in issue but not yet effective for the year ended 31 December 2021

At the date of authorization 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 (including the June 2020 amendments to 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

Notes to the Consolidated Financial Statements (continued)

AS AT 31 DECEMBER 2021

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 2021 (continued)

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
Amendments to IAS 1 and IFRS	Disclosure of Accounting Policies
Practice Statement 2	
Amendments to IAS 8	Definition of Accounting Estimates
Amendments to IAS 12	Deferred Tax related to Assets and Liabilities arising from a Single Transaction

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 17 Insurance Contracts

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

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

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

In June 2020, the Board issued Amendments to IFRS 17 to address concerns and implementation challenges that were identified after IFRS 17 was published. The amendments defer the date of initial application of IFRS 17 (incorporating the amendments) to annual reporting periods beginning on or after 1 January 2023. At the same time, the Board issued Extension of the Temporary Exemption from Applying IFRS 9 (Amendments to IFRS 4) that extends the fixed expiry date of the temporary exemption from applying IFRS 9 in IFRS 4 to annual reporting periods beginning on or after 1 January 2023.

IFRS 17 must be applied retrospectively unless impracticable, in which case the modified retrospective approach or the fair value approach is applied.

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

IFRS 10 and IAS 28 (amendments) Sale or Contribution of Assets between an Investor and its Associate or Joint Venture

The amendments to IFRS 10 and IAS 28 deal with situations where there is a sale or contribution of assets between an investor and its associate or joint venture. Specifically, the amendments state that gains or losses resulting from the loss of control of a subsidiary that does not contain a business in a transaction with an associate or a joint venture that is accounted for using the equity method, are recognized 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 recognized 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.

Notes to the Consolidated Financial Statements (continued)

AS AT 31 DECEMBER 2021

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 2021 (continued)

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.

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 recognize 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 derecognize 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.

Amendments to IAS 1 Presentation of Financial Statements and IFRS Practice Statement 2 Making Materiality Judgements—Disclosure of Accounting Policies

The amendments change the requirements in IAS 1 regarding disclosure of accounting policies. The amendments replace all instances of the term 'significant accounting policies' with 'material accounting policy information'. Accounting policy information is material if, when considered together with other information included in an entity's financial statements, it can reasonably be expected to influence decisions that the primary users of general-purpose financial statements make on the basis of those financial statements.

The supporting paragraphs in IAS 1 are also amended to clarify that accounting policy information that relates to immaterial transactions, other events or conditions is immaterial and need not be disclosed. Accounting policy information may be material because of the nature of the related transactions, other events or conditions, even if the amounts are immaterial. However, not all accounting policy information relating to material transactions, other events or conditions is itself material.

The Board has also developed guidance and examples to explain and demonstrate the

Notes to the Consolidated Financial Statements (continued)

AS AT 31 DECEMBER 2021

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 2021 (continued)

Annual Improvements to IFRS Standards 2018–2020 (continued)

Amendments to IAS 1 Presentation of Financial Statements and IFRS Practice Statement 2 Making Materiality Judgements—Disclosure of Accounting Policies (continued)

application of the 'four-step materiality process' described in IFRS Practice Statement 2.

The amendments to IAS 1 are effective for annual periods beginning on or after 1 January 2023, with earlier application permitted and are applied prospectively. The amendments to IFRS Practice Statement 2 do not contain an effective date or transition requirements.

Amendments to IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors—Definition of Accounting Estimates

The amendments replace the definition of a change in accounting estimates with a definition of accounting estimates. Under the new definition, accounting estimates are "monetary amounts in financial statements that are subject to measurement uncertainty".

The definition of a change in accounting estimates was deleted. However, the Board retained the concept of changes in accounting estimates in the Standard with the following clarifications:

- A change in accounting estimate that results from new information or new developments is not the correction of an error
- The effects of a change in an input or a measurement technique used to develop an accounting estimate are changes in accounting estimates if they do not result from the correction of prior period errors

The amendments are effective for annual periods beginning on or after 1 January 2023 to changes in accounting policies and changes in accounting estimates that occur on or after the beginning of that period, with earlier application permitted.

Amendments to IAS 12 Income Taxes—Deferred Tax related to Assets and Liabilities arising from a Single Transaction

The amendments introduce a further exception from the initial recognition exemption. Under the amendments, an entity does not apply the initial recognition exemption for transactions that give rise to equal taxable and deductible temporary differences.

Depending on the applicable tax law, equal taxable and deductible temporary differences may arise on initial recognition of an asset and liability in a transaction that is not a business combination and affects neither accounting nor taxable profit. For example, this may arise upon recognition of a lease liability y and the corresponding right-of-use asset applying IFRS 16 at the commencement date of a lease.

Following the amendments to IAS 12, an entity is required to recognise the related deferred tax asset and liability, with the recognition of any deferred tax asset being subject to the recoverability criteria in IAS 12.

The amendments apply to transactions that occur on or after the beginning of the earliest comparative period presented. In addition, at the beginning of the earliest comparative period an entity recognises:

- A deferred tax asset (to the extent that it is probable that taxable profit will be available against which the deductible temporary difference can be utilised) and a deferred tax liability for all deductible and taxable temporary differences associated with:
  - Right-of-use assets and lease liabilities
  - Decommissioning, restoration and similar liabilities and the corresponding amounts recognised as part of the cost of the related asset
- 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 that date.

(iii) Early adoption of standards

The Group and the Bank did not early-adopt any new or amended standards in 2021.

Notes to the Consolidated Financial Statements (continued)

AS AT 31 DECEMBER 2021

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 2021. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if, and only if, the Group has:

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

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

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

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated financial statements from the date the Group gains control until the date the Group ceases to control the subsidiary. Profit or loss and each component of OCI are attributed to the equity holders of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation. A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. If the Group loses control over a subsidiary, it derecognizes the related assets (including goodwill), liabilities, non-controlling interest and other components of equity, while any resultant gain or loss is recognized in profit or loss. Any investment retained is recognized 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

Notes to the Consolidated Financial Statements (continued)

AS AT 31 DECEMBER 2021

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(c) Business combinations and goodwill (continued)

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 recognized 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 recognized 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 recognized in profit or loss.

Goodwill is initially measured at cost (being the excess of the aggregate of the consideration transferred and the amount recognized 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 recognized 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 recognized in profit or loss.

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

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

(d) Fair value measurement

The Bank measures financial instruments 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 43.

A fair value measurement of a non-financial asset considers 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, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized 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

Notes to the Consolidated Financial Statements (continued)

AS AT 31 DECEMBER 2021

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(d) Fair value measurement (continued)

For assets and liabilities that are recognized in the financial statements on a recurring basis, the Bank determines whether transfers have occurred between levels in the hierarchy by re-assessing categorization (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

Amortized cost and effective interest rate

The amortized 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 amortized cost before any impairment allowance) or to the amortized 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 amortized cost of the financial asset instead of its gross carrying amount and incorporates the impact of expected credit losses in estimated future cash flows.

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

Interest income

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

- Financial assets that are not impaired at initial recognition but have subsequently become credit-impaired (or 'stage 3'), for which interest revenue is calculated by applying the effective interest rate to their amortized 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 amortized 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 amortized over the life of the instrument, deferred until the instrument's fair value can be determined using market observable inputs, or realized through settlement.

Notes to the Consolidated Financial Statements (continued)

AS AT 31 DECEMBER 2021

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(d) Fair value measurement (continued)

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
- Amortized 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:

- Amortized 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 amortized cost. A gain or loss on a debt investment that is subsequently measured at amortized cost and is not part of a hedging relationship is recognized in profit or loss when the asset is derecognized or impaired. Interest income from these financial assets is included in finance income using the effective interest rate method.
- Fair value through other comprehensive income (FVTOCI): Financial assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and interest, are measured at fair value through other comprehensive income (FVTOCI). Movements in the carrying amount are taken through OCI, except for the recognition of impairment gains or losses, interest revenue and foreign exchange gains and losses which are recognized in profit and loss. When the financial asset is derecognized, the cumulative gain or loss previously recognized in OCI is reclassified from equity to profit or loss and recognized in other gains/ (losses). Interest income from these financial assets is included in finance income using the effective interest rate method.
- Fair value through profit or loss: Financial assets that do not meet the criteria for amortized 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.

Notes to the Consolidated Financial Statements (continued)

AS AT 31 DECEMBER 2021

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(d) Fair value measurement (continued)

Financial assets (continued)

(i) Classification and subsequent measurement (continued)

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.

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 loss ('ECL') associated with its debt instrument assets carried at amortized 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.

- 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.

Notes to the Consolidated Financial Statements (continued)

AS AT 31 DECEMBER 2021

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(d) Fair value measurement (continued)

Financial assets (continued)

(iv) Modification of loans (continued)

- 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 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 amortized 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 amortized 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.

Notes to the Consolidated Financial Statements (continued)

AS AT 31 DECEMBER 2021

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(d) Fair value measurement (continued)

Financial assets (continued)

(ii) Classification and subsequent measurement (continued)

- 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 recognized 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 derecognized 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 recognized in profit or loss.

(g) Recognition of income and expenses

Revenue is recognized 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 recognized:

(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 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 recognized 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 recognized as an adjustment to the effective interest rate on the loan.

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

(iii) Dividend income

Dividend income is recognized 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.

Notes to the Consolidated Financial Statements (continued)

AS AT 31 DECEMBER 2021

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(h) Property and equipment (continued)

Valuations are performed every five 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 recognized in profit or loss, the increase is recognized in profit and loss. A revaluation deficit is recognized in profit or loss, except to the extent that it offsets an existing surplus on the same asset recognized 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 derecognized 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 recognized in 'other income' or 'other expenses' in profit or loss in the year the asset is derecognized.

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

(i) Foreign currency translation

Transactions in foreign currencies during the year are converted into Kenya shillings at rates ruling at the transaction dates. Monetary assets and liabilities at the reporting date which are expressed in foreign currencies are translated into Kenya shillings at rates ruling at that date. The resulting differences from conversion and translation are dealt with in profit or loss.

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

(j) Defined contribution plans

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

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

(i) Employee benefits

(ii) Short-term benefits

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

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

Notes to the Consolidated Financial Statements (continued)

AS AT 31 DECEMBER 2021

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(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 recognized 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 recognized 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 recognized 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. Unrecognized deferred tax assets are reassessed at each reporting date and are recognized to the extent that it is probable that future taxable profit will allow the deferred tax asset to be recovered.

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

Current tax and deferred tax relating to items recognized directly in other comprehensive income or equity are also recognized 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 recognized net of Value added tax, except:

1. 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 recognized as part of the cost of acquisition of the asset or as part of the expense item, as applicable, and
2. When receivables and payables are stated with the amount of value added tax included.

Notes to the Consolidated Financial Statements (continued)

AS AT 31 DECEMBER 2021

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(k) Taxation (continued)

3 Value added tax (continued)

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 recognizes 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 recognizes 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 re measures the lease liability (and makes a corresponding adjustment to the related right-of-use asset) whenever:

- The lease term has changed or there is a 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 re measured by discounting the revised lease payments using a revised discount rate.
- The lease payments change due to changes in an index or rate or a change in expected payment under a guaranteed residual value, in which cases the lease liability is re measured 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 re measured 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 carried at revalued amounts, based on quinquennial valuations by external independent valuers, less accumulated depreciation and accumulated impairment losses.

Notes to the Consolidated Financial Statements (continued)

AS AT 31 DECEMBER 2021

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(m) Leases (continued)

The Group and the Bank as a lessee (continued)

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 recognized 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 recognized 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 amortization and any accumulated impairment loss. The useful lives of intangible assets are assessed to be finite. Intangible assets are amortized over the useful economic life. The amortization period and the amortization 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 amortization period and method, as appropriate, and treated as changes in accounting estimates. The amortization expense on intangible assets is recognized in profit or loss in the expense category consistent with the function of the asset.

An intangible asset is derecognized on disposal, or when no future economic benefits are expected from use. Gains or losses arising from de-recognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset, and are recognised in profit or loss when the asset is derecognized.

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

Computer software	5 years
Visa license	5 years

(o) Dividends

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

(p) Impairment of non - financial assets

The Bank assesses at each reporting date, or more frequently if events or changes in circumstances indicate that an asset may be impaired, whether there is an indication that a non-financial asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Bank makes an estimate of the asset's recoverable amount.

Notes to the Consolidated Financial Statements (continued)

AS AT 31 DECEMBER 2021

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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 considered, 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 recognized 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 recognized 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 recognized impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognized 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 recognized. 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 recognized for the asset in prior years. Such reversal is recognized 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 and contingent liabilities

Provisions are recognized 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.
Contingent liabilities are possible obligations whose existence will be confirmed only by uncertain future events, and present obligations where the transfer of economic resources is uncertain or cannot be reliably measured. Contingent liabilities are not recognised on the statement of financial position but are disclosed unless the outflow of economic resources is remote.

(r) Comparatives

Where necessary, comparative figures have been adjusted to conform to 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

Business model assessment

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

Notes to the Consolidated Financial Statements (continued)

AS AT 31 DECEMBER 2021

4. SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

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

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 considers 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 based on 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.

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 2021

5. CASH AND BALANCES WITH CENTRAL BANK OF KENYA

	GROUP		BANK	
	2021 KShs'000	2020 KShs'000	2021 KShs '000	2020 KShs'000
Cash in hand	458,979	490,935	461,053	489,148
Balances with Central Bank of Kenya:				
-Restricted balances (Cash Reserve Ratio)	2,860,832	2,687,342	2,860,832	2,687,342
-Unrestricted balances	2,639,886	2,061,860	2,639,886	2,061,859
Cheques and items for clearing	370,344	367,239	370,344	367,239
	6,330,041	5,607,376	6,332,115	5,605,588

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 2021, the Cash Reserve Ratio requirement was 4.25% (2020 – 4.25%) 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	
	2021 KShs'000	2020 KShs'000	2021 KShs '000	2020 KShs'000
Lending to other banks and financial institutions	2,786,210	949,340	2,723,362	887,857
Lending and balances with banks outside Kenya	6,171,020	9,381,098	6,171,020	9,381,098
	8,957,230	10,330,438	8,894,382	10,268,955

Notes to the Consolidated Financial Statements (continued)

AS AT 31 DECEMBER 2021

7. TREASURY BILLS AND TERM NOTES

	Group and Bank 2021 KShs '000	Group and Bank 2020 KShs '000
At 1 January	19,546,369	28,549,412
Purchase of investment securities maturing after 91 days	19,661,868	22,178,591
Purchase of investment securities maturing within 91 days	3,044,830	-
IFRS 9 provision	(3,701)	(81,634)
Retirement of investment securities	(21,750,000)	(31,100,000)
At 31 December	20,499,366	19,546,369
Treasury bills:		
Maturing within 91 days of the date of acquisition	1,494,830	-
Maturing after 91 days to 182 days of the date of acquisition	2,039,951	699,132
Maturing after 182 days of the date of acquisition	16,926,609	18,908,871
IFRS 9 provision	(63,498)	(61,634)
Term notes:		
Maturing within 91 days of the date of acquisition	20,000	20,000
Maturing after 182 days of the date of acquisition	103,311	-
IFRS 9 provision	(21,837)	(20,000)
	20,499,366	19,546,369

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 2021 was 8.13% (2020: 8.39%).

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	
	2021 KShs'000	2020 KShs'000	2021 KShs '000	2020 KShs'000
At 1 January	23,604,068	18,522,498	22,663,839	17,659,263
Purchase of investment securities	14,014,237	6,411,652	13,993,000	6,256,227
Retirement of investment securities	(3,656,503)	(1,248,232)	(3,656,503)	(1,169,875)
IFRS 9 provision	(20,755)	(81,850)	(20,740)	(81,776)
At 31 December	33,941,047	23,604,068	32,979,596	22,663,839
Treasury bonds maturing after 182 days of the date of acquisition	33,941,047	23,604,068	32,979,596	22,663,839

Notes to the Consolidated Financial Statements (continued)

AS AT 31 DECEMBER 2021

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	
	2021 KShs'000	2020 KShs'000	2021 KShs '000	2020 KShs'000
As at 1 January	17,133,607	7,752,639	16,399,465	7,171,052
Purchase of investment securities	2,316,066	11,581,487	2,105,145	11,439,105
Sales (maturity) of investment securities	(6,596,704)	(2,340,330)	(6,560,996)	(2,340,330)
Foreign exchange loss	(4,663)	(1,050)	(4,125)	(1,050)
IFRS 9 provision	20,552	(75,186)	21,214	(75,057)
Gain on fair valuation	(211,468)	216,047	(195,110)	205,745
As at 31 December	12,657,390	17,133,607	11,765,593	16,399,465
Within one year	296,932	4,850,977	296,932	4,850,977
After one year but within two years	3,402,791	-	3,402,791	-
After two but within five years	4,653,321	2,597,610	4,653,321	2,597,610
After five years	4,358,980	9,760,206	3,466,393	9,025,935
IFRS 9 provision	(54,634)	(75,186)	(53,843)	(75,057)
	12,657,390	17,133,607	11,765,593	16,399,465

10. INVESTMENT IN ORDINARY SHARES

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

	GROUP		BANK	
	2021 KShs'000	2020 KShs'000	2021 KShs '000	2020 KShs'000
Investment in listed shares (note 10 (a)(i))	3,095,947	963,401	2,991,760	869,539
Investment in privately held shares (note 10 (a)(ii))	877,186	268,757	877,186	268,757
Total investment in ordinary	3,973,133	1,232,158	3,868,946	1,138,296
i) Investment in listed shares:				
Investment as at 1 January	963,401	2,928,747	869,539	2,812,067
Additions		-		-
Loss in fair value	2,132,546	(1,965,346)	2,122,221	(1,942,528)
As at 31 December	3,095,947	963,401	2,991,760	869,539

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 profit of Kshs. 2.12 billion (2020: loss of Kshs. 1.94 billion). The fair value movement relating to locally held shares amounts to a profit of Kshs.1.6 million (2020: loss of Kshs. 5.6 million).

Notes to the Consolidated Financial Statements (continued)

AS AT 31 DECEMBER 2021

10. INVESTMENT IN ORDINARY SHARES (continued)

	BANK	
	2021 KShs '000	2020 KShs '000
ii) Investment in privately held shares:		
First Capital Bank Limited, Botswana	141,833	136,951
First Capital Bank Mozambique	136,505	131,806
First Merchant Bank Capital Holdings (FMBCH) preference shares	598,848	-
As at 31 December	877,186	268,757
The movement in these shares is summarised below:		
As at 1 January	268,757	232,590
Foreign exchange gain	9,581	21,813
Additions	598,848	14,354
As at 31 December	877,186	268,757

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.

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

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 (2020: nil).

During the year the bank invested in 5.2 million of redeemable preference shares worth 598 million Kenya shillings in First Merchant Bank Capital Holdings Malawi.

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

	2021 KShs '000	2020 KShs '000
At start of the year	92,456	108,815
Fair value gain/(loss)	7,041	(16,359)
At end of the year	99,497	92,456

Notes to the Consolidated Financial Statements (continued)

AS AT 31 DECEMBER 2021

11. LOANS AND ADVANCES

	GROUP		BANK	
	2021 KShs'000	2020 KShs'000	2021 KShs '000	2020 KShs'000
Loans and advances to customers(gross)	40,444,593	37,856,748	40,384,164	37,786,869
Less – Allowances on impairment of loans and advances	(2,470,107)	(1,820,191)	(2,466,604)	(1,818,574)
Loans and advances to customers net of ECL allowances	37,974,486	36,036,557	37,917,560	35,968,295
Allowances on impairment of loans and advances				
Opening Balance	(1,820,191)	(1,139,553)	(1,818,574)	(1,139,553)
Additional Provisions in the year	(907,852)	(680,638)	(905,966)	(679,021)
Write off of fully provisioned loans	257,936	-	257,936	-
Loans and advances to customers(gross)	(2,470,107)	(1,820,191)	(2,466,604)	(1,818,574)

a) Lending concentration

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

	2021 %	2020 %
Agriculture	-	-
Building & Construction	3	4
Energy &Water	1	-
Financial Services	-	-
Manufacturing	30	25
Mining & Quarrying	-	-
Personal/Household	7	6
Real Estate	12	14
Tourism, Restaurant & Hotels	3	4
Trade	38	42
Transport & Communication	6	5
Total	100%	100%

Notes to the Consolidated Financial Statements (continued)

AS AT 31 DECEMBER 2021

11. LOANS AND ADVANCES (continued)

b) Maturity analysis

GROUP

2021	Within 30 days KShs '000	31-60 days KShs '000	61-90 days KShs '000	More than 90 days KShs '000	Total KShs '000
Agriculture	1,325	-	-	199,771	201,096
Building & construction	297,017	23,422	12,598	897,795	1,230,832
Energy &water	10,778	1,064	-	379,054	390,896
Financial services	-	-	49,162	9,919	59,081
Manufacturing	3,104,533	2,573,299	74,772	6,120,344	11,872,948
Mining & quarrying		-	-	66,735	66,735
Personal/household	420,727	7,615	4,304	2,189,995	2,622,641
Real estate	1,357,571	425,975	14,469	3,143,508	4,941,523
Tourism, Restaurant & hotels	100,617	18,222	-	1,065,480	1,184,319
Trade	2,933,040	932,364	286,190	11,155,849	15,307,443
Transport & Communication	867,304	11,979	63,325	1,624,471	2,567,079
Total	9,092,912	3,993,940	504,820	26,852,921	40,444,593

BANK

2021	Within 30 days KShs '000	31-60 days KShs '000	61-90 days KShs '000	More than 90 days KShs '000	Total KShs '000
Agriculture	1,325	-	-	199,771	201,096
Building & construction	297,017	23,422	12,598	897,795	1,230,832
Energy &water	10,778	1,064	-	379,054	390,896
Financial services	-	-	49,162	9,919	59,081
Manufacturing	3,104,533	2,573,299	74,772	6,120,344	11,872,948
Mining & quarrying	-	-	-	66,735	66,735
Personal/household	420,727	7,615	4,304	2,189,995	2,622,641
Real estate	1,357,571	425,975	14,469	3,143,508	4,941,523
Tourism, Restaurant & hotels	100,617	18,222	-	1,065,480	1,184,319
Trade	2,933,040	932,364	286,190	11,155,849	15,307,443
Transport & Communication	867,304	11,979	63,325	1,564,042	2,506,650
Total	9,092,912	3,993,940	504,820	26,792,492	40,384,164

Notes to the Consolidated Financial Statements (continued)

AS AT 31 DECEMBER 2021

11. LOANS AND ADVANCES (continued)

a) Maturity analysis (continued)

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

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 2021

12. OTHER ASSETS

	GROUP		BANK	
	2021 KShs'000	2020 KShs'000	2021 KShs '000	2020 KShs'000
Prepayments and deposits	240,987	238,284	240,987	238,284
Accrued income	232,275	184,235	232,269	184,235
Others*	707,428	592,424	185,176	166,841
	1,180,690	1,014,943	658,432	589,360

** 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 SUBSIDIARIES

Information about the composition of the Group at the end of the reporting period is as follows:

Details of investment	Country of incorporation	Activity	2021 % of equity interest	2020 % of equity interest	2021 KShs '000	2020 KShs '000
Tausi Assurance Company Limited	Kenya	General insurance	80.72%	80.72%	1,395,692	1,395,692
Prime Bank Bancassurance Intermediary Limited (Prime Merchant Insurance Agency Limited)	Kenya	Insurance agency	100%	40%	5,000	-
Prime Limited	Kenya	Advisory services	100%	-	5,000	-
					1,405,692	1,395,692

The Bank owns 100% (40%-2020 of Prime Bank Bancassurance Intermediary limited (previously known as Prime Merchant Insurance Agency Limited ("PMIA")) an Insurance Agency that was incorporated and commenced trading in 2014.

The bank also invested Kshs.5 million in Prime Limited a wholly owned subsidiary of the bank which will be offering advisory services. The subsidiary has not commenced operations.

Notes to the Consolidated Financial Statements (continued)

AS AT 31 DECEMBER 2021

14. RIGHT OF USE - LEASEHOLD LAND

	GROUP		BANK	
	2021 KShs'000	2020 KShs'000	2021 KShs '000	2020 KShs'000
COST				
At 1 January	705,844	510,844	613,344	418,344
Additions	-	195,000	-	195,000
At 31 December	705,844	705,844	613,344	613,344
AMORTISATION				
At 1 January	35,494	23,517	34,227	23,517
Charge for the year	11,977	11,977	10,710	10,710
At 31 December	47,471	35,494	44,937	34,227
NET CARRYING AMOUNT				
At 31 December	658,373	670,350	568,407	579,117

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 2021

BANK IN VEHICLE ASSET FINANCING DEAL WITH CROWN MOTORS GROUP

Prime Bank partnered with Crown Motors Group to offer Vehicle Asset Financing for the purchase of their range of its Nissan vehicles available for the Kenyan market. The partnership will see Prime Bank customers benefit from up to 100% financing from Prime Bank for the purchase of Nissan models including the Nissan Patrol, Xtrail, and the Pick up range for the year.

BANK BAGS KBA CUSTOMER SATISFACTION AWARD

The Bank scooped the third best bank in Customer Responsiveness and Satisfactory Digital Experience in tier II category during the Kenya Bankers Association (KBA) Customer Satisfaction Survey (2020) which was launched on 21st January 2021.

BANK AWARDED PERFORMANCE EXCELLENCE AWARD ON USD PAYMENTS

Prime Bank was awarded with the Straight-Through Processing (STP) Excellence Award by Citigroup in recognition of its outstanding performance in the payments space in US Dollar. STP refers to transactions being processed diligently and without human intervention – which results in a more cost-effective and timely process. Prime Bank successfully achieved an STP rate of 100% (USD) for treasury payments and 99.33% for commercial payments.

BANK LAUNCHES SOCIAL MEDIA PRESENCE

In line with the Bank's Digital Transformation Plan, Prime Bank this year launched its social media presence on Facebook, Instagram and LinkedIn. This is aimed at creating awareness of the brand as well as reaching a larger target market.

Milestones 2021

BANK BAGS CUSTOMER SATISFACTION AWARDS

Prime Bank was awarded The Best Bank in Customer Satisfaction – in Tier II category & 2nd Runner up – Best Bank in Customer Satisfaction (all the three tiers combined) during the 16th edition of the Think Business Banking Awards 2021 held on 28th May.

LAUNCH OF PRIMEKOPA

The Bank ventured into the digital micro lending space with the launch of a comprehensive digital lending platform PrimeKopa. PrimeKopa is designed to provide customers easy access to instant mobile loans at a click of a button through the Bank's mobile app PrimeMobi. Customers can now get mobile loans from KShs. 5,000 to KShs. 150,000 with flexible repayment periods of 30, 60, and 90 days.

EXPANSION INTO THE NORTH RIFT REGION

Prime Bank expanded its local network by venturing into the North Rift region with the opening of a branch in Kitale town in Trans Nzoia County. The new outlet is located in the robust Sungura Road at the Northern Business Park opposite Khetia Supermarket Gigamart.

MORTGAGE PARTNERSHIP WITH TILISI DEVELOPMENT PLC

The Bank partnered with Tilisi Development to provide mortgage facilities to customers. Under the residential section of the development, buyers have two options to purchase a house from, Tilisi views and Maisha Development.

The Tilisi Views offers three-bedroom units going from KShs. 23.5 Million while the five-bedroom villas from KShs. 67 Million. The Maisha Development has special offers on two-bedroom apartments going for KShs. 4.4 Million and three-bedroom at 5.9 Million.

Notes to the Consolidated Financial Statements (continued)

AS AT 31 DECEMBER 2021

15. PROPERTY AND EQUIPMENT - GROUP

a) Year ended 31 December 2021

	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 2021	49,000	1,151,885	438,824	174,627	200,509	142,105	714,932	2,871,882
Additions	-	-	16,042	6,088	5,875	15,490	36,097	79,592
Disposals	-	-	(11,641)	(180)	(25)	(5,085)	-	(16,931)
At 31 December 2021	49,000	1,151,885	443,225	180,535	206,359	152,510	751,029	2,934,543
DEPRECIATION								
At 1 January 2021	-	88,665	309,698	136,932	128,087	102,182	555,500	1,321,064
Charge for the year	-	25,743	32,323	8,415	17,115	22,672	83,331	189,599
Disposals	-	-	(5,465)	(179)	(25)	(5,085)	-	(10,754)
At 31 December 2021	-	114,408	336,556	145,168	145,177	119,769	638,831	1,499,909
NET CARRYING AMOUNT								
At 31 December 2021	49,000	1,037,477	106,669	35,367	61,182	32,741	112,198	1,434,634

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 recognized 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 2021 would have been Kshs. 15,645,000 and Kshs. 294,206,000 respectively.

Notes to the Consolidated Financial Statements (continued)

AS AT 31 DECEMBER 2021

15. PROPERTY AND EQUIPMENT - GROUP (continued)

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 recognized 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 2021

15. PROPERTY AND EQUIPMENT - BANK

b) Year ended 31 December 2021

	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								
At 1 January 2021	49,000	914,544	436,369	109,235	200,509	134,682	639,447	2,483,786
Additions	-	-	16,042	5,675	5,875	15,490	32,442	75,524
Disposals	-	-	(11,641)	(180)	(25)	(5,085)	-	(16,931)
At 31 December 2021	49,000	914,544	440,770	114,730	206,359	145,087	671,889	2,542,379
DEPRECIATION								
At 1 January 2021	-	71,825	307,243	86,053	128,087	98,414	487,662	1,179,284
Charge for the year	-	21,243	32,323	6,614	17,115	21,758	79,817	178,870
Disposals	-	-	(5,465)	(179)	(25)	(5,085)	-	(10,754)
At 31 December 2021	-	93,068	334,101	92,488	145,177	115,087	567,479	1,347,400
NET CARRYING AMOUNT								
At 31 December 2021	49,000	821,476	106,669	22,242	61,182	30,000	104,410	1,194,979

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 recognized 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 2021 would have been Kshs. 15,645,000 and Kshs. 263,662,000 respectively.

Notes to the Consolidated Financial Statements (continued)

AS AT 31 DECEMBER 2021

15. PROPERTY AND EQUIPMENT - BANK (continued)

b) Year ended 31 December 2020

	Freehold land KShs '000	Buildings KShs '000	Leasehold improvements KShs '000	Furniture and fittings KShs '000	Office equipment KShs '000	Motor vehicles KShs '000	Computer equipment KShs '000	Total KShs '000
COST OR VALUATION								
At 1 January 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 recognized 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 2021

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	
	2021 Kshs'000	**2020 Kshs'000**
COST		
At 1 January	456,935	232,666
Additions	49,946	224,269
At 31 December	506,881	456,935
DEPRECIATION		
At 1 January	169,499	71,210
Charge for the year	99,023	98,289
At 31 December	268,522	169,499
NET BOOK VALUE	287	287
At 31 December	238,359	287,436
Amounts recognised in profit and loss		
Depreciation expense on right-of-use assets	99,023	98,289
Interest expense on lease liabilities (note 22)	15,829	19,925
At the end of the year	114,852	118,214

The group was not committed to any arrangements that are short term as at year end (2020 – 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.118 million (2020: Kshs. 113 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 2021

17. INTANGIBLE ASSETS

GROUP	Computer software and Visa license fees KShs'000'	Good will KShs'000'	Total KShs'000'
31 December 2021			
COST			
At 1 January	720,984	642,752	1,363,736
Additions	74,598	-	74,598
At 31 December	795,582	642,752	1,438,334
AMORTISATION			
At 1 January	580,097	-	580,097
Charge for the year	62,040	-	62,040
At 31 December	642,137	642,752	642,137
NET CARRYING AMOUNT			
At 31 December	153,445	642,752	796,197
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

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 recognized immediately as an expense and is not subsequently reversed.

The goodwill was tested for impairment at 31 December 2021. 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 2021

17. INTANGIBLE ASSETS (continued)

BANK	2021 KShs '000	2020 KShs '000
COST		
At 1 January	676,916	565,000
Additions	67,812	111,916
At 31 December	744,728	676,916
AMORTISATION		
At 1 January	550,960	494,047
Charge for the year	56,378	56,913
At 31 December	607,338	550,960
NET CARRYING AMOUNT		
At 31 December	137,390	125,956

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 2021 and 31 December 2020.

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
2021				
Arising from:				
Property and equipment	(239,187)	24,071	-	(215,116)
Provision for staff leave	6,000	-	-	6,000
Other provision	29,946	(2,976)	-	26,970
Provision for loans and advances	624,457	256,644	-	881,101
FVTOCI	(157,422)	-	(661,244)	(818,666)
	263,794	277,739	(661,244)	(119,711)
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

Notes to the Consolidated Financial Statements (continued)

AS AT 31 DECEMBER 2021

18. DEFERRED TAX (continued)

BANK	At 1 January KShs '000	Prior Year Kshs. '000	Recognised in statement of profit or loss KShs '000	Recognised in other comprehensive income KShs '000	At 31 December KShs '000
2021					
Arising from:					
Property and equipment	(167,743)	-	23,711	-	(144,032)
Provision for staff leave	6,000	-	-	-	6,000
Other provision	29,946	-	(2,976)	-	26,970
Provision for loans and advances	612,445	-	256,143	-	868,588
FVTOCI	(149,927)	-	-	(661,244)	(811,171)
	330,721	-	276,878	(661,244)	53,645
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

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	
	2021 KShs'000	2020 KShs'000
Deferred tax liabilities	(119,711)	(66,927)
Deferred tax assets	-	330,721
	(119,711)	263,794

Notes to the Consolidated Financial Statements (continued)

AS AT 31 DECEMBER 2021

19. BALANCES DUE TO BANKS AND FINANCIAL INSTITUTIONS

	GROUP		BANK	
	2021 KShs'000	2020 KShs'000	2021 KShs '000	2020 KShs'000
Due to banks and financial institutions	22,070	345,079	22,070	345,079

20. MEDIUM TERM NOTE

	GROUP		BANK	
	2021 KShs'000	2020 KShs'000	2021 KShs '000	2020 KShs'000
Medium term note	-	1,094,000	-	1,094,000

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

21. DEPOSITS FROM CUSTOMERS

	GROUP		BANK	
	2021 KShs'000	2020 KShs'000	2021 KShs'000	2020 KShs'000
Current deposits	22,673,034	19,545,123	23,029,754	19,903,676
Savings deposits	815,676	693,513	815,676	693,513
Call deposits	962,666	135,409	962,666	135,409
Fixed deposits	72,413,080	67,856,029	72,413,080	67,856,028
	96,864,456	88,230,074	97,221,176	88,588,626

Included in deposits from customers, were deposits of Kshs. 478 million (2020: Kshs. 416 million) held as collateral for irrevocable commitments. The weighted average effective interest rate on interest bearing customer deposits as at 31 December 2021 was 5.5% (2020:5.8%).

Notes to the Consolidated Financial Statements (continued)

AS AT 31 DECEMBER 2021

22. LEASE LIABILITIES

	GROUP & BANK	
	2021 KShs'000	2020 KShs'000
Non-current	176,074	233,909
Current	91,475	84,061
	267,549	317,970
Maturity Analysis		
Year 1	91,475	84,061
Year 2	78,390	59,676
Year 3	62,884	64,256
Year 4	19,581	52,198
Year 5	9,816	42,006
Onwards	5,403	15,773
	267,549	317,970
The movement in lease liability is as follows:		
As at 1 January 2020	317,970	187,169
Additions	51,540	224,269
Interest on lease liability	15,829	19,925
Lease liability – principal portion	(101,961)	(93,468)
Lease liability – interest portion	(15,829)	(19,925)
At 31 December 2021	267,549	317,970

23. OTHER LIABILITIES

	GROUP		BANK	
	2021 KShs'000	2020 KShs'000	2021 KShs'000	2020 KShs'000
Pay orders issued	32,781	66,735	32,781	66,735
Bills payable	359,069	546,800	359,070	546,800
Sundry creditors and accruals	1,402,115	1,187,673	227,723	87,392
IFRS 9 provisions on financial guarantees and loan commitments	187,172	242,550	187,172	242,550
	1,981,137	2,043,758	806,746	943,477

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 2021

24. INCOME TAX

(a) Corporate tax (recoverable)/payable

GROUP	2021 KShs '000	2020 KShs '000
STATEMENT OF FINANCIAL POSITION		
Balance brought forward	(19,593)	(57,668)
Charge for the year	203,437	185,443
Paid during the year	(277,223)	(147,368)
Prior year under provision	5,983	-
Tax recoverable	(87,396)	(19,593)
Made up of:		
Tax recoverable	(87,396)	(32,431)
Tax payable	-	12,838
Tax recoverable	(87,396)	(19,593)
BANK		
STATEMENT OF FINANCIAL POSITION		
Balance brought forward	12,838	(29,570)
Charge for the year	152,970	115,276
Paid during the year	(193,197)	(72,868)
Prior year provision	5,983	-
Tax (recoverable)/ payable	(21,406)	12,838
Made up of:		
Tax recoverable	(21,406)	-
Tax payable	-	12,838
	(21,406)	12,838

(b) Income tax expense	GROUP		BANK	
	2021 KShs'000	2020 KShs'000	2021 KShs'000	2020 KShs'000
Current tax	203,437	185,443	152,970	115,276
Deferred tax credit (note 18)	(277,739)	(381,431)	(276,878)	(380,128)
Prior year under Provision	5,983	-	5,983	-
Tax credit for the year	(68,319)	(195,988)	(117,925)	(264,852)
(c) Reconciliation of tax expense to tax based on accounting profit:				
Accounting profit before tax	3,197,768	2,191,754	2,902,846	1,849,294
Tax at applicable rate of 30% (2020 – 25%/30%)	959,330	547,939	870,854	462,324
Other expenses not deductible for tax purposes	464,694	248,991	463,296	240,012
Other income not subject to tax	(1,498,326)	(930,589)	(1,458,058)	(905,075)
Effect of deferred tax calculated at 30%	-	(62,329)	-	(62,113)
Prior year under Provision	5,983	-	5,983	-
Tax credit for the year	(68,319)	(195,988)	(117,925)	(264,852)

Notes to the Consolidated Financial Statements (continued)

AS AT 31 DECEMBER 2021

25. SHARE CAPITAL

	2021 Ordinary shares of KShs 1,000 each	2020 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

	2021 Ordinary shares of KShs 1,000 each	2020 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	
	2021 KShs'000	2020 KShs'000	2021 KShs'000	2020 KShs'000
Retained earnings	14,821,926	12,133,640	13,793,827	11,311,657
FVTOCI reserve	1,895,665	634,667	1,895,705	629,838
Asset revaluation reserve	558,564	558,564	542,006	542,006
	17,276,155	13,326,871	16,231,538	12,483,501

(a) OTHER RESERVES

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.

(b) OTHER RESERVES (GROUP)

(i) Share capital adjustment – This is share capital for Prime Bank Bancassurance Intermediary Limited that was not eliminated on consolidation in 2020.

(ii) Increase in profit for subsidiary – This is the difference in profit for Prime Bank Bancassurance Intermediary Limited consolidated in 2020 and the amount as per the audited financial statements.

Notes to the Consolidated Financial Statements (continued)

AS AT 31 DECEMBER 2021

28. INTEREST INCOME (GROUP AND BANK)

	2021 KShs'000	2020 KShs'000
Loans and advances to customers	3,797,385	3,785,902
Placements and bank balances	219,283	145,758
Treasury bills and term notes	1,680,570	2,196,620
Government securities at amortised cost	3,657,329	2,469,074
FVTOCI investments	1,293,141	1,062,486
	10,647,708	9,659,840

Interest on bills and bonds have been recognised using effective interest rate.

29. INTEREST EXPENSE (GROUP AND BANK)

	2021 KShs'000	2020 KShs'000
Due to customers	5,049,452	4,986,467
Due to banks and other financial institutions	51,663	26,142
	5,101,115	5,012,609

30. FEES AND COMMISSION INCOME (GROUP AND BANK)

	2021 KShs'000	2020 KShs'000
Commission income	350,111	289,947
Fees income	151,785	167,874
	501,896	457,821

31. OTHER INCOME

	GROUP		BANK	
	2021 KShs'000	2020 KShs'000	2021 KShs'000	2020 KShs'000
Insurance business income	1,248,494	1,180,177	-	-
Miscellaneous income	114,508	173,619	89,084	130,806
Recoveries of loans and advances previously written off	150	3,187	150	3,187
	1,363,152	1,356,983	89,234	133,993

Notes to the Consolidated Financial Statements (continued)

AS AT 31 DECEMBER 2021

32. ALLOWANCES FOR IMPAIRMENT OF FINANCIAL INSTRUMENTS

	GROUP		BANK	
	2021 KShs'000	2020 KShs'000	2021 KShs'000	2020 KShs'000
Allowance on loans and advances to customers	907,852	680,638	905,966	679,021
Allowance on loan commitments	(31,795)	55,749	(31,795)	55,749
Allowance on financial guarantees	(23,583)	114,200	(23,583)	114,200
Allowance on term notes and bonds	3,701	7,593	3,701	7,593
Allowance on government securities	203	231,077	(474)	230,874
Write-off during the year	2,252	70,696	2,252	70,696
Allowances on other assets	(1,068)	-	-	-
	857,562	1,159,953	856,067	1,158,133

33. OTHER OPERATING EXPENSES

	GROUP		BANK	
	2021 KShs'000	2020 KShs'000	2021 KShs'000	2020 KShs'000
Staff costs (note 36)	1,691,220	1,521,824	1,518,327	1,369,794
Depreciation on property and equipment	189,599	204,171	178,870	192,842
Depreciation on right of use asset	99,023	98,289	99,023	98,289
Amortisation of intangible assets	62,040	61,218	56,378	56,913
Amortisation of leasehold land	11,977	11,977	10,710	10,710
Auditors' remuneration	12,646	11,640	10,146	9,390
Directors' emoluments	144,782	141,329	135,862	131,549
Deposit protection fund levy	135,003	116,197	135,003	116,356
Rent and rates	50,996	42,035	50,952	41,895
Other general administration expenses	1,356,473	1,327,396	663,319	716,803
	3,753,759	3,536,076	2,858,590	2,744,541

34. PROFIT BEFORE TAX

	GROUP		BANK	
	2021 KShs'000	2020 KShs'000	2021 KShs'000	2020 KShs'000
Profit before tax is stated after charging/(crediting): -				
Depreciation on property and equipment	189,599	204,171	178,870	192,842
Depreciation on right of use assets	99,023	98,289	99,023	98,289
Amortisation of intangible assets	62,040	61,218	56,378	56,913
Amortisation of leasehold land	11,977	11,977	10,710	10,710
Directors' emoluments	144,782	141,329	135,862	131,549
Auditors' remuneration	12,646	11,640	10,146	9,390
And after crediting: -				
Foreign exchange gains	323,056	411,483	323,056	411,483
Dividend income	74,393	14,265	156,724	101,440
(Loss)/Gain on sale of property and equipment	(4,190)	5,332	(4,190)	5,312

Notes to the Consolidated Financial Statements (continued)

AS AT 31 DECEMBER 2021

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	
	2021 KShs'000	2020 KShs'000	2021 KShs'000	2020 KShs'000
Profit for the year attributable to equity holders of the parent (Kshs. '000)	3,206,041	2,304,645	3,020,771	2,114,146
Weighted average number of shares (Thousands)	6,649	6,649	6,649	6,649
Basic and diluted earnings per share (Kshs.)	482	347	454	318

36. STAFF COSTS

	GROUP		BANK	
	2021 KShs'000	2020 KShs'000	2021 KShs'000	2020 KShs'000
Salaries and wages	1,442,292	1,268,911	1,287,687	1,133,953
Contributions to pension scheme	80,336	76,302	73,369	69,817
Other staff costs	168,592	176,611	157,271	166,024
	1,691,220	1,521,824	1,518,327	1,369,794

37. DIVIDENDS PAID (GROUP AND BANK)

	2021 KShs'000	2020 KShs'000
Interim dividend declared and paid on ordinary shares	538,601	452,159
Interim dividend per Ordinary share	81	68
Proposed Final Dividend	-	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.

Notes to the Consolidated Financial Statements (continued)

AS AT 31 DECEMBER 2021

38. CASH AND CASH EQUIVALENTS

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

	GROUP		BANK	
	2021 KShs'000	2020 KShs'000	2021 KShs'000	2020 KShs'000
Cash in hand (note 5)	458,978	490,935	461,053	489,148
Balances with Central Bank of Kenya-unrestricted (note 5)	2,639,886	2,061,859	2,639,886	2,061,859
Cheques and items for clearing (note 5)	370,344	367,239	370,344	367,239
Placements and balances with other banks	8,957,230	10,330,438	8,894,382	10,268,955
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)	(22,070)	(345,079)	(22,070)	(345,079)
	12,424,368	12,925,392	12,363,595	12,862,122

39. CONTINGENT LIABILITIES

	GROUP		BANK	
	2021 KShs'000	2020 KShs'000	2021 KShs'000	2020 KShs'000
Letters of credit	1,805,263	2,157,353	1,805,263	2,157,353
Local guarantees	5,573,200	4,538,299	5,573,200	4,538,299
Bills for collection	4,648,447	3,593,667	4,648,447	3,593,667
Foreign currency bills for collection	56,782	75,790	56,782	75,790
Custodial treasury bonds	3,992,534	3,992,534	3,992,534	3,992,534
Spot sales/purchase	762,960	898,394	762,960	898,394
Swap sales/purchases	7,664,093	10,529,655	7,664,093	10,529,655
Forward contracts	1,273,637	1,837,744	1,273,637	1,837,744
Money Mkt Borrow/lend	1,197,696	226	1,197,696	226
Non CTS cheques	2,266	1,004	2,266	1,004
Govt. securities under lien	22,500	-	22,500	-
	26,999,378	27,624,666	26,999,378	27,624,666

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

	2021 KShs'000	2020 KShs'000
Capital commitments contracted for	1,100,000	777,650

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 2021

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.

	2021 KShs'000	2020 KShs'000
a) Due from:		
i) Loans and advances to employees	436,338	394,976
ii) Loans and advances to directors and their associates	2,000,743	2,121,406
	2,437,081	2,516,382
Allowance during the year:		
At 1 January	61,788	6,122
Allowance during the year	74,370	55,666
At 31 December	136,158	61,788

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.

	2021 KShs'000	2020 KShs'000
b) Due to:		
i) Deposits from employees	985,063	742,870
ii) Deposits from directors and their associates	1,510,847	1,461,471
	2,495,910	2,204,341
c) Key management personnel compensation		
Salaries	580,840	543,056
Post-employment benefits	27,707	26,167
	608,547	569,223

	GROUP		BANK	
	2021 KShs'000	2020 KShs'000	2021 KShs'000	2020 KShs'000
d) Directors' emoluments				
As management	99,361	97,786	95,061	92,626
As executives	136,481	177,749	131,861	131,549
	235,842	275,535	226,922	224,175

e) Transactions with related parties

Included in interest income is Kshs.233, 827,274 (2020: Kshs.188, 286,235) being interest on loans and advances to related parties.

Included in interest expense is Kshs. 31,366,981 (2020: Kshs. 28,500,288) being interest on deposits from related parties.

Notes to the Consolidated Financial Statements (continued)

AS AT 31 DECEMBER 2021

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 2021 GROUP	Within 12 months KShs '000	After 12 months KShs '000	Total KShs '000
ASSETS			
Cash and balances with the Central Bank of Kenya	6,330,041	-	6,330,041
Placements and balances with other banks	8,957,230	-	8,957,230
Treasury bills and term notes	20,398,226	101,140	20,499,366
Investment securities measured at amortized cost	3,411,536	30,529,511	33,941,047
Investment in bonds-fair value through other comprehensive income	51,328	12,606,062	12,657,390
Investment in ordinary shares fair value through other comprehensive income	-	3,973,133	3,973,133
Investment in ordinary shares fair value through profit and loss	-	99,497	99,497
Loans and advances to customers	19,219,325	18,755,161	37,974,486
Other assets	450,307	730,383	1,180,690
Intangible assets	-	796,197	796,197
Right of use - leasehold land	-	658,373	658,373
Property and equipment	-	1,434,634	1,434,634
Right of use	-	238,359	238,359
Tax recoverable	87,396	-	87,396
Deferred Tax	-	330,721	330,721
TOTAL ASSETS	58,905,389	69,922,450	128,827,839
LIABILITIES			
Balances due to banks and financial institutions	22,070	-	22,070
Deposits from customers	96,864,456	-	96,864,456
Other liabilities	1,981,137	-	1,981,137
Lease liability	91,475	176,074	267,549
Deferred tax liability	-	119,711	119,711
TOTAL LIABILITIES	98,959,138	295,785	99,254,923
NET ASSETS	(40,053,749)	69,626,665	29,572,916

Notes to the Consolidated Financial Statements (continued)

AS AT 31 DECEMBER 2021

42. MATURITY ANALYSIS OF ASSETS AND LIABILITIES (continued)

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 2021

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 2021 **BANK**	**Within 12 months** **KShs '000**	**After 12 months** **KShs '000**	**Total** **KShs '000**
ASSETS			
Cash and balances with the Central Bank of Kenya	6,332,115	-	6,332,115
Placements and balances with other banks	8,894,382	-	8,894,382
Treasury bills and term notes	20,398,226	101,140	20,499,366
Investment in securities measured at amortized cost	3,375,549	29,604,047	32,979,596
Investment in bonds- measured at FVTOCI	51,328	11,714,265	11,765,593
Investment in ordinary shares measured at FVTOCI	-	3,868,946	3,868,946
Loans and advances to customers	19,219,325	18,698,235	37,917,560
Other assets	450,307	208,125	658,432
Investment in Subsidiary	-	1,405,692	1,405,692
Intangible assets	-	137,390	137,390
Right of use - leasehold land	-	568,407	568,407
Property and equipment	-	1,194,979	1,194,979
Right of use assets	-	238,359	238,359
Tax Receivable	-	21,406	21,406
TOTAL ASSETS	58,721,232	67,760,991	126,482,223
LIABILITIES			
Balances due to banks and financial institutions	22,070	-	22,070
Deposits from customers	97,221,176	-	97,221,176
Other liabilities	806,746	-	806,746
Lease liabilities	91,475	176,074	267,549
Deferred Tax Liability	-	53,645	53,645
TOTAL LIABILITIES	98,141,476	229,719	98,371,186
NET ASSETS	(39,420,235)	67,531,271	28,111,037

Notes to the Consolidated Financial Statements (continued)

AS AT 31 DECEMBER 2021

42. MATURITY ANALYSIS OF ASSETS AND LIABILITIES (continued)

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 amortized 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 2021

43. FAIR VALUE MEASUREMENT

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

	GROUP				BANK			
	2021		2020		2021		2020	
	Carrying amount KShs '000	Fair value KShs '000	Carrying amount KShs '000	Fair value KShs '000	Carrying amount KShs '000	Fair value KShs '000	Carrying amount KShs '000	Fair value KShs '000
Cash and balances with Central Bank of Kenya	6,330,041	6,330,041	5,607,376	5,607,376	6,332,115	6,332,115	5,605,588	5,605,588
Placements and balances with other banks	8,957,230	8,957,230	10,330,438	10,330,438	8,894,382	8,894,382	10,268,955	10,268,955
Investment in security measured at amortised cost	33,941,047	33,941,047	23,681,371	23,681,371	32,979,596	32,979,596	22,541,142	22,770,743
Treasury bills	20,378,226	20,378,226	19,526,369	19,526,369	20,378,136	20,380,064	19,526,369	19,526,369
Term notes	121,140	121,140	20,000	20,000	121,140	121,140	20,000	20,000
Bonds-at FVTOCI	12,657,390	12,657,390	17,133,607	17,133,607	11,765,593	11,765,593	16,399,465	16,399,465
Ordinary shares- at FVTOCI	3,973,133	3,973,133	1,232,158	1,232,158	3,868,946	3,868,946	1,138,296	1,138,296
Investment in ordinary shares-at fair value through profit or loss	99,497	99,497	92,456	92,456				
Loans and advances to customers	37,974,486	37,974,486	36,036,557	36,036,557	37,917,560	37,917,560	35,968,295	35,968,295
Due to banks and other financial institutions	22,070	22,070	345,079	345,079	22,070	22,070	345,079	345,079
Medium term note	-	-	1,094,000	1,094,000	-	-	1,094,000	1,094,000
Deposits from customers	96,864,456	96,864,456	88,230,074	88,230,074	97,221,176	97,221,176	88,588,626	88,588,626

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. Nonmarket 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 2021

43. FAIR VALUE MEASUREMENT (continued)

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

GROUP 2021	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	12,657,390	-	-	12,657,390
Investments in ordinary shares at FVTOCI	10(a)	3,095,947	-	877,186	3,973,133
Investments in ordinary shares at fair value through profit or loss	10(b)	99,497	-	-	99,497
Investments securities at amortised cost	8	33,941,047	-	-	33,941,047
Property and equipment (Freehold land and buildings)	15	-	-	1,086,477	1,086,477
Right of use - leasehold land	14	-	-	658,373	658,373
		49,793,881	-	2,622,036	52,415,917

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

Notes to the Consolidated Financial Statements (continued)

AS AT 31 DECEMBER 2021

43. FAIR VALUE MEASUREMENT (continued)

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

BANK 2021	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	11,765,593	-	-	11,765,593
Investments in ordinary shares at FVTOCI	10(a)	2,991,760	-	877,186	3,868,946
Investment securities measured at amortised cost	8	32,979,596	-	-	32,979,596
Property and equipment (Freehold land and buildings)	15	-	-	870,476	870,476
Leasehold land	14	-	-	568,407	568,407
		47,736,949	-	2,316,069	50,053,018

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 measured at FVTOCI	9	16,399,465	-	-	16,399,465
Investments in ordinary shares	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	15	-	-	891,719	891,719
Leasehold land	14			579,117	579,117
		40,010,146	-	1,739,593	41,749,739

Notes to the Consolidated Financial Statements (continued)

AS AT 31 DECEMBER 2021

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

	2021 KShs'000	2020 KShs '000
Leasehold land		
As at 1 January	613,344	418,344
Additions	-	195,000
Accumulated depreciation	(44,937)	(34,227)
As at 31 December	568,407	579,117
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	914,544	786,515
Additions	-	128,029
	914,544	914 544
Accumulated depreciation	(93,068)	(71,825)
As at 31 December	821,476	842,719

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 2021

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 recognized 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:-

	2021		2020	
	Actual KShs '000	Required KShs '000	Actual KShs '000	Required KShs '000
Tier 1 Capital	24,285,501	1,000,000	23,097,651	1,000,000
Tier 2 Capital	-	-	-	
Term subordinated debt	-	-	-	-
Statutory Loan Loss Reserve	353,022	-	353,022	-
Total regulatory capital	24,638,523	1,000,000	23,450,673	1,000,000
Risk weighted assets	59,273,889	-	58,314,029	-
Capital Ratios				
Total regulatory capital expressed as a percentage of total risk-weighted assets	41%	14.50%	40%	14.50%
Total tier 1 capital expressed as a percentage of risk weighted assets	42%	10.50%	40%	10.50%

Notes to the Consolidated Financial Statements (continued)

AS AT 31 DECEMBER 2021

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 2021

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:

i. Significant financial difficulty of the borrower or issuer.

ii. A breach of contract such as a default or past due event.

iii. 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.

iv. The disappearance of an active market for a security because of financial difficulties; or

v. 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.

Notes to the Consolidated Financial Statements (continued)

AS AT 31 DECEMBER 2021

45. FINANCIAL RISK MANAGEMENT (continued)

a) Credit risk (continued)

Purchased or originated credit-impaired (POCI) financial assets

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

Definition of default

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

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

i. The borrower is past due more than 90 days on any material credit obligation to the Bank: or

ii. 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.

Notes to the Consolidated Financial Statements (continued)

AS AT 31 DECEMBER 2021

45. FINANCIAL RISK MANAGEMENT (continued)

a) *Credit risk (continued)*

Significant increase in credit risk (continued)

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

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

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

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

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

As a backstop 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 and financial liabilities

Modification of financial assets

With the implementation of IFRS 9 there are new disclosure requirements for modifications. The assessment of whether a modification to a financial asset results in derecognition or not, is relevant as it impacts the assessment of the initial credit risk of a financial asset against which any subsequent significant deterioration in credit risk would be assessed. The Group assesses modifications to financial assets in the following manner:

A loan modification is a permanent change to one or more of the terms of the loan. Enforcing or adopting terms that were present in the original terms of the facility is not a modification. The treatment of a renegotiation or modification of the contractual cash flows of a financial asset depend on whether the modification is done for commercial reasons or because of financial difficulty of the borrower.

Contractual modifications on commercial terms are treated as a new transaction resulting in derecognition of the original financial asset and the recognition of a 'new' financial asset. Any difference between the carrying amount of the derecognized asset and the fair value of the new asset is recognised in profit or loss.

When the Group modifies the contractual conditions due to financial difficulties of the borrower, the asset is not derecognized unless the terms of the contract are substantively changed (such as the inclusion of an equity participation or a substantial change in counterparty). If the asset is not substantially modified, then the gross carrying amount of the financial asset is recalculated to be the present value of the modified cash flows discounted at the original EIR and any gain or loss is recognised in profit or loss as part of the total impairment loss.

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

Notes to the Consolidated Financial Statements (continued)

AS AT 31 DECEMBER 2021

45. FINANCIAL RISK MANAGEMENT (continued)

a) Credit risk (continued)

Modification of financial assets (continued)

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.

Modification of financial liabilities

Where an existing financial liability is replaced by another from the same party on substantially different terms, or the terms of an existing liability are substantially modified (taking into account both quantitative and qualitative factors), 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.

Where the terms of an existing liability are not substantially modified, the liability is not derecognized. Costs incurred on such transactions are treated as an adjustment to the carrying amount of the liability and are amortised over the remaining term of the modified liability.

Derecognition of financial liabilities

A financial liability is derecognized when the obligation under the liability is discharged, 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. The difference between the carrying value of the original financial liability and the consideration paid is recognised in profit or loss.

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

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

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

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

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

Notes to the Consolidated Financial Statements (continued)

AS AT 31 DECEMBER 2021

45. FINANCIAL RISK MANAGEMENT (continued)

a) *Credit risk (continued)*

Derecognition of a financial liabilities (continued)

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 derecognizes 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 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.

Notes to the Consolidated Financial Statements (continued)

AS AT 31 DECEMBER 2021

45. FINANCIAL RISK MANAGEMENT (continued)

a) Credit risk (continued)

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 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.

Notes to the Consolidated Financial Statements (continued)

AS AT 31 DECEMBER 2021

45. FINANCIAL RISK MANAGEMENT (continued)

a) *Credit risk (continued)*

Critical judgements in applying the Bank's Lending policies (continued)

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 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.

Notes to the Consolidated Financial Statements (continued)

AS AT 31 DECEMBER 2021

45. FINANCIAL RISK MANAGEMENT (continued)

a) Credit risk (continued)

Group Rating Description (continued)

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.

Incorporation of forward-looking information

The Bank uses forward-looking information that is available without undue cost or effort in its assessment of significant increase of credit risk as well as in its measurement of ECL. The Bank employs experts who use external and internal information to generate a 'base case' scenario of future forecast of relevant economic variables along with a representative range of other possible forecast scenarios. The external information used includes economic data and forecasts published by governmental bodies and monetary authorities. The Bank uses multiple scenarios to model the non-linear impact of assumptions about macroeconomic factors on ECL. The Bank applies probabilities to the forecast scenarios identified. The base case scenario is the single most-likely.

Key drivers of credit risk and credit losses for each portfolio of financial instruments and, using a statistical analysis of historical data, has estimated relationships between macro-economic variables and credit risk and credit losses. The Bank has not made changes in the estimation techniques or significant assumptions made during the reporting period. In addition to the base case scenario the Bank uses Upside and Adverse scenarios, with associated probability weightings. The probability weighting is such that the base scenario has the highest weighting, since it is the most likely outcome and the weighting of the Upside and adverse scenarios depend on the probability of the scenario.

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

	2021		
Macro-Economic Variable	**Base**	**Upside**	**Adverse**
	Weighting		
	50%	**20%**	**30%**
Savings Rate	2.55%	2.59%	2.51%
Lending Rates	12.16%	12.07%	12.25%
Housing Price Index	0%	0.00%	0.00%
Public Debt to GDP	65.90%	63.06%	68.74%

Notes to the Consolidated Financial Statements (continued)

AS AT 31 DECEMBER 2021

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

a) Credit risk

Incorporation of forward-looking information (continued)

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 assets consider time of recovery, recovery rates and seniority of claims. The calculation is on a discounted cash flow basis, where the cash flows are discounted by the original EIR of the loan.

EAD is an estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date, including repayments of principal and interest, and expected drawdowns on committed facilities. The Bank's modelling approach for EAD reflects expected changes in the balance outstanding over the lifetime of the loan exposure that are permitted by the current contractual terms, such as amortisation profiles, early repayment or overpayment, changes in utilisation of undrawn commitments and credit mitigation actions taken before default. The Bank uses EAD models that reflect the characteristics of the portfolios.

The Bank measures ECL considering the risk of default over the maximum contractual period (including extension options) over which the entity is exposed to credit risk and not a longer period, even if contact extension or renewal is common business practice. However, for financial instruments such as credit cards, revolving credit facilities and overdraft facilities that include both a loan and an undrawn commitment component, the Bank's contractual ability to demand repayment and cancel the undrawn commitment does not limit the Bank's exposure to credit losses to the contractual notice period. For such financial instruments the Bank measures ECL over the period that it is exposed to credit risk and ECL would not be mitigated by credit risk management actions, even if that period extends beyond the maximum contractual period. These financial instruments do not have a fixed term or repayment structure and have a short contractual cancellation period. However, the Bank does not enforce in the normal day-to-day management the contractual right to cancel these financial instruments. This is because these financial instruments are managed on a collective basis and are cancelled only when the Bank becomes aware of an increase in credit risk at the facility level. This longer period is estimated taking into account the credit risk management actions that the Bank expects to take to mitigate ECL, e.g. reduction in limits or cancellation of the loan commitment.

The ECL calculation for accounting purposes is different to the ECL calculation for regulatory purposes, although many inputs used are similar. The Bank has ensured that the appropriate methodology is used when calculating ECL for both accounting and regulatory purposes.

The measurement of ECL is based on probability weighted average credit loss. As a result, the measurement of the loss allowance should be the same regardless of whether it is measured on an individual basis or a collective basis.

Notes to the Consolidated Financial Statements (continued)

AS AT 31 DECEMBER 2021

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-21 KShs '000	1-Jan-21 KShs '000
Concentration by sector		
Agriculture	201,095	170,962
Building & Construction	1,230,832	1,325,972
Energy &Water	390,896	150,548
Financial Services	59,081	55,160
Manufacturing	11,872,948	9,524,158
Mining & Quarrying	66,735	44,823
Personal/Household	2,622,642	2,086,301
Real Estate	4,941,523	5,265,339
Tourism, Restaurant & Hotels	1,184,319	1,365,160
Trade	15,307,443	15,793,922
Transport & Communication	2,506,650	2,004,524
TOTAL	**40,384,164**	**37,786,869**

Loan commitments	31-Dec-21 KShs '000	1-Jan-21 KShs '000
Concentration by sector		
Agriculture	82,359	17,299
Building & Construction	60,894	111,292
Energy &Water	117,269	87,538
Financial Services	2,795	7,138
Manufacturing	1,459,577	1,213,019
Mining & Quarrying	-	-
Personal/Household	552,106	485,627
Real Estate	124,981	205,446
Tourism, Restaurant & Hotels	71,530	73,812
Trade	2,104,281	2,707,001
Transport & Communication	95,995	87,922
TOTAL	**4,671,787**	**4,996,094**

Notes to the Consolidated Financial Statements (continued)

AS AT 31 DECEMBER 2021

45. FINANCIAL RISK MANAGEMENT (continued)

a) Credit risk (continued)

Incorporation of forward-looking information (continued)

Financial guarantee contracts	31-Dec-21 KShs '000	1-Jan-21 KShs '000
Concentration by sector		
Agriculture	7,287	5,290
Building & Construction	644,015	1,050,388
Energy &Water	36,900	24,900
Financial Services	33,728	14,150
Manufacturing	3,331,547	1,785,463
Mining & Quarrying	6,507	420
Personal/Household	841,294	8,840
Real Estate	130,964	97,083
Tourism, Restaurant & Hotels	9,735	7,788
Trade	4,478,304	4,937,990
Transport & Communication	297,566	124,474
TOTAL	**9,817,847**	**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.

An Analysis of risk concentration in gross carrying amounts and corresponding ECL in the loans portfolio by type of lending, industry.

Loans and advances to customers at amortized cost	31-Dec-21 Gross Carrying Amount KShs '000	31-Dec-21 Loss Allowance KShs '000	01-Jan-21 Gross Carrying Amount KShs '000	01-Jan-21 Loss Allowance KShs '000
Concentration by sector				
Agriculture	201,095	19	170,962	18
Building & Construction	1,230,832	305,749	1,325,972	85,925
Energy &Water	390,896	113	150,548	43
Financial Services	59,081	5,423	55,160	3,934
Manufacturing	11,872,948	261,462	9,524,158	260,768
Mining & Quarrying	66,735	21	44,823	19
Personal/Household	2,622,642	180,240	2,086,301	210,598
Real Estate	4,941,523	376,683	5,265,339	104,144
Tourism, Restaurant & Hotels	1,184,319	344,006	1,365,160	168,098
Trade	15,307,443	506,982	15,793,922	648,129
Transport & Communication	2,506,650	485,906	2,004,524	336,899
TOTAL	**40,384,164**	**2,466,603**	**37,786,869**	**1,818,574**

Notes to the Consolidated Financial Statements (continued)

AS AT 31 DECEMBER 2021

45. FINANCIAL RISK MANAGEMENT (continued)

a) Credit risk (continued)

Incorporation of forward-looking information (continued)

An Analysis of risk concentration in gross carrying amounts and corresponding ECL in the loans portfolio by type of lending, industry. (continued)

Loan commitments	31-Dec-21 Gross Carrying Amount KShs '000	31-Dec-21 Loss Allowance KShs '000	01-Jan-21 Gross Carrying Amount KShs '000	01-Jan-21 Loss Allowance KShs '000
Concentration by sector				
Agriculture	82,359	6	17,299	1
Building & Construction	60,894	180	111,292	1,393
Energy &Water	117,269	21	87,538	60
Financial Services	2,795	226	7,138	476
Manufacturing	1,459,577	13,831	1,213,019	12,729
Mining & Quarrying	-	-	-	-
Personal/Household	552,106	4,910	485,627	30,222
Real Estate	124,981	6,837	205,446	1,238
Tourism, Restaurant & Hotels	71,530	18,561	73,812	4,799
Trade	2,104,281	12,556	2,707,001	41,567
Transport & Communication	95,995	6,896	87,922	3,335
TOTAL	**4,671,787**	**64,026**	**4,996,094**	**95,822**

Loan commitments	31-Dec-21 Gross Carrying Amount KShs '000	31-Dec-21 Loss Allowance KShs '000	01-Jan-21 Gross Carrying Amount KShs '000	01-Jan-21 Loss Allowance KShs '000
Concentration by sector				
Agriculture	7,287	4	5,290	5
Building & Construction	644,015	923	1,050,388	10,805
Energy &Water	36,900	29	24,900	17
Financial Services	33,728	2,820	14,150	2,117
Manufacturing	3,331,547	38,840	1,785,463	56,143
Mining & Quarrying	6,507	6	420	6
Personal/Household	841,294	9,225	8,840	853
Real Estate	130,964	7,352	97,083	1,517
Tourism, Restaurant & Hotels	9,735	2,525	7,788	285
Trade	4,478,304	37,890	4,937,990	70,656
Transport & Communication	297,566	23,529	124,474	4,324
TOTAL	**9,817,847**	**123,146**	**8,056,786**	**146,729**

Notes to the Consolidated Financial Statements (continued)

AS AT 31 DECEMBER 2021

45. FINANCIAL RISK MANAGEMENT (continued)

a) *Credit risk (continued)*

Incorporation of forward-looking information (continued)

An Analysis of risk concentration in gross carrying amounts and corresponding ECL in the loans portfolio by type of lending, industry. (continued)

	31-Dec-21					1-Jan-21
Loans and advances to customers at amortised cost	**Stage 1 12-month ECL KShs '000**	**Stage 2 Lifetime ECL KShs '000**	**Stage 3 Lifetime ECL KShs '000**	**POCI KShs '000**	**Total KShs '000**	**Total KShs '000**
Grades 1: Low to fair risk	33,030,519	-	-	-	33,030,519	30,555,419
Grades 2: Watch	-	3,027,945	-	-	3,027,945	3,311,281
Grades 3: Substandard	-	-	277,740	-	277,740	326,104
Grade 4: Doubtful	-	-	3,663,608	-	3,663,608	3,218,314
Grade 5: Impaired	-	-	384,352	-	384,352	375,751
Total gross carrying amount	33,030,519	3,027,945	4,325,700	-	40,384,164	37,786,869
Loss allowance	812,528	241,891	1,412,185	-	2,466,604	1,818,573
Carrying amount	**32,217,991**	**2,786,054**	**2,913,515**	**-**	**37,917,560**	**35,968,296**

	31-Dec-21					1-Jan-21
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**	**Total KShs '000**
Grades 1: Low to fair risk	4,671,787	-	-	-	4,671,787	4,996,094
Grades 2: Watch	-	-	-	-	-	-
Grades 3: Substandard	-	-	-	-	-	-
Grade 4: Doubtful	-	-	-	-	-	-
Grade 5: Impaired	-	-	-	-	-	-
Total gross carrying amount	4,671,787	-	-	-	4,671,787	4,996,094
Loss allowance	64,116	-	-	-	64,116	95,822
Carrying amount	**4,607,671**	**-**	**-**	**-**	**4,607,671**	**4,900,272**

Notes to the Consolidated Financial Statements (continued)

AS AT 31 DECEMBER 2021

45. FINANCIAL RISK MANAGEMENT (continued)

a) Credit risk

Incorporation of forward-looking information (continued)

An Analysis of risk concentration in gross carrying amounts and corresponding ECL in the loans portfolio by type of lending, industry. (continued)

	31-Dec-21					1-Jan-21
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	Total KShs '000
Grades 1: Low to fair risk	9,817,847	-	-	-	9,817,847	9,071,456
Grades 2: Watch	-	-	-	-	-	-
Grades 3: Substandard	-	-	-	-	-	-
Grade 4: Doubtful	-	-	-	-	-	-
Grade 5: Impaired	-	-	-	-	-	-
Total gross carrying amount	9,817,847	-	-	-	9,817,847	9,071,456
Loss allowance	123,146	-	-	-	123,146	146,729
Carrying amount	9,694,701	-	-	-	9,694,701	8,924,727

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

Loss allowance by classes	31-Dec-2021	1-Jan-2021
Loans and advances to customers at amortised cost	2,466,604	1,818,573
Loan commitments	64,116	95,822
Financial guarantee contracts	123,146	146,729
Total	2,653,866	2,061,124

Notes to the Consolidated Financial Statements (continued)

AS AT 31 DECEMBER 2021

45. FINANCIAL RISK MANAGEMENT (continued)

a) Credit risk (continued)

Incorporation of forward-looking information (continued)

Impairment allowance reconciliations (continued)

The tables below analyses 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 2021	386,552	233,150	1,198,871	-	**1,818,573**
Changes in the loss allowance					
– Transfer to stage 1	58,181	(56,967)	(1,214)	-	-
– Transfer to stage 2	(17,485)	24,482	(6,997)	-	-
– Transfer to stage 3	(10,457)	(22,373)	32,830	-	-
– Increases due to change in credit risk	328,587	152,087	501,724	-	**982,398**
– Decreases due to change in credit risk	(154,150)	(54,568)	(231,904)	-	**(440,622)**
– Write-offs		(1)	(472)	-	**(473)**
– Changes due to modifications that did not result derecognition	-	-	-	-	-
New financial assets originated or purchased	307,691	10,293	99,577	-	**417,561**
Financial assets that have been Settled	(86,391)	(44,211)	(180,231)	-	**(310,833)**
Loss allowance as at 31 December 2021	812,528	241,892	1,412,184	-	**2,466,604**

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 2021	**95,822**	-	-	-	**95,822**
Changes in the loss allowance					
– Transfer to stage 1	-	-	-	-	-
– Transfer to stage 2	-	-	-	-	-
– Transfer to stage 3	-	-	-	-	-
– Increases due to change in credit risk	19,541	-	-	-	19,541
– Decreases due to change in credit risk	(47,455)	-	-	-	(47,455)
– Write-offs	-	-	-	-	-
New financial assets originated or purchased	22,049	-	-	-	22,049
Financial assets that have been Settled derecognized	(25,841)	-	-	-	(25,841)
Loss allowance as at 31 December 2021	**64,116**	-	-	-	**64,116**

Notes to the Consolidated Financial Statements (continued)

AS AT 31 DECEMBER 2021

45. FINANCIAL RISK MANAGEMENT (continued)

a) Credit risk (continued)

Impairment allowance reconciliations (continued)

Loss allowance – Financial guarantee contracts	Stage 1 12-month ECL KShs '000	Stage 2 Lifetime ECL KShs '000	Stage 3 Lifetime ECL KShs '000	POCI KShs '000	Total KShs '000
Loss allowance as at 1 January 2021	**146,729**	**-**	**-**	**-**	**146,729**
Changes in the loss allowance					
– Transfer to stage 1	-	-	-	-	-
– Transfer to stage 2	-	-	-	-	-
– Transfer to stage 3	-	-	-	-	-
– Increases due to change in credit risk	14,310	-	-	-	14,310
– Decreases due to change in credit risk	(13,483)	-	-	-	(13,483)
– Write-offs	-	-	-	-	-
New financial assets originated or purchased	88,800	-	-	-	88,800
Financial assets that have been Settled derecognized	(113,210)	-	-	-	(113,210)
Loss allowance as at 31 December 2021	**123,146**	**-**	**-**	**-**	**123,146**

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.

Notes to the Consolidated Financial Statements (continued)

AS AT 31 DECEMBER 2021

45. FINANCIAL RISK MANAGEMENT (continued)

a) Credit risk (continued)

The table below provides an analysis of the gross carrying amount of loans and advances to customers by past due status.

	31-Dec-21		1-Jan-21	
	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	33,030,519	812,528	30,555,419	386,552
30-59 days	3,027,945	241,891	3,311,281	233,150
60-89 days	277,740	36,340	326,104	125,104
90-180 days	3,663,608	977,910	3,218,314	692,024
More than 181 days	384,352	397,935	375,751	381,744
	40,384,164	2,466,604	37,786,869	1,818,574
Loan Commitments				
0-29 days	4,671,787	64,026	4,996,094	95,822
30-59 days	-	-	-	-
60-89 days	-	-	-	-
90-180days	-	-	-	-
More than 181 days	-	-	-	-
	4,671,787	64,026	4,996,094	95,822

	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	9,817,847	123,146	9,071,456	146,729
30-59 days	-	-	-	-
60-89 days	-	-	-	-
90-180days	-	-	-	-
More than 181 days	-	-	-	-
	9,817,847	123,146	9,071,456	146,729

Notes to the Consolidated Financial Statements (continued)

AS AT 31 DECEMBER 2021

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:

	2021	2020
At 31 December	79.50%	80.50%
Average for the year	80.30%	79.40%
Maximum for the year	81.30%	80.50%
Minimum for the year	79.40%	78.20%
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 2020 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 2021

45. FINANCIAL RISK MANAGEMENT (continued)

b) Liquidity risk (continued)

Management of liquidity risk (continued)

As at 31 December 2021 GROUP	Up to 1 Month KShs '000	1 to 3 Months KShs '000	3 Months – 1 year KShs '000	1 to 5 years KShs '000	Over 5 years KShs '000	Total KShs '000
FINANCIAL ASSETS						
Cash and balances with Central Bank of Kenya	6,330,041	-	-	-	-	6,330,041
Placements and balances with other banks	5,293,157	2,729,347	566,500	368,226	-	8,957,230
Treasury bills and term notes	-	-	20,398,226	101,140	-	20,499,366
Investment securities measured at amortised cost	-	300,000	3,075,549	17,464,123	13,101,375	33,941,047
Bonds- at fair value through other comprehensive income	27,204	-	24,125	8,447,908	4,158,153	12,657,390
Loans and advances to customers	8,126,950	4,418,092	6,731,208	9,806,566	8,891,670	37,974,486
Total assets	19,777,352	7,447,439	30,795,608	36,187,963	26,151,198	120,359,560
FINANCIAL LIABILITIES						
Due to banks and financial institutions	-	-	22,070	-	-	22,070
Deposits from customers	36,947,256	14,550,829	44,635,874	730,497	-	96,864,456
Other liabilities	-	-	1,981,137	-	-	1,981,137
Total liabilities	36,947,256	14,550,829	46,639,081	730,497	-	98,867,663
Net liquidity gap	(17,169,904)	(7,103,390)	(15,843,473)	35,457,466	26,151,198	21,491,897

Notes to the Consolidated Financial Statements (continued)

AS AT 31 DECEMBER 2021

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
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 2021

45. FINANCIAL RISK MANAGEMENT (continued)

b) Liquidity risk (continued)

Management of liquidity risk (continued)

As at 31 December 2021 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	6,332,115	-	-	-	-	6,332,115
Placements and balances with other banks	5,293,157	2,666,500	566,500	368,225	-	8,894,382
Treasury bills and term notes	-	-	20,398,266	101,140	-	20,499,366
Investment securities measured at amortised cost	-	300,000	3,075,549	16,502,672	13,101,375	32,979,596
Bill & Bonds- at fair value through other comprehensive income	27,204	-	24,125	7,556,111	4,158,153	11,765,593
Loans and advances to customers	8,126,950	4,418,092	6,674,282	9,806,566	8,891,670	37,917,560
Total assets	19,779,426	7,384,592	30,738,772	34,334,714	26,151,198	118,388,612
FINANCIAL LIABILITIES						
Due to banks and financial institutions	-	-	22,070	-	-	22,070
Deposits from customers	36,947,256	14,907,550	44,635,874	730,497	-	97,221,176
Other liabilities	-	-	806,746	-	-	806,746
Total liabilities	36,947,256	14,907,550	45,464,690	730,497	-	98,049,992
Net liquidity gap	(17,167,830)	(7,522,958)	(14,726,008)	33,604,217	26,151,198	20,338,620

Notes to the Consolidated Financial Statements (continued)

AS AT 31 DECEMBER 2021

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 2021

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 2021 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	-	6,330,041	-	-	-	6,330,041
Cash and balances with Central Bank of Kenya	-	8,957,230	-	-	-	8,957,230
Placements and balances with other banks	20,378,266	121,140	-	-	-	20,499,366
Treasury bills and term notes	33,941,047	-	-	-	-	33,941,047
Investment securities measured at amortised cost	-	-	12,657,390	-	-	12,657,390
Investment in bonds- fair value through other comprehensive income	-	-	3,973,133	-	-	3,973,133
Investment in ordinary shares- fair value through other comprehensive income	-	-	-	99,497	-	99,497
Loans and advances to customers	-	37,974,486	-	-	-	37,974,486
Total assets	54,319,273	53,382,897	16,630,523	99,497		124,432,190
Liabilities						
Balances due to banks and financial institutions	-	-	-	-	22,070	22,070
Deposits from customers	-	-	-	-	96,864,456	96,864,456
Other liabilities	-	-	-	-	1,981,137	1,981,137
Total liabilities	-	-	-	-	98,867,663	98,867,663

Notes to the Consolidated Financial Statements (continued)

AS AT 31 DECEMBER 2021

45. FINANCIAL RISK MANAGEMENT (continued)

c) Classification of financial instruments (continued)

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

At 31 December 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 2021

45. FINANCIAL RISK MANAGEMENT (continued)

c) Classification of financial instruments (continued)

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

At 31 December 2021 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	-	6,332,115	-	-	6,332,115
Placements and balances with other banks	-	8,894,382	-	-	8,894,382
Treasury bills and term notes	20,378,266	121,140	-	-	20,499,366
Investment securities measured at amortised cost	32,979,596	-	-	-	32,979,596
Investment in bonds-fair value through other comprehensive income	-	-	11,765,593	-	11,765,593
Investment in ordinary shares fair value through other comprehensive income	-	-	3,868,946	-	3,868,946
Loans and advances to customers	-	37,917,560	-	-	37,917,560
Total assets	53,357,822	53,265,197	15,634,539	-	122,257,558
Liabilities					
Balances due to banks and financial institutions	-	-	-	22,070	22,070
Deposits from customers	-	-	-	97,221,176	97,221,176
Other liabilities	-	-	-	806,746	806,746
Total liabilities	-	-	-	98,049,992	98,049,992

Notes to the Consolidated Financial Statements (continued)

AS AT 31 DECEMBER 2021

45. FINANCIAL RISK MANAGEMENT (continued)

c) Classification of financial instrumentsk (continued)

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

At 31 December 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

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 2021 would have increased equity by Kshs.387 million (2020: Kshs. 126 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 2021

45. FINANCIAL RISK MANAGEMENT (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 2021 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	5,293,157	2,729,347	566,501	368,225	-	8,957,230
Treasury bills and term notes	-	-	20,398,266	101,140	-	20,499,366
Investment securities measured at amortised cost	-	300,000	3,075,549	17,464,123	13,101,375	33,941,047
Bonds- fair value through other comprehensive income	27,204	-	24,125	8,447,908	4,158,153	12,657,390
Loans and advances to customers	8,126,950	4,418,092	6,731,208	9,806,566	8,891,670	37,974,486
Total assets	13,447,311	7,447,439	30,795,609	36,187,962	26,151,198	114,029,519
LIABILITIES						
Due to banks & financial institutions	-	-	22,070	-	-	22,070
Deposits from customers	36,947,256	14,550,829	44,635,874	730,497	-	96,864,456
Total liabilities	36,947,256	14,550,829	44,657,944	730,497	-	96,886,526
Total interest sensitivity gap	(23,499,945)	(7,103,390)	(13,862,335)	35,457,465	26,151,198	17,142,993
As at 31 December 2020						
Total assets	14,355,751	4,690,204	32,436,040	24,897,210	30,271,833	106,651,038
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

Notes to the Consolidated Financial Statements (continued)

AS AT 31 DECEMBER 2021

45. FINANCIAL RISK MANAGEMENT (continued)

d) Market risk (continued)

Interest risk exposure (continued)

BANK As at 31 December 2021	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	5,293,157	2,666,500	566,500	368,225	-	8,894,382
Treasury bills and term notes	-	-	20,398,226	101,140	-	20,499,366
Investment securities measured at amortised cost	-	300,000	3,075,549	16,502,672	13,101,375	32,979,596
Bills & Bonds- fair value through other comprehensive income	27,204	-	24,125	7,556,111	4,158,153	11,765,593
Loans and advances to customers	8,126,950	4,418,092	6,674,282	9,806,566	8,891,670	37,917,560
Total assets	13,447,311	7,384,592	30,738,682	34,334,714	26,151,198	112,056,497
LIABILITIES						
Due to banks & financial institutions	-	-	22,070	-	-	22,070
Deposits from customers	36,947,256	14,907,550	44,635,873	730,497	-	97,221,176
Total liabilities	36,947,256	14,907,550	44,657,943	730,497	-	97,243,247
Total interest sensitivity gap	(23,499,945)	(7,522,958)	(13,919,261)	33,604,217	26,151,198	14,813,250
As at 31 December 2020						
Total assets	14,355,751	4,628,721	32,436,040	23,956,981	29,469,430	104,846,923
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

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:

	2021 KShs '000	2020 KShs '000
Effect on profit before tax of a +1% change in interest rates	(173,966)	(102,686)
Effect on profit before tax of a -1% change in interest rates	173,966	102,686

Notes to the Consolidated Financial Statements (continued)

AS AT 31 DECEMBER 2021

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 2021, 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. 862,380 (2020: Kshs. 2,580,580) 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 2021, 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.1,370,460 (2020: Kshs. 26,427,530) mainly as a result of the Euro denominated net monetary assets. The reverse would also occur if the Kenya Shilling weakened with all other variables held constant.

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

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

As at 31 December 2021 *In KShs'000*	**USD**	**GBP**	**Euro**	**ZAR**	**JPY**	**Others**	**Total**
Assets							
Cash and cash equivalents (Group and Bank)	5,960,701	498,354	284,634	4,531	5,785	18,718	6,772,724
Investment in ordinary shares fair value through other comprehensive income	278,338	-	-	-	-	-	278,338
Offshore bonds	397,260	76,606	-	-	-	-	473,866
Loans and advances	8,286,265	48,661	3,647,244	-	-	-	11,982,170
Others	3,111,645	2,323,531	457,435	49,111	-	3,049	5,944,770
Total assets	18,034,209	2,947,152	4,389,313	53,642	5,785	21,767	25,451,868
Liabilities							
Balances due to banks and financial institutions	-	-	21,064	-	-	-	21,064
Deposits	17,194,799	2,908,490	931,240	1,235	189	1,214	21,037,165
Others	753,172	39,756	3,414,169	51,958	5,385	6,067	4,270,508
Total liabilities	17,947,970	2,948,246	4,366,472	53,193	5,573	7,281	25,328,719
Net exposure as at 31 December	86,238	(1,094)	22,841	449	212	14,486	123,149

Notes to the Consolidated Financial Statements (continued)

AS AT 31 DECEMBER 2021

45. FINANCIAL RISK MANAGEMENT (continued)

d) Market risk (continued)

Foreign currency exchange risk **(continued)**

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
Loans and advances	7,990,957	63,858	3,909,775				11,964,590
Others	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

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 2021

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. CLIMATE RELATED RISK

Climate-related risks' are potential negative impacts on the bank arising from climate change. Climate-related risks have an impact on the principal risk categories discussed above (i.e. credit. liquidity, market and operational risks), but due to their pervasive nature have been identified and managed by the Group on an overall basis.

The bank distinguishes between physical risks and transition risks.

Physical risks arise as the result of acute weather events such as hurricanes, floods and wildfires, and longer-term shifts in climate patterns such as sustained higher temperatures, heat waves, droughts and rising sea levels.

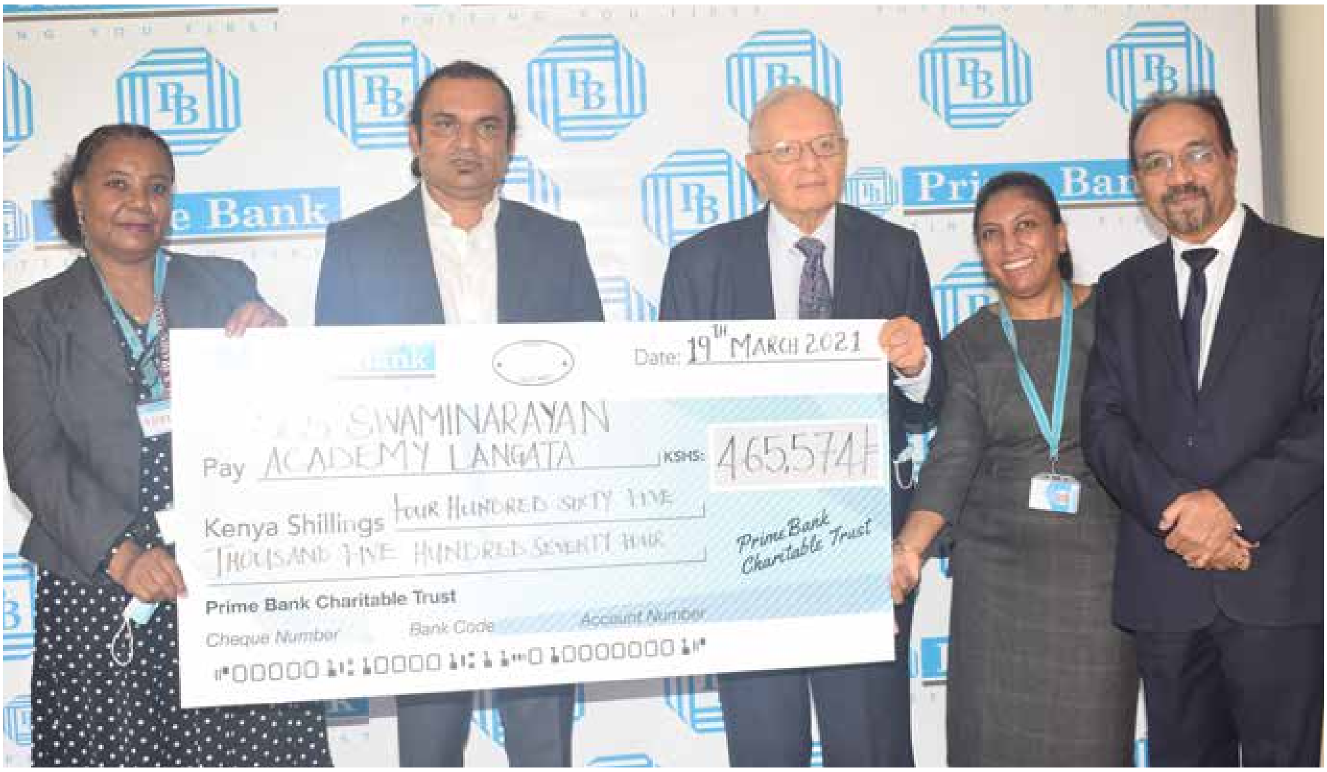
Transition risks arise as a result of measures taken to mitigate the effects of climate change and transition to a low-carbon economy such as changes to laws and regulations, litigation due to failure to mitigate or adapt, and shifts in supply and demand for certain commodities, products and services due to changes in consumer behaviour and investor demand.

The Group is in the process of developing group-wide policies, processes and controls to incorporate climate risks in the management of principal risk categories, developing models that aim to assess how borrowers' performance is linked to climate change. The Group plans to use these models in pricing credit risk and in calculating ECLs and incorporate climate-related risk into stress test scenarios.

48. EVENTS AFTER THE REPORTING PERIOD

The conflict between Russia and Ukraine will affect the global economy via three main channels: financial sanctions, commodities prices and supply-chain disruptions. Energy and commodity prices, including wheat and other grains have surged, adding to inflationary pressures from supply chain disruptions and the rebound from the Covid-19 pandemic. Price shocks will have an impact worldwide should the conflict escalate, the economic damage would be all the more devastating. The sanctions on Russia will also have a substantial impact on the global economy and financial markets, with significant spill overs to other countries. The bank is however unable to quantify the potential impact of this conflict at this point.

Corporate Social Responsibility



BURSARIES FOR STUDENTS IN NEED

SCS Swaminarayan Academy Langata , Gulab Lochab Academy Eldoret, and Jalaram Academy Kisumu were beneficiaries of Prime Bank Bursary Program for the year 2021.The three schools received a total of KShs. 965,574 from the Bank to extend bursary to bright and needy students.

ELDORET MARATHON

The third edition of Eldoret City Marathon was held on Sunday the 6th June in Eldoret. The aim of the Marathon was to raise funds towards this year's theme of 'Climate Action', by planting at least one million trees within various Vocational Training Centres in the Region. Prime Bank was one of the sponsors towards the cause.

FREEDOM FOR GIRLS SANITARY TOWEL PROJECT

In our flagship program - Freedom for Girls, more than 300 girls from S. C. S. Swaminarayan Academy Langata benefited from this noble cause where they received a full year's supply of sanitary towels, undergarments and health education booklets. Since 2008 Prime Bank has donated over 11 million shillings with a total of over 25,000 girls benefiting countrywide through this project.

JUNIOR GOLF FOUNDATION PARTNERSHIP

For five years running, Prime Bank has been supporting Junior Golf Foundation and Kenya Golf Union to nurture talent of young golfers. 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. Since the inception of the program in 2015, Prime bank has so far donated KShs. 5.322 Million to Junior Golf Foundation.

MATHARI HOSPITAL DONATION

During the year, the Bank donated seven television sets and 250 chairs worth KShs. 350,000 to the Mathari National Teaching and Referral Hospital. The Television sets will provide the much needed alternative entertainment and information to patients in the wards while the 250 chairs will help solve the scarcity of seats in waiting areas that was being experienced in the hospital.

SHARING CHRISTMAS WITH NYUMBANI

As it has always been our tradition during the festive season, Prime Bank staff paid a visit to Nyumbani Children's Home in Nairobi to share the joy of Christmas with the home. The staff interacted and shared special moments with the children through various activities including outdoor games, singing, dancing and sharing a meal in a true reflection of the Bank's spirit of caring for the communities in which it operates in.

NATURE KENYA CHARITY GOLF

On July 23rd, the 11th edition of Nature Kenya's charity golf tournament took place at the Karen Country Club. The event, under the 'Lungs for Kenya' initiative is an annual event with the objective of raising funds for the restoration of Mount Kenya forest. Prime Bank was among the sponsors for this year's charity golf event which raised KShs. 2.2 million.

PRIME BANK AND RADISSON BLU IN PARTNERSHIP TO UPGRADE ARBORETUM

Prime Bank and Radisson Blu Nairobi Arboretum partnered with Kenya Forest Service (KFS) and Nairobi Arboretum Community Forest Association to construct a Sh12 million ablution block and a paved walking track. The rehabilitation project has improved the accessibility and amenities in the Park which caters for the visitors who have increased substantially due to the Covid-19 pandemic.

JOINED HANDS WITH COMMUNITY-BASED ORGANIZATIONS

In the course of the year, the Bank also joined hands with various 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.

AFRICINVEST

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