Leading The *Digital* Transformation

ANNUAL REPORT

2020

Credit Bank
My Friend, My Bank

About this
Report

Credit Bank Group PLC Annual Report and Financial Statement 2020 provides a balanced and comprehensive view of the Group's performance as part of our continuous efforts to enhance disclosure and keep our stakeholders well informed. Our report covers the period from 1 January 2020 to 31 December 2020, is our primary report to our investors, and contains information relevant to other stakeholders.

The Group's Annual Financial Statements were prepared in accordance with the International Financial Reporting Standards (IFRS). The report is part of our commitment to be transparent and accountable to our stakeholders.

As a financial services provider, we play an important role in the economic life of individuals, businesses and nations, supporting the socio economic welfare of our people. Through all our activities, we consider our stakeholders as we pursue our ambition to have a positive impact on society and deliver shareholder value. Credit Bank PLC's 2020 financial statements were audited by PWC Kenya.

We are the *change*

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Notice of Annual General Meeting

The Companies Act, 2015
No. 23/90

NOTICE IS HEREBY GIVEN THAT THE THIRTY FIFTH (35TH) ANNUAL GENERAL MEETING OF CREDIT BANK PLC WILL BE HELD VIRTUALLY, ON FRIDAY, 16TH JULY 2021 AT 10.00 AM

Agenda

Ordinary Business

1. To read the notice convening the meeting and confirm the presence of a quorum.
2. To receive and adopt the audited Balance Sheet and Financial Statements for the year ended 31 December 2020 together with the Directors' and Auditors' Reports thereon.
3. To note that the Directors do not recommend payment of dividend.
4. To re-elect Directors in accordance with the Articles of Association:-
   i) Dr. James Stanley Mathenge, retires from office by rotation and, being eligible, offers himself for re-election;
   ii) Mr Jay Rajnikant Karia, retires from office by rotation and, being eligible, offers himself for re-election;
   iii) Mr Jack Mugo Ngare, retires from office by rotation and, being eligible, offers himself for re-election.
5. To approve the Directors' remuneration for the financial year 2021.
6. To authorize the directors to fix the Auditors' remuneration.
7. To re-appoint the Auditors, PricewaterhouseCoopers who have indicated their willingness to continue in office in accordance with Section 719 (2) of the Companies Act, 2015 and subject to approval by Central Bank of Kenya.

By Order Of The Board

Dcdm Registrars.

DCDM Registrars
Company Secretaries
23rd June 2021

Note:

1. The Audited Accounts and Financial Statements for the year ended 31st December 2020 may be viewed at the Bank's website, www.creditbank.co.ke or a printed copy be obtained from the Bank's Head Office, 14th Floor, One Africa Place, Waiyaki Way, Nairobi.
2. Shareholders wishing to participate in the meeting should register for the AGM by dialing USSD short code number *384*043# or via a link to the AGM Platform that will be sent to them and following the various registration prompts. In order to complete the registration process, shareholders will need to have their ID/Passport Numbers which were used to purchase their shares at hand. For assistance shareholders should dial the following helpline number +254 20 7608216 from 8:00 a.m. to 4:00 p.m. from Monday to Friday. Any shareholder outside Kenya should dial the helpline number to be assisted to register or send an email digital@candrgroup.co,ke.
3. Registration for the AGM opens 5th July, 2021 at 08:00AM and will close on 15th July, 2021 at 12.00 Noon.
4. Shareholders wishing to raise any questions or clarifications regarding the AGM may do so by:
   a) Sending their written questions by email to digital@candrgroup.co,ke or
   b) Dialing the USSD code *384*043# and selecting the option (ask Question) on the prompts or
   c) Clicking the link to the AGM Platform; Select Attend Event; Select "Credit Bank Plc AGM" Select "Q&A" option tab and submit questions in text box provided; or
   d) To the extent possible, physically delivering their written questions by 14th July 2021 12:00 Noon with a return physical address or email address to the Company Registrars address: Custody & Registrars, at IKM Place, Tower B, 1st Floor, 5th Ngong Avenue

5. Shareholders wishing to vote may do so by:
    a) Clicking the link to the AGM Platform; Select Attend Event; Select "Credit Bank Plc AGM"; Select "Voting" option tab and vote; or
    b) Dialing the USSD platform*384*043# ; Use the menu prompts to Select the menu option for "Voting" and follow the various prompts regarding the voting process
6. In accordance with Section 298(1) of the Companies Act, shareholders entitled to attend and vote at the AGM are entitled to appoint a proxy to vote on their behalf.
    - A proxy need not be a member of the Company. If the Proxy appointed is not the Chairman of the AGM, the appointed proxy will need access to a mobile telephone.
    - A form of proxy may be obtained from the Bank's website, www.creditbank.co.ke ,Physical copies of the proxy form are also available at the Bank's Head office, 14th Floor, One Africa Place, Waiyaki Way, Nairobi, OR the Company Registrars address: Custody & Registrars, IKM Place, Tower B, 1st Floor, 5th Ngong Avenue, Nairobi.
    - A proxy must be signed by the appointer or his attorney duly authorized in writing. If the appointer is a body corporate, the instrument appointing the proxy shall be given under its common seal or under the hand of an officer or duly authorized attorney of such body corporate.
    - A completed form of proxy should be emailed to proxy@candrgroup.co.ke or delivered to Custody & Registrars, at IKM Place, Tower B, 1st Floor, 5th Ngong Avenue, Nairobi so as to be received not later than 48 hours before the time of holding the meeting i.e. Wednesday 14th July 2021 at 10.00AM. Any person appointed as a proxy should submit his/her email ormobile telephone number to the Company no later than Wednesday 14th July 2021 at 3.00 PM
    - Any proxy registration that is rejected will be communicated to the shareholder concerned no later than Thursday 15th July 2021 to allow time to address any issues
7. Duly registered shareholders and proxies will be able to watch the AGM Proceedings through the live stream or listen to audio through the toll free number.
8. Duly registered shareholders and proxies will receive a short message service SMS/ and/or an email one hour ahead of the AGM, reminding duly registered shareholders and proxies that the AGM will begin in an hours' time and providing a link to the live stream and the toll-free number and pin for listening to the proceedings.
9. Duly registered shareholders and proxies may vote (when prompted by the Chairman) via the USSD *384*043# or on the AGM Platform.
10. A poll shall be conducted for all the resolutions put forward in the notice.
11. Results of the AGM shall be published within 24 hours following conclusion of the AGM.
12. For any unclaimed dividends, the preferred method of paying dividends which are below Kshs 140,000.00 will be through M-PESA. Shareholders who wish to receive their dividend through M-PESA and have not registered for this mode of payment can opt to receive future dividends by dialing *483*038# or contacting the Share Registrar, Custody & Registrars Services Limited
13. All present and former shareholders of the Company are hereby notified that pursuant to the provisions of the Unclaimed Financial Assets Act No 40 of 2011 Parts II and III, dividends and shares which have not been claimed for a period of three (3) years or more will require to be delivered to the Unclaimed Financial Assets Authority ('the Authority) as abandoned assets on the appointed date.

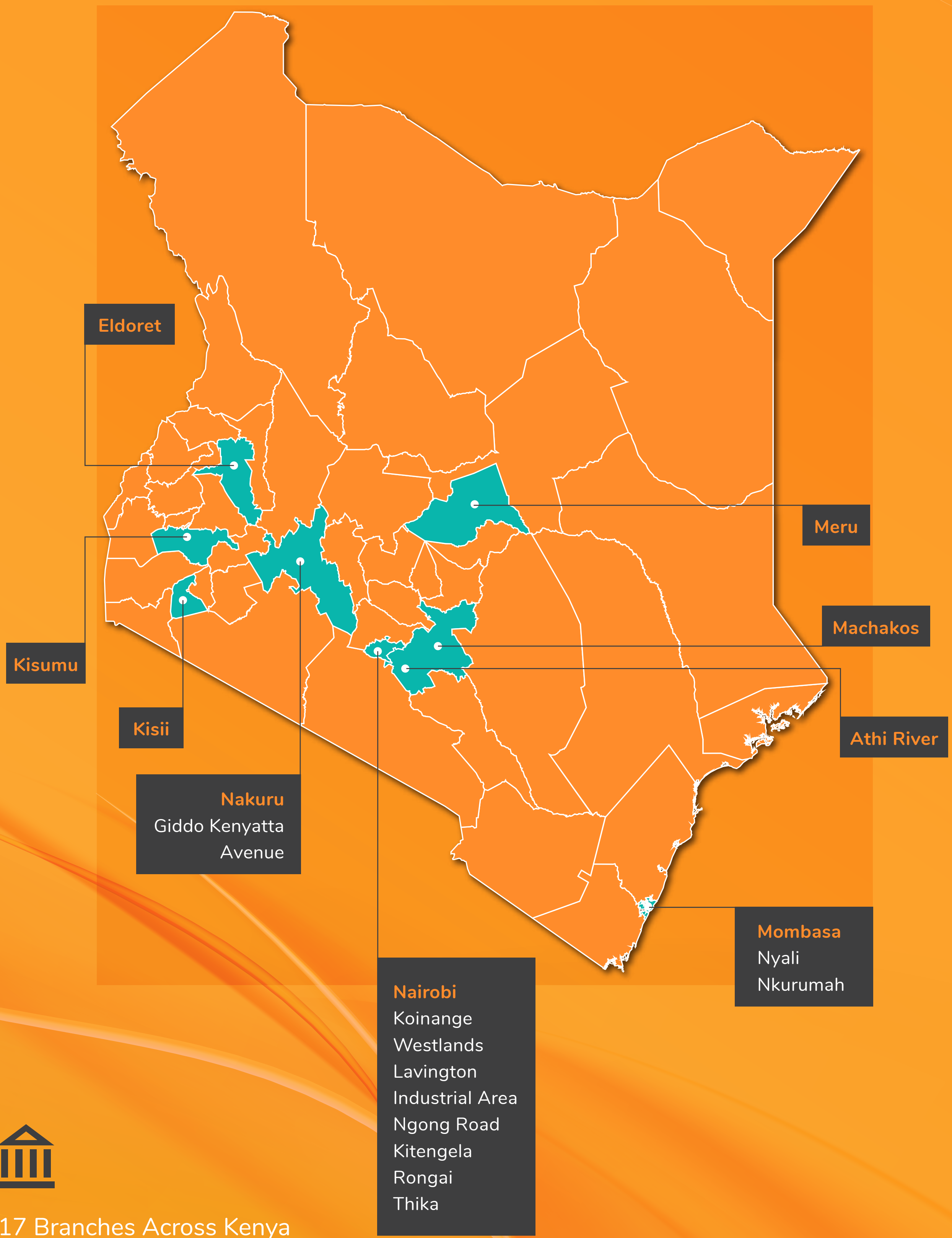
Therefore, all shareholders with unpaid dividends are requested to urgently contact the Share Registrar, Custody & Registrars Services Limited at the address indicated below to claim any unpaid dividends to avert the risk of the dividends being forwarded to the Authority.

Custody & Registrars Services Ltd
IKM Place, Tower B, 1st Floor,
5th Ngong Avenue, Nairobi

Mobile: +254 20 7608216,
Email: info@candrgroup.co.ke

Credit Bank PLC

At A Glance



17 Branches Across Kenya

Since 1986

Over 45,000 Customers

Fully Digital Bank

At Credit Bank, we take pride in our qualified Human Capital capable of delivering personalised financial solutions to customers. Our focus on the Trade Finance Space has enabled us provide a unique value propositon to SMEs. We are a friend your business can bank on.

236 Employees

R17 Version of T24

Over 10,200 Shareholders

Select Awards

CFI.co - Best Commercial Bank Governance Team
KBA - Best in our Category in Providing Customer Focused Financial Solutions
KAM - Contribution to Sustainable Finance in Kenya
European Award - Best SME Partner
International Business Magazine - Best SME Bank and Mobile Banking Provider
Think Business - Best Bank in Customer Satisfaction

In Celebration of a Life Well Lived

Hon. Simeon Nyachae EGH
Chairman, Credit Bank PLC

The Board of Directors, Management, and Staff of Credit Bank PLC stand in solidarity with the family and nation at large to celebrate the life of the Late Hon. Simeon Nyachae, EGH, who passed on peacefully on Monday 1st February 2021. Respected as a visionary leader and astute entrepreneur, the Late Hon. Nyachae played an instrumental role in defining the country's trajectory, across the diverse positions he held in Kenya's civil service, political arena and corporate world.

Trained in the United Kingdom as a public administrator, the Late Nyachae joined the civil service in the years leading to Kenya's independence and was appointed as a District Commissioner (1963) and Provincial Commissioner (1965 - 1979). He went on to serve in various capacities, rising through the ranks to occupy the position of Chief Secretary. Upon his retirement from the civil service, he ventured into politics and served as the Member of Parliament for Nyaribari Chache between 1992 and 2007. During this period and in subsequent years, he held various positions in government as a Cabinet Minister across diverse portfolios (Agriculture, Trade, Finance, Roads, Energy, Water).

The Late Hon. Nyachae co-founded Credit Bank PLC in 1986, lending his visionary leadership and natural flair for entrepreneurship in building a financial institution that would cater to the SME sector in Kenya. Under his stewardship, Credit Bank PLC has progressively evolved into a respected corporation and national brand. As we mourn our Chairman's demise, we celebrate his legacy and transformative leadership; we celebrate the defining achievements he made, and the many lives he touched.

May the Almighty Lord rest his soul in eternal peace.

Having worked under Chairman's stewardship for more than thirty years, the thing that stands out strongly for me was his leadership style. He always consulted widely and embraced professionalism in all his undertakings.

Moses Mwendwa, Director

As we bid farewell to this iconic leader and loving father, we stand firm in our commitment to safeguarding his legacy at Credit Bank, and advancing the ideals that he stood for.

Forever in our hearts.

Betty Korir, Chief Executive Officer

His life serves as a good inspiration to posterity – and even to those of us who are still alive. He came, he saw, he conquered. May his soul rest in eternal peace.

Dr J S Mathenge, Director

We condole with the family of our Chairman, and give the assurance that we will honour his legacy by continuing in the path that he set before us.

Charles Kibara, Chief Manager, Operations and Branches

My sincere condolences to the family members of the late Hon. Simeon Nyachae. Praying for you to find peace and clarity during this tough time.

Joseph Kiprono, Central Operations

Dear Nyachae Family, Our collective hearts are heavy with sympathy. Please accept our most heartfelt condolences. May the good Lord comfort you during this time.

Monica Chege, Marketing

Dear Nyachae Family, We join the family in celebrating a life well lived. He touched the lives of many and the fruits of his industrious service to the nation shall continue to positively impact generations to come. My condolences for the loss and may the Almighty provide comfort during this difficult period.

Francis Ngaruiya, HR & Legal

I will remember Chairman as a focused leader, a man who walked his talk. He gave all his staff equal opportunities to thrive, and empowered each of us to rise to our highest potential. Rest in peace.

Petronilla Munyao, Senior Manager, HR & Administration

Board of **Directors**

Moses M. Mwendwa

Chairman of the Board of Directors

Mr. Moses Mwendwa is a Kenyan national with vast qualifications in the accounting field. He is an experienced financial and tax advisor with specialist knowledge in sourcing credit finance for corporate, groups and individuals. He has worked as a director in firms of professional accountants and management consultants for more than 30 years advising clients on capital investment appraisals.

Mrs. Grace Nyachae

Director

Mrs. Grace is a founding director of Credit Bank PLC. She worked in the Civil Service for 11 years and has vast experience in managing businesses especially in the agricultural sector. She sits on various boards including H.C.D.A, Sotik Tea Company Limited Sansora Group of Companies, among others.

Mr. Ketan Morjaria is a UK qualified Chartered Accountant with extensive experience in financial risk management, controls and fraud. He has over 18 years' business experience in Africa and the United Kingdom. He has been a shareholder in Credit Bank PLC since its establishment and has served on the board of the bank for several years and chaired key board committees.

Ketan Morjaria
Director

Mr Robinson Gachogu is a Bachelor of Commerce graduate and a qualified Chartered Accountant with extensive experience in financial management. He has over 40 years of experience in the financial sector. He serves in various boards including Kenya Commercial bank.

Robinson Gachogu
Director

Mr. Jay Karia is a British national with vast experience in manufacturing, trading and banking in Kenya and and Uganda. He has certifications in corporate governance with speciality in perfomance and sustainability. He is a shareholder and director of Orient Bank Limited, a director and shareholder of Credit Bank PLC.

Jay Karia
Director

Dr. James Mathenge is a former long-servicing permanent secretary and career administrator. He has served as Chairman of Public Service Commission, Kirinyaga University College and Kenya Freedom from Hunger Council. He is on several boards in the Anglican Church of Kenya and has also served as board member of several private and public companies.

Dr. James James Mathenge
Director

Jack Ngare has more than 15 years' experience in technology and is currently a Managing Director at Africa Development Centre, Microsoft in Kenya. He brings in-depth knowledge around topics like telecommunications, financial services and emerging technology. He holds a Master's Degree in Advanced Computer Science and a Bachelor's Degree in Computer Science from the University of Leicester.

Jack Ngare
Director

Leon Nyachae an architect and entrepreneur with more than 15 years of experience in various Kenyan businesses, he is currently the Managing Director of Sansora Group. Mr Nyachae is a qualified architect with a particular interest in sustainable and affordable housing development. He currently manages a diversified conglomerate with interests in real estate, farming and financial services. He also serves as a Non-executive director of Kenindia Assurance Company, Paper House of Kenya and Sotik Tea Company.

Leon Nyachae
Director

Mrs. Korir is a holder of Bachelor of Education and Bachelor of Law with Honors. She has a Master's Degree in Finance/Marketing from the University of Nairobi. She is a member of Global Association of Finance and Management (GAFM). She has international exposure in project finance and sustainable lending acquired from Triodos Bank in the UK.

Mrs. Betty C. M Korir
Chief Executive Officer

Robert is a holder of a BA from University of Nairobi, a Certified Public Secretary, CPS (K), and a member of the Institute of Certified Public Secretaries with over 20 years experience in providing corporate secretarial services. He also helped in setting up of the Uganda Securities Exchange. Robert has been affiliated with BDO since 2009 and is in charge of providing corporate secretarial services to the firm.

Robert Ndung'u
Company Secretary

Chairman's **Report**

Fellow Shareholders,

I write these notes with a deep sense of humility because the year 2020 was a difficult period for all of us on an individual and business level. It is the year when the COVID-19 pandemic was at its height globally and Kenya was not spared. No community was left untouched by the scourge whose impact continues to be felt. The COVID-19 pandemic adversely affected the economy destroyed many livelihoods, took away the lives of millions across the world.

I extend my deepest sympathies to our customers who lost families and friends to the pandemic, while to our regulators and partners, I thank you for standing by us during this difficult time.

As a bank, when Covid 19 hit the country in March 2020, we moved swiftly to safeguard our staff, customers, shareholders, and other stakeholders. True to our mantra "My Friend, My Bank," we quickly adopted health policy measures as directed by the Ministry of Health and adhered to the Bank's Health and Safety Guidelines. The pandemic has only strengthened our belief in offering more than just banking solutions: it has confirmed the position of our customers, staff, and stakeholders at the heart of our business. We undertook the following measures to ensure the support and well-being of our people:

- Donated Kshs 3 million to the COVID 19 emergency response fund through a KBA drive.
- Invested over Kshs 3.2 million to support flexible working arrangements and ensure the safety of our workplace.
- Engaged in various CSR initiatives, including feeding the less fortunate through staff donations that saw three organizations benefit.
- Offered repayment holidays and loan extensions to our clients to help them deal with the effects of the pandemic. As of 31st December 2020, we had restructured 17% of our loan book totaling Kshs 2.81 billion that has gone towards supporting businesses through the pandemic.

While doing so, we maintained a firm grip on our business goals and ensured a good balance between our shareholder's interests and our staff and customers, and for this, I feel a deep sense of delight and pride.

In every crisis lies an opportunity to adopt innovations that secure the business from future shocks. With the advent of the COVID-19 pandemic, we grasped at the opportunity to leverage technology to ensure business continuity by allowing our staff to work from home and our customers to transact electronically. As noted by the CEO in her report, numerous innovations on the digital front helped us grow the bank's channels immensely.

Global Environment

COVID-19 has continued to spread, with sharp resurgences in some areas and the emergence of variant strains of the virus. Global economic activity, which began a rebound in mid-2020, has since leveled off. Last year's fall in global investment was sharp, particularly for emerging markets and developing economies, excluding China. Aggressive policy actions by central banks kept the global financial system from falling into crisis last year.

According to the World Economic Outlook Update of January 2021, amid exceptional uncertainty, the global economy is projected to grow 5.5 percent in 2021, while the real GDP in Africa is projected to grow by 3.4 percent in 2021, after contracting by 2.1 percent in 2020. This projected recovery from the worst recession in more than half a century will be underpinned by a resumption of tourism, a rebound in commodity prices, and the rollback of pandemic-induced restrictions. However, the outlook is subject to proper management of the COVID-19 pandemic through effective vaccination of the communities, controlling the spread of the virus in many countries, and adopting monetary policy accommodation accompanied by diminishing fiscal support.

Global trade collapsed last year as borders closed and supply disruptions interrupted the international provision of goods and services. Whereas activity and business in the trade sector have improved, the services sector remains anemic, with international tourism, in particular, still depressed.

According to the Global Trade Outlook report for 2021, international trade is projected to contract by 9.5 percent in 2020 – comparable to the decline during the 2009 global recession but affecting a markedly larger share of economies – before growing by an average of 5.1 percent in 2021-22.

Operating Environment

The COVID-19 shock hit Kenya's economy hard through supply and demand shocks on both the external and domestic fronts, with business decelerating sharply in 2020. The real Gross Domestic Product (GDP) is estimated to have contracted by 0.3% in 2020. However, the growth outlook is positive as the economy is projected to grow by 7.6 % in 2021 (Ac. World Bank in Kenya Report) subject to a full reopening of the economy.

During the review period, Kenya's government offered various reliefs to its citizens to cushion them from the harsh economic times. Some of the measures included income tax exemption for Kenyans earning less than Kshs24,000; reduction of the individual income tax rate from a maximum of 30% to 25%; corporate tax reduction from 30% to 25%; reduction in VAT from 16% to 14%; reduction of the turnover tax rate from 3% to 1% for MSMEs with revenues exceeding Kshs 1 million; Central Bank Rate (CBR) reduction by 125 bps to 7.00%; Cash Reserve Ratio (CRR) reduction by 100 bps to 4.25%; and the maximum tenor of Repurchase Agreements (REPOs) was extended from 28 to 91 days.

The swiftness and robustness of the implementation of these, and any other state interventions, have had a significant impact on the effectiveness of the proposed measures in delivering the much-desired relief to businesses.

The Central Bank of Kenya (CBK) lowered its policy rate and announced flexibility to banks regarding loan classification and provisioning for loans that were performing but were restructured due to the pandemic. Other measures included waiving or reducing charges on mobile money transactions promoting digital transactions via card and mobile money instead of cash and suspending the listing of negative credit information for borrowers whose loans were non-performing for at least six months.

Overall inflation in 2020 averaged 5.3% compared to 5.2% the previous year..

Our Strategic Performance

Despite a tough year, the bank repositioned itself to focus on the digital banking proposition that we now call "Konnect Banking". Through it, we sought to digitize most of our banking services and offer our customers new digital solutions that provided relief and kept them going.

Among the digital solutions launched in the year 2020, were the following:

- Visa Prepaid Cards, which carry less risk of overspending, are safer than cash and easy to use and reload, thus making payments more convenient for our customers.
- Konnect2Bank, a solution that enables Credit Bank Merchants to collect funds via M-Pesa, Airtel Money, and PesaLink directly to their bank accounts, through a short and easy-to-remember code.
- Instant Card Issuance on all our debit cards at the branches allowing convenience.
- A cheque clearing solution platform that helps corporate customers process their cheques online.

Local and International Recognition

We are happy and proud to note that the efforts at entrenching digital services won the bank awards from the International Business Magazine Awards, namely Best SME Bank Kenya 2020 and Best Mobile Banking Kenya 2020

The bank also won the following awards from Think Business:

- Best Bank in Customer Satisfaction in Tier 3
- Most Customer-Centric Bank - 2nd Runners-up
- Best Bank in Trade Financing - 2nd Runners-up
- Best Bank to Borrow From - 3rd Runners-up

The level of innovation adopted by the bank is the backbone of this success, and for that, we are truly encouraged.

Our focus on green financing also did not go unnoticed, as the Kenya Association of Manufacturers recognized the bank with a prize during the EMA Awards for supporting sustainable finance in Kenya. This is a sector we will continue to support in the future.

More than a Business

While Credit Bank remains fully focused on implementing policies that drive profitability, we also care for and support the socio-economic welfare of the communities that sustain our business. For Credit Bank, banking is more than a business. It is about caring for those whose livelihoods are battered by the realities of economic hardship. This underlines the reason as to why, in the year under review, the bank supported the COVID-19 Fund through KBA, while the bank's staff, through its management, contributed to feeding the less fortunate in our communities. The drive supported over 200 homeless children in 3 homes identified by the staff members. In support of the future generation, we also joined the Rotary Club of Karura by giving back-to-school packages to one of the needy schools in Nairobi. We also donated facemasks, handwashing stations, and thermo guns to support schools' reopening.

Today we continue to passionately support the social investment agenda to transform the lives of communities in which we operate.

Credit Bank exists to support the socio-economic welfare of our people, and therefore doing more than banking is at the heart of who we are.

Looking Forward

Although recent vaccine approvals have raised hopes of turning around the COVID-19 pandemic later this year, renewed waves and new variants of the virus pose concerns for our outlook. We recognize that even as we await full recovery of the economy, we must continue to innovate as a bank that knows the future is digital. As noted by the CEO in her report, we are eager to implement our five-year strategy of 2021-2025 because it is forward-looking and portrays our vision for the bank.

Conclusion

I sincerely thank the Chief Executive Officer and the entire staff for their resilience during a tough year. They put our customers first daily, and for that, on behalf of the board of directors, we applaud you.

Finally, I extend my sincere appreciation to the entire Board of Credit Bank PLC for your support and for steering the bank in the right direction. It is my prayer that as we paddle our way through these waters, we will emerge victorious.

God Bless and Stay Safe.

Mr Moses Mwendwa,
Chairman, Board of Directors

Our

Management Team

Mrs. Betty C. M Korir
Chief Executive Officer

Mrs. Korir joined Credit Bank PLC in June 2013 and has 20 years Banking Experience spanning across several Banks. She is a holder of Bachelor of Ed. Degree, Bachelor of Laws (Hons) LLB and a Master's Degree in Finance/Marketing from University of Nairobi.

On the professional front she is a member of Global Association of Finance and Management (GAFM), Chartered Credit Analyst (CCA) and an associate of Kenya Institute of Bankers being a finalist in Banking Professional Qualification (AKIB) in addition to holding various Risk Management Certifications.

Eric Nyachae
Executive Officer, Business and Strategy

Eric Nyachae has more than fifteen years in the banking industry. He has vast working experience in Credit, Banking Operations, Marketing, Corporate Banking and Business Development. He currently holds a Bachelor of Arts in Business Administration from King Alfred's College of Higher Education and a HND in Business Studies from the Salisbury College of Technology.

Jackson Njenga has over 18 years' experience in the finance field. He is a Certified Public Accountant – CPA(K), Certified Public Secretary – CPS(K) and member of both the Institute of Certified Public Accountants of Kenya (ICPAK) and Institute of Certified Public Secretaries of Kenya (ICPSK).
He holds an MBA degree from the University of Nairobi (Strategic Management).

Jackson Njenga
Chief Manager,
Risk and Compliance

Mr. Daniel Lesirma has over 15 years' experience in finance. He is a Certified Public Accountant of Kenya. He holds a Master's Degree in Business Administration (Finance Option), from the University of Nairobi. He is a Member of the Institute of Certified Public Accountants of Kenya and also holds a Certificate in Business Analytics from the Harvard Business School.

Daniel Lesirma
Head of Finance

Mr. Nduvi's has over 12 years of experience in the banking industry. His educational credentials include a Degree in Bachelor of Commerce (Accounting Option) from Kenyatta University, a Master's in Economics (Policy Analysis) at the University of Nairobi. He has attended various professional courses including Computer Crimes and Security Systems, Fraud Detection, Investigation and Management.

Isaac Nduvi
Head of Bancassurance
& Digital Business

Mr. Kibara has over 13 years' experience in finance, internal and external audit. He is CPA (K), member of the Institute of Certified Public Accountant (ICPAK) and holds a Master's of Business Administration (MBA) Degree from University of Nairobi. He has attended numerous professional development and leadership courses in internal control.

Charles Kibara
Chief Manager
Operations & Branches

John Mwika
Head of Treasury,
Custody & Advisory Services

John is a Certified Treasury professional (ACI DC) with 8 Years' experience across various treasury functions. John holds a Bachelor of Commerce (accounting) from University of Nairobi and Associates of Kenya Institute of Bankers (AKIB) finalist. Prior to joining Credit Bank PLC, he worked as Head of Trading at African Banking Corporation where he was instrumental in growing treasury business.

Francis is a legal expert with over 15 years' experience. He is a Certified Public Secretary (CPSK), a Notary Public, Commissioner for Oaths, and a Qualified HR Practitioner. He has a Bachelor of Law Degree from Moi University, a Post Graduate Diploma in Law from the Kenya School of Law and a Post Graduate Diploma in Human Resource Management from the Institute of Human Resource Management.

Francis Ngaruiya
Head of Legal

Mr. Okusimba has over 16 years work experience in accounting, auditing and banking operations in various organizations. He holds a Master's of Business Administration Degree, Finance Option, from Kenya Methodist University. He has a Bachelor of Commerce Accounting option degree from Catholic University of Eastern Africa. He is a CPA (K), a member of Institute of Certified Public Accountants of Kenya (ICPAK) and the Institute of Internal Auditors (IIA) Kenya. He is also a Certified Information System Auditor (CISA).

Renson Okusimba
Head of Audit

Francis Wamahiu has over 8 years' experience in IT Banking. Having joined the bank in 2010, He has garnered extensive expertise and brings experience in providing leadership in ICT and Innovation. He holds a Masters in Business Administration and a Bachelor's Degree in Business Information Technology (BBIT). He is responsible for the bank's strategic technological pillar and information and communication technology (ICT).

Francis Wamahiu
Head of ICT

Zadock is a seasoned banker with over 12 years' experience and a great wealth of expertise in credit risk analysis, portfolio management and reporting, credit administration and internal audit. Zadock has a Bachelor of Commerce Degree, Accounting, from Kenyatta University and is currently pursuing his MBA in Project Management. He is also a fully qualified Certified Public Accountant (CPA-K), Certified Credit Professional (CCP) and a member of the Institute of Certified Public Accountants of Kenya (ICPAK).

Zadock Ogambi
Head of Credit

CEO's **Report**

Dear Shareholder,

A Challenging Year

2020 proved to be a challenging and remarkably uncertain year following the COVID-19 pandemic that negatively affected the local and international markets.

Our limits as a viable banking institution were severely stretched for staff, customers and shareholders. The bank had to rapidly adapt to the difficult operating environment while implementing new protocols to stand up to the economic and health challenges posed by the pandemic.

I am therefore relieved and delighted to report that your investment at Credit Bank PLC remains secure even in these uncertain times thanks to the support of the Board, Management, and Staff. Because of this, we were able to mitigate any adverse effects of the pandemic with a seamless transition transitioning from our traditional to a digital banking model, featuring our range of alternative banking channels. Business continuity efforts, particularly Information technology investments earlier undertaken to make Credit Bank PLC a digital-ready organization, favorably paid off. At the Human Capital level, we made extensive efforts to secure our staff by providing them with the necessary to work remotely. On the frontline of the pandemic, all staff received the Ministry of Health recommended personal protective equipment. In the back offices, all health protocols were maintained, including the introduction of a new cash handling and sanitizing regimen.

I also thank the Central Bank of Kenya Governor Patrick Njoroge and his team for their selfless leadership in guiding the sector through the uncertain year. As Governor Njoroge recently stated, "building on business continuity and pandemic response guidance from CBK, the banking sector during the pandemic 'kept the lights on'. While ensuring the health and safety of customers and staff, over 90 percent of the approximately 1,500 bank branches across the country remained open. The over 30,000 bank staff have been in the frontline serving Kenyans even in areas locked down to contain the pandemic."

We have emerged stronger, wiser, and ready to work extra hard this year at Credit Bank PLC, to achieve our set targets in the new normal and recover ground lost to the COVID-19 disruption.

Kenyan Economy

Save for the challenges arising from the Corona pandemic, Kenya's economic growth remained strong and stable, av-eraging 5.6 percent for the period 2014 to 2019. This was attributed to a sound macroeconomic environment, political stability, heavy infrastructural public investments, and growth in domestic demand.

The Government has acknowledged that the containment and mitigation measures put in place to curb the spread of the COVID-19 last year hurt Kenya's economy, leading to a 5.7 percent contraction in real GDP in the second quarter of 2020, compared to a 4.9 percent growth in the first quarter of 2020. Given the impact of COVID-19, the economy is projected to grow by 2.9 percent in 2020 (Acc. Post Covid-19 Economic Recovery Strategy) much lower than the 5.4 percent recorded in the past year. In addition, a survey by the Kenya National Bureau of Statistics indicates significant job losses over the pandemic period, with the number of unemployed increasing to 1.8 million in the April to June period compared to 961,000 in January to March.

We look forward to steady economic recovery as the Government moves to implement and execute the Post COVID-19 Economic Recovery Strategy (ERS) anchored on the eight-point Economic Stimulus Programme (ESP). The Budget for FY 2020/21 is designed to implement measures and initiatives that mitigate the adverse socio-economic effects of the pandemic and reposition the economy on a steady and sustainable growth trajectory. It also provides a roadmap for the transition to the fourth Medium Term Plan (MTP IV) and a new development framework beyond the current Kenya Vision 2030 social and economic development blueprint.

Banking Sector Support

According to the Central Bank of Kenya, the banking sector remained resilient in the face of the pandemic. The industry notably played a key role almost as a fast responder by providing much-needed support to keep the economy going.

Data by the Central Bank of Kenya confirms that as a testament to the sector's resilience, the banking industry closed the year with a total capital adequacy ratio of 19.0 percent above the statutory minimum capital adequacy ratio of 14.5 percent. In addition, the sector's liquidity ratio of 54.5 percent was above the statutory minimum of 20 percent. Total net assets grew by 12.4 percent from Ksh 4.8 trillion in December 2019 to Ksh 5.4 trillion in December 2020. Customer deposits increased by 13.6 percent from Ksh 3.5 trillion in December 2019 to Ksh 4.0 trillion in December 2020.

Most importantly, the banking sector, including Credit Bank PLC, enhanced the use of digital channels. Before the pandemic, on average, close to 90 percent of bank transactions were conducted outside branches. During the pandemic, this accelerated to over 94 percent of transactions. Most notably, over 67 percent of transactions are conducted on mobile phones, up from 55 percent before the pandemic. Further, to support borrowers in these difficult times, CBK announced emergency measures by banks to restructure personal, Micro, Small, and Medium Enterprises (MSMEs) and corporate loans. This was intended to provide relief to borrowers with up-to-date loans that were adversely impacted by the pandemic through no fault of their own. As of the end of December 2020, banks had restructured loans worth Ksh 1.6 trillion or 54 percent of the total banking sector loan book. The over 400,000 loan accounts restructured range from your neighborhood hair salon, individuals, MSMEs, large flower farms, airlines, hotel chains to shopping malls and transport companies.

Operational Highlights

In 2020, Credit Bank PLC introduced its clients to alternative banking channels that allowed us to deliver effective solutions remotely. As earlier mentioned, this was well facilitated by the investments earlier undertaken to guarantee business continuity and mitigate any risks of disruption to our business. Through laptop and Virtual Private Networks (VPNs), staff remained connected to the office and served our clients securely.

The pandemic's disruptive effects required us to put our customers first by being proactive and agile with our solutions to help them navigate the crisis. Staff embraced the opportunity to strengthen the bank's focus on customers by embracing digital innovations. The latter included the Konnect Prepaid Cards, Clearing Cheque Solution, and Konnect2Bank solution among others detailed in the Chairman's report.

We provided solutions for our customers in collaboration with the Government and the Central Bank of Kenya. As the Chairman notes in his report, these initiatives gave our customers relief when they needed it the most.

The government last year launched a KSh10 billion Credit Guarantee Scheme to mitigate the impact of COVID-19 on MSMEs and we are proud to report that Credit Bank was among the 7 banks nominated to undertake this initiative. Our focus on green financing did not go unnoticed, as the Kenya Association of Manufacturers awarded and recognized the Bank during the EMA Awards for supporting sustainable finance in Kenya. This sector will retain our keen focus going forward.

Financial Performance

Despite the challenging operating environment presented by the effects of COVID-19, the bank reported a profit before tax of Ksh 18 million. This is a 94 percent drop compared to Kes 303 million we reported in 2019. Other highlights include:

- A 7% growth in the bank's total assets to KSh 23.21 billion from KSh 21.66 billion in December 2019
- Growth in customer deposits by 5% to KSh 17.64 billion from KSh16.81 billion in December 2019
- Increase in net loan book by 3% to KSh 15.63 billion from KSh15.23 billion in December 2019
- Growth in GOK Treasury Bonds investment by 3% to KSh3.95 billion from KSh3.04 billion in December 2019
- Growth in gross interest income by 14% to KSh 2.88 billion up from KSh 2.52 billion

Looking Ahead

At Credit Bank PLC, we are conscious of the acute need to recover lost momentum. For this reason, we have activated a rapid results business strategy to realize value drawn from diversified operations and generation of non-funded and interest income. The 2021-2025 Strategic Plan dubbed "our roadmap to success" is anchored on the following four pillars:

- Customer centricity
- Innovation & the digital future
- Premium brand positioning
- Becoming an employer of choice.

Optimizing our processes and ensuring enhanced efficiency as we deliver quality services to our loyal and potential clients will be at the core of its implementation

The management and staff are committed to improving their best efforts to guarantee you a reasonable return on your investment in this organization.

Over the years, we have nurtured a solid and well-resourced brand to meet the unique consumer needs of the Kenyan market. Our brand is now well placed to deliver against niche market needs and invest heavily to capture our piece of the pie. As you will have noticed, all our branches now reflect our brand essence. They have been tastefully furnished to reflect our positioning as the bank with a mission to transform the financial industry landscape through innovative and relevant financial solutions.

We continue to innovate while putting the customer at the centre. Our Konnect Banking has enabled customers do business conveniently.

Our digital presence and portals have also been optimized to guarantee a smooth experience and user interface, as expected of a Bank that also counts as your friend.

Conclusion

Without the support of our dedicated management and staffing colleagues, we may not have pulled through one of the most difficult years. I, therefore, extend my sincere gratitude to all my colleagues who have contributed to the stability and growth of this institution. Their support, diligence, passion, and commitment to maintaining ethical operating standards have made us who we are today. In the face of the COVID-19 pandemic, they were the frontline soldiers who actively ensured the smooth running of the organization, sometimes beyond the call of duty.

The Board of Directors has remained an essential support pillar to the management team. They have selflessly continued to provide policy guidance in challenging circumstances. Their unity of purpose to ensure that the bank continues to steer in the right direction is always encouraging. As we remain firmly focused on the prize, we warmly appreciate the support of all our stakeholders.

Thanking You,

Betty Korir
Chief Executive Officer

Non-Financial Highlights

Customer Interactions

2019	2020
2,776	3,024

Customer Satisfaction

2019	2020
87%	88%

Total Number of Staff

2019	2020
215	222

2019

Male	118
Female	97

2020

Male	124
Female	98

Net Promoter Score

2019	2020
N/A	22%

Percentage of Branch Transactions

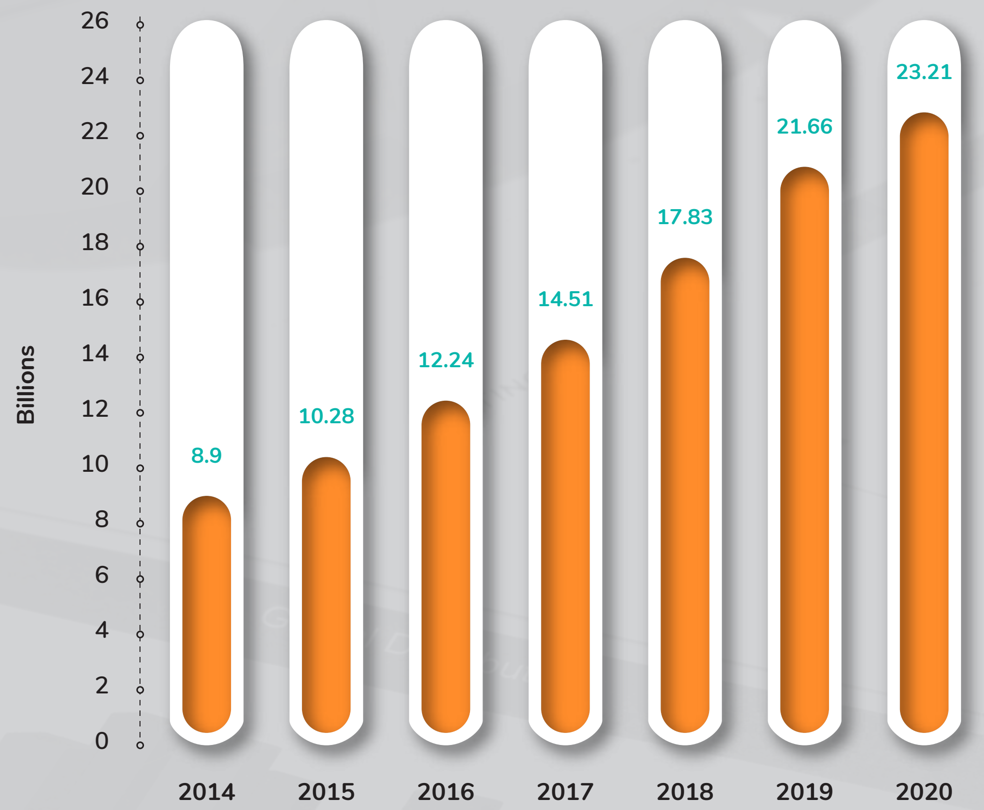
2019	2020
11.96%	11.45%

Percentage of Transactions on Alternative Channels

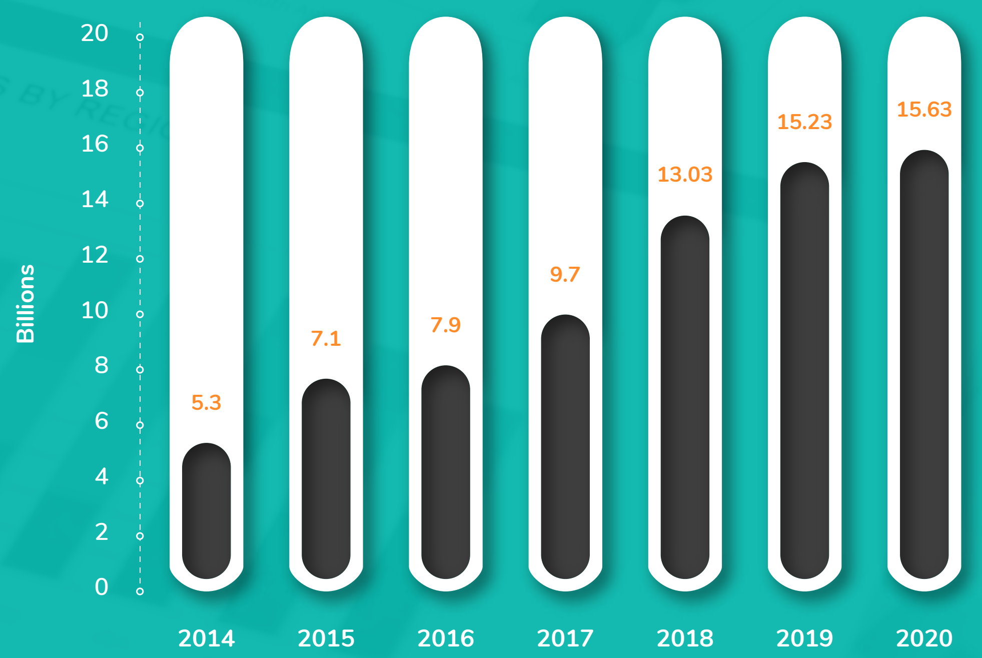
2019	2020
88.04%	88.55%

Financial **Highlights**

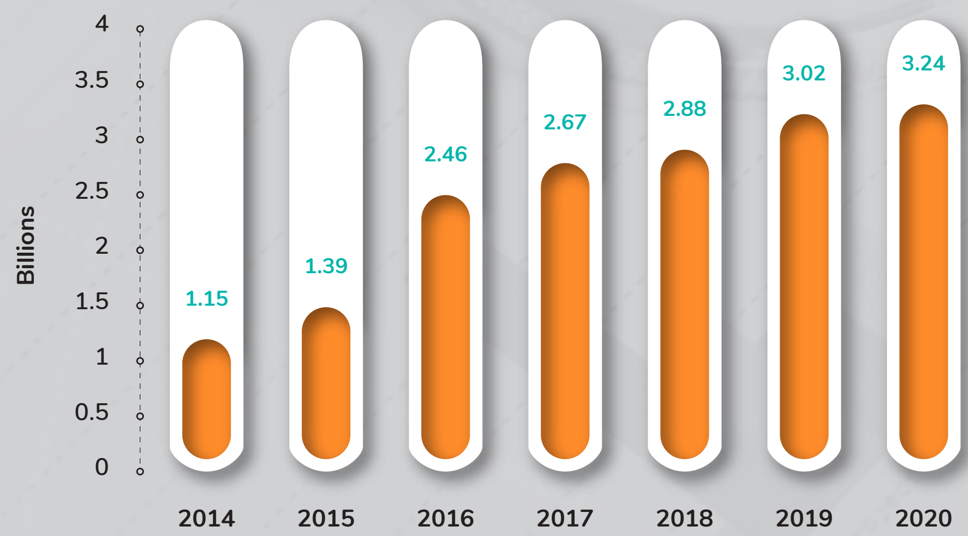
Total Assets



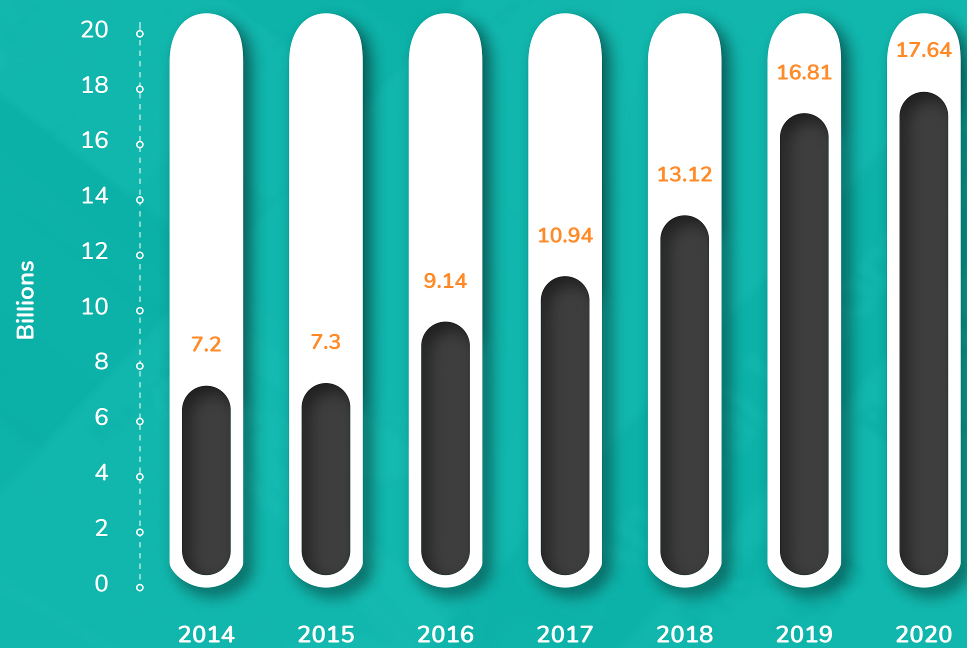
Net Loan Book



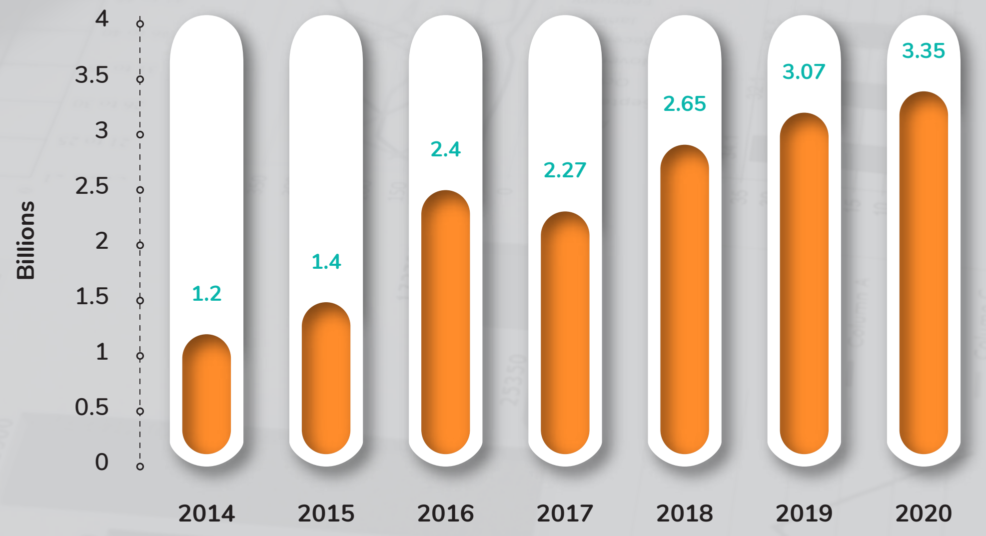
Shareholders' Funds



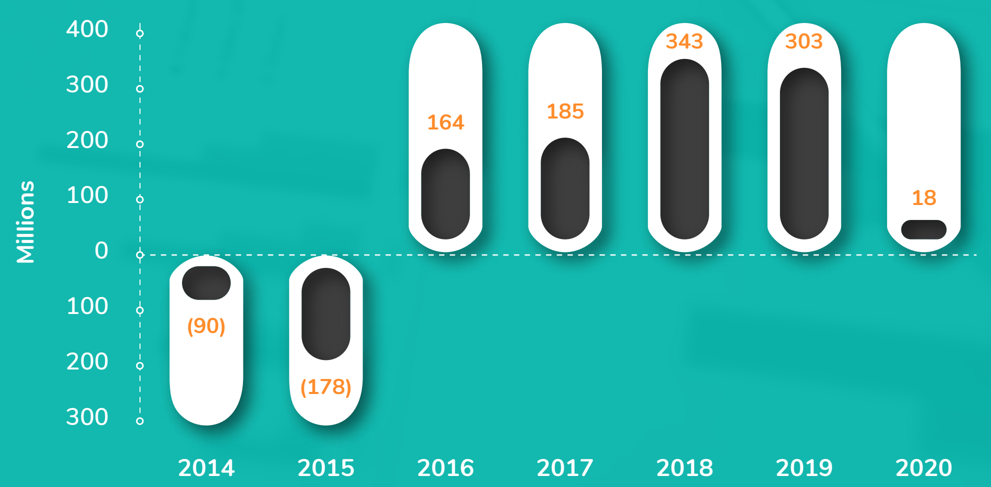
Deposits



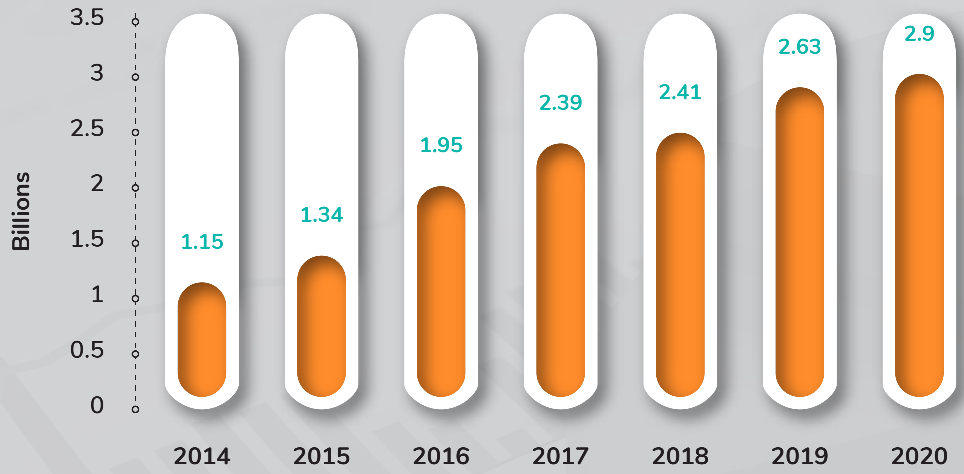
Total Income



Profit Before tax



Share Capital



Leading The *Digital* Transformation

Credit Bank PLC
Strategy Overview

1. Drive Customer Intimacy/Centricity
2. Innovation & The Digital Future
3. Premium Brand Positioning
4. Become The Employer of Choice

Our Pillars

Our Journey

1986

- Credit Kenya Limited was incorporated as a financial institution headquartered at Canon House

1994

- Licensed to operate as a fully-fledged commercial bank with our head office relocating to Mercantile House, Koinange Street

1995 - 2004

- **'95** – Koinange Branch Opens
- **'99** – Launch of the Micro-Banker Core Banking and opening of Kisumu Branch **'01** – Nakuru Giddo Branch Opens

2006 - 2010

- **'06** – Core Banking System Upgrade to Bankers Realm
- **'09** – Awarded as third most affordable bank (Banking Survey Awards)
- **'10** - Rebrands, Westlands Branch opens, 2nd Runners Up in Customer Satisfaction (Banking Survey Awards)

2011 - 2014

- **'11** – Awarded 3rd Best Bank in Recoveries and opening of Industrial Area branch
- **'12** – Core banking system upgraded to T24 R11, mobile banking launched, and Nakuru Kenyatta Avenue branches open
- **'13** – Opening of Eldoret, Rongai, Nyali Centre Branches and launching of MyFriend Insurance Agency
- **'14** – Launching of Internet Banking and opening of Lavington, Machakos and Kitengela branches

2015 - 2016

- **'15** – Mobile banking system upgraded
- **'16** – Enterpreneur's Hub, VISA EMV Compliant Cards and Customer Experience Centre launched. Opening of Ngong Road and Mombasa Town branches

2017 - 2018

- **'17** – Betty Korir is appointed the CEO of the Bank, core banking system upgraded to T24 R17 and won three Banking Survey Awards
- **'18** - Ventured into Agribusiness Financing, won three Think Business Awards and one CFI.co Award

2019

- Recognition of KBA Customer Survey Award, Kenya Association of Manufacturers Award, Think Business Award, European Awards, launching of CB Konnect and injection of KES 1 billion by Oikocredit

2020

- Relocation of HQ to One Africa, Westlands and opening of new Executive Branch at One Africa, Westlands
- **2019 KBA Customer Survey:** Dignity & Respect and a Satisfactory Digital Experience
- **International Business Magazine Awards:** Best SME Bank in Kenya 2020 Best Mobile Banking Provider 2020

2021

Think Business Awards:

- Best Bank in Customer Satisfaction.
- Most Customer-Centric Bank - **2nd Runner's Up**
- Best Bank in Trade Financing - **2nd Runner's Up**
- Best Bank to Borrow From - **3rd Runner's Up**

KBA Customer Satisfaction Survey:
Best in our Category for Customer Responsiveness and Satisfactory Digital Experience

Value
Creation

Our role as a financial services institution is to support and stimulate economic, social and environmental progress. We create shared value by providing products and services that help people to improve their lives and fuel economic growth. Credit Bank has built on Sustainable Development Goals to achieve this.

Sustainable Development Goals

GENDER EQUALITY

DECENT WORK AND ECONOMIC GROWTH

INDUSTRIAL INNOVATION AND INFRASTRUCTURE

REDUCED INEQUALITY

SUSTAINABLE CITIES AND COMMUNITIES

PARTNERSHIPS FOR THE GOALS

Konnect

simple . transparent . convenient

CB Konnect

Our mobile banking application allows you to access your bank accounts at any time via our app, available on Play Store and App Store or dialing USSD, *669#

iKonnect

Our internet banking platform allows you to access your bank accounts at any time regardless of where you are based

Konnect2Bank

Konnect2Bank is a solution that allows Credit Bank Merchants to collect funds via M-pesa, Airtel Money and PesaLink directly to their bank account.

This is Credit Bank's Digital Banking Platform that aims to put our banking services in your hand. With Konnect Banking you can access financial solutions anywhere, anytime.

Konnect Prepaid Cards

Our prepaid cards allow you to load money conveniently and securely at any ATM, POS Machine or Ecommerce Website.

Konnect E-commerce

Konnect E-commerce will enable you to collect payments via your website/online platform through mobile money and card payments.

Konnect Debit Cards

Debit cards allow a customer to make payments at any Point of Sale, withdraw cash at various ATMs and make purchases on online platforms certified for transactions.

Konnect APIs

Konnect APIs allows fintech companies to integrate to their Credit Bank account to initiate transactions and monitor their account activities.

Some of Our **Activities**

Community Support
Credit Bank supported the Mt. Kenya Mountain Running Championship-Meru 2020 an initiative that was aimed at raising funds for construction of a Cancer Centre in Meru County as well as market the County as a world-class tourist destination.

In The Community
Credit Bank PLC joined Rotary club of Karura in their venture to support reopening of Mecedo School in Mathare.

Prepaid Card Launch
We launched our Prepaid Card that enables you to securely carry out monetary transactions at any ATM, POS Machine or Ecommerce Website.

International Women's Day 2021
This year the focus was on Women in Leadership: Achieving an Equal future in a COVID-19 World.

Customer Service Week 2020
We celebrated our commitment to excellence in serving you.

Directors' Report

The directors submit their report together with the audited financial statements of Credit Bank PLC ("the Bank") and its subsidiary (together the "group") for the year ended 31 December 2020.

Principal Activities

The Group is engaged in the business of banking and provision of related services as well as provision of Bancassurance services.

Business Review

The Group is engaged in the business of banking, bancassurance and provision of related services. The Bank is licensed under the Banking Act.

In March 2020, the country reported the first COVID-19 positive case in Nairobi. The Government swung into action to deploy containment measures to curb the spread of the virus. COVID-19 responses included partial lock downs, imposition of curfews, closure of learning institutions, ban/restriction on air travels etc. In pursuit of Customer and staff safety, the bank adopted containment measures recommended by the national government eg Social distancing, provision of protective equipment, prohibition of physical meetings etc. To ensure uninterrupted service delivery to our customers, digital transformation plans were put to test and this situation required the bank to revisit its priorities and try to launch new products/services to remain viable. This situation created a live test of the banks Customer Experience, customer digital requirements, omni channel functionalities and capabilities, mobile app functionalities and internet banking. The bank took advantage of the situation and created mechanisms to collect, analyse and identify all the improvement opportunities that result from increased use of digital banking.

In response to Government containment measures, the Group extended restructured loans amounting to Kes 2.81 Billion equivalent to 17% of the entire loan. The restructures were necessary to cushion our customers from the effects of the pandemic. For restructured loans, moratoriums for Principal and interest was extended.The Central bank of Kenya reduced the Cash reserve ratio by 1% to 4.25% up from 5.25%. This initiative was aimed at availing extra liquidity to banks as they extend Principal and Interest Moratoriums for loans to customers. The Group realized additional liquidity of Kes 160 Million from the reduction of the Cash Reserve Ratio. Further, the group implemented forfeiture of transactional income on digital platforms eg mobile banking transactions as directed which resulted in an average transactional income reduction of Kes 1.2Mln per month. In addition, the bank invested in clearing solutions to enable customers undertake cheque clearing services at the confort of their offices. As the pandemic is still present within the community, the bank has not fully substantiated the full financial impact of the pandemic on business. The bank continues to monitor the effects of the pandemic going forward and commit to deploy containment measures to ensure safety of our customers and staff. The future outlook is promising with the invention of vaccines and especially noting the national government's efforts that has since seen commencement of administration of various vaccines in the country.

The Group also operated in an environment with increased competition from innovations and inventions in financial technological development companies that have aggressively edged the Banking space and disrupting traditional banking. The Bank however took up this challenge positively through strategic partnership with the telecommunication companies to afford convenience to customers leading to financial inclusion which is working well for the Bank.

Regulatory requirements has also increased the cost of compliance coupled with cyber crime risk both locally and internationally.

During the year, the Group's balance sheet grew by 5% from 2019 mainly on account of growth in net loan book of 3%, deposits growth of 5% and shareholders' funds of 7%. The Group realized a return on asset of -0.24% (2019:1.2%), Return of equity -1.72% (2019: 7%) and the cost to income ratio of 75% (2019: 82%)

Directors' Report (Continued)

The banks Interest income grew by 15% on account of 3% growth in loan book and a 30% growth in Investments in Government of Kenya bills and bonds. Interest expense grew by 19% due to growth in deposits and growth in borrowed funds. The banks non-funded income reduced by 29% year on year attributed to the effects of Covid-19 on our trade finance clients. The group has however experienced a 10% growth in Forex gains attributed to weakening of the KES against major foreign currencies especially the US dollar. The group realized a 7% growth in Operating expenses YoY partly due to inflationary adjustment on staff costs. The growth in expenses was contained at a single due to effective cost management initiatives adopted by the bank.

Dividend

The loss for the year of Shs 55,804,000 (2019: Profit of Shs 212,019,000) has been deducted from retained earnings. The directors do not recommend payment of a cash dividend (2019: Nil). In 2019, 263,351 bonus shares were issued in lieu of dividend)

Directors

The directors who held office during the year and to the date of this report were:

Hon. Simeon Nyachae	(Chairman) (Deceased on 1 February 2021)
Mrs Betty Korir	(Chief Executive Officer)
Mrs. Grace Nyachae	
Mr Ketan D. Morjaria	
Mr Moses M. Mwendwa	
Mr Jay Karia	
Robinson N. Gachogu	
Dr James S Mathenge	
Mr Leon Nyachae	
Mr Jack Ngare	(Appointed on 17 April 2020)

Statement as to Disclosure to the Company's Auditor

With respect to each director at the time this report was approved:

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

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

Terms of Appointment of Auditors

PricewaterhouseCoopers LLP continues in office in accordance with the company's Articles of Association and

Section 719 of the 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.

By Order of the Board
CPS Robert Ndungu (DCDM Registrars)

Secretary
31st March 2021

Statement of Corporate Governance

The Board of Directors of Credit Bank Plc (or the "Board") is committed to ensuring compliance with all guidelines on corporate governance issued by the Centre for Corporate Governance and the Central Bank of Kenya ("CBK").

The Bank conducts business ensuring compliance with the code of conduct for Directors and senior management as per the CBK prudential guidelines, best practice and professional ethics.

The Bank has a Board Charter which outlines the principal role of the Board, the demarcation of the roles, functions, responsibilities and powers of the Board, various Board committees of the Bank and matters reserved for final decision-making or pre-approval by the Board; and the policies and practices of the Board in conducting its business.

Shareholders

The shareholders appoint the Directors of the Bank and hold the Board accountable and responsible for efficient and effective governance of the Bank. It is also their role to appoint the statutory auditors of the Bank.

Board Evaluation

Evaluation of the directors of the Board and the Board committees was done during the year and found to be effective. The Board is fully aware of the latest developments in the regulatory environment, risk management and market conditions. The directors maintained excellent communication amongst themselves and with the senior management.

Attendance of Board meetings during the year is summarised below:

Name	18 Mar 2020	24 Jun 2020	23 Sept 2020	04 Dec 2020
Hon. Simeon Nyachae	AP	AP	AP	AP
Betty Korir	P	P	P	P
Grace Nyachae	P	P	P	P
Ketan D. Morjaria	P	P	P	P
Moses M. Mwendwa	P	P	P	P
Jay Karia	P	P	P	P
Robinson N. Gachogu	P	P	P	P
Leon Nyachae	P	P	P	P
James S Mathenge	P	P	P	P
Jack Mugo Ngare		P	P	P

P = Present, A = Absent, AP=Apology

Board of Directors

The Board consists of Chief Executive Officer and eight non-executive directors as listed on page 1 of the annual report. The directors have diverse professional and business background and experience, and have provided valuable stewardship for the Bank. The Board meets at quarterly intervals in the year or as and when need arises. During the year, the Board held four meetings.

To ensure that the Board remains efficient and effective while discharging its responsibilities, annual Board assessment and peer review on performance is undertaken.

The Board has delegated the authority of day to day management to the Chief Executive Officer but retains the overall responsibility for financial and operating decisions as indicated in the 'Statement of directors responsibilities'. The Board has access to the Company Secretary who attends Board meetings on a regular basis and has set up various sub Board committees which operate in accordance with clearly set terms of reference. These sub committees report to the Board on periodic intervals and on circulation basis. They include the Board Credit Committee, the Board Audit Committee, the Board Risk Committee, the Board Executive Committee and Board Nominations & Remuneration Committee. All Board committees consist of at least two non-executive directors one of whom is the Chair.

Board Credit Committee

The Board Credit Committee reviews and oversees the overall lending of the Bank by ensuring compliance to Bank's lending policy guidelines and limit structures. The committee also ensures adequate credit impairment provisions are held in line with the CBK prudential guidelines and oversees reviews of overall lending policies and limit structures of the Bank.

Board Audit Committee

The role of the Board Audit Committee is to enhance effectiveness of internal and external audit functions, monitoring management's compliance with relevant legislations and regulatory requirements. It also monitors the effectiveness and compliance of the Bank's approved policies and procedures with the objective of strengthening the management information systems and internal controls. The committee meets at quarterly intervals.

Board Risk Committee

The committee is responsible for devising policies and procedures for identification, measurement, monitoring and control of all risk categories. The committee ensures that the Bank has clear, comprehensive and well-documented policies and procedure guidelines relating to all areas of operation and the relevant staff fully understand those policies. The committee identifies, analyses and evaluates risks, formulates appropriate responses, ensures tracking and reporting of risks to provide assurance regarding the achievement of objectives within the risk levels accepted by the Board. The committee meets at quarterly intervals.

Board Executive Committee

The Board Executive Committee has an oversight role on Management committees over execution of Board's policy directives and strategy. The Committee reviews and monitors progress on the bank's strategic plans, operational initiatives, marketing and Business development as approved by the Board and ensures that the Bank adheres to CBK prudential guidelines on capital adequacy, liquidity and market risk management.

Board Nominations & Remuneration Committee

The Board Nominations & Remuneration committee responsible for all aspects of appointment of the Bank's directors and Senior Management. It also oversees the compensation system's design and operation on behalf of the Board of Directors. The committee is constituted to enable it exercise competent and independent judgment on compensation policies and practices with majority of its members being independent non-executive directors with substantial knowledge about compensation arrangements. The Committee strategizes on the Bank's human resources development and optimisation in line with the Board's objectives and human capital management.

For effective delegation, the Chief Executive Officer has also set up various committees made up of senior officers of the Bank entrusted with different responsibilities which operate within prescribed terms of reference duly approved by the Board. These committees include Management Executive Committee (EXCO), Assets & Liabilities Committee (ALCO), Management Credit Committee, Procurement Committee, IT Steering Committee, Risk Management Committee and Product Development Committee. Open and clear communication channels between management and the Board is maintained through the office of the Chief Executive Officer.

Board Operations Committee

Board Operations committee is a board committee that has been mandated with the oversight role over operations of the bank. The committee's main role is to recommend operational strategies and policies to the main board and there after oversee the implementation of the same to ensure a sound, effective and efficient operational environment.

The Bank fully complies with the Banking Act, CBK's prudential guidelines and the Kenyan Companies Act. The Bank ensures that the shareholders and other stakeholders are fully informed of the Bank's performance and activities by distributing its annual report and financial statements and also publishing quarterly reports and notices in the national dailies.

Moses M. Mwendwa
Director
31st March 2021

Statement of Directors' **Responsibilities**

The Kenyan Companies Act, 2015 requires the directors to prepare financial statements for each financial year that give a true and fair view of the financial position of the Group and of the Company as at the end of the financial year and of their profit or loss for that year. The directors are responsible for ensuring that the Group and Company keep proper accounting records that are sufficient to show and explain the transactions of the Group and the Company; disclose with reasonable accuracy at any time the financial position of the Group and the Company; and that enables them to prepare financial statements of the Group and of the Company that comply with prescribed financial reporting standards and the requirements of the Kenyan Companies Act, 2015. They are also responsible for safeguarding the assets of the Group and the Company, and for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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 internal control as they determine necessary to enable the preparation of financial statements that are free from material misstatements, whether due to fraud or error;
- ii) Selecting suitable accounting policies and then apply them consistently; and
- iii) Making accounting estimates and judgements that are reasonable in the circumstances

Having made an assessment of the Group's and Company'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 Group's and Company'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 responsibility.

Approved by the board of directors on 31 March 2021 and signed on its behalf by:

Moses M. Mwendwa
Chairman

Betty Korir
Chief Executive Officer

Independent Auditor's Report to the Shareholders of
Credit Bank PLC

Report on the Audit of the Group and Bank Financial Statements

Opinion

We have audited the accompanying financial statements of Credit Bank PLC (the "Bank") and its subsidiary (together, the "Group") set out on pages 50 to 129 which comprise the consolidated statement of financial position at 31 December 2020, the consolidated statements of profit or loss, other comprehensive income, changes in equity and cash flows for the year then ended, together with the separate statement of financial position of the Bank at 31 December 2020, the statements of profit or loss, other comprehensive income, changes in equity and cash flows for the Bank for the year then ended, and the notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Group and the Bank at 31 December 2020 and of their financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards and the 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 "*Auditor's responsibilities for the audit of the financial statements*" section of our report.

We are independent of the Group in accordance with the International Code of Ethics for Professional Accountants (including International Independence Standards) issued by the International Ethics Standards Board for Accountants (IESBA Code) together with the ethical requirements that are relevant to our audit of the financial statements in Kenya. We have fulfilled our other ethical responsibilities in accordance with 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 other information comprises the Statement of corporate governance, the Directors' report, Statement of directors' responsibilities which we obtained prior to the date of this auditor's report, and the rest of the other information in the Annual Report which are expected to be made available to us after that date, but does not include the financial statements and our auditor's report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not and will 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 have received prior to the date of this auditor's report we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

When we read the rest of the other information in the Annual Report and we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

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Partners: E Kerich B Kimacia M Mugasa A Murage F Muriu P Ngahu R Njoroge S O Norbert's B Okundi K Saiti

Responsibilities of the Directors for the Financial Statements

The directors are responsible for the preparation of financial statements that give a true and fair view in accordance with International Financial Reporting Standards and the requirements of the 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 and 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 Group or to cease operations, or have no realistic alternative but to do so.

Auditor’s Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor’s report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism 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 and 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 and Bank’s ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor’s report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor’s report. However, future events or conditions may cause the Group and/ or the Bank to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

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

Report on Other Matters Prescribed by the Companies Act, 2015

In our opinion the information given in the directors' report on pages 38 and 39 is consistent with the financial statements.

PricewaterhouseCoopers LLP

Certified Public Accountants
Nairobi
31 March 2021
CPA Bernice Kimacia, Practising Certificate No. 1457
Signing Partner Responsible for the Independent Audit

Shield Your **Assets**

Saving and investing can take years to achieve, yet risks are always present.

Credit Bank Insurance Agency provides a wide range of affordable insurance covers that shield your hard work.

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Credit Bank
My Friend, My Bank

Our Best **Foot Forward**

International Business Magazine Awards 2020:
Best SME Bank in Kenya
Best Mobile Banking Provider

Think Business Awards 2021:
Best Bank in Customer Satisfaction - 1^{st}
Most Customer-Centric Bank - 2^{nd}
Best Bank in Trade Financing - 2^{nd}
Best Bank to Borrow From - 3^{rd}

KBA Customer Satisfaction Survey 2021:
Best in our Category for Customer Responsiveness and Satisfactory Digital Experience

Financial **Statements**

Consolidated Statement of Profit or Loss	Notes	2020 Shs'000	2019 Shs'000
Interest income	5	2,881,791	2,515,550
Interest expense	6	(1,423,260)	(1,229,885)
Net interest income		1,458,531	1,285,665
Fee and commission income		300,988	389,152
Fee and commission expense		(2,337)	(2,929)
Net fee and commission income		298,651	386,223
Net foreign exchange income		130,335	117,711
Other income	7	42,554	49,975
Credit impairment losses	8	(465,421)	(185,990)
		(292,532)	(18,304)
Net operating income		1,464,650	1,653,584
Employee benefits	9	(698,59)	(658,753)
Other operating expenses	10	(467,217)	(436,300)
Directors' expenses		(70,074)	(69,150)
Depreciation of property and equipment	20	(66,975)	(62,191)
Depreciation of right-of-use asset	26	(84,472)	(72,753)
Amortisation of intangible assets	21	(59,522)	(51,528)
Operating expenses		(1,446,519)	(1,350,675)
Profit before income tax		18,131	302,909
Income tax expense	11	(73,935)	(90,890)
(Loss)/ profit for the year		(55,804)	212,019

Consolidated Statement of Comprehensive Income	Notes	2020 Shs'000	2019 Shs'000
(Loss)/profit for the year		(55,804)	212,019
Other comprehensive income			
Items that will be reclassified to profit or loss			
Fair value movements on FVOCI financial assets, net of tax	31	(228)	(11,633)
Total comprehensive (loss)/income for the year, net of tax		(56,032)	200,386

Bank Statement of Comprehensive Income	Notes	2020 Shs'000	2019 Shs'000
Interest income	5	2,881,791	2,515,550
Interest expense	6	(1,425,206)	(1,231,071)
Net interest income		1,456,585	1,284,479
Fee and commission income		278,705	373,721
Fee and commission expense		(2,337)	(2,929)
Net fee and commission income		276,368	370,792
Net foreign exchange income		130,336	117,711
Other income	7	42,554	49,975
Credit impairment losses	8	(465,421)	(185,990)
		(292,531)	(18,304)
Net operating income		1,440,422	1,636,967
Employee benefits	9	(685,157)	(646,589)
Other operating expenses	10	(465,947)	(434,791)
Directors' expenses		(70,074)	(69,150)
Depreciation of property and equipment	20	(66,933)	(62,188)
Depreciation of right-of-use asset	26	(84,472)	(72,753)
Amortisation of intangible assets	21	(59,478)	(51,424)
Operating expenses		(1,432,061)	(1,336,895)
Profit before income tax		8,361	300,072
Income tax expense	11	(71,445)	(89,841)
(Loss)/profit for the year		(63,084)	210,231

Bank Statement of Comprehensive Income	Notes	2020 Shs'000	2019 Shs'000
(Loss)/profit for the year		(63,084)	210,231
Other comprehensive income			
Items that wil be reclassified to profit or loss			
Net fair value movements on FVOCI financial assets, net of tax	31	(228)	(11,633)
Total comprehensive (loss)/income for the year		(63,312)	198,598

Consolidated Statement of Financial Position

	Notes	2020 Shs'000	2019 Shs'000
Assets			
Cash and balances with Central Bank of Kenya	13	1,145,705	1,286,075
Financial assets at FVOCI	14	585,271	1,246,602
Financial assets at amortised cost	15	3,361,329	1,789,084
Deposits and balances due from banking institutions	16	784,649	434,016
Loans and advances to customers	17	15,631,035	15,226,683
Other assets and prepaid expenses	18	561,390	526,289
Property and equipment	20	332,103	290,351
Intangible assets	21	150,067	188,751
Right-of-use assets	26	407,272	496,120
Deferred income tax	19	164,466	176,645
Current income tax		89,746	3,830
Total assets		23,213,033	21,664,445
Liabilities			
Deposits and balances due to banking institutions	23	510,781	540,192
Customer deposits	24	17,638,463	16,806,420
Other liabilities	25	465,507	726,382
Lease liabilities	27	462,935	530,982
Borrowings	28	891,392	-
Current income tax		-	41,649
Total liabilities		19,969,078	18,645,625
Shareholders' Equity			
Share capital	27	2,903,019	2,633,507
Share premium	27	97,471	59,908
Regulatory reserve	28	350,166	164,684
Retained earnings		(104,959)	162,235
Fair value reserve	31	(1,742)	(1,514)
Shareholders' equity		3,243,955	3,018,820
Total equity and liabilities		23,213,033	21,664,445

The financial statements on pages 50 to 129 were approved for issue by the Board of Directors on 31st March 2021 and signed on its behalf by:

Moses M. Mwendwa
Director

Dr. James Stanley Mathenge
Director

Betty Korir
Chief Executive Officer

CPS Robert Ndungu (DCDM Registrars)
Secretary

Bank Statement of Financial Position	Notes	2020 Shs'000	2019 Shs'000
Assets			
Cash and balances with Central Bank of Kenya	13	1,116,838	1,256,286
Financial assets at FVOCI	14	585,271	1,246,602
Financial assets at amortised cost	15	3,361,329	1,789,084
Deposits and balances due from banking institutions	16	784,649	434,016
Loans and advances to customers	17	15,631,035	15,226,683
Other assets and prepaid expenses	18	525,219	435,378
Property and equipment	20	332,001	290,206
Intangible assets	21	150,067	188,707
Right-of-use assets	26	407,272	496,120
Deferred income tax	19	164,385	176,656
Investment in subsidiary	22	1,000	1,000
Currnet Income tax		86,276	-
Total assets		23,145,341	21,540,738
Liabilities			
Deposits and balances due to banking institutions	23	510,781	540,192
Customer deposits	24	17,638,463	16,806,420
Other liabilities	25	423,559	621,139
Lease liabilities	27	462,935	530,982
Borrowings	28	891,392	
Current income tax		-	41,649
Total liabilities		19,927,130	18,540,382
Shareholders' Equity			
Share capital	29	2,903,019	2,633,507
Share premium	29	97,471	59,908
Regulatory reserve	30	350,166	164,684
Retained earnings		(130,703)	143,771
Fair value reserve	31	(1,742)	(1,514)
Shareholders' equity		3,218,211	3,000,356
Total equity and liabilities		23,145,341	21,540,738

The financial statements on pages 50 to 129 were approved for issue by the Board of Directors on 31st March 2021 and signed on its behalf by:

Moses M. Mwendwa
Director

Dr. James Stanley Mathenge
Director

Betty Korir
Chief Executive Officer

CPS Robert Ndungu (DCDM Registrars)
Secretary

Consolidated Statement of Changes in Equity

	Notes	Share Capital Shs'000	Share Premium Shs'000	Retained Earnings Shs'000	Regulatory Reserve Shs'000	Fair Value Reserve Shs'000	Total Shs'000
Year ended 31 December 2019							
At start of year		2,406,425	75,715	295,403	92,040	10,119	2,879,702
Total comprehensive income for the year							
Profit for the year		-	-	212,018	-	-	212,018
Fair value movement on investments at FVOCI		-	-	-	-	(11,633)	(11,633)
Total comprehensive income for the year		-	-	212,018	-	(11,633)	200,385
Transfer from retained earnings	30	-	-	(72,644)	72,644	-	-
Transactions with owners							
Issue of share capital	29	26,733	16,444	-	-	-	43,177
Bonus issue	29	200,349		(200,349)	-	-	-
Share issue costs		-	(32,251)	-	-	-	(32,251)
Dividend paid		-	-	(72,193)	-	-	(72,193)
Year ended 31 December 2019		2,633,507	59,908	162,235	164,684	(1,514)	3,018,820
Year ended 31 December 2020							
At start of year		2,633,507	59,908	162,235	164,684	(1,514)	3,018,820
Total comprehensive income for the year							
Loss for the year		-	-	(55,804)	-	-	(55,804)
Fair value movement on investments at FVOCI		-	-	-	-	(228)	(228)
Total comprehensive loss for the year		-	-	(55,804)		(228)	(56,032
Transfer from retained earnings	30	-	-	(185,482)	185,482	-	-
Transactions with owners							
Issue of share capital	29	243,604	54,090	-	-	-	297,697
Bonus issue	29	25,908	-	(25,908)	-	-	-
Share issue costs		-	(16,527)	-	-	-	(16,527)
At end of year		2,903,019	97,471	(104,959)	350,166	(1,742)	3,243,955

Bank Statement of Changes in Equity

	Notes	Share capital Shs'000	Share Premium Shs'000	Retained Earnings Shs'000	Regulatory reserve Shs'000	Fair value reserve Shs'000	Total Shs'000
Year ended 31 December 2019							
At start of year		2,406,425	75,715	278,726	92,040	10,119	2,863,025
Total comprehensive income for the year							
Profit for the year		-	-	210,231	-	-	210,231
Fair value movement on investments at FVOCI		-	-	-	-	(11,633)	(11,633)
Total comprehensive income for the year		-	-	210,231		(11,633)	198,598
Transfer from retained earnings	30	-	-	(72,644)	72,644	-	-
Transactions with owners					-		-
Issue of share capital	29	26,733	16,444	-	-	-	43,177
Bonus issue	29	200,349		(200,349)			-
Share issue costs		-	(32,251)	-	-	-	(32,251)
Dividend paid		-	-	(72,193)	-	-	(72,193)
		2,633,507	59,908	143,771	164,684	(1,514)	3,000,356
Year ended 31 December 2020							
At start of year		2,633,507	59,908	143,771	164,684	(1,514)	3,000,356
Total comprehensive income for the year							
Loss for the year				(63,084)			(63,084)
Fair value movement on investments at FVOCI						(228)	(228)
Total comprehensive loss for the year		-	-	(63,084)	-	(228)	(63,312)
Transfer from retained earnings	30	-	-	(185,482)	185,482	-	-
Transactions with owners							
Issue of share capital	29	243,604	54,090	-	-	-	297,697
Bonus issue	29	25,908	-	(25,908)	-	-	
Share issue costs		-	(16,527)				(16,527
At end of year		2,903,019	97,471	(130,703)	350,166	(1,742)	3,218,211

Consolidated Statement of Cash Flows	Notes	2020 Shs'000	2019 Shs'000
Cash flows from operating activities			
Interest receipts		2,881,791	2,515,550
Net fees and commissions receipts		298,651	386,223
Interest paid		(1,425,207)	(1,229,886)
Foreign exchange income		130,335	119,441
Recoveries on loans previously written off		-	4,669
Payments to employees and suppliers		(1,320,004)	(1,231,612)
Income tax paid		(190,703)	(132,987)
Other income received		42,554	49,975
Cash flows from operating activities before changes in operating assets and liabilities		419,953	481,373
Changes in operating assets and liabilities:			
- gross loans and advances to customers		(859,544)	(2,498,410)
- other assets and prepaid expenses		(35,101)	(179,311)
- Central Bank of Kenya cash reserve requirement	34	130,731	(183,658)
- deposits and balances due to banking institutions		(29,411)	(733,540)
- customer deposits		832,043	3,688,539
- other liabilities		(222,178)	246,908
Net cash flows from operating activities		236,493	821,901
Cash flows from investing activities			
Net proceeds from financial assets at amoritised cost		(1,572,245)	(276,941)
Purchase of financial assets at FVOCI		661,332	(440,198)
Purchase of property and equipment	20	(122,792)	(88,759)
Proceeds from disposal of property and equipment		4,802	7,061
Purchase of intangible assets	21	(20,838)	(78,520)
Net cash flows from investing activities		(1,049,741)	(877,357)
Cash flows from financing activities			
Proceeds from issue of shares		281,042	10,926
Proceeds from borrowings		873,200	-
Dividend paid		-	(72,193)
	29		
Net cash flows from financing activities	28	1,154,242	(61,267)
Net decrease in cash and cash equivalents		340,994	(116,723)
Cash and cash equivalents at start of year		897,544	1,014,267
Cash and cash equivalents at end of year	34	1,238,538	897,544

Bank Statement of Cash Flows

	Notes	2020 Shs'000	2019 Shs'000
Cash flows from operating activities			
Interest receipts		2,881,791	2,515,550
Net fees and commissions receipts		276,368	370,792
Interest paid		(1,425,207)	(1,231,071)
Foreign exchange income		130,335	119,441
Recoveries on loans previously written off		-	4,669
Payments to employees and suppliers		(1,305,649)	(1,223,283)
Income tax paid		(188,438)	(132,421)
Other income received		42,554	49,975
Cash flows from operating activities before changes in operating assets and liabilities		412,025	473,652
Changes in operating assets and liabilities:			
- gross loans and advances to customers		(859,544)	(2,498,410)
- other assets and prepaid expenses		(89,841)	(161,489)
- Central Bank of Kenya cash reserve requirement		130,731	(183,658)
- deposits and balances due to banking institutions	34	(29,411)	(733,540)
- customer deposits		832,043	3,688,539
- other liabilities		(158,588)	222,538
Net cash flows from operating activities		237,415	807,632
Cash flows from investing activities			
Net proceeds from financial assets at amortised cost		(1,572,245)	(276,941)
Purchase of financial assets at FVOCI		661,332	(440,198)
Purchase of property and equipment	20	(122,792)	(49,930)
Proceeds from disposal of property and equipment		4,802	7,061
Purchase of intangible assets	21	(20,838)	(45,194)
Net cash flows from investing activities		(1,049,741)	(866,201)
Cash flows from financing activities			
Proceeds from issue of shares	29	281,042	10,926
Dividend paid to company shareholders	28	873,200	(72,193)
Net cash flows from financing activities		1,154,242	61,267
Net decrease in cash and cash equivalents		341,916	(119,836)
Cash and cash equivalents at start of year		867,755	987,590
Cash and cash equivalents at end of year	34	1,209,671	867,755

Notes to the Financial Statements

1. General Information

Credit Bank PLC (the "Bank") is incorporated and domiciled in Kenya as a limited liability company. The address of its registered office is:

Plot L.R No 209/427
Ground Floor, Mercantile House
Koinange Street
P.O. Box 61064-00200
Nairobi

2. Summary of 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 to all the years presented, unless otherwise stated.

2.1 Basis of Preparation

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and interpretations issued by the IFRS Interpretations Committee (IFRS IC) applicable to companies reporting under IFRS. The financial statements comply with IFRS as issued by the International Accounting Standards Board (IASB).

a) Basis of Measurement

The financial statements have been prepared on a historical cost basis except for financial assets held at fair value through other comprehensive income.

b) Use of Estimates

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires the directors to exercise judgement in the process of applying the Company's accounting policies. The areas involving a higher degree of judgement or complexity, or where assumptions and estimates are significant to the financial statements, are disclosed in Note 3.

c) Changes in Accounting Policies and Disclosures

(i) New and Amended Standards Adopted by the Group

The following standards and amendments have been applied by the Group for the first time for the financial year beginning 1 January 2020:

Definition of Material – Amendments to IAS 1 and IAS 8

The IASB has made amendments to IAS 1 Presentation of Financial Statements and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors which use a consistent definition of materiality throughout International Financial Reporting Standards and the Conceptual Framework for Financial Reporting, clarify when information is material and incorporate some of the guidance in IAS 1 about immaterial information.

In particular, the amendments clarify:

- that the reference to obscuring information addresses situations in which the effect is similar to omitting or misstating that information, and that an entity assesses materiality in the context of the financial statements as a whole, and
- the meaning of 'primary users of general purpose financial statements' to whom those financial statements are directed, by defining them as 'existing and potential investors, lenders and other creditors' that must rely on general purpose financial statements for much of the financial information they need.

Definition of a Business – Amendments to IFRS 3

The amended definition of a business requires an acquisition to include an input and a substantive process that together significantly contribute to the ability to create outputs. The definition of the term 'outputs' is amended to focus on goods and services provided to customers, generating investment income and other income, and it excludes returns in the form of lower costs and other economic benefits.

The amendments will likely result in more acquisitions being accounted for as asset acquisitions.

Revised Conceptual Framework for Financial Reporting

The IASB has issued a revised Conceptual Framework which will be used in standard-setting decisions with immediate effect. Key changes include:

- increasing the prominence of stewardship in the objective of financial reporting
- reinstating prudence as a component of neutrality
- defining a reporting entity, which may be a legal entity, or a portion of an entity
- revising the definitions of an asset and a liability
- removing the probability threshold for recognition and adding guidance on derecognition
- adding guidance on different measurement basis, and
- stating that profit or loss is the primary performance indicator and that, in principle, income and expenses in other comprehensive income should be recycled where this enhances the relevance or faithful representation of the financial statements.

No changes will be made to any of the current accounting standards. However, entities that rely on the Framework in determining their accounting policies for transactions, events or conditions that are not otherwise dealt with under the accounting standards will need to apply the revised Framework from 1 January 2020. These entities will need to consider whether their accounting policies are still appropriate under the revised Framework.

The above changes have not had a significant impact on the Group's financial statements.

(ii) Standards, Interpretations and Amendments Issued but not Effective and have not Been Early Adopted by the Group

The below new accounting standards and interpretations have been published that are not mandatory for 31 December 2020 reporting periods and have not been early adopted by the Group.

Title	Key Requirements	Effective Date
IFRS 17 Insurance Contracts	IFRS 17 was issued in May 2017 as replacement for IFRS 4 Insurance Contracts. It requires a current measurement model where estimates are re-measured in each reporting period. The new rules will affect the financial statements and key performance indicators of all entities that issue insurance contracts or investment contracts with discretionary participation features.	Originally 1 January 2021, but extended to 1 January 2023 by the IASB in March 2020

(ii) Standards, Interpretations and Amendments Issued but not Effective and have not Been Early Adopted by the Group (Continued)

Title	Key Requirements	Effective Date
Interest Rate Benchmark Reform – Amendments to IFRS 7, IFRS 9, IFRS 4 and IFS 16	The Phase 2 amendments address issues that arise from the implementation of the reform of an interest rate benchmark, including the replacement of one benchmark with an alternative one.	1 January 2021
Covid-19-related Rent Concessions – Amendments to IFRS 16	The IASB has provided lessees (but not lessors) with relief in the form of an optional exemption from assessing whether a rent concession related to COVID-19 is a lease modification, provided that the concession meets certain conditions. Lessees can elect to account for qualifying rent concessions in the same way as they would if they were not lease modifications. In many cases, this will result in accounting for the concession as a variable lease payment.	Annual periods beginning on or after 1 June 2020 (early adoption is permitted)
Classification of Liabilities as Current or Non-current – Amendments to IAS 1	The narrow-scope amendments to IAS 1 Presentation of Financial Statements clarify that liabilities are classified as either current or non- current, depending on the rights that exist at the end of the reporting period. Classification is unaffected by the expectations of the entity or events after the reporting date (e.g. the receipt of a waver or a breach of covenant). The amendments also clarify what IAS 1 means when it refers to the 'settlement' of a liability. The amendments could affect the classification of liabilities, particularly for entities that previously considered management's intentions to determine classification and for some liabilities that can be converted into equity. They must be applied retrospectively in accordance with the normal requirements in IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors.	1 January 2022 [possibly deferred to 1 January 2023]
Property, Plant and Equipment: Proceeds before intended use – Amendments to IAS 16	The amendment to IAS 16 Property, Plant and Equipment (PP&E) prohibits an entity from deducting from the cost of an item of PP&E any proceeds received from selling items produced while the entity is preparing the asset for its intended use. It also clarifies that an entity is 'testing whether the asset is functioning properly' when it assesses the technical and physical performance of the asset. The financial performance of the asset is not relevant to this assessment. Entities must disclose separately the amounts of proceeds and costs relating to items produced that are not an output of the entity's ordinary activities.	1 January 2022

Title	Key Requirements	Effective Date
Reference to the Conceptual Framework – Amendments to IFRS 3	Minor amendments were made to IFRS 3 Business Combinations to update the references to the Conceptual Framework for Financial Reporting and add an exception for the recognition of liabilities and contingent liabilities within the scope of IAS 37 Provisions, Contingent Liabilities and Contingent Assets and Interpretation 21 Levies. The amendments also confirm that contingent assets should not be recognised at the acquisition date.	1 January 2022
Onerous Contracts – Cost of Fulfilling a Contract Amendments to IAS 37	The amendment to IAS 37 clarifies that the direct costs of fulfilling a contract include both the incremental costs of fulfilling the contract and an allocation of other costs directly related to fulfilling contracts. Before recognising a separate provision for an onerous contract, the entity recognises any impairment loss that has occurred on assets used in fulfilling the contract.	1 January 2022
Annual Improvements to IFRS Standards 2018–2020	The following improvements were finalised in May 2020: • IFRS 9 Financial Instruments – clarifies which fees should be included in the 10% test for derecognition of financial liabilities. • IFRS 16 Leases – amendment of illustrative example 13 to remove the illustration of payments from the lessor relating to leasehold improvements, to remove any confusion about the treatment of lease incentives.	1 January 2022
Sale or contribution of assets between an investor and its associate or joint venture – Amendments to IFRS 10 and IAS 28	The IASB has made limited scope amendments to IFRS 10 Consolidated financial statements and IAS 28 Investments in associates and joint ventures. The amendments clarify the accounting treatment for sales or contribution of assets between an investor and its associates or joint ventures. They confirm that the accounting treatment depends on whether the non-monetary assets sold or contributed to an associate or joint venture constitute a 'business' (as defined in IFRS 3 Business Combinations). Where the non-monetary assets constitute a business, the investor will recognise the full gain or loss on the sale or contribution of assets. If the assets do not meet the definition of a business, the gain or loss is recognised by the investor only to the extent of the other investor's interests in the associate or joint venture. The amendments apply prospectively. ** In December 2015 the IASB decided to defer the application date of this amendment until such time as the IASB has finalised its research project on the equity method.	n/a **

Management is in the process of assessing the impact of the above standards on the Group's financial statements. No significant impact to the 2020 financial statements.

d) Consolidation

The consolidated financial statements incorporate the financial statements of Credit Bank PLC and its subsidiary; My friend Insurance Agency. The financial statements have been made up to 31 December 2020.

i) Subsidiaries

Subsidiaries are all entities over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases

The Group applies the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The group recognises any non-controlling interest in the acquiree on an acquisition-by-acquisition basis, either at fair value or at the non-controlling interest's proportionate share of the recognised amounts of acquiree's identifiable net assets. Acquisition-related costs are expensed as incurred.

If the business combination is achieved in stages, the acquisition date carrying of the acquirer's previously held equity interest in the acquiree is re-measured to its fair value value at the acquisition date; any gains or losses arising from such re-measurement are recognised in profit or loss.

Any contingent consideration to be transferred by the Group is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability is recognised in accordance with IAS 39 either in profit or loss or as a change to other comprehensive income. Contingent consideration that is classified as equity is not re-measured, and its subsequent settlement is accounted for within equity.

The excess of the consideration transferred the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired is recorded as goodwill. If the total of consideration transferred, non-controlling interest recognised and previously held interest measured is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in the statement of profit or loss. Inter-company transactions, balances and unrealised gains and losses on transactions between Group companies are eliminated. When necessary, amounts reported by subsidiaries have been adjusted to conform to the Group's accounting policies.

ii) Changes in Ownership Interests in Subsidiaries Without Change of Control

Transactions with non-controlling interests that do not result in loss of control are accounted for as equity transactions – that is, as transactions with the owners in their capacity as owners. The difference between fair value of any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

iii) Disposal of Subsidiaries

When the Group ceases to have control, any retained interest in the entity is re-measured to its fair value at the date when control is lost, with the change in carrying amount recognised in profit or loss.

The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to profit or loss.

e) Foreign Currency Translation

i) Functional and Presentation Currency

Items included in the Bank's financial statements are measured using the currency of the primary economic environment in which the Bank operates (the "Functional Currency"). The financial statements are presented in Kenya shillings (Shs'000), which is the Bank's presentation currency.

ii) Transactions and Balances

Foreign currency transactions are translated into the Functional Currency using the exchange rates prevailing at the dates of the transactions. Monetary items denominated in foreign currency are translated with the closing rate as at the reporting date. If several exchange rates are available, the forward rate is used at which the future cash flows represented by the transaction or balance could have been settled if those cash flows had occurred. Non-monetary items measured at historical cost denominated in a foreign currency are translated with the exchange rate as at the date of initial recognition; non-monetary items in a foreign currency that are measured at fair value are translated using the exchange rates at the date when the fair value was determined.

Foreign exchange gains and losses resulting from the settlement of foreign currency transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss.

Changes in the fair value of monetary assets denominated in foreign currency classified as at-fair-value are analysed between translation differences resulting from changes in the amortised cost of the security and other changes in the carrying amount of the security. Translation differences related to changes in the amortised cost are recognised in profit or loss, and other changes in the carrying amount, are recognised in other comprehensive income.

f) Sales and Repurchase Agreements

Securities sold subject to repurchase agreements ('repos') are reclassified in the financial statements as pledged assets when the transferee has the right by contract or custom to sell or repledge the collateral; the counterparty liability is included in deposits from banks or deposits from customers, as appropriate. Securities purchased under agreements to resell ('reverse repos') are recorded as loans and advances to other banks or customers, as appropriate. The difference between sale and repurchase price is treated as interest and accrued over the life of the agreements using the effective interest method. Securities lent to counterparties are also retained in the financial statements.

g) Financial Assets and Liabilities

i) Classification and Subsequent Measurement

Financial Assets

Except for trade receivables that do not have a significant financing component, at initial recognition, the Group 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 directly attributable to the acquisition or issuance of the financial asset or financial liability. Trade receivables that do not have a significant financing component are measured at their transaction price.

The Group classifies its financial assets into three principal classification categories based on the cash flow characteristics of the asset and the business model assessment:

- Measured at amortised cost;
- FVOCI; and
- FVTPL.

Amortised Cost

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL:

- it is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest (SPPI) on the principal amount outstanding.

The Group recognises cash, deposits and balances due from financial institutions including items in the course of collection, amounts due from related parties, loans and advances to customers, certain investment securities, and other assets at amortised cost.

The carrying amount of these assets is measured at amortised cost using the effective interest rate method and is adjusted by any expected credit loss allowance. Interest income from these financial assets is included in 'Interest and similar income' using the effective interest rate method.

Fair Value Through other Comprehensive Income (FVOCI) – Debt

A financial asset which is a debt instrument is measured at FVOCI only if it meets both of the following conditions and is not designated as at FVTPL:

- it is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

The Bank classifies certain investments it has in government securities at FVOCI.

Movements in the carrying amount are taken through OCI, except for the recognition of impairment gains or losses, interest income and foreign exchange gains and losses which are recognised in profit or loss. When the financial asset is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from equity to profit or loss and recognised in other gains/ (losses). Interest income from these financial assets is included in finance income using the effective interest rate method. Foreign exchange gains and losses are presented in other gains/ (losses) and impairment expenses are presented as separate line item in the statement of profit or loss.

Fair Value through Other Comprehensive Income (FVOCI) – Equity

On initial recognition of an equity investment that is not held for trading, the Group may irrevocably elect to present subsequent changes in fair value in OCI. This election is made on an investment-by investment basis.

The Bank classifies derivative financial assets at FVOCI.

Fair Value through Profit or Loss (FVTPL)

All financial assets not classified as measured at amortised cost or FVOCI as described above are measured at FVTPL. In addition, on initial recognition the Group may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at FVOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise. The Group currently has no equity investments held at FVTPL.

A financial asset is classified into one of these categories on initial recognition. Under IFRS 9, derivatives embedded in contracts where the host is a financial asset in the scope of IFRS 9 are not separated. Instead, the hybrid financial instrument as a whole is assessed for classification.

Assessment Whether Contractual Cash Flows are Solely Payments of Principal and Interest (SPPI)

To determine whether a financial asset should be classified as measured at amortised cost or FVOCI, an entity assesses whether the cash flows from the financial asset represent, on specified dates, solely payments of principal and interest on the principal amount outstanding - i.e. the SPPI criterion. A financial asset that does not meet the SPPI criterion is always measured at FVTPL, unless it is an equity instrument for which an entity may apply the OCI election.

For the purposes of this assessment, 'principal' is defined as the fair value of the financial asset on initial recognition. The definition of principal reflects the economics of the financial asset from the perspective of the current holder. This means that an entity assesses the asset's contractual cash flow characteristics by comparing the contractual cash flows to the amount that it actually invested.

'Interest' is defined as consideration for the time value of money, for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as a profit margin.

In assessing whether the contractual cash flows are solely payments of principal and interest, the Group considered the contractual terms of its financial assets. The Group, through the Credit, Finance and Treasury departments will from time to time review the contractual terms of existing instruments and also review contractual terms of new products the Group develops or invests in going forward. This includes assessing whether the financial asset contained a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition.

In making the assessment, the Group shall consider:

- contingent events that would change the amount and timing of cash flows;
- leverage features;
- prepayment and extension terms;
- terms that limit the Groups's claim to cash flows from specified assets – e.g. non-recourse asset arrangements; and
- features that modify consideration for the time value of money – e.g. periodic reset of interest rates.

Contractual features that introduce exposure to risks or volatility in the contractual cash flows that is unrelated to a basic lending arrangement, such as exposure to changes in equity prices or commodity prices, give rise to contractual cash flows that do not meet the SPPI criterion.

Interest rates on loans made by the Group are based on the prevailing interest rate which currently are referenced to the Central Bank Rate. The prevailing rates are generally based on a Central Bank rate and also include a discretionary spread (Margin). In these cases, the Group has assessed whether the discretionary feature is consistent with the SPPI criterion by considering a number of factors, including whether:

- the borrowers are able to prepay the loans without significant penalties;
- the market competition ensures that interest rates are consistent between banks; and
- any regulatory or customer protection framework is in place that requires banks to treat customers fairly.

Some of the Group's loans may contain prepayment features. A prepayment feature is consistent with the SPPI criterion if the prepayment amount substantially represents unpaid amounts of principal and interest on the principal amount outstanding, which may include reasonable compensation for early termination of the contract.

In addition, a prepayment feature is treated as consistent with this criterion if a financial asset is acquired or originated at a premium or discount to its contractual par amount, the prepayment amount substantially represents the contractual par amount plus accrued (but unpaid) contractual interest (which may also include reasonable compensation for early termination), and the fair value of the prepayment feature is insignificant on initial recognition.

De Minimis

A contractual cash flow characteristic may not affect the classification of a financial asset if it could have only a de minimis effect on the financial asset's contractual cash flows. To make this determination, the Group considers the possible effect of the contractual cash flow characteristic in each reporting period and cumulatively over the life of the financial asset.

Business Model Assessment

The Group makes an assessment of the objective of the business model in which a financial asset is held at a portfolio level because this best reflects the way the business is managed, and information is provided to management. The information considered includes:

- the stated policies and objectives for the portfolio and the operation of those policies in practice, including whether management's strategy focuses on earning contractual interest revenue, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of the liabilities that are funding those assets or realising cash flows through the sale of assets;
- how the performance of the portfolio is evaluated and reported to the Group's management;
- the risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed;
- how managers of the business are compensated – e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected; and
- the frequency, volume and timing of sales in prior periods, the reasons for such sales and expectations about future sales activity. However, information about sales activity is not considered in isolation, but as part of an overall assessment of how the Group's stated objective for managing the financial assets is achieved and how cash flows are realised.

Financial assets that are held for trading and those that are managed and whose performance is evaluated on a fair value basis have been measured at FVTPL because they are neither held to collect contractual cash flows nor held both to collect contractual cash flows and to sell financial assets. The table below summarises the key features of each type of business model and the resultant measurement category:

Business Model	Key Features	Category
Held to collect	The objective of the business model is to hold assets to collect contractual cash flows. Sales are incidental to the objective of the model. This model typically involves the lowest level of sales in comparison with other business models (in frequency and volume).	Amortised cost[1]
Both held to collect and for sale	Both collecting contractual cash flows and sales are integral to achieving the objective of the business model. This model typically has more sales (in frequency and volume) than the held-to-collect business model.	FVOCI[1]
Other business models, including: trading managing assets on a fair value basismaximising cash flows through sale	The business model is neither held-to-collect nor held to collect and for sale. The collection of contractual cash flows is incidental to the objective of the model.	FVTPL[2]

[1]Subject to meeting the SPPI criterion.
[2]The SPPI criterion is irrelevant - i.e. assets in all business models are measured at FVTPL.

Financial Liabilities

The Group classifies all financial liabilities as subsequently measured at amortised cost, except for financial liabilities at fair value through profit or loss. Such liabilities, including derivatives that are liabilities, shall be subsequently measured at fair value. Deposits from customers, borrowed funds and other liabilities are also classified at amortised cost.

Reclassification

The Group only reclassifies financial assets when management changes the business model for managing the financial assets. In that instance all affected financial assets are reclassified. Such changes are expected to be very infrequent and are determined by the Bank's senior management as a result of external or internal changes.

Derecognition and Contract Modification

The Group derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or when it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Group is recognised as a separate asset or liability. However, when the modification of a financial instrument not measured at FVTPL does not result in derecognition, the Group has recalculated the gross carrying amount of the financial asset (or the amortised cost of the financial liability) by discounting the modified contractual cash flows at the original effective interest rate and recognise any resulting adjustment as a modification gain or loss in profit or loss..

The Group derecognises a financial liability when its contractual obligations are discharged or cancelled or expire. The Group enters into transactions whereby it transfers assets recognised on its statement of financial position, but retains either all or substantially all of the risks and rewards of the transferred assets or a portion of them. If all or substantially all risks and rewards are retained, then the transferred assets are not derecognised from the statement of financial position. Transfers of assets with retention of all or substantially all risks and rewards include, for example, securities lending and repurchase transactions.

Write-off

The Group writes off financial assets, in whole or part, when it has exhausted all practical recovery efforts and has concluded there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include:

- Ceasing enforcement activity
- Where the Group's recovery method is foreclosing on collateral and the value of the collateral is such there is no reasonable expectation of recovering in full.

Offsetting

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Group has a legal right to set off the amounts and it intends either to settle them on a net basis or to realise the asset and settle the liability simultaneously. Income and expenses are presented on a net basis only when permitted under IFRS, or for gains and losses arising from a group of similar transactions such as in the Group's trading activity.

Interest Income Recognition

According to IFRS 9 paragraph 5.4.1 interest revenue shall be calculated by using the effective interest method (Refer to the Effective Interest Rate (EIR) policy for information on determination of the EIR). This shall be calculated by applying the effective interest rate to the gross carrying amount of a financial asset except for:

- Purchased or originated credit-impaired financial assets. For those financial assets, the entity shall apply the credit-adjusted effective interest rate to the amortised cost of the financial asset from initial recognition.
- Financial assets that are not purchased or originated credit-impaired financial assets but subsequently have become credit-impaired financial assets. For those financial assets, the entity shall apply the effective interest rate to the amortised cost of the financial asset in subsequent reporting periods.

According to IFRS 9 paragraph 5.4.2 an entity that, in a reporting period, calculates interest revenue by applying the effective interest method to the amortised cost of a financial asset in accordance with paragraph 5.4.1(b) (see (b) above), shall, in subsequent reporting periods, calculate the interest revenue by applying the effective interest rate to the gross carrying amount if the credit risk on the financial instrument improves so that the financial asset is no longer credit-impaired and the improvement can be related objectively to an event occurring after the requirements in paragraph 5.4.1(b) were applied (such as an improvement in the borrower's credit rating). In the context of the Central Bank regulations, credit impaired accounts would refer to the substandard, doubtful and loss risk classifications.

Assets that are Credit-Impaired on Initial Recognition

According to IFRS 9 (7A.8.340) Purchased or Originated Credit Impaired (POCI) assets are assets that are credit-impaired on initial recognition. An asset is credit-impaired if one or more events have occurred that have a detrimental impact on the estimated future cash flows of the asset. The following are examples of such events:

- Significant financial difficulty of the issuer or the borrower;
- A breach of contract - e.g. a default or past-due event;
- A lender having granted a concession to the borrower - for economic or contractual reasons relating to the borrower's financial difficulty - that the lender would not otherwise conside;
- It becoming probable that the borrower will enter bankruptcy or another financial reorganisation;

- The disappearance of an active market for that financial asset because of financial difficulties; or
- 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 that caused the asset to be credit impaired. Instead, the combined effect of several events may cause financial assets to become credit impaired.

Measurement on Initial Recognition

On initial recognition, POCI assets do not carry an impairment allowance. Instead, lifetime ECLs are incorporated into the calculation of the effective interest rate.

Subsequent Measurement

The ECLs for POCI assets are always measured at an amount equal to lifetime ECLs. However, the amount recognised as a loss allowance for these assets is not the total amount of lifetime ECLs, but instead the changes in lifetime ECLs since initial recognition of the asset. Favourable changes in lifetime ECLs are recognised as an impairment gain, even if the favourable changes are more than the amount, if any, previously recognised in profit or loss as impairment losses.

Modifications

When the contractual cash flows of a POCI asset are modified and the modification does not result in derecognition, the calculation of the modification gain or loss is the difference between:

- the gross carrying amount of the asset before the modification; and
- the recalculated gross carrying amount

The recalculated gross carrying amount is the present value of the estimated future cash payments or receipts through the expected life of the modified financial asset discounted using the credit-adjusted effective interest rate before the modification

ii) Impairment – Financial Assets, Loan Commitments and Financial Guarantee Contracts

IFRS 9 replaced the previous ‘incurred loss’ model in IAS 39 with a forward-looking ‘expected credit loss’ model. The new impairment model applies to the following financial instruments that are not measured at FVTPL:

- financial assets that are debt instruments – this applies to the Group’s loans and advances to customers, Investment in Government securities measured at amortised cost and FVOCI, balances due to group companies and other assets;
- lease and trade receivables – this applies to the Group’s finance lease and trade receivables; and
- loan commitments and financial guarantee contracts issued (previously, impairment was measured under IAS 37 Provisions, Contingent Liabilities and Contingent Assets) - this applies to the Group’s off-balance sheet exposures where credit intervention is not required for the counterparty to access the credit facility.

No impairment loss is recognised on equity investments and financial assets measured at FVTPL.

The Group recognises loss allowance at an amount equal to either 12-month ECLs or lifetime ECLs. Lifetime ECLs are the ECLs that result from all possible default events over the expected life of a financial instrument, whereas 12-month ECLs are the portion of ECLs that result from default events that are possible within the 12 months after the reporting date.

The Group has recognised loss allowances at an amount equal to lifetime ECLs, except in the following cases, for which the amount recognised will be 12-month ECLs:

- debt investment securities that are determined to have low credit risk at the reporting date. The Bank has considered a debt security to have low credit risk when its credit risk rating is equivalent to the globally under stood definition of ‘investment-grade’ and investments in Government securities; and
- other financial instruments (other than trade and lease receivables) for which credit risk has not increased significantly since initial recognition.

Loss allowances for trade and lease receivables will always be measured at an amount equal to lifetime ECLs. The impairment requirements of IFRS 9 are complex and require management judgement, estimates and assumptions, particularly in the following areas, which are discussed in detail below:

- assessing whether the credit risk of an instrument has increased significantly since initial recognition; and
- Incorporating forward-looking information into the measurement of ECLs.

Measurement of Expected Credit Losses

ECLs are a probability-weighted estimate of credit losses and will be measured as follows:

- financial assets that are not credit-impaired at the reporting date: the present value of all cash shortfalls – i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Bank expects to receive;
- financial assets that are credit-impaired at the reporting date: the difference between the gross carrying amount and the present value of estimated future cash flows;
- undrawn loan commitments: the present value of the difference between the contractual cash flows that are due to the Bank if the commitment is drawn down and the cash flows that the Bank expects to receive; and
- financial guarantee contracts: the present value of the expected payments to reimburse the holder less any amounts that the Bank expects to recover.

An asset is credit-impaired if one or more events have occurred that have a detrimental impact on the estimated future cash flows of the asset. The following are examples of such events:

- significant financial difficulty of the issuer or the borrower;
- a breach of contract - e.g. a default or past-due event;
- a lender having granted a concession to the borrower - for economic or contractual reasons relating to the borrower's financial difficulty - that the lender would not otherwise consider;
- it is becoming probable that the borrower will enter bankruptcy or another financial reorganisation;
- the disappearance of an active market for that financial asset because of financial difficulties; or
- the purchase of a financial asset at a deep discount that reflects the incurred credit losses.

For purposes of IFRS 9 there will be no difference between credit impaired and non-performing financial loans as defined by the CBK.

Expected Credit Losses

Expected credit losses are computed as a product of the Probability of Default (PD), Loss Given Default (LGD) and the Exposure at Default (EAD).

ECL = PD x LGD x EAD

In applying the IFRS 9 impairment requirements, an entity needs to follow one of the approaches below:

- The general approach
- The simplified approach

The simplified approach is applied for trade receivables or contract assets resulting from transactions in the scope of IFRS 15 Revenue from customer contracts or lease receivables resulting from transactions in the scope of IAS 17 Leases. The Bank has therefore applied the general approach.

The General Approach

Under the general approach, at each reporting date, an entity recognises a loss allowance based on either 12-month ECLs or lifetime ECLs, depending on whether there has been a significant increase in credit risk on the financial instrument since initial recognition. The changes in the loss allowance balance are recognised in profit or loss as an impairment gain or loss. Essentially, an entity must make the following assessment at each reporting date:

Stage 1 - FFor credit exposures where there have not been significant increases in credit risk since initial recognition, an entity is required to provide for 12-month ECLs, i.e., the portion of lifetime ECLs that represent the ECLs that result from default events that are possible within the 12-months after the reporting date (12-month ECL as per formula below).

$$ECL12m = PD12m \times LGD12m \times EAD12m \times D12m$$

Stage 2 - For credit exposures where there have been significant increases in credit risk since initial recognition on an individual or collective basis, a loss allowance is required for lifetime (LT) ECLs, i.e., ECLs that result from all possible default events over the expected life of a financial instrument (ECL LT as per formula below).

$$ECL\ LT = LT\sum T=1\ PDt \times LGDt \times EADt \times Dt$$

Stage 3 – For credit exposures that are credit impaired and in default. Similar to stage 2 assets a loss allowance is required for lifetime ECLs however the probability of default for these assets is presumed to be 100% less any determined recovery and cure rate.

The table below shows the link between the CBK risk classifications and the IFRS 9 stage allocation for assets.

CBK PG/04 Guidelines	Days Past Due	Stage Allocation
Normal	0-30	1
Watch	31-90	2
Substandard	91-180	3
Doubtful	181 - 365	3
Loss	Over 365 or considered uncollectible	3

Definition of Default

The Group has considered a financial asset to be in default when:

- the borrower is unlikely to pay their credit obligations to the Bank in full, without recourse by the Bank to actions such as realising security (if any is held); or
- the borrower is more than 90 days past due on any material credit obligation to the Bank. This will be consistent with the rebuttable criteria set out by IFRS 9 and existing practice of the Bank; or
- if it meets the definition of the local regulator of default, if in the future the local regulator prescribe the criteria of default for IFRS 9 purposes

This definition is largely consistent with the Central Bank of Kenya definition that will be used for regulatory purposes. In assessing whether a borrower is in default, the Bank has considered indicators that are:

- significant financial difficulty of the issuer or the borrower;
- a breach of contract - e.g. a default or past-due event;
- a lender having granted a concession to the borrower - for economic or contractual reasons relating to the borrower's financial difficulty - that the lender would not otherwise consider;
- it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation;
- the disappearance of an active market for that financial asset because of financial difficulties; or
- the purchase of a financial asset at a deep discount that reflects the incurred credit losses

Inputs into the assessment of whether a financial instrument is in default and their significance may vary over time to reflect changes in circumstances. The Group has not rebutted the 90 Days Past Due (DPD) rule for identifying defaults.

Significant Increase in Credit Risk (SIICR)

The Group in determining whether the credit risk (i.e. risk of default) on a financial instrument has increased significantly since initial recognition considered reasonable and supportable information that is relevant and available without undue cost or effort, including both quantitative and qualitative information and analysis based on the Bank's historical experience, expert credit assessment and forward-looking information.

The Group identifies a significant increase in credit risk where

- an exposure is greater than 30 days past due – this is in line with the IFRS 9 30 DPD rebuttable presumption;
- an exposure has been restructured in the past due to credit risk related factors or which was NPL and is now regular (subject to the regulatory cooling off period);or
- by comparing exposures:
    - credit risk quality at the date of reporting; with
    - the credit risk quality on initial recognition of the exposure.

The assessment of significant deterioration is key in establishing the point of switching between the requirement to measure an allowance based on 12-month expected credit losses and one that is based on lifetime expected credit losses.

Credit Risk Classification

The Group allocates each exposure to a credit risk classification based on the regulatory requirements of the Central Bank which requires the prediction of the risk of default and applying experienced credit judgement. The Bank shall use these classifications in identifying significant increases in credit risk under IFRS 9. The risk classifications are defined using the regulator's guidance, days past due, management assessment, qualitative and quantitative factors that are indicative of the risk of default.

These factors may vary depending on the nature of the exposure and the type of borrower. The Bank shall undertake a thorough credit appraisal process and determine the credit quality of each exposure on initial recognition based on available information about the borrower. Exposures will be subject to ongoing monitoring, which may result in an exposure being moved to a different credit risk classification.

Determining Whether Credit Risk has Increased Significantly

The Group shall establish a framework that incorporates both quantitative and qualitative information to determine whether the credit risk on a particular financial instrument has increased significantly since initial recognition. The framework shall align with the Bank's internal credit risk management process. The criteria for determining whether credit risk has increased significantly will vary by portfolio and will include a backstop based on delinquency (30 DPD presumption).

Quantitative Factors

The Group deems the credit risk of a particular exposure to have increased significantly since initial recognition based on a loan being in arrears for a period of 31 to 90 days in accordance with IFRS 9 paragraph 5.5.11. The Bank has developed an internal rating model going forward and movement in rating grades between the reporting period and initial recognition date/the date of initial application of IFRS 9 of the loan will form the basis of significant increase in credit risk.

Qualitative Factors

In certain instances, using its expert credit judgement and, where possible, relevant historical experience, the Bank may determine that an exposure has undergone a significant increase in credit risk if particular qualitative factors indicate so and those indicators may not be fully captured by its quantitative analysis on a timely basis. The management view and judgement include the following assessments:

- Classification of exposures by any other Banks and Financial institutions or local Credit Reference Bureau (CRB);
- Unavailable/inadequate financial information/financial statements;
- Qualified report by external auditors;
- Significant contingent liabilities;
- Loss of key staff in the organization;
- Increase in operational risk and higher occurrence of fraudulent activities;
- Continued delay and non-cooperation by the borrower in providing key relevant documentation; and
- Deterioration in credit worthiness due to factors other than those listed above

As a backstop, and as required by IFRS 9, the Group has presumptively considered that a significant increase in credit risk occurs no later than when an asset is more than 30 days past due. The Bank has determined days past due by counting the number of days since the earliest elapsed due date in respect of which full payment has not been received.

Backward Transitions

Backward transitions define the criteria for moving a financial asset back from Stage 2 to Stage 1 or Stage 3 to Stage 2. The Group applies the considerations of the Central Bank prudential guidelines to determine whether a financial asset should be upgraded from Stage 3 to Stage 2 and then Stage 1. Where an account in Stage 3 is regularised (i.e. all past due principal and interest is repaid in full) it may be upgraded to Stage 2 subject to observation of the cooling off period as defined by the Prudential Guidelines. A facility which meets the above condition and has been classified as Stage 2 may be reclassified to Stage 1 if a sustained record of performance is maintained for a period of six (6) months.

Modified Financial Assets

The contractual terms of a loan may be modified for a number of reasons, including changing market conditions, customer retention and other factors not related to a current or potential credit deterioration of the customer. An existing loan whose terms have been modified may be derecognised and the renegotiated loan recognised as a new loan at fair value. Under IFRS 9, when the terms of a financial asset are modified and the modification does not result in derecognition, the determination of whether the asset's credit risk has increased significantly reflects comparison of the borrower's initial credit risk assessment and the current assessment at the point of modification.

Restructuring

The Group renegotiates loans to customers in financial difficulties (referred to as 'restructuring') to maximise collection opportunities and minimise the risk of default. Under the Bank's restructuring policy, loan restructuring is granted on a selective basis if the debtor is currently in default on its debt or if there is a high risk of default, there is evidence that the debtor made all reasonable efforts to pay under the original contractual terms and the debtor is expected to be able to meet the revised terms. The revised terms usually include extending the maturity, changing the timing of interest payments and amending the terms of loan covenants. The Gropup's Credit Committee regularly reviews reports on restructuring activities.

Generally, restructuring is a qualitative indicator of default and credit impairment and expectations of restructuring are relevant to assessing whether there is a significant increase in credit risk. Following restructuring, a customer needs to demonstrate consistently good payment behaviour over a period of time before the exposure is no longer considered to be in default/credit-impaired or the PD is considered to have decreased such that the loss allowance reverts to being measured at an amount equal to 12-month ECLs.

The Group applies the requirements of the Central Bank prudential guidelines where an account in Doubtful or Sub-standard category (Stage 3) will be upgraded to Watch if principal and interest payments are fully regularised at the point of restructure, the account is re-classified to Watch (Stage 2) and observed for six (6) months. Where the account continues to perform appropriately for an additional six (6) months the account is upgraded to normal and the Bank reverts to measuring 12-month ECLs. Where the account is restructured with the customer having not regularized overdue principal and interest, the account shall remain in Substandard for six (6) months or if in Doubtful category, twelve (12) months for observation. If the restructured account performs as per the new contract during the observation period, the account can be then upgraded to Watch (stage 2) and observed for another six (6) months where it can be further upgraded to Normal (stage 1) if good performance is sustained. The date of renegotiation is consequently considered to be the date of initial recognition for impairment calculation purposes, including for determining whether a significant increase in credit risk has occurred.

However, the Group also assesses whether the new financial asset recognised 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 recognised 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 Group recalculates the gross carrying amount based on the revised cash flows of the financial asset and recognises 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 EIR.

As a result of COVID-19, the Bank restructured 17% of its loan book in the year with the restructure not resulting in derecognition. The following table refer to modified financial assets where modification does not result in derecognition.

The restructure of loans with loss allowance based on lifetime ECL did not result in a material modification gain or loss.

There were no financial assets whose loss allowance has changed in the period from lifetime to 12-month ECL basis after modification.

Modified Financial Assets Where Modification does not Result in Derecognition	Amount Pre-Restructure Shs'000,000	Modification Gain/Loss Shs'000,000	Amount Post-Restructure Shs'000,000
Classification			
Stage 1	2,326	-	2,326
Stage 2	460	-	460
Stage 3	26	-	26
Total	2,812	-	2,812

iii) Fair Value Measurement

The Group measures FVOCI investment securities at fair value at each reporting date. Fair value of financial instruments 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 Group

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.

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

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

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

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

The determination of fair values of financial assets and financial liabilities is based on quoted market prices or dealer price quotations for financial instruments traded in active markets at the reporting date without any deduction for transaction costs. Gains or losses on valuation of financial assets at FVOCI are recognised in other comprehensive income.

For all other financial instruments not traded in an active market, the fair value is determined by using appropriate valuation techniques. Valuation techniques include the discounted cash flow method, comparison to similar instruments for which market observable prices exist, options pricing models, credit models and other relevant valuation models.

For the purpose of fair value disclosures, the Bank has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy, as explained above. The table below shows the various asset classes.

<table>
<tr><th colspan="2">Category (as Defined by IFRS 9)</th><th colspan="2">Class (as Determined by the Bank)</th><th>Subclasses</th></tr>
<tr><td rowspan="16">Financial assets</td><td rowspan="3">Financial assets at fair value through other comprehensive income</td><td rowspan="3">Financial Assets Available for sale</td><td>Debt securities</td><td rowspan="3"></td></tr>
<tr><td>Derivatives – non-hedging</td></tr>
<tr><td>Equity securities</td></tr>
<tr><td rowspan="9">Measured at Amortised Cost</td><td colspan="2">Loans and advances to banks</td><td></td></tr>
<tr><td rowspan="6">Loans and advances to customers</td><td rowspan="3">Loans to individuals (retail)</td><td>Overdrafts</td></tr>
<tr><td>Term loans</td></tr>
<tr><td>Personal Loans</td></tr>
<tr><td rowspan="3">Loans to corporate entities</td><td>Overdrafts</td></tr>
<tr><td>Term loans</td></tr>
<tr><td>SMEs</td></tr>
<tr><td rowspan="2">Investment securities - debt instruments</td><td rowspan="2">Debt securities</td><td>Others</td></tr>
<tr><td>Listed</td></tr>
<tr><td rowspan="4">Financial liabilities at amortised cost</td><td colspan="2">Deposits from banks</td><td rowspan="4"></td></tr>
<tr><td rowspan="3">Deposits from customers</td><td>Retail customers</td></tr>
<tr><td>Mid - corporate</td></tr>
<tr><td>SMEs</td></tr>
<tr><td rowspan="2">Off-balance sheet financial Instruments</td><td colspan="3">Loan commitments</td><td></td></tr>
<tr><td colspan="2">Guarantees, acceptances and other financial facilities</td><td colspan="2"></td></tr>
</table>

Impairment of Financial Assets

The Group's impairment approach, is based on expected credit losses and the Group uses the general approach in determining the impairment of financial assets. Therefore, it is not necessary for a loss event to have occurred before credit losses are recognised; instead, a loss allowance is always recognized for expected credit losses and is re-measured at each reporting date for changes in those expected credit losses.

Determining whether an expected credit loss should be based on 12-month expected credit losses or lifetime expected credit losses depends on whether there has been a significant increase in credit risk ("SICR") of the financial asset since initial recognition.

The Group recognises loss allowances for Expected Credit Losses ("ECL") on the following financial instruments that are not measured at FVTPL:

- Financial assets that are debt instruments
- Loan and advances to customers
- Financial guarantee contracts issued
- Loan and advances to Banks
- Loan commitments issued.

The Group assesses on a forward-looking basis the expected credit losses ('ECL') associated with its debt instrument assets carried at amortised cost and FVOCI and with the exposure arising from loan commitments and financial guarantee contracts. The Group recognises a loss allowance for such losses at each reporting date. The measurement of ECL reflects:

- An unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes;
- The time value of money; and

- 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

The estimation of credit exposure for risk management purposes is complex and requires the use of models, as the exposure varies with i) changes in market conditions, ii) expected cash flows and iii) the passage of time.

The assessment of credit risk of a portfolio of assets entails further estimations as to the likelihood of defaults occurring, of the associated loss ratios and of default correlations between counterparties. The Group measures credit risk using Probability of Default ("PD"), Exposure at Default ("EAD") and Loss Given Default ("LGD").

h) Offsetting Financial Instruments

Financial assets and liabilities are offset and the net amount reported in the statement of financial position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously.

i) Cash and Cash Equivalents

Cash and cash equivalents includes cash in hand, deposits held at call with banks, other short term highly liquid investments with original maturities of three months or less, including: cash and balances with Central Bank of Kenya, treasury and other eligible bills, and amounts due from other banks. Cash and cash equivalents excludes the cash reserve requirement held with the Central Bank of Kenya.

j) Property and Equipment

Property and equipment are stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of these assets. Subsequent expenditures are included in the asset's carrying amount or are recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Bank and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognized. All other repair and maintenance costs are charged to profit or loss during the financial period in which they are incurred.

Depreciation is calculated on the straight line basis to write down the costs of the property, plant and equipment to their residual value over their estimated useful lives as follows:

Leasehold improvements	12.5 years
Motor vehicles	4 years
Office equipment	8 years
Computers and electronic equipment	3.33 years
Furniture and fittings	8 years

k) Intangible Assets

Costs associated with maintaining computer software programs are recognised as an expense as incurred. Development costs that are directly attributable to the design and testing of identifiable and unique software products controlled by the Bank are recognised as intangible assets when the following criteria are met:

- it is technically feasible to complete the software product so that it will be available for use;
- management intends to complete the software product and use or sell it;
- there is an ability to use or sell the software product;
- it can be demonstrated how the software product will generate probable future economic benefits;
- adequate technical, financial and other resources to complete the development and to use or sell the software product are available; and
- the expenditure attributable to the software product during its development can be reliably measured.

Directly attributable costs that are capitalized as part of the software product include the software development employee costs and an appropriate portion of relevant overheads.

Computer software development costs recognised as assets are amortised over their estimated useful lives, which does not exceed five years.

l) Impairment of Non-Financial Assets

Assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). The impairment test also can be performed on a single asset when the fair value less cost to sell or the value in use can be determined reliably. Non-financial assets that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

m) Provisions for Liabilities

Provisions for restructuring costs and legal claims are recognised when: the Bank has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

n) Income Tax

The tax expense for the period comprises current and deferred income tax. Tax is recognised in profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity respectively.

(i) Current Income Tax

The current income tax charge is calculated on the basis of tax laws and rates enacted or substantively enacted at the reporting date. The directors periodically evaluate positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. They establish provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

(ii) Deferred Income Tax

Deferred income tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill; deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the reporting date and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

Deferred income tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current income tax assets against current income tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the same entity or different taxable entities where there is an intention to settle the balances on a net basis.

o) Employee Benefits

i) Post-Employment Benefits

The Group operates a defined contribution post-employment benefit scheme for all its employees. The scheme is administered by an insurance company and is funded by contributions from both the Bank and employees. The Bank and its employees also contribute to the statutory National Social Security Fund, which is a defined contribution scheme.

A defined contribution plan is a pension plan under which the Bank pays fixed contributions into a separate entity. The Bank has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods.

The Bank's contributions to both these defined contribution schemes are charged to profit or loss in the year to which they fall due. The Bank has no further obligation once the contributions have been paid. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

ii) Other Entitlements

The estimated monetary liability for employees' including annual leave entitlement at the balance sheet date is recognised as an expense accrual.

p) Interest Income and Expense

Interest income and expense for all interest-bearing financial instruments, except for those classified as held for trading or designated at fair value through profit or loss, are recognised within 'interest income' or 'interest expense' in the profit and loss account using the effective interest method.

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. The calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

Once a financial asset or a group of similar financial assets has been written down as a result of an impairment loss, interest income is recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

q) Fees and Commission Income

Fees and commission income is generally recognised on an accrual basis when the service has been provided. Loan commitment fees for loans that are likely to be drawn down are deferred (together with related direct costs) and recognised as an adjustment to the effective interest rate on the loan.

Fees and commissions expense are generally recognised on an accrual basis when incurred.

r) Dividend Income

Dividends are recognised in the profit or loss account when the Bank's right to receive payment is established.

s) Dividends Payable

Dividends on ordinary shares are charged to equity in the period in which they are declared.

t) Share Capital

Ordinary shares are classified as 'share capital' in equity. Any premium received over and above the par value of the shares is classified as 'share premium' in equity.

u) Regulatory Reserve

Where impairment losses required by Central Bank of Kenya Prudential guidelines exceed those computed under IFRS, the excess is recognised as a regulatory reserve and is accounted for as an appropriation of retained earnings. The regulatory reserve is non-distributable.

v) Financial Guarantee Contracts and Loan Commitments

Financial guarantee contracts are contracts that require the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due, in accordance with the terms of the debt instrument. Such financial guarantees are given to banks, financial institutions and others on behalf of customers to secure loans, overdrafts and other banking facilities. Financial guarantee contracts are initially measured at fair value and subsequently measured at the higher of:

- The amount of the loss allowance; and
- The premium received on initial recognition less income recognised in accordance with the principles of IFRS 15

Loan commitments provided by the Group are measured as the amount of the loss allowance. The Group has not provided any commitment to provide loans at a below-market interest rate, or that can be settled net in cash or by delivering or issuing another financial instrument, other than for staff facilities. For loan commitments and financial guarantee contracts, the loss allowance is recognised as a provision. However, for contracts that include both a loan and an undrawn commitment and the Group cannot separately identify the expected credit losses on the undrawn commitment component from those on the loan component, the expected credit losses on the undrawn commitment are recognised together with the loss allowance for the loan to the extent that the combined expected credit losses exceed the gross carrying amount of the loan, the expected credit losses are recognised as provision.

w) Accounting for Leases

Leases Under Which the Group is the Lessee

On the commencement date of each lease (excluding leases with a term, on commencement, of 12 months or less and leases for which the underlying asset is of low value) the Group recognises a right-of-use asset and a lease liability.

The lease liability is measured at the present value of the lease payments that are not paid on that date. The lease payments include fixed payments, variable payments that depend on an index or a rate, amounts expected to be payable under residual value guarantees, and the exercise price of a purchase option if the group is reasonably certain to exercise that option. The lease payments are discounted at the interest rate implicit in the lease. If that rate cannot be readily determined, the group's incremental borrowing rate is used. For leases that contain non-lease components, the company allocates the consideration payable to the lease and non-lease components based on their relative stand-alone components.

The right-of-use asset is initially measured at cost comprising the initial measurement of the lease liability, any lease payments made on or before the commencement date, any initial direct costs incurred, and an estimate of the costs of restoring the underlying asset to the condition required under the terms of the lease.

Subsequently the lease liability is measured at amortised cost, subject to remeasurement to reflect any reassessment, lease modifications, or revised fixed lease payments.

All right-of-use assets are subsequently measured at cost less accumulated depreciation and any accumulated impairment losses, adjusted for any remeasurement of the lease liabilities. Depreciation is calculated using the straight-line method to write-down the cost of each asset to its residual value over its estimated useful life. If the ownership of the underlying asset is expected to pass to the group at the end of the lease term, the estimated useful life would not exceed the lease term.

For leases with a term, on commencement, of 12 months or less and leases for which the underlying asset if of low value, the total lease payments are recognised in profit or loss on a straight-line basis over the lease period.

Leases Under Which the Group is the Lessor

Leases that transfer substantially all the risks and rewards of ownership of the underlying asset to the lessee are classified as finance leases. All other leases are classified as operating leases. Payments received under operating leases are recognised as income in the profit or loss account on a straight-line basis over the lease term.

Accounting Policy Prior to 1 January 2019

Below is the Bank's policy applied in the previous year on leases. Leases were divided into finance leases and operating leases.

x) Comparatives

Except otherwise required, all amounts are reported or disclosed with comparative information. Where necessary, comparative figures have been adjusted to conform to changes in presentation in the current year.

3. Financial Risk Management

The Bank's business involves taking on risks in a targeted manner and managing them professionally. The core functions of the Bank's risk management are to identify all key risks for the Bank, measure these risks, manage the risk positions and determine capital allocations. The Bank regularly reviews its risk management policies and systems to reflect changes in markets, products and best market practice.

The Bank's aim is to achieve an appropriate balance between risk and return and minimise potential adverse effects on the Bank's financial performance. The Bank defines risk as the possibility of losses or profits foregone, which may be caused by internal or external factors.

Risk management is carried out by different departments under policies approved by the Board of Directors. Departmental heads identify and evaluate risks in close cooperation with the operating units. The Board provides guidance on overall risk management, as well as written policies covering specific areas such as foreign exchange risk, interest rate risk, credit risk, use of financial instruments. The most important types of risk are credit risk, liquidity risk, market risk and other operational risk. Market risk includes currency risk, interest rate and other price risk.

3.1 Credit Risk

The Bank takes on exposure to credit risk, which is the risk that a counterparty will cause a financial loss to the Bank by failing to pay amounts in full when due. Credit risk is the most important risk for the Bank's business: management therefore carefully manages the exposure to credit risk. Credit risk arises mainly from commercial and consumer loans and advances, and loan commitments arising from such lending activities, but can also arise from credit enhancement provided, financial guarantees, letters of credit, endorsements and acceptances. The Bank is also exposed to other credit risks arising from investments in debt securities.

Exposure to credit risk is managed through regular analysis of the ability of borrowers and potential borrowers to meet interest and capital repayment obligations and by changing lending limits where appropriate in light with the changing market and economic conditions.

3.1.1 Risk Limit Control and Mitigation Policies

The Group structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers, and to industry segments. Such risks are monitored on a revolving basis and subject to annual or more frequent review. Limits on the level of credit risk by product, and industry sector are approved annually by the Board of Directors. The Board of Directors also approves individual borrower limits above specified amounts.

The exposure to any one borrower including groups is further restricted by sub-limits covering on- and off-balance sheet exposures and daily delivery risk limits in relation to trading items such as forward foreign exchange contracts. Actual exposures against limits are monitored daily. Exposure to credit risk is also managed through regular analysis of the ability of borrowers and potential borrowers to meet interest and capital repayment obligations and by changing lending limits where appropriate.

The Bank employs a range of policies and practices to mitigate credit risk. The most traditional of these is the taking of security for funds advances, which is common practice. The Bank implements guidelines on the acceptability of specific classes of collateral or credit risk mitigation. The principal collateral types for loans and advances are:

- Mortgages over residential properties.
- Charges over business assets such as premises inventory and accounts receivable.
- Charges over financial instruments such as debt securities and equities.

Collateral held as security for financial assets other than loans and advances depends on the nature of the instrument. Longer-term finance and lending to corporate entities are generally secured. In addition, in order to minimize the credit loss the Bank will seek additional collateral from the counterparty as soon as impairment indicators are identified for the relevant individual loans and advances.

3.1.2 Credit Risk Measurement

Loans and Advances (Including Loan Commitments and Guarantees)

The estimation of credit exposure is complex and requires the use of models, as the value of a product varies with changes in market variables, expected cash flows and the passage of time. The assessment of credit risk of a portfolio of assets entails further estimations as to the likelihood of defaults occurring, of the associated loss ratios and of default correlations between counterparties. In measuring credit risk of loans and advances at a counterparty level, the Bank considers three components: (i) the 'Probability of Default' (PD) by the client or counterparty on its contractual obligations; (ii) current exposures to the counterparty and its likely future development, from which the Bank derive the 'Exposure at Default' (EAD); and (iii) the likely recovery ratio on the defaulted obligations (the 'Loss Given Default') (LGD).

Credit Risk Grading

The Bank has developed an internal credit risk grading system that reflect its assessment of the probability of defaults of individual counterparties. The Bank uses internal rating models tailored to the various categories of counterparty. Borrower and loan specific information collected at the time of application (such as disposable income, the level of collateral for retail exposures, and turnover and industry type for wholesale exposures) is fed into this rating model. This is supplemented with external data such as credit bureau scoring information on individual borrowers. In addition, the models enable expert judgment from the Credit Risk Officer to be fed into the final internal credit rating for each exposure. This allows for the considerations which may not be captured as part of the other data input into the model.

The following are additional considerations for other types of portfolio held by the Group:

Retail

After the date of initial recognition, for retail business, the payment behaviour of the borrower is monitored on a periodic basis to develop a behavioural score. Any other know information about the borrower, which impacts their creditworthiness – such as unemployment and previous delinquency history – is also incorporated into the behavioural score. This score is mapped to a PD.

Corporate

For wholesale business, the rating is determined at the borrower level. A relationship manager will incorporate any updated or new information/credit assessments into the credit system on an ongoing basis. In addition, the relationship manager will also update information about the creditworthiness of the borrower every year from sources such as public financial statements. This will determine the updated internal credit rating and PD.

Debt Securities and Placements with Banks

For debt securities in the treasuty portfolio and placements with banks, external rating agency credit grades will be used where available. These published grades will be continuously monitored and updated. The PDs associated with each grade will be determined based on realised default rates over the prior 12 months, as published by the rating agency.

3.1.3 Expected Credit Loss Measurement

IFRS 9 outlines a 'three-Stage' model for impairment based on changes in credit quality since initial recognition as summarised below:

- A financial instrument that is not credit-impaired on initial recognition is classified in 'Stage 1' and has its credit risk continuously monitored by the bank.
- If a significant increase in credit risk ('SICR') since initial recognition is identified, the financial instrument is moved to 'Stage 2' but is not yet deemed to be credit-impaired.
- If the financial instrument is credit-impaired, the financial instrument is then moved to 'Stage 3'.
- Financial instruments in Stage 1 have their ECL measured at an amount equal to the portion of lifetime expected credit losses that result from default events possible within the next 12 months. Instruments in Stages 2 or 3 have their ECL m sed on expected credit losses on a lifetime basis.
- A pervasive concept in measuring ECL in accordance with IFRS 9 is that it should consider forward looking information.
- Purchased or originated credit-impaired financial assets are those financial assets that are credit impaired on initial recognition. Their ECL is always measured on a lifetime basis (Stage 3).

The following diagram summarises the impairment requirements under IFRS 9 (other than purchased or originated credit-impaired financial assets):

Change in Credit Quality Since Initial Recognition

Stage 1	Stage 2	Stage 3
(Initial Recognition)	(Significant Increase in credit risk since initial recognition)	(Credit Impaired assets)
12- Month ECL	Lifetime ECL	Lifetime ECL

The key judgements and assumptions adopted by the Group in addressing the requirements of the Standard are as follows:

a) Significant Increase in Credit Risk (SICR)

The Group considers a financial instrument to have experienced a significant increase in credit risk when one or more of the following quantitative, qualitative or backstop criteria have been met:

Quantitative Criteria

The standard also sets out a rebuttable presumption that the credit risk on a financial asset has increased significantly since initial recognition when contractual payments are more than 30 days past due. The Bank has adopted the default standard definition of 30 days past due to determine the significant increase in credit risk.

Qualitative Criteria

The Bank considers a significant increase in credit risk in their portfolio if the borrower is on the watch list and/or the instrument meets one or more of the following criteria:

- Significant increase in credit spread
- Significant adverse changes in business, financial and/or economic conditions in which the borrower operates
- Actual or expected forbearance or restructuring
- Actual or expected significant adverse change in operating results of the borrower

- Significant change in collateral value (secured facilities only) which is expected to
- Increase risk of default

Early signs of cash flows/liquidity problems such as delay in servicing of trade creditors/loans

The assessment of SICR incorporates forward-looking information and is performed at the counterparty level and on a periodic basis. The criteria used to identify SICR are monitored and reviewed periodically for appropriateness by the independent credit team.

b) Definition of Default and Credit-Impaired Assets

The Group defines a financial instrument as in default, which is fully aligned with the definition of credit-impaired, when it meets one or more of the following criteria:

Qualitative Criteria

The borrower meets unlikeliness to pay criteria, which indicates the borrower is in significant financial difficulty. These are instances where:

- The borrower is in long-term forbearance
- The borrower is deceased
- The borrower is insolvent or becoming probable that the borrower will enter bankruptcy
- The borrower is in breach of financial covenants
- An active market for that financial asset has disappeared because of financial difficulties
- Concessions have been made by the lender relating to the borrower's financial difficulty
- Financial assets are purchased or originated at a deep discount that reflects the incurred credit losses

The above criteria have been applied to all financial instruments held by the Bank and are consistent with the definition of default used for internal credit risk management purposes. The default definition has been applied consistently to model the Probability of Default (PD), Exposure at Default (EAD) and Loss Given Default (LGD) throughout the Group's expected loss calculations.

An instrument is considered to no longer be in default (i.e. to have cured) when it no longer meets any of the default criteria for a consecutive period of six months. This period of six months has been determined based on an analysis which considers the likelihood of a financial instrument returning to default status after cure using different possible cure definitions.

c) Measuring Expected Credit loss - Explanation of Inputs, Assumptions and Estimation Techniques

The expected credit loss (ECL) is measured on either a 12-month or Lifetime basis depending on whether a significant increase in credit risk has occurred since initial recognition or whether an asset is considered to be credit impaired. Expected credit losses are the discounted product of the Probability of Default (PD), Exposure at Default (EAD), and Loss Given Default (LGD), defined as follows:

- The PD represents the likelihood of a borrower defaulting on its financial obligation, either over the next 12 months (12M PD), or over the remaining lifetime (Lifetime PD) of the obligation.
- EAD is based on the amounts the Group expects to be owed at the time of default, over the next 12 months (12M EAD) or over the remaining lifetime (Lifetime EAD).
- LGD represents the Group's expectations of the extent of loss on a defaulted exposure. LGD varies by type of counterparty, type of seniority of claim and availability of collateral or other credit support. LGD is calculated on a 12-month or lifetime basis, where 12 month LGD is the percentage of loss expected to be made if the default occurs over the next 12 months and lifetime LGD is the percentage of loss expected to be made if the default occurs over the remaining expected lifetime of the loan.

Forward-looking economic information is also included in determining the 12-month and lifetime PD, EAD and LGD. These assumptions vary by product type.

ECL is formula driven, i.e. ECL= PD x LGD x EAD

d) Forward-Looking Information Incorporated in the ECL Models

The assessment of SICR and the calculation of ECL both incorporate forward-looking information. The Group has performed historical analysis and identified the key economic variables impacting credit risk and expected credit losses for the loan portfolio. These economic variables and their associated impact on PD, EAD and LGD vary by financial instrument.

The most significant period-end assumptions used for the ECL estimate as at 31 December 2019 are as follows:

Other forward-looking considerations not otherwise incorporated within the above scenarios, such as the impact of any regulatory, legislative or political changes, have been considered, but are not deemed to have a material impact on therefore no adjustment has been made to the ECL for such factors.

Sensitivity Analysis

There are no significant changes to the ECL at 31 December 2019 that would result from reasonably possible changes in the Bank's macro economic overlays and the probability weightings from actual assumptions used in the Bank's economic variable assumptions.

Maximum Exposure to Credit Risk Before Collateral Held Group	2020 Shs'000	2019 Shs'000
Balances with Central Bank of Kenya (Note 13)	758,929	891,993
Deposits and balances due from banking institutions (Note 16)	784,649	434,016
Financial assets at amortised cost (Note 15)	3,361,329	1,789,084
Financial assets at FVOCI (Note 14)	585,271	1,246,602
Other assets (Note 18)	561,390	463,676
Loans and advances to customers (Note 17)	15,631,035	15,226,683
	21,682,603	20,052,054
Credit risk exposures relating to off-balance sheet items:		
- Acceptances and letters of credit	2,164,306	1,180,048
- Guarantee and performance bonds	6,581,224	4,922,727
- Commitments to lend	47,180	606,006
- Unutilised guarantees	1,175,715	3,359,556
	31,651,028	30,120,391

Maximum Exposure to Credit Risk Before Collateral Held Bank	2020 Shs'000	2019 Shs'000
Balances with Central Bank of Kenya (Note 13)	758,929	891,993
Deposits and balances due from banking institutions (Note 16)	784,649	434,016
Financial assets at amortised cost (Note 15)	3,361,329	1,789,084
Financial assets at FVOCI (Note 14)	585,271	1,246,602
Other assets (Note 18)	525,219	372,766
Loans and advances to customers (Note 17)	15,631,035	15,226,683
	21,646,431	19,161,144
Credit risk exposures relating to off-balance sheet items:		
- Acceptances and letters of credit	2,164,306	1,180,048
- Guarantee and performance bonds	6,581,224	4,922,727
- Commitments to lend	47,180	606,006
- Unutilised Guarantees	1,175,715	3,359,556
	31,614,856	29,229,481

The below table represents a worst case scenario of credit risk exposure to the Bank at 31 December 2020 and 2019, without taking account of any collateral held or other credit enhancements attached. For on-balance sheet assets, the exposures set out above are based on carrying amounts as reported in the statement of financial position.

As shown above 49% of the total maximum exposure is derived from loans and advances to customers (2019: 50%); 11% (2019:10%) represents investments in held-to-maturity and available-for-sale financial assets.

Loans and advances to customers and off-balance sheet items are secured by collateral in the form of charges over land and buildings and/or plant and machineries. No collateral is held for 'other assets'.

3.1.4 Financial Assets that are Past Due or Impaired

The Bank aligns the classification of assets that are past due or impaired in line with the Central

Bank of Kenya prudential guidelines. In determining the classification of an account, performance is the primary consideration. Classification of an account reflects judgement about the risk of default and loss associated with the credit facility.

Accounts are classified into the following categories:

3.1.4 Financial Assets that are Past Due or Impaired (Continued)

CBK PG/04 Guidelines	Days Past Due	IFRS 9 Stage Allocation
Normal	0-30	1
Watch	31-90	2
Substandard	91-180	3
Doubtful	181 - 365	3
Loss	Over 365 or considered uncollectible	3

Analysis of Loans and Advances Group and Bank	2020 Shs'000	2019 Shs'000
Neither past due nor impaired (Stage 1)	11,230,797	14,096,485
Past due but not impaired (Stage 2)	3,564,167	172,827
Impaired (Stage 3)	1,713,721	1,374,167
Gross	16,508,685	15,643,479
Stage 1 and 2	(184,312)	(64,282)
Stage 3	(693,338)	(352,514)
Net	15,631,035	15,226,683

i) Loans Advances Neither Past Due by up to 30 Days (Stage 1)

The credit quality of the portfolio of loans and advances that were neither past due nor impaired can be assessed by reference to the classification adopted by the Bank in conformity with the prudential guidelines of Central Bank of Kenya:

	Individual (Retail Customers)			Corporate Entities			
Stage 1 Group and Bank	Overdrafts Shs'000	Term Loans Shs'000	Mortgage Shs'000	Large Corporate Customers Shs'000	SMEs Shs'000	Other Shs'000	Total Loans & Advances to Customers Shs'000
31 December 2020							
Stage 1	2,854,848	1,716,666	649,776	4,011,961	1,997,546	-	11,230,797
31 December 2019							
Stage 1	134,236	1,276,205	680,660	8,160,085	3,845,299	-	14,096,485

ii) *Loans and Advances Past Due by up to 90 Days (Stage 2)*

Late processing and other administrative delays on the side of the borrower can lead to a financial asset being past due but not impaired. Therefore, loans and advances less than 90 days past due are not usually considered impaired, unless other information is available to indicate the contrary. Gross amount of loans and advances by class to customers that were past due but not impaired were as follows:

Stage 2 Group and Bank	Individual (Retail Customers)		
	Overdrafts Shs'000	Term Loans Shs'000	Total Shs'000
31 December 2020			
Past due up to 30 days	20,639	74,558	95,197
Past due 30 - 90 days	64,651	39,479	104,130
Past due 60 - 90 days	598,564	201,765	800,329
Total	683,854	315,802	999,656

Stage 2 Group and Bank	Corporate Entities		
	Large Corporate Customers Shs'000	SMEs Shs'000	Total Shs'000
31 December 2020			
Past due up to 30 days	44,595	54,947	99,542
Past due 30 - 90 days	395,925	229,584	625,509
Past due 60 - 90 days	479,661	1,359,799	1,839,460
Total	920,181	1,644,330	2,564,511

Stage 2 Group and Bank	Individual (Retail Customers)		
	Overdrafts Shs'000	Term Loans Shs'000	Total Shs'000
31 December 2019			
Past due up to 30 days	-	10,759	10,759
Past due 30 - 90 days	2,681	35,407	38,088
Past due 60 - 90 days	-	22,202	22,202
Total	2,681	46,166	48,847

3. Financial Risk Management (Continued)
3.1 Credit Risk (Continued)
3.1.4 Financial Assets that are Past Due or Impaired (Continued)
ii) Loans and Advances Past Due by up to 90 Days (Stage 2) (Continued)

Stage 2 Group and Bank	Corporate Entities		
	Large Corporate Customers Shs'000	SMEs Shs'000	Total Shs'000
31 December 2019			
Past due up to 30 days	16,537	11,689	28,226
Past due 30 - 90 days	42,022	53,732	95,754
Past due 60 - 90 days	-	7,860	7,860
Total	58,559	65,421	123,980

iii) *Loans and Advances Individually Impaired (Stage 3) - Group and Bank*

Of the total gross amount of impaired loans, the following amounts have been individually assessed net of interest in suspense:

Stage 3 Group and Bank	Individual (Retail Customers)			Corporate Entities		
	Overdrafts Shs'000	Term Loans Shs'000	Mortgage Shs'000	Large Corporate Customers Shs'000	SMEs Shs'000	Total Loans & Advances to Customers Shs'000
31 December 2020						
Stage 3	345,639	147,687	27,095	577,199	795,442	1,713,722
31 December 2019						
Stage 3	9,244	107,158	13,096	808,894	386,689	1,325,081

Collateral Held Against Stage 3 Loans	SME Shs'000	Corporate Shs'000	Personal Shs'000	Total Collateral Held Shs'000
Product				
Loans	324,002	523,829	178,453	1,026,284
Overdraft	350,355	625	14,479	365,459
Total	674,357	524,454	192,932	1,391,743

3.2 Concentration of Risk

Economic sector risk concentrations within the loan portfolios were as follows:

Risk Concentration on Loan Portfolios	Loans and Advances %	Credit Commitments %
At 31 December 2020		
Financial institutions	3%	0%
Manufacturing	1%	0%
Real estate	5%	0%
Wholesale and Retail trade	30%	0%
Building and construction	23%	0%
Other industries	22%	83%
Individuals	14%	17%
	100%	100%
At 31 December 2019		
Financial institutions	5%	1%
Manufacturing	2%	11%
Real estate	6%	37%
Wholesale and retail trade	36%	21%
Building and construction	22%	16%
Other industries	13%	11%
Individuals	16%	3%
	100%	100%

3.3 Market Risk

The Bank takes on exposure to market risks, which is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risks arise from open positions in interest rate, currency and equity products, all of which are exposed to general and specific market movements and changes in the level of volatility of market rates or prices such as interest rates, foreign exchange rates and equity prices. The Bank separates exposures to market risk into either trading or non-trading portfolios.

The objective of market risk management is to manage and control market risk exposures within acceptable limits, while optimising the return on risk. Overall responsibility for managing market risk rests with the Assets and Liabilities Committee (ALCO). The Treasury department is responsible for the development of detailed risk management policies (subject to review and approval by ALCO) and for the day to day implementation of those policies. Market risk measurement and monitoring technique adopted by the bank includes use of various stress tests in its day to day operations.

Stress tests provide an indication of the potential size of losses that could arise in extreme conditions. The stress tests carried out by Bank Treasury include interest rates stress test, liquidity stress test and adhoc stress testing, which includes applying possible stress events to specific positions or regions – for example, the stress outcome to a region following a currency peg break.

The results of the stress tests are reviewed by senior management and the Assets and liabilities committee and by the Board of Directors. The stress testing is tailored to the business and typically uses scenario analysis.

i) Foreign Exchange Risk

The Bank takes on exposure to the effects of fluctuations in the prevailing currency exchange rates on its financial position and cash flows. The Board of Directors sets limits on the level of exposure by currency and in total for both overnight and intra-day positions, which are monitored daily.

At December 2020, if the shilling had weakened/strengthened by 10% against the foreign currencies in which the Bank had exposures, with all other variables held constant, pre-tax profit would have been lower by Kshs7.56/Kes 6.49Mln higher(2019: Kshs (7.95Mln/ 7.2).

ii) Currency Risk

The table below summarises the Bank's exposure to foreign exchange risk at 31 December 2020. Included in the table are the Bank's financial instruments at carrying amounts, categorised by currency (all amounts expressed in thousands of Kenya Shillings).

3. Financial Risk Management (Continued)

3.3 Market Risk (Continued)

ii) Currency Risk (Continued)

Foreign Exchange Risk Exposure	USD	GBP	Euro	Other	Total
At 31 December 2020					
Assets					
Cash and balances with Central Bank of Kenya	98,286	70,896	45,332	1,656	216,170
Deposits and balances due from banking institutions	-	-	-	-	-
Loans and advances to customers	2,761,062	-	85,067	-	2,846,129
Other assets	-	-	-	-	-
Total assets	2,859,348	70,896	130,399	1,656	3,062,299
Liabilities					
Customer deposits	1,875,716	165,772	53,773	518	2,095,779
Deposits and balances due to banking institutions	507,885	-	-	-	507,885
Other liabilities	276	-	-	-	276
Total liabilities	2,383,654	165,772	53,773	518	2,603,717
Net on-balance sheet position	475,694	(94,876)	76,626	1,138	458,582
Net off-balance sheet position	(342,263)	93,591	(79,001)	-	(327,673)
Overall net position	133,431	(1,285)	(2,375)	1,138	130,909
As at 31 December 2019					
Total assets	1,981,736	153,343	82,230	857	2,218,166
Total liabilities	1,443,378	151,210	65,696	493	1,660,777
Net on-balance sheet position	538,358	2,133	16,534	364	557,389
Net off-balance sheet position	(394,009)	2,270	(13,604)	-	(405,343)
Overall net position	144,349	4,403	2,930	364	152,046

iii) Interest Rate Risk

Cash flow interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate because of changes in market interest rates.

The Bank's interest bearing financial assets and liabilities are loans and advances to customers and customer deposits, which are at variable rate, and on which it is therefore exposed to cash flow interest rate risk. The Bank regularly monitors financing options available to ensure optimum interest rates are obtained. At December 2020, 20% increase in Interest Charging Liabilities with Costant volume and yield on interest earning assets will reduce Profits by Kes 22.36Mln.20% decrease in earning Assets coupled with 20% increase in Charging Liabilities assuming 1% increase in cost of funds but holding yield on earning assets constant will arise in profit reduction by Kes 82.42Mln.This is the worst case scenario.

The table below summarises the exposure to interest rate risk. Included in the table are the Bank's assets and liabilities at carrying amounts, categorised by the earlier of contractual re-pricing or maturity date. The Bank does not bear an interest rate risk on off balance sheet items. All figures are in thousands of Kenya shillings.

Interest Rate Risk Group	Up to 1 Months Shs'000	1-3 Months Shs'000	4-12 Months Shs'000	Over 1 Year Shs'000	Non-Interest Bearing Shs'000	Total Shs'000
As at 31 December 2020						
Assets						
Cash and balances with Central	-	-	-	-	1,145,705	1,145,705
Bank of Kenya						-
Financial assets at amortised cost	22,184	117,543	222,768	2,998,834	-	3,361,329
Deposits and balances due from	784,649	-	-	-	-	784,649
banking institutions						-
Financial assets at FVOCI	585,271	-	-	-	-	585,271
Other assets and prepaid expenses	-	-	-	-	561,491	561,491
Loans and advances to customers	15,631,035	-	-	-	-	15,631,035
Property and equipment and	-	-	-	-	482,068	482,068
intangible assets						164,343
Deferred income tax	-	-	-	-	164,343	407,271
Right-of-use asset	-	-	-	-	407,271	89,867
Current income tax	-	-	-	-	89,867	-
Total assets	17,023,139	117,543	222,768	2,998,834	2,850,745	23,213,029

3. Financial Risk Management (Continued)
3.3 Market Risk (Continued)
iii) Interest Rate Risk (Continued)

Interest Rate Risk Group	Up to 1 Months Shs'000	1-3 Months Shs'000	4-12 Months Shs'000	Over 1 Year Shs'000	Non-Interest Bearing Shs'000	Total Shs'000
As at 31 December 2020						
Liabilities and Shareholders' Funds						
Customer deposits	4,323,248	5,261,228	2,843,612	396,522	4,813,853	17,638,463
Deposits and balances due to banking institutions	510,781	-	-	-	-	510,781
Other liabilities	-	-	-	-	466,826	466,826
Current income tax	-	-	-	-	-	-
Lease liability	-	-	-	-	462,216	462,216
Long term borrowings	-	-	-	891,392	-	891,392
Shareholders' equity				-	3,243,351	3,243,351
Total liabilities and shareholders' equity	4,834,029	5,261,228	2,843,612	1,287,914	8,986,246	23,213,029
Interest sensitivity gap	12,189,110	(5,143,685)	(2,620,844)	1,710,920	(6,135,501)	-
As at 31 December 2019						
Total assets	16,779,635	22,642	168,184	1,591,960	3,102,024	21,664,445
Total liabilities and shareholders' funds	6,336,667	5,040,951	2,188,274	346,573	7,751,801	21,664,445
Interest sensitivity gap	10,442,968	(5,018,309)	(2,020,090)	1,938,533	(4,649,777)	-

3. Financial Risk Management (Continued)

3.3 Market Risk (Continued)

iii) Interest Rate Risk (Continued)

Interest Rate Risk Bank	Up to 1 Months Shs'000	1-3 Months Shs'000	4-12 Months Shs'000	Over 1 Year Shs'000	Non-Interest Bearing Shs'000	Total Shs'000
As at 31 December 2020						
Assets						
Cash and balances with Central Bank of Kenya	-	-	-	-	1,116,838	1,116,838
Financial assets at amortised cost	22,184	117,543	222,768	2,998,834	-	3,361,329
Deposits and balances due from banking institutions	784,649	-	-	-	-	784,649
Financial assets at FVOCI	585,271	-	-	-	-	585,271
Other assets and prepaid expenses					526,217	526,217
Loans and advances to customers	15,631,035	-	-	-	-	15,631,035
Property and equipment and intangible assets	-	-	-	-	482,068	482,068
Right-of-use asset	-	-	-	-	407,271	407,271
Deferred income tax	-	-	-	-	164,385	164,385
Investment in subsidiary	-	-	-	-	86,275	86,275
Total assets	17,023,139	117,543	222,768	2,998,834	2,783,054	23,145,338

Interest Rate Risk ***Bank***	Up to 1 Months Shs'000	1-3 Months Shs'000	4-12 Months Shs'000	Over 1 Year Shs'000	Non-Interest Bearing Shs'000	Total Shs'000
As at 31 December 2010						
Liabilities And Shareholders' Funds						
Customer deposits	4,323,248	5,261,228	2,843,612	396,522	4,813,853	17,638,463
Deposits and balances due to banking institutions	510,781	-	-	-	-	510,781
Other liabilities	-	-	-	-	424,275	424,275
Current income tax	-	-	-	-	-	-
Lease liability	-	-	-	-	462,216	462,216
Long term borrowings	-	-	-	891,392	-	891,392
Shareholders' equity	-	-	-	-	3,218,211	3,218,211
Total liabilities and shareholders' equity	4,834,029	5,261,228	2,843,612	1,287,914	8,918,555	23,145,338
Interest sensitivity gap	12,189,110	(5,143,685)	(2,620,844)	1,710,920	(6,135,501)	-
As at 31 December 2019						
Total assets	16,779,635	22,642	168,184	1,591,961	2,977,316	21,540,738
Total liabilities and shareholders' funds	6,336,667	5,040,951	2,188,274	346,573	7,628,273	21,540,738
Interest sensitivity gap	10,442,968	(5,018,309)	(2,020,090)	1,245,388	(4,650,957)	-

3.4 Liquidity Risk

Liquidity risk is the risk that the Bank is unable to meet its obligations when they fall due as a result of customer deposits being withdrawn, cash requirements from contractual commitments, or other cash outflows, such as debt maturities or margin calls for derivatives. Such outflows would deplete available cash resources for client lending, trading activities and investments. In extreme circumstances, lack of liquidity could result in reductions in the statement of financial position and sales of assets, or potentially an inability to fulfil lending commitments. The risk that the Bank will be unable to do so is inherent in all banking operations and can be affected by a range of institution-specific and market-wide events including, but not limited to, credit events, merger and acquisition activity, systemic shocks and natural disasters.

The Bank's liquidity management process, as carried out within the Bank and monitored by a separate team in Bank Treasury, includes:

- Day-to-day funding, managed by monitoring future cash flows to ensure that requirements can be met. This includes replenishment of funds as they mature or are borrowed by customers. The Bank maintains an active presence in global money markets to enable this to happen;
- Maintaining a portfolio of highly marketable assets that can easily be liquidated as protection against any unforeseen interruption to cash flow;
- Monitoring the liquidity ratios of the statement of financial position against internal and regulatory requirements; and
- Managing the concentration and profile of debt maturities.

Monitoring and reporting take the form of cash flow measurement and projections for the next day, week and month respectively, as these are key periods for liquidity management. The starting point for those projections is an analysis of the contractual maturity of the financial liabilities and the expected collection date of the financial assets.

Bank Treasury also monitors unmatched medium-term assets, the level and type of undrawn lending commitments, the usage of overdraft facilities and the impact of contingent liabilities such as standby letters of credit and guarantees.

The table below presents the undiscounted cash flows payable by the Bank under financial liabilities by remaining contractual maturities at the balance sheet date. All figures are in Thousands of Kenya Shillings.

Payable Undiscounted Cash Flows Group	Up to 1 Months Shs'000	1-3 Months Shs'000	4-12 Months Shs'000	1-5 Years Shs'000	Over 5 Years Shs'000	Total Shs'000
As at 31 December 2020						
Liabilities						
Customer deposits	9,147,970	5,362,395	2,989,221	414,553	25,808	17,939,946
Deposits and balances due to banking institutions	510,781	-	-	-	-	510,781
Other liabilities	301,922	112,349	5,677	46,879	-	466,827
Borrowings	-	25,468	36,383	955,669	-	1,017,521
Shareholders' equity	-	-	-	-	3,243,351	3,243,351
Lease liability	-	14,192	40,219	568,638	-	623,048
Total liabilities	9,960,673	5,514,404	3,071,500	1,985,738	3,269,159	23,801,474
As at 31 December 2019						
Liabilities						
Customer deposits	9,528,359	4,846,680	2,073,920	346,574	10,887	16,806,420
Deposits and balances due to banking institutions	540,192	-	-	-	-	540,192
Other liabilities	506,349	112,025	40,518	42,512	25,630	727,034
Shareholders' equity	-	-	-	-	3,018,168	3,018,168
Lease Liability	-	-	-	-	530,982	530,982
Total liabilities	10,574,900	4,958,705	2,114,438	389,086	3,585,667	21,622,796

Payable Undiscounted Cash Flows Bank	Up to 1 Months Shs'000	1-3 Months Shs'000	4-12 Months Shs'000	1-5 Years Shs'000	Over 5 Years Shs'000	Total Shs'000
As at 31 December 2020						
Liabilities						
Customer deposits	9,147,970	5,362,395	2,989,221	414,553	25,808	17,939,946
Deposits and balances due to banking institutions	510,781	-	-	-	-	510,781
					-	
Other liabilities	259,370	112,349	5,677	46,879	-	424,275
Long term borrowings	-	25,468	36,383	955,669	-	1,017,521
Lease liability	-	14,192	40,219	568,638	-	623,048
Shareholders Equity	-	-	-	-	3,218,211	3,218,211
Total liabilities	9,907,251	5,514,404	3,071,500	1,985,738	3,244,019	23,733,782
At 31 December 2019						
Liabilities						
Customer deposits	9,528,359	4,846,680	2,073,920	346,574	10,887	16,806,420
Deposits and balances due to banking institutions	540,192	-	-	-	-	540,192
Other liabilities	400,380	112,025	40,518	42,512	25,630	621,065
Lease liability					530,982	530,982
Total liabilities	10,468,931	4,958,705	2,114,438	389,086	567,499	18,498,659

The Bank holds a diversified portfolio of cash and high-quality highly-liquid securities to manage liquidity risk and support payment obligations and contingent funding in a stressed market environment. The Bank's assets held for managing liquidity risk comprise of cash and balances with Central Bank of Kenya, certificates of deposit, government securities and other securities that are readily acceptable in repurchase agreements with the Central Bank of Kenya.

3.5 Fair Value Hierarchy

Assets Measured at Fair Value Group and Bank	Level 1 Shs'000	Level 2 Shs'000	Level 3 Shs'000	Total balance Shs'000
At 31 December 2020				
Assets				
Fair value through OCI				
- Debt investments	-	585,270	-	585,270
At 31 December 2019				
Assets				
Fair value through OCI				
- Debt investments	-	1,246,602	-	1,246,602

The fair value of financial instruments traded in active markets is based on quoted market prices at the balance sheet date. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry Bank, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. The quoted market price used for financial assets held by the Bank is the current bid price. These instruments are included in level 1. Instruments included in level 1 comprise primarily foreign corporate bonds and Nairobi Securities Exchange ("NSE") equity investments classified as available for sale.

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined by using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2. If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3.

Specific valuation techniques used to value financial instruments include:

- Quoted market prices or dealer quotes for similar instruments
- The fair value of forward foreign exchange contracts is determined using forward exchange rates at the balance sheet date, with the resulting value discounted back to present value.

The following summarises the carrying amount of those assets and liabilities not held at fair value. The carrying amount of assets and liabilities held at amortised cost is considered to approximate the fair value of the assets and liabilities.

3. Financial Risk Management (Continued)

3.5 Fair Value Hierarchy (Continued)

Fair Value Group	2020		2019	
	Historical Cost Shs'000	Fair Value Shs'000	Historical Cost Shs'000	Fair Value Shs'000
Assets				
Cash and balances with Central Bank of Kenya	1,145,705	1,145,705	1,286,075	1,286,075
Financial assets at FVOCI	585,271	585,271	1,246,602	1,246,602
Financial assets at amortised cost	3,361,329	3,361,329	1,789,084	1,789,084
Deposits and balances due from banking institutions	784,649	784,649	434,016	434,016
Loans and advances to customers	15,631,035	15,631,035	15,226,683	15,226,683
Other assets and prepaid expenses	561,390	561,390	526,289	526,289
Right of Use Assets	407,271	407,271	496,120	496,120
Liabilities				
Deposits and balances due to banking institutions	510,781	510,781	540,192	540,192
Customer deposits	17,638,464	17,638,464	16,806,420	16,806,420
Other liabilities	466,828	466,828	727,034	727,034
Borrowings	891,392	891,392	-	-
Lease liabilities	462,216	462,216	530,982	530,982

Fair Value Bank	2020		2019	
	Historical cost Shs'000	Fair Value Shs'000	Historical cost Shs'000	Fair Value Shs'000
Assets				
Cash and balances with Central Bank of Kenya	1,116,838	1,116,838	1,256,286	1,256,286
Financial assets at FVOCI	585,271	585,271	1,246,602	1,246,602
Financial assets at amortised cost	3,361,329	3,361,329	1,789,084	1,789,084
Deposits and balances due from banking institutions	784,649	784,649	434,016	434,016
Loans and advances to customers	15,631,035	15,631,035	15,226,683	15,226,683
Other assets and prepaid expenses	525,219	525,219	435,378	435,378
Right of Use Assets	407,271	407,271	496,120	496,120
Liabilities				
Deposits and balances due to banking institutions	510,781	510,781	540,192	540,192
Customer deposits	17,638,464	17,638,464	16,806,420	16,806,420
Other liabilities	424,275	424,275	621,065	621,065
Borrowing	891,392	891,392	-	-
Lease liabilities	462,216	462,216	530,982	530,982

3.6 Capital Management

The Bank's objectives when managing capital, which is a broader concept than the 'equity' on the balance sheets, are:

- to comply with the capital requirements set by the Central Bank of Kenya;
- to safeguard the Bank's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders;
- to maintain a strong capital base to support the development of its business.

Capital adequacy and use of regulatory capital are monitored regularly by management, employing techniques based on the guidelines developed by the Central Bank of Kenya for supervisory purposes. The required information is filed with the Central Bank of Kenya on a monthly basis.

The Central Bank of Kenya requires each bank to:

(a) hold the minimum level of regulatory capital of Shs 1 billion;
(b) maintain a ratio of core regulatory capital to the risk-weighted assets plus risk-weighted off-balance sheet assets (the 'Basel ratio') at or above the required minimum of 10.5% (2019: 10.5%);
(c) maintain core capital of not less than 8% of total deposit liabilities; and
(d) maintain total capital of not less than 14.5% (2019: 14.5%) of risk-weighted assets plus risk-weighted off-balance sheet items.

The Bank's total regulatory capital is divided into two tiers:

- Tier 1 capital (core capital): share capital, share premium, plus retained earnings.
- Tier 2 capital (supplementary capital): 25% (subject to prior approval) of revaluation reserves, subordinated debt not exceeding 50% of Tier 1 capital and hybrid capital instruments. Qualifying Tier 2 capital is limited to 100% of Tier 1 capital.

The risk weighted assets are measured by means of a hierarchy of four risk weights classified according to the nature of – and reflecting an estimate of the credit risk associated with – each asset and counterparty. A similar treatment is adopted for off-balance sheet exposure, with some adjustments to reflect the more contingent nature of the potential losses.

The table below summarises the composition of regulatory capital and the ratios of the Bank as at 31 December:

Composition of Regulatory Capital	2020 Shs'000	2019 Shs'000
Tier 1 capital	2,869,788	2,837,260
Tier 1 + Tier 2 capital	3,218,212	3,001,944
Risk-weighted assets		
On-balance sheet	17,588,094	16,955,484
Off-balance sheet	4,567,864	3,113,865
Total risk-weighted assets	22,155,958	20,069,349
Basel ratio		
Core capital to total risk weighted assets		
(CBK minimum – 10.5% (2019: 10.5%)	13.00%	14.10%
Total capital to total risk weighted assets		
(CBK minimum – 14.5% (2018: 14.5%)	14.53%	15.0%

4. Critical Accounting Estimates and Judgements in Applying Accounting Policies

The Bank makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgements are continuously evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

a) Impairment losses on loans and advances

The Bank reviews its loan portfolios to assess impairment at least on a quarterly basis. In determining whether an impairment loss should be recorded in profit or loss, the Bank makes judgements as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with an individual loan in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the Bank.

Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

	2020 Shs'000	2019 Shs'000
5. Interest Income		
Group and Bank		
Loans and advances	2,285,172	1,919,735
Credit related fees and commissions	181,643	314,355
Financial assets at amortised cost	344,835	173,512
Financial assets at FVOCI	54,806	102,885
Deposits and balances due from banking institutions	15,335	5,063
	2,881,791	2,515,550
6. Interest Expense		
Group		
Customer deposits	1,305,139	1,133,445
Deposits and balances due to banking institutions	60,173	36,505
Lease liability	57,948	59,935
	1,423,260	1,229,885
Bank		
Customer deposits	1,307,085	1,134,631
Deposits and balances due to banking institutions	60,173	36,505
Lease liability	57,948	59,935
	1,425,206	1,231,071
7. Other Income		
Group and Bank		
Gain on sale of financial assets held at FVOCI	43,106	16,941
Other income	8,579	33,221
Loss on disposal of property and equipment	(9,131)	(187)
	42,554	49,975
8. Credit Impairment Losses		
Group and Bank		
Increase/ (decrease) in stage 1 ECL	23,211	(12,994)
Increase/ (decrease) in stage 2 ECL	96,819	(17,974)
Increase in stage 3 ECL	345,391	216,958
Loans to customers (Note 17)	465,421	185,990

	2020 Shs'000	2019 Shs'000
9. Employee Benefits		
Group		
Salaries and allowances	577,823	566,214
Medical insurance	48,622	41,851
Training and development	7,385	9,192
Travelling and accommodation	497	3,776
- Defined contribution scheme	26,241	23,447
- National Social Security Fund	560	550
Other costs	37,131	13,723
	698,259	658,753
The number of persons employed by the Group at the year-end was 222 (2019: 249).		
Bank		
Salaries and allowances	566,368	555,363
Medical insurance	47,828	41,164
Training and development	7,385	9,192
Travelling and accommodation	497	3,776
Retirement benefits costs		-
- Defined contribution scheme	25,722	23,126
- National Social Security Fund	548	539
Other costs	36,809	13,429
	685,157	646,589
The number of persons employed by the Bank at the year-end was 217 (2019: 249).		

10. Other Operating Expenses

	2020 Shs'000	2019 Shs'000
Group		
The following items are included with other operating expenses:		
Software licensing and other information technology costs	116,116	79,754
Auditor's remuneration	5,147	4,497
Rental expenses	21,611	91,317
Other costs	324,343	260,732
	467,217	436,300
Bank		
The following items are included with other operating expenses:		
Software licensing and other information technology costs	115,965	79,603
Auditor's remuneration	4,782	4,132
Rental expenses	21,611	91,317
Other costs	323,589	259,739
	465,947	434,791

11. Income Tax Expense	2020 Shs'000	2019 Shs'000
Group		
Current income tax	63,138	134,594
Deferred income tax (Note 19)	(52,927)	(46,080)
Underprovision of deferred tax in the prior years (Note 19)	65,106	2,060
(Over)/ under provision of current tax in the prior years (Note 19)	(1,382)	316
	73,935	90,890
The tax on the Group's profit before income tax differs from the theoretical amount that would arise using the statutory income tax rate as follows:		
Profit before income tax	18,131	302,909
Tax calculated at a tax rate of 25% (2019: 30%)	4,533	90,873
Tax effect of:		
- income not subject to tax	(26,105)	(41,522)
- expenses not deductible for tax purposes	29,984	39,163
- under/(over)/ provision of deferred tax in prior years	65,106	2,060
- (over)/ under provision of current tax in prior years	(1,382	316
- impact of using a different deferred tax rate	1,799	-
Income tax expense	73,935	90,080
Bank		
Current income tax	60,515	133,611
Deferred income tax (Note 19)	(52,792	(46,351)
Underprovision of deferred income tax in the prior years (Note 19)	65,064	2,061
Under provision of curreny tax in the prior years	(1,342)	520
	71,445	89,841
The tax on the Bank's profit before income tax differs from the theoretical amount that would arise using the statutory income tax rate as follows:		
Profit before income tax	8,361	300,072
Tax calculated at a tax rate of 25% (2018: 30%)	2,090	90,022
Tax effect of:		
- income not subject to tax	(26,105)	(41,522)
- expenses not deductible for tax purposes	29,693	38,760
- underprovision of deferred tax in prior years	65,064	2,061
- (over)/ under provision of current tax in prior years	(1,342)	520
- impact of using a different tax rate for deferred tax	2,045	-
Income tax expense	71,445	89,841

12. Proposed Dividends

Proposed dividends are provided for when declared and ratified at the annual general meeting.

Payment of dividends is subject to withholding tax at a rate of either 5% or 10% depending on the residence status of the respective shareholders.

The directors do not recommend payment of a cash dividend (2019: Nil). The directors do not propose dividend in form of bonus shares. (2019: 263,351 shares at par resulting to reclassification of Shs 26.34 million from retained earning to paid up capital)

	2020 Shs'000	2019 Shs'000
13. Cash and Balances with Central Bank of Kenya		
Group		
Cash in hand	386,776	364,293
Balances with Central Bank of Kenya	758,929	921,782
	1,145,705	1,286,075
Bank		
Cash in hand	357,909	364,293
Balances with Central Bank of Kenya	758,929	891,993
	1,116,838	1,256,286

The ECL for cash and bank balances was not material and has nto been booked. (2019: Not material)

	2020 Shs'000	2019 Shs'000
14. Financial Assets Held at FVOCI		
Group and Bank		
Infrastructure bond	146,650	571,778
Treasury bonds	438,621	674,824
	585,271	1,246,602

The securities are traded on the Nairobi Securities Exchange. The ECL was not material to the financial statements and has not been booked. (2019: Not material)

	2020 Shs'000	2019 Shs'000
15. Financial Assets Held-to-Maturity		
Group and Bank		
Maturing after 90 days of the date of acquisition	3,301,329	1,789,084
Maturing within 90 days from the date of acquisition	60,000	-
	3,361,329	1,789,084

The ECL was not material to the financial statements and has not been booked. (2019: Not material)

	2020 Shs'000	2019 Shs'000
16. Deposits and Balances from Banking Institutions		
Group and Bank		
Overnight lending	700,123	300,053
Balances with banks abroad	84,526	133,963
	784,649	434,016

The ECL was not material to the financial statements and has not been booked. (2019: Not material)

	2020 Shs'000	2019 Shs'000
17. Loans and Advances to Customers		
Retail customers		
Mortgage lending	649,776	680,660
Personal unsecured	67,906	60,752
Personal secured Loans	2,228,678	1,528,035
Corporate customers		
Commercial term loans	9,864,600	9,749,393
Overdraft facilities	3,697,725	3,624,639
Gross loans and advances	16,508,685	15,643,479
Less: Provision for impairment of loans and advances		
- Stage 1	(79,028)	(55,817)
- Stage 2	(105,284)	(8,465)
- Stage 3	(693,338)	(352,514)
	(877,650)	(416,796)
Net loans and advances	15,631,035	15,226,683

i)	Stage 1 12-month ECL Shs'000	Stage 2 Lifetime ECL Shs'000	Stage 3 Lifetime ECL Shs'000	Total Shs'000
Gross carrying amount as at 1 January 2020	14,096,485	172,827	1,374,167	15,643,479
Transfer from stage 1 to stage 2	(3,369,615)	3,369,615	-	-
Transfer from stage 1 to stage 3	(3,940)	-	3,940	-
Transfer from stage 2 to stage 3	-	(267,104)	267,104	-
Transfer from stage 3 to stage 1	39,934	-	(39,934)	-
Transfer from stage 3 to stage 2	-	4,104	(4,104)	-
Transfer from stage 2 to stage 1	104,127	(104,127)	-	-
New financial assets originated	872,054	416,649	218,243	1,506,946
Financial assets derecognised	(508,248)	(27,798)	(105,694)	(641,740)
Gross carrying amount as at 31 December 2020	11,230,797	3,564,166	1,713,722	16,508,685
Gross carrying amount as at 1 January 2019	11,825,366	597,601	1,002,094	13,425,061
Transfer from stage 1 to stage 2	(355,245)	355,245	-	-
Transfer from stage 1 to stage 3	(25,654)	-	25,654	-
Transfer from stage 2 to stage 3	-	(512,009)	512,009	-
Transfer from stage 3 to stage 2	-	6	(6)	-
Transfer from stage 2 to stage 1	236,504	(236,504)	-	-
Transfer from stage 3 to stage 1	5,465	-	(5,465)	-
New financial assets originated or purchased	3,264,710	8,485	49,086	3,322,281
Financial assets that have been derecognised	(854,661)	(39,997)	(109,652)	(1,004,310)
Write-offs	-	-	(99,553)	(99,553)
Gross carrying amount as at 31 December 2019	14,096,485	172,827	1,374,167	15,643,479

ii) Provisions for Impairment of Loans and Advances	Stage 1 12-month ECL Shs'000	Stage 2 Lifetime ECL Shs'000	Stage 3 Lifetime ECL Shs'000	Total Shs'000
Year ended 31 December 2020				
At start of the year	55,817	8,465	352,514	416,796
Movements during the year				
Transfer to 12 month ECL	(20,950)	20,950	-	-
Transfer to lifetime ECL not credit impaired	(181)	-	181	-
Transfer to life time ECL credit impaired	-	(432)	432	-
Net remeasurement of loss allowance	-	-	-	-
Net financial assets originated	66,402	78,972	377,853	523,227
Financial assets derecognized	(22,060)	(2,671)	(33,075)	(57,806)
Reclassification of Unapplied customer funds	-	-	-	-
Charge to profit or loss	23,211	96,819	345,391	465,421
Write-offs	-	-	(4,567)	(4,567)
Loss allowance as at 31 December 2020	79,028	105,284	653,387	877,650
Year ended 31 December 2019				
At start of the year	68,811	26,439	298,563	393,813
Change on initial application of IFRS 9	-	-	-	-
Movements during the year				
Transfer to 12 month ECL	18,664	(18,664)	-	-
Transfer to life time ECL not credit impaired	(483)	489	(6)	-
Transfer to life time ECL credit impaired	(35,676)	(298)	35,974	-
New financial assets originated	4,501	499	131,904	136,904
Net remeasurement of loss allowance	-	-	53,755	53,755
Financial assets derecognized	-	-	(4,669)	(4,669)
Charge to profit or loss	(12,994)	(17,974)	216,958	185,990
Write-offs	-	-	(163,077)	(163,077)
Loss allowance as at 31 December 2018	55,817	8,465	352,514	416,796

18. Other Assets and Prepaid Expenses	2020 Shs'000	2019 Shs'000
Group		
Items in transit	244,316	223,673
Prepaid expenses	53,705	62,613
Stationery stocks	12,067	9,548
Others	251,302	230,455
	561,390	526,289
Bank		
Items in transit	244,316	223,673
Prepaid expenses	53,705	62,613
Stationery stocks	12,067	9,548
Others	215,131	139,544
	525,219	435,378

19. Deferred Income Tax

Deferred income tax is calculated, in full, on all temporary differences under the liability method using the enacted income tax rate of 30% (2019: 30%). The movement on the deferred income tax account is as follows:

Deferred Income Tax Group	2020 Shs'000	2019 Shs'000
At start of year	176,645	132,625
Charge to profit or loss account (Note 11)	52,927	46,080
Under provision in the prior years	(65,106)	(2,060)
At end of year	164,466	176,645

The net deferred income tax asset in the statement of financial position, deferred income tax credit in the profit or loss and charge to other comprehensive income (OCI) are attributable to the following items:

Attribution of Net Deferred Income Tax Group	At Start of Year Shs'000	(Credit/ (Charge) to P&L Shs'000	At End of Year Shs'000
Year ended 31 December 2020			
Property and equipment	4,986	5,758	10,744
Loans and advances	125,447	29,586	155,033
Other provisions	46,212	(47,523)	(1,311)
Net deferred income tax asset	176,645	(12,179)	164,466
Year ended 31 December 2019			
Property and equipment	2,133	2,853	4,986
Loans and advances	134,144	(8,697)	125,447
Other provisions	5,352	40,860	46,212
Fair value movement	(8,913)	8,913	-
Unrealised exchange losses	(91)	91	-
Net deferred income tax asset	132,625	44,020	176,645

The deferred tax on FVOCI instruments is not material for both years.

Deferred Income Tax Group	2020 Shs'000	2019 Shs'000
At start of year	176,656	132,367
Change on initial application of IFRS 9		-
Charge to profit or loss account (Note 11)	52,792	46,350
Under provision in the prior years	(63,723)	(2,061)
Prior year adjustment	(1,341)	
At end of year	164,384	176,656

The net deferred income tax asset in the statement of financial position and deferred income tax expense in the profit or loss are attributable to the following items:

Attribution of Net Deferred Income Tax Group	At Start of Year Shs'000	(Credit/ (Charge) to P&L Shs'000	At End of Year Shs'000
Year ended 31 December 2020			
Property and equipment	4,986	5,706	10,692
Loans and advances	125,447	29,586	155,033
Other provisions	46,223	(47,564)	(1,341)
Net deferred income tax asset	176,656	(12,272)	164,384
Year ended 31 December 2019			
Property and equipment	2,142	2,844	4,986
Loans and advances	133,877	8,430	125,447
Other provisions	5,352	40,871	46,223
Fair value movement	(8,193)	8,193	-
Unrealised exchange losses	(91)	91	-
Net deferred income tax asset	132,367	60,429	176,656

20. Property and Equipment Group	Leasehold Improvements Shs'000	Motor Vehicles Shs'000	Office Equipment Shs'000	Computer & Electronic Equipment Shs'000	Furniture and FIttings Shs'000	Total Shs'000
At January 2019						
Cost	252,237	31,089	217,646	154,844	40,608	696,424
Accumulated Depreciation	(112,964)	(21,665)	(124,473)	(137,039)	(29,438)	(425,579)
Net Book Value	139,273	9,424	93,173	17,805	11,170	270,844
Year ended 31 December 2019						
Opening net book amount	139,273	9,424	93,173	17,805	11,170	270,844
Additions	54,050	-	30,041	2,706	1,961	88,759
	(5,237)	-	(1,606)	(84)	(134)	(7,061)
Depreciation charged	(20,478)	(2,758)	(24,911)	(11,618)	(2,426)	(62,191)
Closing net book amount	167,608	6,666	96,697	8,809	10,571	290,351
At 31 December 2019						
Cost	301,050	31,089	246,081	157,466	42,436	778,122
Accumulated depreciation	(133,442)	(24,423)	(149,384)	(148,657)	(31,865)	(487,771)
Net book amount	167,608	6,666	96,697	8,809	10,571	290,351
Year ended 31 December 2020						
Opening net book amount	167,608	6,666	96,697	8,809	10,571	290,351
Additions	7,572		104,517	4,443	6,258	122,790
Disposal	(11,039)	(130)	(2,862)	(4)	(28)	(14,063)
Depreciation charged	(22,215)	(2,758)	(33,029)	(6,354)	(2,619)	(66,975)
Closing net book amount	141,926	3,778	165,323	6,894	14,182	332,103
At 31 December 2020						
Cost	284,125	30,959	337,308	161,555	47,843	861,791
Accumulated depreciation	(142,199)	(27,181)	(171,985)	(154,661)	(33,662)	(529,688)
Net book amount	141,926	3,778	165,323	6,894	14,182	332,103

20. Property and Equipment Bank	Leasehold Improvements Shs'000	Motor Vehicles Shs'000	Office Equipment Shs'000	Computer & Electronic Equipment Shs'000	Furniture and Fittings Shs'000	Total Shs'000
At January 2019						
Cost	252,237	31,089	217,646	154,750	40,558	696,280
Accumulated depreciation	(112,964)	(21,665)	(124,473)	(137,039)	(29,393)	(425,534)
Net book amount	139,273	9,424	93,173	17,711	11,165	270,745
Year ended 31 December 2019						
Opening net book amount	139,273	9,424	93,173	17,711	11,165	270,745
Additions	54,050	-	30,041	2,706	1,908	88,705
Disposals	(5,237)	-	(1,606)	(84)	(137)	(7,064)
Depreciation charged	(20,478)	(2,758)	(24,911)	(11,618)	(2,423)	(62,188)
Closing net book amount	167,608	6,666	96,697	8,715	10,513	290,201
At 31 December 2019						
Cost	301,050	31,089	246,081	157,273	42,332	777,825
Accumulated depreciation	(133,440)	(24,423)	(149,383)	(148,555)	(31,818)	(487,619)
Net book amount	167,610	6,666	96,698	8,718	10,514	290,206
Year ended 31 December 2020						
Opening net book amount	167,610	6,666	96,698	8,718	10,514	290,206
Additions	7,572	-	104,517	4,443	6,259	122,792
Disposals	(11,039)	(130)	(2,862)	(4)	(28)	(14,063)
Depreciation charged	(22,215)	(2,758)	(33,029)	(6,326)	(2,605)	(66,933)
Closing net book amount	141,928	3,778	165,324	6,831	14,140	332,001
At 31 December 2020	280,674	31,089	332,514	160,285	47,276	851,839
Cost	(138,746)	(27,311)	(167,190)	(153,454)	(33,137)	(519,838)
Accumulated depreciation						
Net book amount	141,928	3,778	165,324	6,831	14,139	332,001

21. Intangible Assets	Software Licences Shs'000	Work in Progress Shs'000	Total Shs'000
Group			
Year ended 31 December 2019			
Opening net book amount	160,711	9,646	170,356
Additions	67,418	11,102	78,520
Cost adjustment	(8,532)	-	(8,532)
Disposal	(66)	-	(66)
Amortisation for the year	(51,528)	-	(51,528)
Closing net book amount	168,003	20,748	188,751
Year ended 31 December 2020			
Opening net book amount	168,003	20,748	188,751
Additions	15,946	4,892	20,838
Amortisation for the year	(59,522)	-	(59,522)
Closing net book amount	124,427	25,640	150,067
Bank			
Year ended 31 December 2019			
Opening net book amount	160,563	9,645	170,208
Additions	67,418	11,102	78,520
Cost adjustment	(8,531)	-	(8,531)
Disposals	(66)	-	(66)
Amortisation for the year	(51,424)	-	(51,424)
Closing net book amount	167,960	20,747	188,707
Year ended 31 December 2020			
Opening net book amount	167,960	20,747	188,707
Additions	15,946	4,892	20,838
Amortisation for the year	(59,478)	-	(59,478)
Closing net book amount	124,428	25,639	150,067

22. Investment in Subsidiary

The Bank has an investment in a wholly owned subsidiary called Credit Bank Insurance Agency Limited. The subsidiary provides bancassurance services.

	2020 Shs'000	2019 Shs'000
23. Deposits and Balances Due to Banking Institutions		
Group and Bank		
Current accounts	3,096	12,072
Deposits from other banks	23	279,910
Overnight borrowing	507,662	248,210
	510,781	540,192
24. Customer Deposits		
Group and Bank		
Retail customers:		
Current and demand deposits	1,075,992	1,247,713
Fixed deposits	4,382,176	4,083,667
Savings accounts	205,221	277,253
Corporate customers:		
Current and demand deposits	2,553,581	2,282,807
Fixed deposits	9,253,319	8,914,980
Savings Accounts	168,174	-
	17,638,463	16,806,420
25. Other Liabilities		
Group		
Items in transit	8,909	23,506
Bills payable	48,928	16,569
Unclaimed balances	5,677	4,692
Other payables	401,993	681,615
	465,507	726,382
Bank		
Items in transit	8,909	23,506
Bills payable	48,928	14,176
Unclaimed balances	5,677	4,692
Other payables	360,045	578,765
	423,559	621,139

26. Right of Use Assets
Group and Bank

	Buildings Shs'000 2020	Buildings Shs'000 2019
Year ended 31 December 2019		
At start of year		
Initial recognition upon adoption of IFRS 16	496,120	464,233
Additions	19,606	104,640
Disposal	(23,982)	-
Depreciation Charge	(84,472)	(72,753)
At end of year	407,272	496,120

27. Lease Liabilities
Group and Bank

	Buildings Shs'000 2020	Buildings Shs'000 2019
At start of the year	530,982	-
Initial recognition of upon adoption of IFRS 16	-	461,683
Add:- additions	6,045	104,640
Less:- disposals	(17,218)	-
Add:- interest expense	57,948	59,974
Less:- lease payments	(114,822)	(95,315)
	462,935	530,982

Lease liablities can be classified as current or non – current liabilities depending on the expected date of settlement / cash outflow as per the table below:-

	Buildings Shs'000 2020	Buildings Shs'000 2019
Expected to be settled within 12 months after the year end	121,642	116,936
Expected to be settled more than 12 months after the year end	341,293	414,046
	462,935	530,982

28. Borrowings
Group and Bank

	Buildings Shs'000 2020	Buildings Shs'000 2019
Movement during the year:		
At start of year	-	-
Proceeds from borrowed funds	873,200	-
Repayment of borrowed funds	-	-
Interest charged on borrowed funds	18,192	-
Interest paid on borrowed funds	-	-
	891,392	-
Current	18,192	-
Non-current portion	873,200	-
	891,392	-

Lender	Type of loan	Loan Balance Shs' 000	Currency	Interest Rate	Maturity Date	Finance Cost Recognised in the Year Shs' 000
African Development Bank	Long term loan	891,392	USD	6 Months Libor + 4.75%	1 February 2025	34,018

29. Share Capital *Group and Bank*	Number of Shares (Thousands)	(Ordinary Shares Shs'000	Share Premium Shs'000
Year ended 31 December 2020			
At the start of the year	24,064	2,406,425	75,715
Issue of shares	267	26,733	16,444
Bonus issue	2,004	200,349	-
Share issue costs	-	-	(32,251)
As at 31 December 2019	26,335	2,633,507	59,908
Year ended 31 December 2019			
At the start of the year	26,335	2,633,507	59,908
Issue of shares	2,436	243,604	54,090
Bonus Issue	259	25,908	-
Share issue costs	-	-	(16,527)
As at 31 December 2020	29,030	2,903,019	97,343

As at 31 December 2020, the Banks authorised share capital was 75,000,000 ordinary shares of Shs' 100 each (2019: 75,000,000). During the year an additional 2,436,000 shares were issued at a premium.Retained earnings distributed in form of 259,000 bonus shares. 29,030,183 shares are issued and fully paid (2019: 26,335,063).

30. Regulatory Reserve *Group and Bank*	2020 Shs'000	2019 Shs'000
At start of year	164,684	92,040
Transfer from retained earnings	185,482	72,644
At end of year	350,166	164,684

The regulatory reserve represents an appropriation from retained earnings to comply with the CBK's Prudential guidelines. The balance in the reserve represents the excess of impairment provisions determined in accordance with the CBK's Prudential guidelines over the impairment provisions recognised in accordance with the International Financial Reporting Standards. This reserve is not distributable.

31. Fair Value Reserve *Group and Bank*	2020 Shs'000	2019 Shs'000
At start of year	(1,514)	10,119
Revaluation of FVOCI instruments net of tax	228	(11,633)
At end of year	(1,742)	(1,514)

Fair value reserve comprises the cumulative net change in the fair value of available-for-sale investments until the investment is derecognised or impaired.

32. Off-Balance Sheet Financial Instruments, Contingent Liabilities and Commitments (Group and Bank)

In common with other banks, the Bank conducts business involving acceptances, guarantees, performance bonds and indemnities. The majority of these facilities are offset by corresponding obligations of third parties.

In addition, there are other off-balance sheet financial instruments including forward contracts for the purchase and sale of foreign currencies, whose nominal amounts are not reflected in the statement of financial position. At the year end, the contingent items were as follows:

Off-Balance Sheet Financial Instruments, Contingent Liabilities and Commitments	2020 Shs'000	2019 Shs'000
Contingent Liabilities		
Acceptances and letters of credit	2,164,306	1,180,048
Guarantees and performance bonds	6,581,224	4,922,727
	8,745,530	6,102,775
Contingent Liabilities		
Acceptances and letters of credit	2,164,306	1,180,048
Guarantees and performance bonds	6,581,224	4,922,727
	8,745,530	6,102,775
Clients' Investments		
Clients' treasury bonds	1,800	11,800
Clients' treasury bills	1,150	300
	2,950	12,100

The Bank invests in Government of Kenya treasury bills and treasury bonds on behalf of its clients. These investments are held in Bank's clients account with the Central Bank of Kenya separate from the Bank's own investments. These investments are recognised as client investments and as off balance sheet assets in the Bank's books.

Nature of Contingent Liabilities (Group and Bank)

An acceptance is an undertaking by a Bank to pay a bill of exchange drawn on a customer. The Bank expects most acceptances to be presented, but reimbursement by the customer is normally immediate.

Letters of credit commit the Bank to make payments to third parties, on production of documents, which are subsequently reimbursed by customers.

Guarantees are generally written by a 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.

Commitments

(a) Legal Proceedings

There were a few of legal proceedings outstanding against the Bank at 31 December 2020

Claims and counter claims against the Bank regarding collaterals held by the Bank have been lodged. The Bank considers the cases as without merit and is defending them vigorously.

(b) Capital Commitments

At 31 December 2020, the Bank had Minimum capital commitments (2019: Minimum) in respect of software, buildings and equipment purchases.

(c) Other Commitments	2020 Shs'000	2019 Shs'000
Undrawn formal stand-by facilities, credit lines and other commitments to lend	2,211,486	2,742,930

Nature of Commitments

Commitments to lend are agreements to advance to a customer in future subject to certain conditions. Such commitments are normally made for a fixed period. The Bank may withdraw from its contractual obligation for the undrawn portion of agreed overdraft limits by giving reasonable notice to the customer.

33. Assets Pledged as Security

As at 31 December 2020 treasury bonds valued at Shs Nil (2019: Nil) were pledged to secure trade finance lines with various banks.

The was no contingent liabilities outstanding under these facilities at 31 December 2020 (2019: Nil)

34. Analysis of Cash and Cash Equivalents as Shown in The Cash Flow Statement	2020 Shs'000	2019 Shs'000
Group		
Cash and balances with Central Bank of Kenya (Note 13)	1,145,705	1,286,075
Less: cash reserve requirement (see below)	(691,816)	(822,547)
Deposits and balances due from banking institutions (Note16)	784,649	434,016
Treasury bills with less than 91 days maturity (Note15)	-	-
	1,238,538	897,544
Bank		
Cash and balances with Central Bank of Kenya (Note 13)	1,116,838	1,256,286
Less: cash reserve requirement (see below)	(691,816)	(822,547)
Deposits and balances due from banking institutions (Note16)	784,649	434,016
Treasury bills with less than 91 days maturity (Note15)	-	-
	1,209,671	867,755

For the purposes of the cash flow statement, cash and cash equivalents comprise balances with less than 91 days maturity from the date of acquisition including: cash and balances with central banks, treasury bills and other eligible bills, and amounts due to and from other banks. Cash and cash equivalents exclude the cash reserve requirement held with the Central Bank of Kenya.

Banks are required to maintain a prescribed minimum cash balance with the Central Bank of Kenya that is not available to finance the Bank's day-to-day activities. The amount is determined as 4.25% (2019: 5.25%) of the average outstanding customer deposits over a cash reserve cycle period of one month.

35. Related Party Transactions

(i) Transactions With Key Management Personnel

Key management personnel and their immediate relatives have transacted with the Bank during the year as follows:

Transactions With Key Management Personnel	2020 Shs'000 Maximum balance	2020 Shs'000 Closing balance	2019 Shs'000 Maximum balance	2019 Shs'000 Closing balance
Mortgage lending and other secured loans	377,112	377,112	261,277	256,159
Other loans	-	-	-	-

Interest rate charged to staff is at preferential rate whereas rates to Directors and related parties are at arm's length transaction. The mortgages and secured loans granted are secured over property of the respective borrowers. Other balances are not secured and no guarantees have been obtained.

No impairment losses have been recorded against balances outstanding during the period with key management personnel, and no specific allowance has been made for impairment losses on balances with key management personnel and their immediate relatives at the period end.

Key management personnel compensation for the year comprised

Management Personnel Compensation	2020 Shs'000	2019 Shs'000
(ii) Key management compensation		
Salaries and other short-term employment benefits	244,653	164,319
(iii) Directors' remuneration		
- fees for services as non executive directors	10,778	9,130
- other emoluments (included in key management compensation above)	44,980	60,020
	55,758	69,150

(iv) Loans and Advances to Directors and Their Associates (Group and Bank)

At 31 December 2020 advances to companies where the Bank's directors or their families exert significant influence amounted to Kes 177,376,540 (2019: Shs 348,667,000).

At 31 December 2020 advances to employees amounted to 946,521,176 (2019: Shs 900,703,000). The movement in advances to related parties is as shown below:

v) Loans and Advances to Staff *Group and Bank*	2020 Shs'000	2019 Shs'000
At start of year	900,703	714,103
Issued during the year	492,529	451,197
Repaid during the year	(446,711)	(264,597)
At end of year	946,521	900,703
Interest earned on staff loans during the year amounted to Shs 73,034,484 (2019: Shs 65,679,469)		
The Bank has entered into loan transactions with its directors and associates as follows:		
At start of year	275,161	404,655
Prior year Adjustment	73,506	-
Interest charged	27,427	41,738
Loans disbursed	10,000	-
Repaid during the year	(62,278)	(156,409)
Net movement in overdraft balances	(146,440)	(14,823)
At end of year	177,376	275,161
Interest income earned on these advances	27,427	41,738

(vi) Other Related Party Transactions

Rent expense payments to related parties during the year amounted to Shs 32,043,576 (2019: Shs 31,422,828).

Proxy Form

To: The Company Secretary
Credit Bank PLC
P O Box 61064 – 00200
Nairobi

Details

I/We:

ID No.: | Address:

Being a member/members of **Credit Bank PLC** (the Company) hereby appoint:

Name:

ID No.: | Proxy's Mobile No.:

Proxy's Email Address:

Failing Him/Her:

As my/our proxy to vote for me/us on my/our behalf at the Annual General Meeting of the Company to be held on 16th July 2021 and at any adjournment thereof.

I/We authorize my/our Proxy to cast the votes as they wish/according to my/our intentions as follows*:

1. To receive and adopt the audited Balance Sheet and Financial Statements for the year ended 31 December 2020 together with the Directors' and Auditors' Reports thereon.

   ○ For ○ Against ○ Abstain

2. To re-elect Directors in accordance with the Articles of Association:-

   i. To approve the re-election of Dr. James Stanley Mathenge who retires from office by rotation and is eligible in accordance with the Company's Articles of Association

   ○ For ○ Against ○ Abstain

   ii. To approve the re-election of Mr. Jay Rajnikant Karia who retires from office by rotation and is eligible in accordance with the Company's Articles of Association

   ○ For ○ Against ○ Abstain

   iii. To approve the re-election of Mr. Jack Mugo Ngare who retires from office by rotation and is eligible in accordance with the Company's Articles of Association

   ○ For ○ Against ○ Abstain

3. To approve the Directors' remuneration for the financial year 2021.

   ○ For ○ Against ○ Abstain

Proxy Form

4. To authorize the directors to fix the Auditors' remuneration.

○ For ○ Against ○ Abstain

5. To re-appoint the Auditors, PricewaterhouseCoopers, who have indicated their willingness to continue in office in accordance with Section 719 (2) of the Companies Act, 2015 and subject to approval by Central Bank of Kenya.

○ For ○ Against ○ Abstain

Dated this day of

Signature:

*Unless specifically indicated, the proxy will vote as they wish.

Notes:

1. In accordance with Section 298(1) of the Companies Act, shareholders entitled to attend and vote at the AGM are entitled to appoint a proxy to attend and vote on their behalf. A proxy must be signed by the appointer or his attorney duly authorized in writing. If the appointer is a body corporate, the instrument appointing the proxy shall be given under its common seal or under the hand of an officer or duly authorized attorney of such body corporate. A completed form of proxy should be emailed to proxy@candrgroup.co.ke in pdf format or delivered to Custody and Registrars Services Ltd, the Company's Registrars, at IKM Place, Tower B, 1st Floor, 5th Ngong Avenue, so as to be received not later than Wednesday, 14th July 2021 at 10.00 am. When nominating a proxy the ID/Passport No, details for email and/or mobile number of the proxy must be submitted to facilitate registration. Any proxy registration that is rejected will be communicated to the shareholder concerned no later than Thursday, 15th July 2020 to allow time to address any issues.

2. Registration for the AGM opens on Monday 5th July, 2021 at 8:00 a.m. and will close on Thursday 15th, July 2021 at 12:00 noon. Shareholders will not be able to register after 15th July 2021 12:00 noon.

3. A full copy of the Audited Accounts and Financial Statements for the year ended 31 December 2020 may be viewed on the Bank website www.creditbank.co.ke. A printed copy may be requested from the Bank's head office, 14th Floor, One Africa Building, Waiyaki Way, Westlands, Nairobi or our Company's Share Registrar, Custody and Registrars Services, IKM Place, Tower B, 1st Floor, 5th Ngong Avenue between 9.00AM to 3.00PM from Monday to Thursday and Friday 8.30AM to 12.30PM.

NB: Shareholders and proxies who wish to register and participate in the AGM can do so by visiting https://digital.candrgroup.co.ke or dialing *384*043# on their mobile phones.

We are on a **Mission**

Ours is to transfom the financial industry through innovative and relevant **financial solutions.**

For more information call us on:
0709 072 000

Credit Bank
My Friend, My Bank

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ISO 9001:2015 Certified

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