

The Goal of
Resilience is
to *Thrive*.



ANNUAL
REPORT **2021**

ABOUT THIS REPORT

Credit Bank Group PLC Annual Report and Financial Statement 2021 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. The report covers the period from 1 January 2021 to 31 December 2021, and its goal is to provide our stakeholders with a complete and integrated view of how we operate.

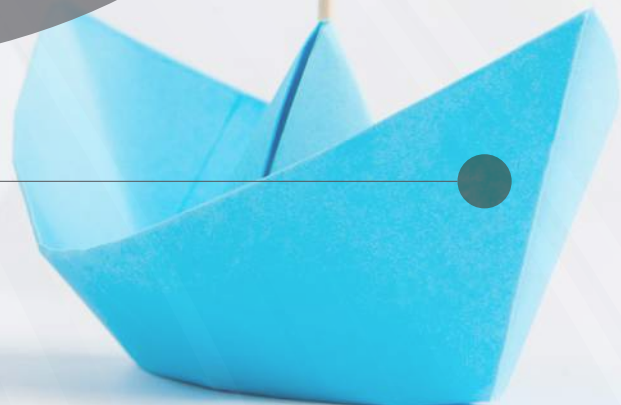
The Group's Annual Financial Statements were prepared following the International Financial Reporting Standards (IFRS). The report is part of our commitment to being transparent and accountable to all our stakeholders, and it further speaks of our commitment to continuously build on the trust that our stakeholders have bestowed on us. Detailed financial results and other information is available on our website www.creditbank.co.ke to supplement the disclosures in this report.

Statements relating to future operations and the performance of the Group are not guarantees of future operating, financial or other results and involve uncertainty as they are based on assumptions of future developments, some of which are beyond our control. Therefore, the results and outcomes may differ.

As a financial service provider, we play an important role in the economic life of individuals, businesses, and nations, supporting the socio-economic welfare of our people. We consider our stakeholders through all our activities as we pursue our ambition to impact society and deliver shareholder value positively.

PricewaterhouseCoopers LLP audited Credit Bank PLC's 2021 financial statements.

The Goal of **Resilience**
is to **Thrive**.



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Notice of Annual General Meeting

The Companies Act, 2015
No. 23/90

NOTICE IS HEREBY GIVEN THAT THE THIRTY SIXTH (36TH) ANNUAL GENERAL MEETING OF CREDIT BANK PLC WILL BE HELD VIRTUALLY, ON WEDNESDAY, 29TH JUNE 2022 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 31st December 2021 together with the Directors' and Auditors' Reports thereon.
3. To note that the Directors do not recommend the payment of a dividend in respect of the financial year ended 31st December 2021.
4. To re-elect Directors in accordance with the Articles of Association:-
 - i) Dr. Ketan Devram Morjaria, retires from office by rotation and, being eligible, offers himself for re-election;
 - ii) Mr. Robinson Njagi Gachogu, retires from office by rotation and, being eligible, offers himself for re-election;
 - iii) Mr. Leon Nyandusi Nyachae, retires from office by rotation and, being eligible, offers himself for re-election.
5. To approve the Directors' remuneration for the financial year 2022.
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



DCEM Registrars
Company Secretaries
7th June 2022

Note:

1. In accordance with Section 298(1) of the Companies Act, 2015, a member entitled to attend and vote at the above meeting is entitled to appoint a proxy to attend and vote on his behalf. A proxy need not be a member.
2. A form of proxy may be obtained from the Bank's website, www.creditbank.co.ke and should be completed and returned to the Secretary, to arrive not later than 48 hours before the meeting or any adjournment thereof.
3. The Audited Accounts and Financial Statements for the year ended 31st December 2021 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.
4. Shareholders wishing to participate in the meeting should register for the AGM online at <https://digital.candrgroup.co.ke> or by dialing USSD short code number *483*307# or via a link to the AGM Platform that will be sent to them via SMS and/or Email 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 and their shares account number Number 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.
5. Registration for the AGM opens on 15th June, 2022 at 08:00AM and will close on 28th June, 2022 at 12.00 Noon.

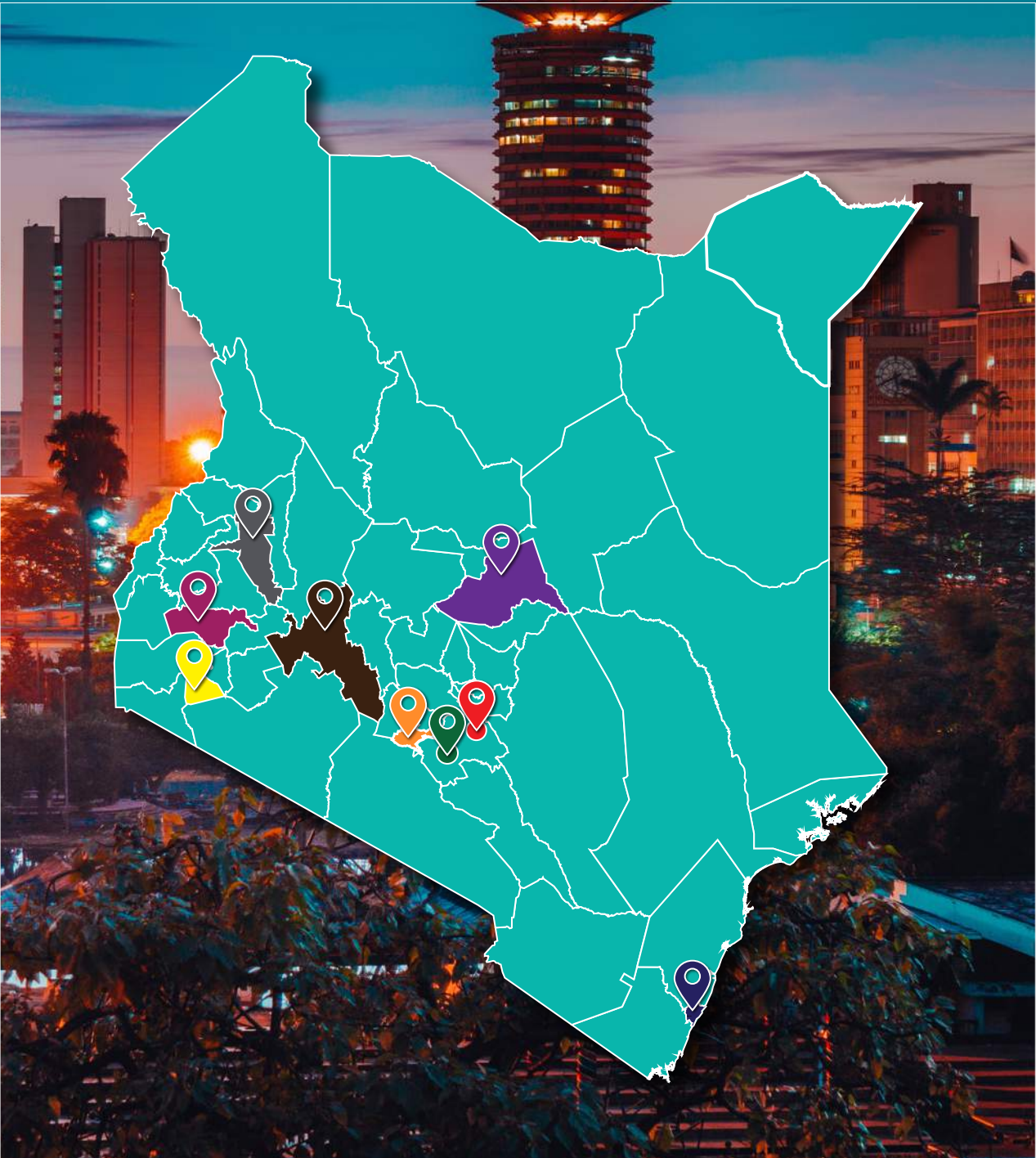
6. Shareholders wishing to raise any questions or clarifications regarding the AGM may do so by:
 - a) Sending their written questions by email to digital@candrgroup.co.ke; or
 - b) Shareholders who will have registered to participate in the meeting shall be able to ask questions via SMS by dialing the USSD code *483*307# and selecting the option (ask Question) on the prompts; or
 - c) Shareholders who will have registered to participate in the meeting shall be able to ask questions online at <https://digital.candrgroup.co.ke> or via a 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 27th June, 2022 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.
7. Shareholders wishing to vote may do so by:
 - a) Accessing Virtual AGM via online at <https://digital.candrgroup.co.ke> or via a link to the AGM platform; Select Attend Event; Select "Credit Bank PLC AGM"; Select "Voting" option tab and vote; or
 - b) Accessing Virtual AGM via USSD platform *483*307#; Use the menu prompts menu option for "Voting" and follow the various prompts regarding the voting process.
8. 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 or an internet enabled device.
 - A proxy form is included in this Annual Report and is also available on the Company's website via this link: www.creditbank.co.ke. Physical copies of the proxy form are also available at the Company Registrars address: Custody & Registrars, IKM Place, Tower B, 1st Floor, 5th Ngong Avenue, Nairobi.
 - A proxy form 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 Monday 27th June 2022 at 10.00 AM. Any person appointed as a proxy should submit his/her email or mobile telephone number to the Company no later than Tuesday 28th June 2022 at 12:00 Noon.
 - Any proxy registration that is rejected will be communicated to the shareholder concerned no later than Tuesday 28th June 2022 to allow time to address any issues.
9. The AGM will be streamed live via a link which shall be provided to all shareholders who will have registered to participate in the general meeting. Duly registered shareholders and proxies will receive a short message service SMS/ and/or an email prompt on their registered mobile numbers, 24 hours prior to the AGM acting as a reminder of the AGM. A second SMS and/or an email prompt shall be sent 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.
10. Duly registered shareholders and proxies may follow the proceedings of the AGM using the live stream platform and may access the agenda. Duly registered shareholders and proxies may vote (when prompted by the Chairman) via the USSD *483*307# or Voting Matters tab on the live stream display screen
11. A poll shall be conducted for all the resolutions put forward in the notice.
12. Results of the AGM shall be published within 24 hours following conclusion of the AGM
13. All 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 are required to be delivered to the Unclaimed Financial Assets Authority ('the Authority') as abandoned assets on the appointed date.

Therefore, all shareholders with previous 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



| | | | | | | | |
|---|------------------------------------|------------------------------|-----------------|-------------|--------------|---------------|----------------|
| Nairobi Koinange Westlands Lavington Industrial Area Ngong Road Kitengela Rongai Thika One Africa | Mombasa Nyal Nkurumah | Nakuru Giddo Plaza | Machakos | Meru | Kisii | Kisumu | Eldoret |
|---|------------------------------------|------------------------------|-----------------|-------------|--------------|---------------|----------------|

17 Branches Across Kenya 



Select Awards 2021/2022

- Think Business Award - Best Bank in Digital Banking (1st Runners-up)
- International Business Magazine - Best Digital Bank in Kenya
- International Business Magazine - Most Innovative SME Bank in Kenya
- Accenture Gender Mainstreaming Award - Winner in East Africa

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.





Ketan Morjaria
Director

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.



Robinson Gachogu
Director

Mr Robinson Gachogu holds a Bachelor of Commerce Degree – (Accounting option) with extensive experience in financial management. He has over 40 years of experience in the financial services sector, including Chief Executive Officer at Savings and Loans (Mortgage arm KCB Group). He serves in various boards.



Jay Karia
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 performance and sustainability. He is a shareholder and director at Credit Bank PLC.



Dr. James Stanley Mathenge
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.



Jack Ngare
Director

Jack Ngare has more than 15 years' experience in technology and is currently a Technical Director at Google. 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.

Leon Nyachae
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.



Mrs. Betty C. M. Korir
Chief Executive Officer

Mrs. Betty Korir is a career banker and a leadership coach with over 24 years' experience obtained several local banks as well as international exposure obtained from Triodos Bank. She holds the Global Banking & Finance Award for the "Banking CEO of the Year - East Africa" by The European in 2019. She is a transformational leader at the helm of Credit Bank PLC and senior executive keen on driving social impact.

Robert Ndung'u
Company Secretary

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.



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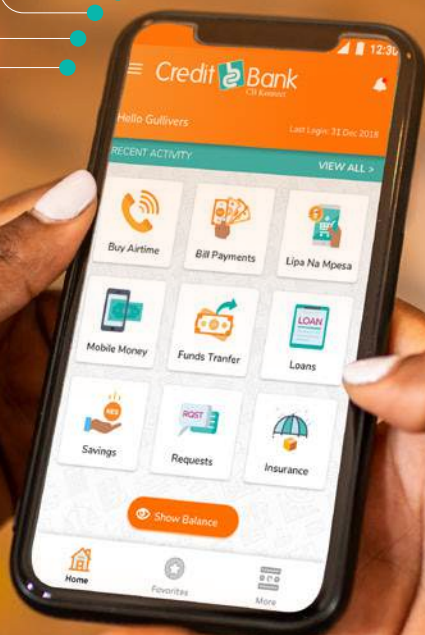
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0709 072 000





Distinguished Shareholders,

I am pleased to present my 2021 report. I am buoyed by a sense of optimism and pride in our collective achievements during a year marked by varying challenges. I can state confidently that our recovery after the worldwide COVID pandemic was owed to cooperation, collaboration and commitment.

2021 presented unique challenges as almost the whole world tried to adapt to what came to be known as “the New Normal.” As a bank, we were quick to make the necessary adjustments, maintaining a flexible business environment and resolving to work closely with staff and customers to confront the recovery process. However, COVID-19 was also a catalyst for opportunity, making it essential to embrace the innovation that would enable us to offer sustainable financial solutions.

Our Global Outlook

Global GDP made a modest recovery, from 3.3 percent in 2020 to 5.8 percent in 2021. Asia emerged as the best performing region, recording a growth of 7.2 percent, largely bolstered by China’s 8.1 percent growth. Many nations around the world focused on a post-pandemic recovery strategy against a backdrop of rising inflation owing to supply chain disruptions and energy shortages.

In 2022, global growth is projected to average 4.4 percent, with Asia again taking the lead as the fastest-growing region. Although COVID-19 is likely to remain a restrictive factor throughout the world, Sub-Saharan Africa is expected to attain modest economic recovery, averaging 3.8 percent in 2022 from 3.1 percent in 2021.

Kenya remains focused on strengthening international trade and increasing its foreign exchange earnings. As a result, the economy stands to gain from exporting agricultural and horticultural produce and other commodities to the neighboring East African countries, the Great Lakes region, and further afield, to Europe, the Middle East, and Asia.

The Operational Environment

Supply chain disruptions reverberated across whole industries as global players raced to normalize the situation. The year was marked by significant delays in manufacturing and shipment of components and parts; the automotive industry registered a slump in vehicle assembly, while the agribusiness sector experienced a shortage of fertilizers caused by massive backlogs in shipping commodities and finished goods. In some instances, this led to increased prices, ultimately affecting the cost of doing business.

Through the Central Bank of Kenya, the government played a key role in supporting the banking industry by maintaining friendly interest rates and encouraging concessions on outstanding debt to avert massive defaults while supporting economic recovery.

Government borrowing grew by 21.5 percent to KShs 1.7 trillion, while private sector borrowing grew by 8.6 percent to KShs 3.1 trillion as of December 2021. These statistics had a direct influence on performance by the financial sector as credit to the economy eases liquidity for businesses and, consequently, their ability to survive and thrive.


As a Bank, we extended the relief to our customers, in line with their unique requirements. It is important to note that most of these customers comprise Small and Micro Enterprises (SMEs), a category that employs more than 70 percent of Kenya's working population.

Financial Performance

Looking back on 2021, I must say, as Chairman of the Board, that we are proud of the resilience displayed by our staff and customers during what was an unprecedented period in human history.

Group total assets grew by 12 percent to close at KShs 25.97 billion from KShs 23.21 billion in 2020, and a commendable increase in profits growth rebounded by 1085 percent from KShs 18.13 million in 2020 to KShs 214.5 million in 2021.

Therefore, I note with pride that the business remained profitable in the year, and there is every indication that this will be a continuing trend.



*Resilience is pivotal
for growth.*

The Way Ahead

Emerging from the ashes of COVID-19, we are confident that better times lie ahead. The concerted efforts of the staff, the management and the board have lifted the recovery curve based on increased deposits, new accounts, reactivation of dormant accounts, and novel solutions in the business. As we continue to invest in technology and innovation to support our customers, we believe that there will be a corresponding growth in revenue and reach, as detailed in our strategic plan.

The pandemic tested the strength of our economy and that of our financial institutions in many unforeseen ways. But as the global economy gradually recovers, more markets are emerging and prospects are looking up. We are optimistic about the future, and as we continue to implement our five year strategic plan, from 2021 to 2025, we are committed anew to meeting our targets, driving digital innovation, and providing excellent customer experience.

People will always remain the most crucial asset in any organization; therefore, I wish to acknowledge and thank all our employees for the collective effort, commitment, and dedication that they have displayed in times of uncertainty. Allow me to single out for acknowledgement our CEO, Mrs. Betty Korir, who was named among the top, one hundred CEOs on the African continent by Avance Media. This award is a true testament of her exceptional leadership.

Congratulations, Betty!

I must thank the board and management for their role in steering Credit Bank through the turbulence experienced over the years 2020 and 2021.

Finally, I must give the assurance that we, at Credit Bank PLC will continue to be actively engaged in perfecting our business model even further by hedging against future shocks and discovering more opportunities for growth, in order to guarantee our sustainability and our longevity.

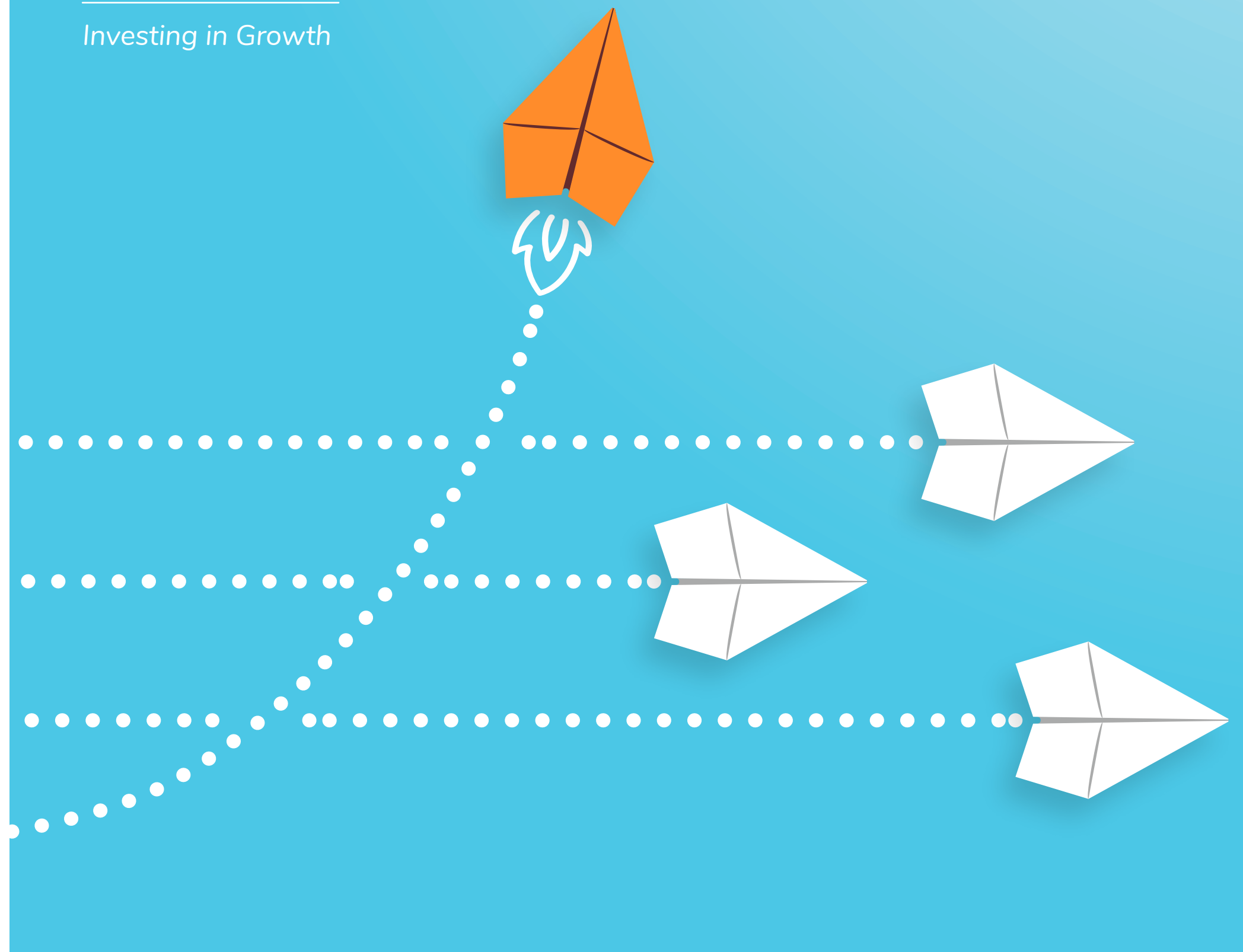
Congratulations to All!

Thank you.



Mr Moses Mwendwa,
Chairman, Board of Directors

Investing in Growth



Management Team



Mrs. Betty C. M. Korir
Chief Executive Officer

Mrs. Betty Korir has over 24 years Banking Experience spanning across several banks. She holds 2 Bachelors' Degrees (Hons), Post Graduate Master's Degree in Business Administration and is currently pursuing a PhD in public policy at the University of Nairobi.

On the professional front, she is an accredited Risk Expert. She is an Associate of Kenya Institute of Bankers and a finalist in ACIB. She is a Member of Global Association of Finance and Management (GAFM) and a certified Chartered Credit Analyst (CCA).

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
Chief Manager | Risk and Compliance

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).



Daniel Lesirma
Head of Finance

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.



Isaac Nduvi
Head of Bancassurance & Digital Business

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.

Charles Kibara
Chief Manager | Operations & Branches

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.



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 Ngaruiya
Head of Legal, Human Resources & Industrial Relations Departments

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.





Renson Okusimba
Head of Audit

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).

Francis Wamahiu
Head of ICT

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).



Zadock Ogambi
Head of Credit

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).

Top Women CEO's in Africa

"At a time where the only certainty is more uncertainty, I'm proud to be among the recognized women leaders who continue to demonstrate that agility and adaptability remain key for any business to survive and thrive,"



Credit Bank's Chief Executive Officer, Mrs. Betty Korir, was named in the list of the top 100 women CEOs' in Africa this year. Mrs. Korir made a strong showing in a list dominated by top-performing peers from West Africa, followed by East Africa. Mrs. Korir, alongside ten other CEOs from Kenya made the cut from an initial list of 600 CEO's from across the continent.

The CEOs represented 21 nationalities and 21 sectors that continue to excel in Africa and beyond. Executives within the banking and financial services sector dominated the list, with 31 positions contributing to nearly a third of the ranking. The list is drawn from CEOs heading corporates in mining, finance, telecommunications, technology, and hospitality.


This was the second edition of the annual ranking carried out by Reset Global People, a leading global reputation firm in partnership with the SDGs office in the office of the President of Ghana and Avance Media.

Mrs. Korir is passionate about supporting SMEs in this country, and her unfettered drive to support the women's inclusion agenda and diversity is notable. Kenya has outperformed the global average of female board directors, which now stands at 36%, according to the 2021 Board Diversity and Inclusion survey report, with the current global average at 23.3%.

With a financial career spanning over two decades, we are proud to have Mrs. Korir at the helm of the organization, and we note her contribution to driving robust investment in innovation and product realignment for Credit Bank PLC.

Under her leadership, the bank itself has won several local and continental awards in the recent past, including Best Bank in Corporate Governance, Best Bank in providing Customer Focused Financial Solutions, Best Bank in Trade Finance, Best SME Partner Bank, winner in Gender mainstreaming awards and Best Bank in women Empowerment-East Africa, among several others.

Avance Media stated that it undertook a rigorous research on this project that identified high-profile personalities and women who demonstrated leadership and performance excellence, besides breaking the status quo. The exercise also entailed a review of all publicly listed and multi-national companies, corporate organizations, and financial institutions to celebrate African Women CEOs across the Continent. Women are a powerful force for change globally, and we are proud that our CEO was recognized as a force to reckon with. Congratulations, Mrs. Betty Korir; keep the flag flying high.



2021 will always be linked in our minds, as was 2020 before it, to a scientific name COVID 19. They will be remembered as extraordinary years of enormous challenge.

The Covid 19 pandemic wreaked havoc in various forms throughout the world. And to this day, its aftershocks continue to upset human interaction and the global economy. As a bank, the strategies we put in place in the early months of the pandemic have played a definitive role in getting us through successive waves of massive disruption.



CEO's Report



In 2021, our commitment to creating a safe and enabling environment for our staff remained a top priority. Appropriate measures continued to be reinforced internally to safeguard the health and wellbeing of all our staff. With most of our customers being SMEs, this category continued to shoulder a disproportionately higher post-pandemic burden. As a bank, we drew even closer to our SME customers by adopting strategies responsive to the emerging dynamics that ensured sustainability.

As CEO, I am particularly proud of our collective efforts in weathering the storm. We improved our financial returns during the year under review and maintained a strong balance sheet. We also achieved impressive results in our endeavors to maintain our branding as an innovative, customer-centric bank, employer of choice, and responsible corporate citizen.

Should I ever write my memoirs of life in the banking profession, I shall recall 2021 as a year of collective achievement in the face of collective adversity. I shall recall, with pride, that **our board, management and staff came together to appreciate being members of a team.**

TEAM - Together Everyone Achieves More!

We at Credit Bank PLC have achieved more, together. I am thankful for this and, buoyed by this lingering spirit of collaborative cohesiveness, I do not doubt that we are well-equipped to realize our broad 2021-2025 strategic goals, even as we confront the ever-changing dynamics.

The Operational Environment

Statistics indicate that the banking sector maintained a stable and resilient edge in 2021, with a total capital adequacy ratio of 19.5 percent in December 2021, above the minimum capital adequacy ratio of 14.5 percent. Similarly, the sector's liquidity stood above the minimum statutory level of 20 percent, at an average liquidity ratio of 56.2 percent. The finance and insurance sectors grew by an impressive 12.5 percent, signaling a strong rebound after the impact of the pandemic.

The one-year emergency measures on extension and restructuring of loans announced by the Central Bank of Kenya in 2020 ended on March 31, 2021. At the end of the period, loans amounting to KShs 1.7 trillion, which is 54.8 percent of total banking sector loans, had been restructured. Consequently, borrowers whose loans had been restructured but went into arrears were given a three-month grace period up to June 2021. These measures provided the intended relief to borrowers, which supported continued business operations and strengthened their resilience.

The Central Bank Rate averaged 7.0% in 2021 compared to 7.2% in 2020. Leading economic indicators retained a robust performance, with the 91-day Treasury bill averaging 6.96% in 2021 compared to 6.86% in 2020. Notable under-subscriptions characterized the period on the Treasury bills as investors preferred the longer-term instruments.

Another milestone achievement in the year under review was the registration of the enactment of the Central Bank of Kenya (Amendment) Act of 2021 and the coming into effect of the CBK Digital Credit Providers Regulations, 2022. This law empowers the CBK to license and oversee unregulated Digital Credit Providers.

Operational Highlights

In what was by all accounts a turbulent year, it is my pleasure to report that our collective efforts paid off. We were able to attain a 70% Organizational Health Index score as well as scoop a host of local and international accolades in recognition of our ground-breaking and innovative banking products. Some of these awards were:

- 1) Best Bank in Digital Banking -runners-up by Think Business Awards
- 2) Most Innovative Financial Services Kenya 2022, and
- 3) Best New Banking Product Kenya 2022 – for Elev8Her” from the Finance Derivative Awards.

It is worth noting that Credit Bank PLC also made significant inroads in high-priority areas such as agriculture, affordable housing, and women's economic empowerment. Through strategic partnerships with different organizations, we successfully introduced a range of bespoke services that will each go a long way in growing the Kenyan economy.



In the year under review, the Bank continued to offer customers the much-needed relief by restructuring their loans and other priority support areas. As a result, we continued to focus on availing our digital channels throughout the period, so as to allow our customers round-the-clock convenience. This deliberate support, coupled with heightened customer experience, saw the Bank garner a net promoter score of 28 up from 22 in 2020.

Financial Performance

Against the backdrop of the post-pandemic wave, Credit Bank reported a profit before tax of KShs 214.5 million, a significant improvement from the previous year's KShs 18.13 million. Other parameters were;

- The bank's total assets grew by 12% to close at KShs 25.97 billion in December 2021, up from KShs 23.21 billion in December 2020.
- Customer deposits grew by 15.4% to KShs 20.36 billion in December 2021 from KShs 17.64 billion in December 2020

In line with our 2021-2025 Strategic Plan, our roadmap to success will no doubt take us closer to realizing consistent, rapid results anchored on customer-centricity and innovation.

Our main priority going into the next financial year is to continue leveraging our existing digital infrastructure and to pursue financial inclusion, which is essential to ensuring

sustainable growth in an ever-changing financial and operating landscape.

I am extremely grateful for the support from my Board Members throughout the year, specifically for the milestones we have jointly achieved towards fulfilling our vision of being the most respected Bank in our Tier. Balancing decisions to achieve our vision requires a diversified Board with experiences spanning various sectors and a commitment to act professionally and fairly in the interests of all stakeholders. Our Board has committed itself to ensuring that the Bank remains true to its mission and vision. This is a great solace to me, as CEO.

Thriving Through Resilience

The beginning of 2022 introduced other economic adversities. The ongoing Russia-Ukraine war has further impacted global supply chains, which has seen a significant increase in goods and services prices. Additionally, monetary policies introduced by Central Banks worldwide, including the US, are now catching up with many economies. As predicted by many economists, these measures have introduced new, inflationary pressures in many economies.

Historically, election years have been a challenging front for many businesses in the country. They tend to slow down in their investments as a precaution against the volatility of Kenyan politics during the election period. As a Bank, we will continue to review our operating model and product offerings as prescribed by circumstance.



Emerging Stronger



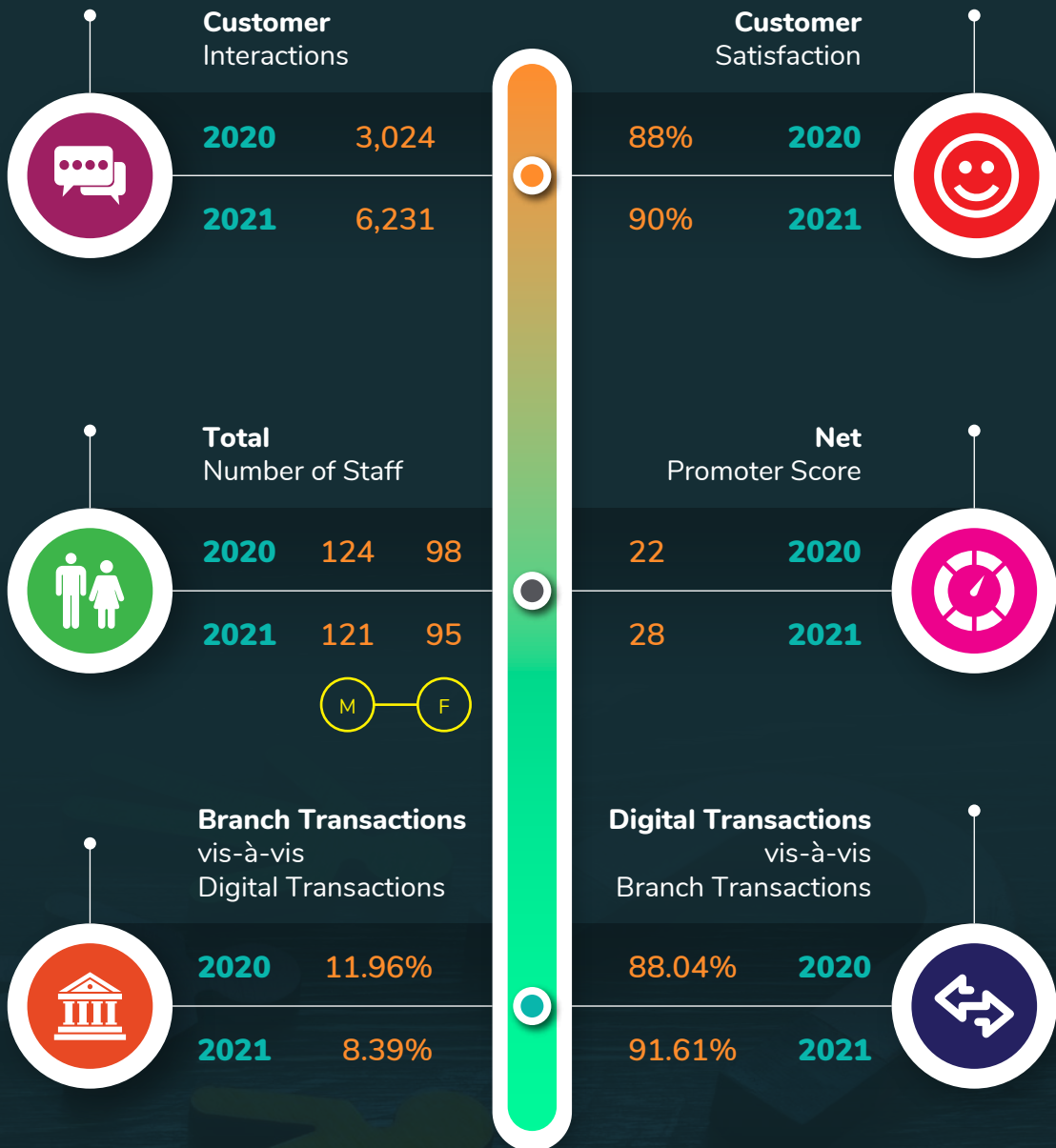
Conclusion

I want to conclude by extending much gratitude to my fellow Board members for their immense contribution, team spirit, and direction throughout the year. I would also wish to thank the management team and our employees for the excellent execution of the Bank's strategic goals; and a special appreciation to our customers and shareholders for their unwavering trust in Credit Bank Plc, and the support of our vision and growing brand presence.

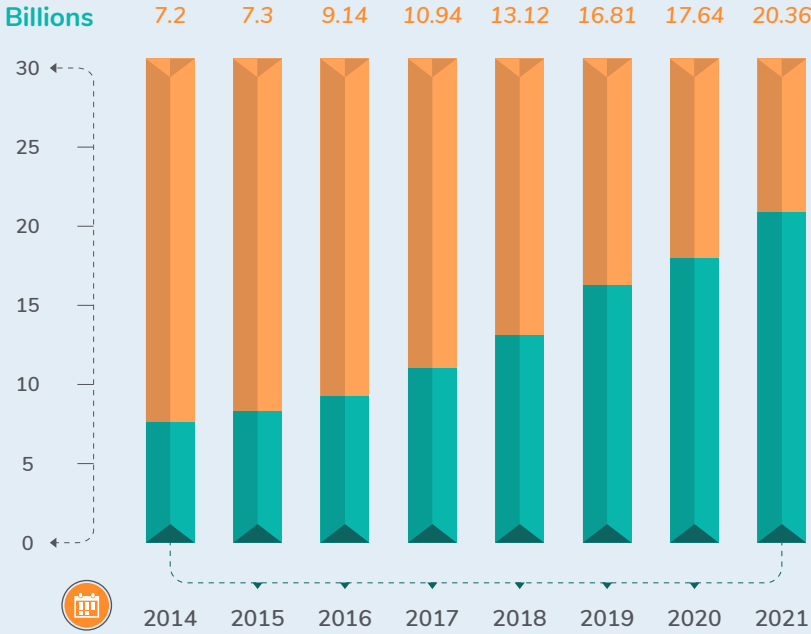
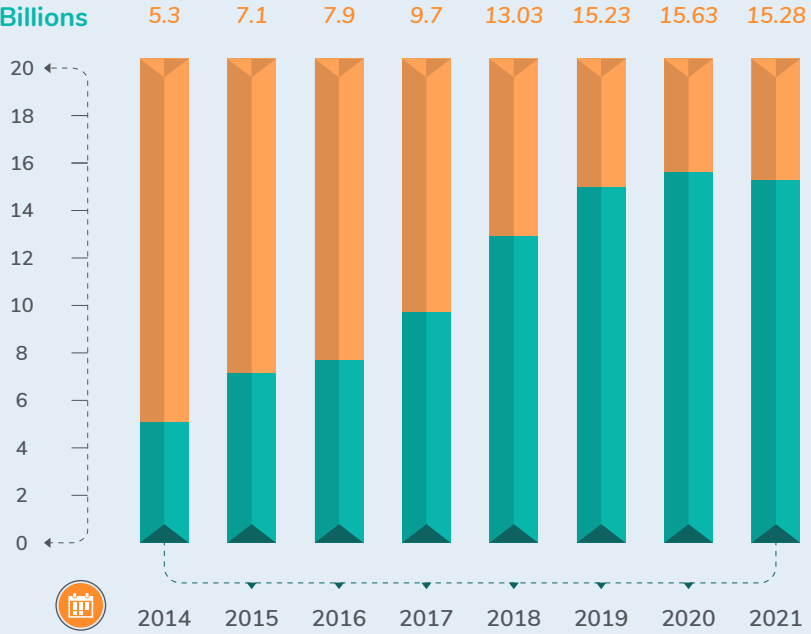
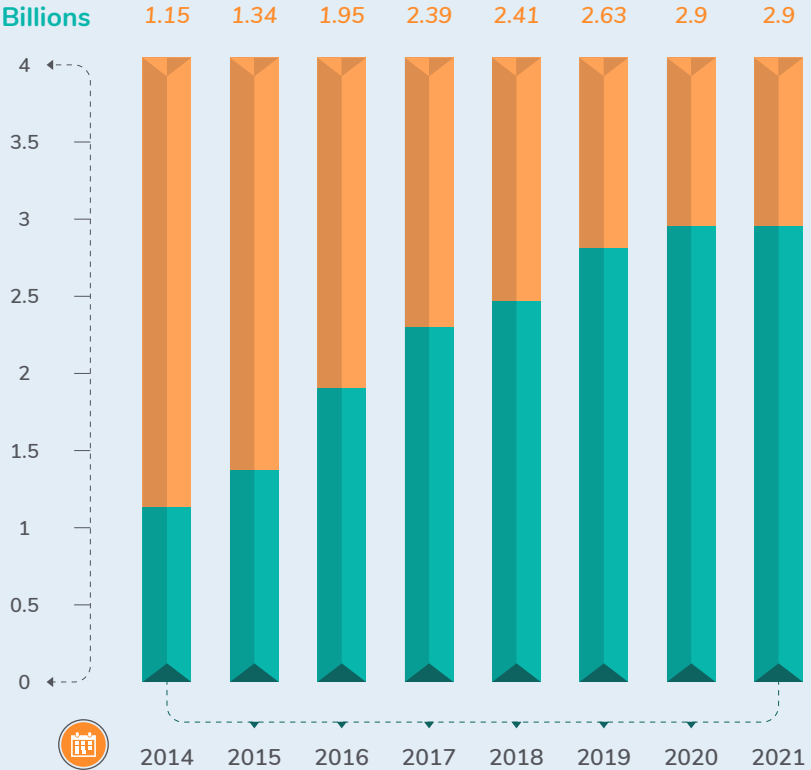
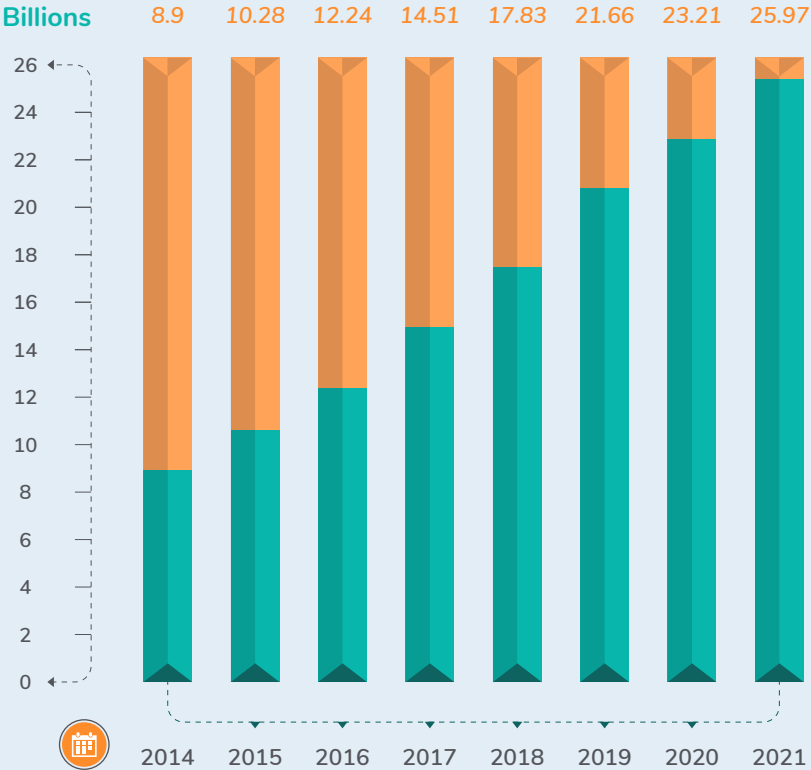
Thanking You,

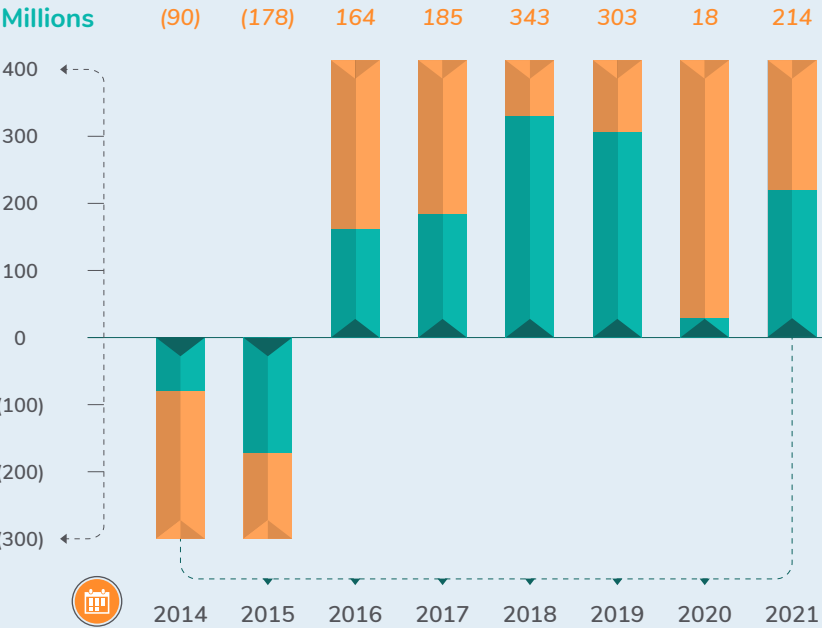
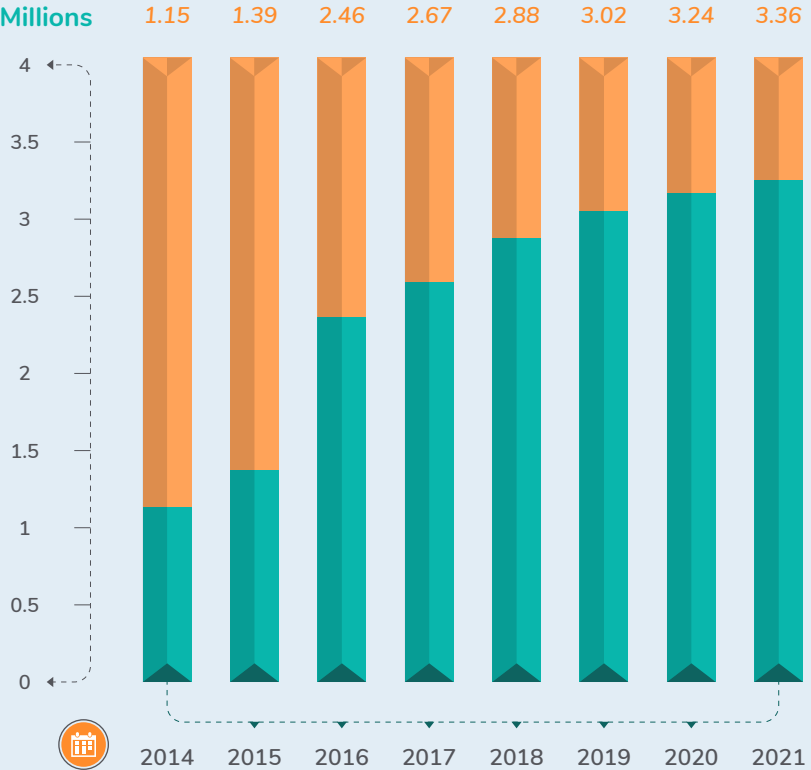
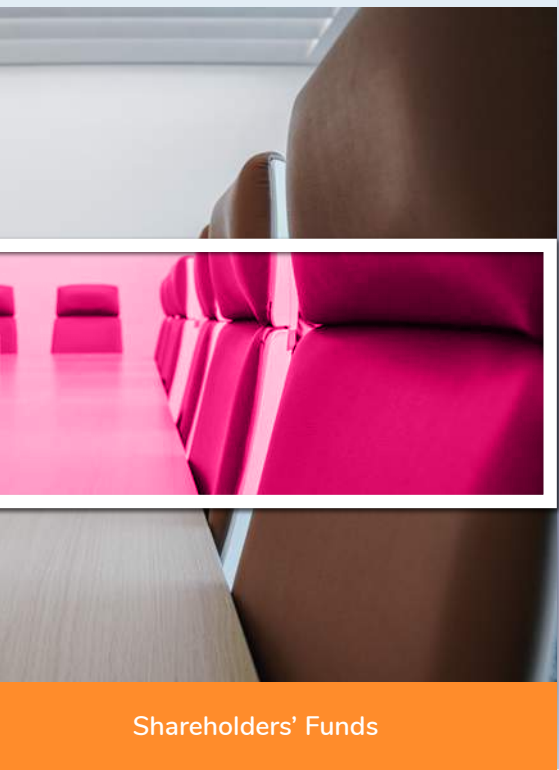
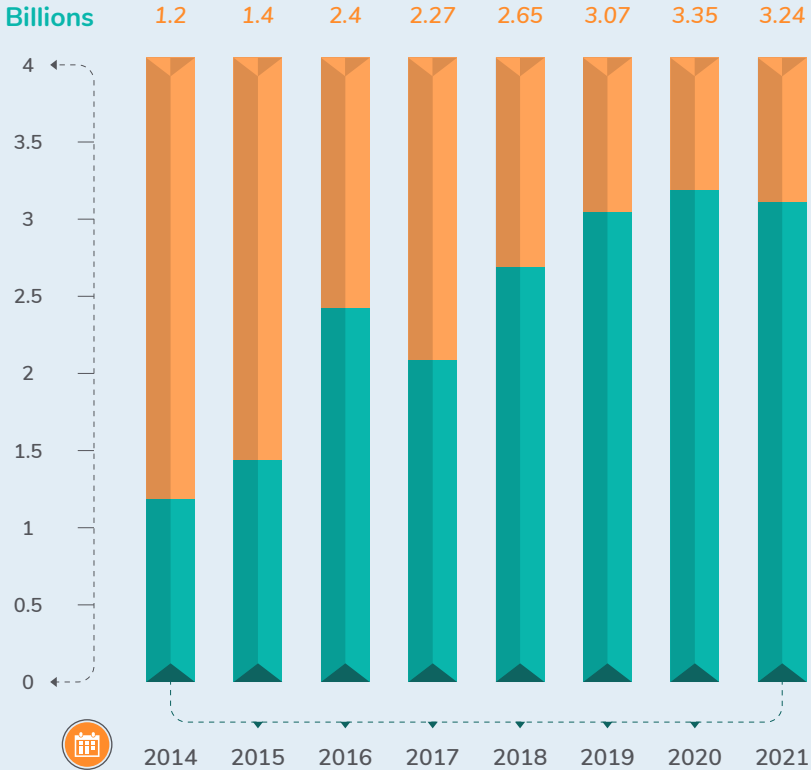
Betty Korir
Chief Executive Officer

Non-Financial Highlights



To **thrive**, we must **innovate together**.





5 Year Strategy Vision



Our **Aspirations**



Our **Pillars**

Roadmap to success from **good** to **great**

We seek to grow to a double-digit ROE and achieve Tier II status by 2025.

Our sound corporate governance foundations enable us to invest in our people to transform their social-economic welfare. We want to be your preferred financial institution by offering innovative financial solutions.

- **Total Assets – >KES 49B**
- **CIR – 65%**
- **NFI – 37%**
- **PBT – KES 0.95B**
- **NPS – 50**
- **OHI – >70%**

- **Drive Customer Intimacy/Centricity**
- **Innovation & The Digital Future**
- **Premium Brand Positioning**
- **Become The Employer of Choice**

Guarantee Their Future

Investing in your child's education is the most important investment you'll make. Ensure it by insuring it. Credit Bank's **Education Policy** is designed to help you build funds over time giving you the ability to meet school fees requirements.



Credit Bank
Bancassurance
Intermediary
Be Sure. Be Covered.

Jubilee
LIFE INSURANCE

Underwritten by Jubilee Life Insurance Limited

+254 709 072 000
bancassurance@creditbank.co.ke
www.creditbank.co.ke

Credit  Bank
My Friend, My Bank



Our Journey

1986

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

1

1994

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

2

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).

4

1995 - 2004

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

3

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, Nyalı Centre Branches and launching of MyFriend Insurance Agency.
- '14 – Launching of Internet Banking and opening of Lavington, Machakos and Kitengela branches.

5

2015 - 2016

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

6

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.

8

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.

7

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.

9

2021

- Energy Management Awards, Banking and Finance Sector
- Winner, The Accenture 9th Gender Mainstreaming Award
- Think Business Awards, Customer Centric Bank, Trade Finance, Affordable Borrowing Solutions
- Launch of elev8HER
- Launch of Konnect Prepaid Cards

10



You Deserve More than One Flavour

Discover our Konnect Prepaid Multi-currency Card that is easy to load and use. It comes with various flavours of currency including KES, USD, GBP, EUR anywhere in the world.

Apply online today and you can treat yourself any place at any time:

creditbank.co.ke/apply

For more information call us on
0709 072 000





Account Options

- HER Personal Account
- HER Business Account



Financing Options

- HER Business Loan
- HER Start-Off Loan
- HER Trade Loan
- Her Digital Loan (Women Pre-Approved Cash Loan)

eHub



Insurance Options

- HER Car Insurance
- HER Business Insurance
- HER Health Cover
- HER Travel Insurance

Access to eHub

- eHub is a platform designed to enable your small and medium sized enterprise (SMEs) scale and become competitive across industries. eHub provides a platform for you to network, learn and do business.

Join elev8HER today and get exclusive access to

- **elev8HER Community** – a chance to market your business to others
- **elev8HER Health** – activities such as walks, free check-ups and more
- **elev8HER Newsletter** – with business insights and features a client each month
- **elev8HER Visa Debit Card** – a card just for you
- **elev8HER Site** – this comes with learning modules and expert opinions on various matters
- **elev8HER Café** – features business moguls to learn engage and prosper

Empowering Women for the Next Level

elev8HER is a program designed to unlock the potential of women entrepreneurs Kenya through financing and technical support.

Some of Our Activities



Growth Beyond Borders

Credit Bank PLC signed a deal with Kenya Diaspora Alliance to offer banking solutions that propel national economic growth. The bank will provide a bouquet of solutions in order to empower Kenyans living abroad to invest back home, safely and confidently.



Launch of elev8HER

We launched a transformative program designed to unlock the potential of women entrepreneurs in Kenya. The Program aims to equip women with business skills, offer them mentoring, expose them to networks, provide them with access to capital and equip them with the tools they need to succeed.



Strategic Relations



Credit Bank PLC, led by the CEO, Mrs. Betty Korir, met with His Excellency Mohammed Bin Ahmed Bin Twar Al Kuwari, the Chairman of Bin Twar & Partners Companies and First Vice President, the Qatar Chamber of Commerce to discuss potential collaborations in various projects in the country.

Supporting Healthcare

Mrs. Betty Korir during a launch of an expansion MCF project in Kenya, Ghana, Nigeria, Tanzania and Uganda, that will gradually extend to other countries. The bank actively supports healthcare through partnership with MCF.



Customer Service Week

It is always a pleasure to engage in customer service week at Credit Bank. It is a time where we go the extra mile to appreciate our customers.

Some of Our Awards



Energy Management Award, 2021
Banking and Finance Sector Award



International Business Magazine, 2021
Best Digital Bank in Kenya
Most Innovative SME Bank in Kenya



Finance Derivative Award, 2022
Best New Banking Product - elev8HER
Most Innovative Financial Services in Kenya



Board of Directors

The following directors held office during the year to the date of our report:

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

Company Secretary

Robert Ndungu
Plot No LR No. 1870/X/45,
One Africa Place Waiyaki Way
Westlands P.O Box 61064 00200
Nairobi, Kenya

Registered Address and Headquarters

Plot No LR No. 1870/X/45,
One Africa Place Waiyaki Way
Westlands P.O Box 61064 00200
Nairobi, Kenya

Independent Auditor

PricewaterhouseCoopers LLP
Certified Public Accountants
PwC Tower, Waiyaki Way/Chiromo Road, Westlands
PO Box 43963, 00100
Nairobi

Principal Banker

Central Bank of Kenya
Haile Selassie Avenue
PO Box 60000 – 00200
Nairobi, Kenya



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 2021.

Incorporation

The Company is domiciled in Kenya where it is incorporated as a private company limited by shares under the Companies Act, 2015. The address of the registered office is set out on page 37.

Directorate

The directors who held office during the year and to date of this report are set out on page 37.

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.

The economy rebounded strongly in 2021, as activity in industry and services sectors picked up following the easing of COVID-19 restrictions. Recent Kenya National Bureau of Statistics (KNBS) data provided clear evidence that the economy has been on a strong recovery path since Q4 2020. The growth momentum remained strong in the third quarter of 2021, with the economy growing by 9.9 percent compared to a contraction of -2.1 percent in the third quarter of 2020. The strong performance was supported by continued recovery in manufacturing, construction, transport and storage, education, accommodation and food services, and wholesale and retail trade. The agricultural sector remained subdued following unfavorable weather conditions in most parts of the country, which affected crop production.

At the same time, Kenya National Bureau of Statistics revised real GDP growth rates for the first and second quarters of 2021 to 2.0 percent and 11.9 percent, respectively. Taken together, the economy expanded in the first three quarters of 2021 by 7.8 percent compared to a contraction of 0.8 percent in a similar period of 2020.

The Group continues to operate 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 12% from 2020 mainly on account of growth in Liquid Assets of 56% funded by a 15% growth in deposits and shareholders' funds of 4%. The Group realized a return on asset of 1% (2020: -0.24%), Return of equity 4% (2020: (1.72%)) and the cost to income ratio of 87% (2020: 74%)

Financial Results and Dividend

The Profit for the year of Shs 138,141,000 (2020: Loss of Shs 55,804,000) has been added to retained earnings. The directors do not recommend payment of a cash dividend (2020: Nil)

Principal Risks and Uncertainties

The Banks principal risks and uncertainties together with processes that are in place to monitor and mitigate those risks where applicable can be found under Note 4 to the financial statements.

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.

Events After the Reporting Year

There have been no events after the reporting date that require adjustment or disclosure to these financial statements.

By Order of the Board

CPS Robert Ndungu (DCDM Registrars)



Secretary

31st March 2022

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 | 17 Mar 2021 | 24 Jun 2021 | 22 Sept 2021 | 01 Dec 2021 |
|---------------------|-------------|-------------|--------------|-------------|
| Hon. Simeon Nyachae | - | - | - | - |
| 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 |

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 37 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 thereafter 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

Chairman, Board of Directors

31st March 2022

Statement of Directors' Responsibilities

The 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 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 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 2022 and signed on its behalf by:



Moses M. Mwendwa
Chairman, Board of Directors



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 126 which comprise the consolidated statement of financial position at 31 December 2021, consolidated statements of profit or loss and 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 2021, the statements of profit or loss and 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 2021 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 Group and Bank Information, Directors' Report, Statement of Corporate Governance, 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.



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

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.



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

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 CP

CPA Bernice Kimacia, Practicing Certificate Number 1457

Engagement partner responsible for the audit

For and on behalf of PricewaterhouseCoopers LLP

Certified Public Accountants

Nairobi

31 March 2022

It's all About the Little Wins

Every goal starts with a little step in the right direction. Our endowment policy gives you a start in the right direction that allows you to turn your savings into investments that grow your savings. This policy has an added benefit of a **life cover**. Get financial freedom today.

For more information enquire visit
creditbank.co.ke/partner



Credit Bank
Bancassurance
Intermediary
Be Sure. Be Covered.



Underwritten by APA Insurance

+254 709 072 000
bancassurance@creditbank.co.ke
www.creditbank.co.ke





Keeping You Connected

Launching the **Konnect Platform** has earned us recognition from Think Business. Konnect is our **Digital Banking Platform** that ensures the friend you can bank on is always at your fingertips.

We are the friend that strives to **win** for you.

creditbank.co.ke/awards



Financial
Statements





| Consolidated Statement of Profit or Loss and Other Comprehensive Income | Notes | 2021 Shs '000 | 2020 Shs '000 |
|---|-------|------------------|------------------|
| Interest income | 5 | 2,732,834 | 2,881,791 |
| Interest expense | 6 | (1,442,488) | (1,423,260) |
| Net interest income | | 1,290,346 | 1,458,531 |
| Net fee and commission income | | 335,599 | 298,651 |
| Net trading income | | 126,712 | 130,335 |
| Other income | 7 | 45,349 | 42,554 |
| Credit impairment losses | 8 | (152,009) | (465,421) |
| Net operating income | | 1,645,995 | 1,464,650 |
| Employee benefits | 9 | (685,203) | (698,259) |
| Other operating expenses | 10 | (467,999) | (467,217) |
| Directors' expenses | | (70,107) | (70,074) |
| Depreciation of property and equipment | 20 | (68,613) | (66,975) |
| Depreciation of right-of-use asset | 26 | (84,744) | (84,472) |
| Amortisation of intangible assets | 21 | (54,868) | (59,522) |
| Operating expenses | | (1,431,534) | (1,446,519) |
| Profit before income tax | | 214,461 | 18,131 |
| Income tax expense | 11 | (76,320) | (73,935) |
| Profit/(loss) for the year | | 138,141 | (55,804) |
| Other comprehensive income net of income tax | | | |
| <i>Items that will be reclassified to profit or loss</i> | | | |
| Fair value movements on FVOCI financial assets, net of tax | 31 | (30,060) | (228) |
| Total comprehensive income/(loss) for the year, net of tax | | 108,081 | (56,032) |

| Bank Statement of Profit or Loss and Other Comprehensive Income | Notes | 2021 | 2020 |
|---|-------|--------------------|--------------------|
| | | Shs '000 | Shs '000 |
| Interest income | 5 | 2,732,834 | 2,881,791 |
| Interest expense | 6 | (1,445,872) | (1,425,206) |
| Net interest income | | <u>1,286,962</u> | <u>1,456,585</u> |
| Net fee and commission income | | 315,414 | 276,368 |
| Net trading income | | 126,712 | 130,336 |
| Other income | 7 | 45,349 | 42,554 |
| Credit impairment losses | 8 | (152,009) | (465,421) |
| | | <u>335,465</u> | <u>(292,531)</u> |
| Net operating income | | <u>1,622,427</u> | <u>1,440,422</u> |
| Employee benefits | 9 | (671,857) | (685,157) |
| Other operating expenses | 10 | (466,949) | (465,947) |
| Directors' expenses | | (70,107) | (70,074) |
| Depreciation of property and equipment | 20 | (68,570) | (66,933) |
| Depreciation of right-of-use asset | 26 | (84,744) | (84,472) |
| Amortisation of intangible assets | 21 | (54,868) | (59,478) |
| Operating expenses | | <u>(1,417,095)</u> | <u>(1,432,061)</u> |
| Profit before income tax | | 205,330 | 8,361 |
| Income tax expense | 11 | 75,434 | (71,445) |
| Profit/(loss) for the year | | <u>129,897</u> | <u>(63,084)</u> |
| Other comprehensive income | | | |
| Items that will be reclassified to profit or loss | | | |
| Net fair value movements on FVOCI financial assets, net of tax | 31 | (30,060) | (228) |
| Total comprehensive income/(loss) for the year | | <u>99,837</u> | <u>(63,312)</u> |

| Consolidated Statement of Financial Position | Notes | 2021 | 2020 |
|---|-------|-------------------|-------------------|
| | | Shs '000 | Shs '000 |
| Assets | | | |
| Cash and balances with Central Bank of Kenya | 13 | 1,623,861 | 1,145,705 |
| Financial assets at FVOCI | 14 | 1,270,115 | 585,271 |
| Financial assets at amortised cost | 15 | 3,912,155 | 3,361,329 |
| Deposits and balances due from banking institutions | 16 | 2,338,833 | 784,649 |
| Loans and advances to customers | 17 | 15,288,110 | 15,631,035 |
| Other assets and prepaid expenses | 18 | 590,801 | 561,390 |
| Property and equipment | 20 | 274,280 | 332,103 |
| Intangible assets | 21 | 109,079 | 150,067 |
| Right-of-use assets | 26 | 321,180 | 407,272 |
| Deferred income tax | 19 | 161,979 | 164,466 |
| Current income tax | | 80,756 | 89,746 |
| Total assets | | 25,971,150 | 23,213,033 |
| Liabilities | | | |
| Deposits and balances due to banking institutions | 23 | 499,617 | 510,781 |
| Customer deposits | 24 | 20,364,897 | 17,638,463 |
| Other liabilities | 25 | 396,438 | 465,507 |
| Lease liabilities | 27 | 394,897 | 462,935 |
| Borrowings | 28 | 954,012 | 891,392 |
| Total liabilities | | 22,609,862 | 19,969,078 |
| Shareholders' Equity | | | |
| Share capital | 29 | 2,915,971 | 2,903,019 |
| Share premium | 29 | 94,639 | 97,471 |
| Regulatory reserve | 30 | 1,687,559 | 350,166 |
| Retained earnings | | (1,305,079) | (104,959) |
| Fair value reserve | 31 | (31,801) | (1,742) |
| Shareholders' Equity | | 3,361,289 | 3,243,955 |
| Total equity and liabilities | | 25,971,150 | 23,213,033 |

The financial statements on pages 50 to 126 were approved for issue by the Board of Directors on 31st March 2022 and signed on its behalf by:



Moses M. Mwendwa

Chairman, Board of Directors



Betty Korir

Chief Executive Officer



Dr. James Stanley Mathenge

Director



CPS Robert Ndungu (DCDM Registrars)

Secretary

| Bank Statement of Financial Position | Notes | 2021 Shs '000 | 2020 Shs '000 |
|---|-------|-------------------|-------------------|
| Assets | | | |
| Cash and balances with Central Bank of Kenya | 13 | 1,594,536 | 1,116,838 |
| Financial assets at FVOCI | 14 | 1,270,115 | 585,271 |
| Financial assets at amortised cost | 15 | 3,912,155 | 3,361,329 |
| Deposits and balances due from banking institutions | 16 | 2,338,833 | 784,649 |
| Loans and advances to customers | 17 | 15,288,110 | 15,631,035 |
| Other assets and prepaid expenses | 18 | 544,017 | 525,219 |
| Property and equipment | 20 | 274,221 | 332,001 |
| Intangible assets | 21 | 109,079 | 150,067 |
| Right-of-use assets | 26 | 321,180 | 407,272 |
| Deferred income tax | 19 | 161,887 | 164,385 |
| Investment in subsidiary | 22 | 5,000 | 1,000 |
| Current Income tax | | 74,366 | 86,276 |
| Total Assets | | 25,893,499 | 23,145,341 |
| Liabilities | | | |
| Deposits and balances due to banking institutions | 23 | 499,617 | 510,781 |
| Customer deposits | 24 | 20,364,897 | 17,638,463 |
| Other liabilities | 25 | 351,774 | 423,559 |
| Lease liabilities | 27 | 394,897 | 462,935 |
| Borrowings | 28 | 954,012 | 891,392 |
| Current income tax | | - | - |
| Total Liabilities | | 22,565,198 | 19,927,130 |
| Shareholders' Equity | | | |
| Share capital | 29 | 2,915,971 | 2,903,019 |
| Share premium | 29 | 94,639 | 97,471 |
| Regulatory reserve | 30 | 1,687,559 | 350,166 |
| Retained earnings | | (1,338,067) | (130,703) |
| Fair value reserve | 31 | (31,802) | (1,742) |
| Shareholders' Equity | | 3,328,301 | 3,218,211 |
| Total Equity and Liabilities | | 25,893,499 | 23,145,341 |

The financial statements on pages 50 to 126 were approved for issue by the Board of Directors on 31st March 2022 and signed on its behalf by:



Moses M. Mwendwa

Chairman, Board of Directors



Betty Korir

Chief Executive Officer



Dr. James Stanley Mathenge

Director



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 2020 | | | | | | | |
| At start of year | | 2,633,507 | 59,908 | 161,235 | 164,684 | (1,514) | 3,017,820 |
| 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 | | | | | | | |
| Transfer from retained earnings | 30 | - | - | (55,804) | - | (228) | (56,032) |
| Transactions with owners | | | | | 185,482 | - | - |
| Issue of share capital | 29 | 243,604 | 54,090 | - | - | - | 297,694 |
| Bonus issue | 29 | 25,908 | - | (25,908) | - | - | - |
| Share issue costs | | - | (16,527) | - | - | - | (16,527) |
| Year ended 31 December 2020 | | 2,903,019 | 97,471 | (105,959) | 350,166 | (1,742) | 3,242,955 |
| Year ended 31 December 2021 | | | | | | | |
| At start of year | | 2,903,019 | 97,471 | (105,959) | 350,166 | (1,742) | 3,242,955 |
| Total comprehensive income for the year | | | | | | | |
| Profit/Loss for the year | | - | - | 138,141 | - | - | 138,141 |
| Fair value movement on investments at FVOCI | | - | - | - | - | (30,060) | (30,060) |
| Total comprehensive income for the year | | | | | | | |
| Transfer from retained earnings | 30 | - | - | 138,141 | - | (30,060) | 108,081 |
| Transactions with owners | | | | (1,337,393) | 1,337,393 | - | - |
| Issue of share capital | 29 | 12,952 | - | - | - | - | 12,952 |
| Share issue costs | | - | (2,832) | 131 | - | - | (2,701) |
| At end of year | | 2,915,971 | 94,639 | (1,305,079) | 1,687,559 | (31,802) | 3,361,288 |

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 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 | | | | | | |
| Transfer from retained earnings | - | - | (63,084) | - | (228) | (63,312) |
| Transactions with owners | | | | | | |
| Issue of share capital | 243,604 | 54,090 | - | - | - | 297,694 |
| Bonus issue | 25,908 | - | (25,908) | - | - | - |
| Share issue costs | - | (16,527) | - | - | - | (16,527) |
| Dividend paid | - | - | - | - | - | - |
| Year Ended 31 December 2020 | 2,903,019 | 97,471 | (130,703) | 350,166 | (1,742) | 3,218,211 |
| Year Ended 31 December 2021 | | | | | | |
| At start of year | 2,903,019 | 97,471 | (130,703) | 350,166 | (1,742) | 3,218,211 |
| Total comprehensive income for the year | | | | | | |
| Profit/Loss for the year | - | - | 129,897 | - | - | 129,897 |
| Fair value movement on investments at FVOCI | - | - | - | - | (30,060) | (30,060) |
| Total comprehensive income for the year | | | | | | |
| Transfer from retained earnings | - | - | 129,897 | - | (30,060) | 99,837 |
| Transactions with owners | | | | | | |
| Issue of share capital | 12,952 | - | - | - | - | 12,952 |
| Share issue costs | - | (2,832) | 131 | - | - | (2,701) |
| At end of year | 2,915,971 | 94,639 | (1,338,067) | 1,687,559 | (31,802) | 3,328,300 |



| Consolidated Statement of Cash Flows | Notes | 2021 Shs '000 | 2020 Shs '000 |
|---|-------|------------------|------------------|
| Cash flows from operating activities | | | |
| Interest receipts | | 2,732,834 | 2,881,791 |
| Net fees and commissions receipts | | 335,599 | 298,651 |
| Interest paid | | (1,442,488) | (1,425,207) |
| Foreign exchange income | | 126,712 | 130,335 |
| Payments to employees and suppliers | | (1,308,053) | (1,320,004) |
| Income tax paid | | (69,022) | (190,703) |
| Other income received | | 45,349 | 42,554 |
| | | <hr/> | <hr/> |
| Cash flows from operating activities before changes in operating assets and liabilities | | 420,930 | 417,417 |
| | | <hr/> | <hr/> |
| Changes in operating assets and liabilities: | | | |
| - gross loans and advances to customers | | 239,393 | (859,544) |
| - other assets and prepaid expenses | | (19,548) | (35,101) |
| - Central Bank of Kenya cash reserve requirement | 34 | (66,805) | 130,731 |
| - deposits and balances due to banking institutions | | (11,164) | (29,411) |
| - customer deposits | | 2,726,434 | 832,043 |
| - other liabilities | | (127,385) | (222,178) |
| | | <hr/> | <hr/> |
| Net cash flows from operating activities | | 3,163,693 | 233,957 |
| | | <hr/> | <hr/> |
| Cash flows from investing activities | | | |
| Net proceeds from financial assets at amortised cost | | (550,826) | (1,572,245) |
| Purchase of financial assets at FVOCI | | (684,844) | 661,332 |
| Purchase of property and equipment | 20 | (10,790) | (122,792) |
| Proceeds from disposal of property and equipment | | - | 4,802 |
| Purchase of intangible assets | 21 | (13,882) | (20,838) |
| | | <hr/> | <hr/> |
| Net cash flows from investing activities | | (1,260,342) | (1,049,741) |
| | | <hr/> | <hr/> |
| Cash flows from financing activities | | | |
| Proceeds from issue of shares | 29 | 10,251 | 281,042 |
| Proceeds from borrowings | 28 | 51,933 | 873,200 |
| | | <hr/> | <hr/> |
| Net cash flows from financing activities | | 62,184 | 1,154,242 |
| | | <hr/> | <hr/> |
| Net increase in cash and cash equivalents | | 1,965,535 | 338,458 |
| Cash and cash equivalents at start of year | | 1,238,538 | 897,544 |
| | | <hr/> | <hr/> |
| Cash and cash equivalents at end of year | 34 | 3,204,073 | 1,236,002 |
| | | <hr/> | <hr/> |

| Bank Statement of Cash Flows | Notes | 2021 Shs'000 | 2020 Shs'000 |
|---|-------|-----------------|-----------------|
| Cash flows from operating activities | | | |
| Interest receipts | | 2,732,834 | 2,881,791 |
| Net fees and commissions receipts | | 315,414 | 276,368 |
| Interest paid | | (1,445,872) | (1,425,207) |
| Foreign exchange income | | 126,712 | 130,335 |
| Payments to employees and suppliers | | (1,293,658) | (1,305,649) |
| Income tax paid | | (67,515) | (188,438) |
| Other income received | | 45,349 | 42,554 |
| | | <hr/> | <hr/> |
| Cash flows from operating activities before changes in operating assets and liabilities | | 413,264 | 411,654 |
| | | <hr/> | <hr/> |
| Changes in operating assets and liabilities: | | | |
| - gross loans and advances to customers | | 239,393 | (859,544) |
| - other assets and prepaid expenses | | (10,228) | (89,841) |
| - Central Bank of Kenya cash reserve requirement | | (66,805) | 130,731 |
| - deposits and balances due to banking institutions | 34 | (11,164) | (29,411) |
| - customer deposits | | 2,726,434 | 832,043 |
| - other liabilities | | (129,496) | (158,588) |
| | | <hr/> | <hr/> |
| Net cash flows from operating activities | | 3,163,235 | 237,144 |
| | | <hr/> | <hr/> |
| Cash flows from investing activities | | | |
| Net proceeds from financial assets at amortised cost | | (550,826) | (1,572,245) |
| Purchase of financial assets at FVOCI | | (684,844) | 661,332 |
| Purchase of property and equipment | 20 | (10,790) | (122,792) |
| Proceeds from disposal of property and equipment | | - | 4,802 |
| Purchase of intangible assets | 21 | (13,882) | (20,838) |
| | | <hr/> | <hr/> |
| Net cash flows from investing activities | | (1,260,342) | (1,049,741) |
| | | <hr/> | <hr/> |
| Cash flows from financing activities | | | |
| Proceeds from issue of shares | 29 | 10,251 | 281,042 |
| Proceeds from borrowings | 28 | 51,933 | 873,200 |
| | | <hr/> | <hr/> |
| Net cash flows from financing activities | | 62,184 | 1,154,242 |
| | | <hr/> | <hr/> |
| Net decrease in cash and cash equivalents | | 1,965,077 | 341,545 |
| Cash and cash equivalents at start of year | | 1,209,671 | 867,755 |
| | | <hr/> | <hr/> |
| Cash and cash equivalents at end of year | 34 | 3,174,748 | 1,209,300 |
| | | <hr/> | <hr/> |

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 set out on page 37.

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

IFRS 16, ‘Leases’ COVID-19-Related Rent Concessions Amendment

IFRS 16, ‘Leases’ COVID-19-Related Rent Concessions Amendment

As a result of the COVID-19 pandemic, rent concessions have been granted to lessees. Such concessions might take a variety of forms, including payment holidays and deferral of lease payments. In May 2020, the IASB made an amendment to IFRS 16 Leases which provides lessees with an option to treat 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 concessions as variable lease payments in the period in which they are granted. Entities applying the practical expedients must disclose this fact, whether the expedient has been applied to all qualifying rent concessions or, if not, information about the nature of the contracts to which it has been applied, as well as the amount recognised in profit or loss arising from the rent concessions.

* The relief was originally limited to reduction in lease payments that were due on or before 30 June 2021. However, the IASB subsequently extended this date to 30 June 2022.

If a lessee already applied the original practical expedient, it is required to continue to apply it consistently, to all lease contracts with similar characteristics and in similar circumstances, using the subsequent amendment. If a lessee did not apply the original practical expedient to eligible lease concessions, it is prohibited from applying the expedient in the 2021 amendment. However, if a lessee has not yet established an accounting policy on applying (or not) the practical expedient to eligible lease concessions, it can still decide to do so. This amendment did not have a material impact on the Bank’s financial statements

Interest Rate Benchmark Reform Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16

In August 2020, the IASB made amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 to address the issues that arise during the reform of an interest rate benchmark rate, including the replacement of one benchmark with an alternative one.

The Phase 2 amendments provide the following reliefs:

- When changing the basis for determining contractual cash flows for financial assets and liabilities (including lease liabilities), the reliefs have the effect that the changes, that are necessary as a direct consequence of IBOR reform and which are considered economically equivalent, will not result in an immediate gain or loss in the income statement.
- The hedge accounting reliefs will allow most IAS 39 or IFRS 9 hedge relationships that are directly affected by IBOR reform to continue. However, additional ineffectiveness might need to be recorded.

Effect of IBOR Reform on the Bank's Financial Statements

Following the financial crisis, the reform and replacement of benchmark interest rates such as USD LIBOR and other inter-bank offered rates ('IBORs') has become a priority for global regulators. There is currently uncertainty around the timing and precise nature of these changes. The Bank's risk exposure that is directly affected by the interest rate benchmark reform is only in reference to the USD LIBOR.

It is currently expected that SOFR (Secured Overnight Financing Rate) will replace USD LIBOR. There remain key differences between USD LIBOR and SOFR. USD LIBOR is a 'term rate', which means that it is published for a borrowing period (such as three months or six months) and is 'forward looking', because it is published at the beginning of the borrowing period. SOFR is currently a 'backward-looking' rate, based on overnight rates from actual transactions, and it is published at the end of the overnight borrowing period.

Furthermore, LIBOR includes a credit spread over the risk-free rate, which SOFR currently does not.

To transition existing contracts and agreements that reference USD LIBOR to SOFR, adjustments for term differences and credit differences might need to be applied to SOFR, to enable the two benchmark rates to be economically equivalent on transition.

The following table contains details of all of the financial instruments that the Bank holds at 31 December 2021 which reference 6 month USD LIBOR and have not yet transitioned to SOFR or an alternative interest rate benchmark as the settings will only be discontinued on 30 June 2023:

| Measured at Amortised Cost | Carrying Value/nominal Amount at 31 December 2021 Shs '000 | Libor Setting |
|---|---|--------------------------|
| Borrowings African Development Bank | 902,079 | 6 Months Libor +4.75% |

| | |
|-----|--|
| 2. | Summary of Significant Accounting Policies (Continued) |
| 2.1 | Basis of Preparation (Continued) |
| c) | Changes in Accounting Policies and Disclosures (Continued) |

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

As at 31 December 2021, the following standards and interpretations had been issued but were not mandatory for annual reporting periods ending on 31 December 2021.

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.

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.

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 to remove the illustration of payments from the lessor relating to leasehold improvements, to remove any confusion about the treatment of lease incentives.

IFRS 1 First-time Adoption of International Financial Reporting Standards – allows entities that have measured their assets and liabilities at carrying amounts recorded in their parent’s books to also measure any cumulative translation differences using the amounts reported by the parent. This amendment will also apply to associates and joint ventures that have taken the same IFRS 1 exemption.

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 noncurrent, 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 waiver or a breach of covenant). The amendments deferred from 1 January 2022 to 1 January 2023 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.

The IASB amended IAS 1 to require entities to disclose their material rather than their significant accounting policies. The amendments effective 1 January 2023 define what is ‘material accounting policy information’ and explain how to identify when accounting policy information is material. They further clarify that immaterial accounting policy information does not need to be disclosed. If it is disclosed, it should not obscure material accounting information.

The IASB amended IAS 1 to require entities to disclose their material rather than their significant accounting policies. The amendments effective 1 January 2023 define what is 'material accounting policy information' and explain how to identify when accounting policy information is material. They further clarify that immaterial accounting policy information does not need to be disclosed. If it is disclosed, it should not obscure material accounting information.

To support this amendment, the IASB also amended IFRS Practice Statement 2 Making Materiality Judgements to provide guidance on how to apply the concept of materiality to accounting policy disclosures.

Definition of Accounting Estimates – Amendments to IAS 8

The amendment to IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors effective 1 January 2023 clarifies how companies should distinguish changes in accounting policies from changes in accounting estimates. The distinction is important, because changes in accounting estimates are applied prospectively to future transactions and other future events, but changes in accounting policies are generally applied retrospectively to past transactions and other past events as well as the current period.

Deferred Tax Related to Assets and Liabilities Arising from a Single Transaction – Amendments to IAS 12

The amendments to IAS 12 Income Taxes require companies to recognise deferred tax on transactions that, on initial recognition, give rise to equal amounts of taxable and deductible temporary differences. They will typically apply to transactions such as leases of lessees and decommissioning obligations and will require the recognition of additional deferred tax assets and liabilities.

The amendment should be applied to transactions that occur on or after the beginning of the earliest comparative period presented. In addition, entities should recognise deferred tax assets (to the extent that it is probable that they can be utilised) and deferred tax liabilities at the beginning of the earliest comparative period for all deductible and taxable temporary differences associated with:

- right-of-use assets and lease liabilities, and
- decommissioning, restoration and similar liabilities, and the corresponding amounts recognised as part of the cost of the related assets.

The cumulative effect of recognising these adjustments is recognised in retained earnings, or another component of equity, as appropriate.

IAS 12 did not previously address how to account for the tax effects of on-balance sheet leases and similar transactions and various approaches were considered acceptable. Some entities may have already accounted for such transactions consistent with the new requirements. These entities will not be affected by the amendments.

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 2021.

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

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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 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.

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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

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| 2. | Summary of Significant Accounting Policies (Continued) |
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| | Business Model Assessment (Continued) |

- 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 basis maximising 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 |

¹Subject to meeting the SPPI criterion.

²The 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.

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| | Financial Liabilities (Continued) |

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 consider;
- 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 understood 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).

$$\text{ECL} = \text{PD} \times \text{LGD} \times \text{EAD}$$

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.

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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 - For 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).

$$ECL_{12m} = PD_{12m} \times LGD_{12m} \times EAD_{12m} \times D_{12m}$$

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).

$$ECL_{LT} = LT \sum_{t=1} PD_t \times LGD_t \times EAD_t \times D_t$$

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.

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

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 Group'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 26% 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.

| 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 | 3,766 | - | 3,766 |
| Stage 2 | 0 | - | 0 |
| Stage 3 | 178 | - | 178 |
| Total | <u>3,944</u> | <u>-</u> | <u>3,944</u> |

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.

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:

| | |
|------|--|
| 2. | Summary of Significant Accounting Policies (Continued) |
| 2.1 | Basis of Preparation (Continued) |
| g) | Financial Assets and Liabilities (Continued) |
| iii) | Fair Value Measurement (Continued) |

- 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.

| Category (as Defined by IFRS 9) | | Class (as Determined by the Group) | | Subclasses |
|---|---|--|-------------------------------|----------------|
| Financial assets | Financial assets at fair value through other comprehensive income | Financial Assets Available for sale | Debt securities | |
| | | | Derivatives – non-hedging | |
| | | | Equity securities | |
| | Measured at Amortised Cost | Loans and advances to banks | | |
| | | Loans and advances to customers | Loans to individuals (retail) | Overdrafts |
| | | | | Term loans |
| | | Loans to corporate entities | | Personal Loans |
| | | | | Overdrafts |
| | | Investment securities - debt instruments | | Term loans |
| | | | | SMEs |
| | | Debt securities | | Others |
| | | | | Listed |
| | Financial liabilities at amortised cost | Deposits from banks | | |
| | | Deposits from customers | Retail customers | |
| | | | Mid - corporate | |
| SMEs | | | | |
| Off-balance sheet financial Instruments | Loan commitments | | | |
| | Guarantees, acceptances and other financial facilities | | | |

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

| | |
|------|--|
| 2. | Summary of Significant Accounting Policies (Continued) |
| 2.1 | Basis of Preparation (Continued) |
| g) | Financial Assets and Liabilities (Continued) |
| iii) | Fair Value Measurement (Continued) |
| | Impairment of Financial Assets (Continued) |

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

- 2. Summary of Significant Accounting Policies (Continued)
- 2.1 Basis of Preparation (Continued)
- w) Accounting for Leases (Continued)
 - Leases Under Which the Group is the Lessee (Continued)

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 is 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.

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 treasury 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 measured 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

| | |
|-------|--|
| 3. | Financial Risk Management (Continued) |
| 3.1 | Credit Risk (Continued) |
| 3.1.3 | Expected Credit Loss Measurement (Continued) |
| a) | Significant Increase in Credit Risk (SICR) (Continued) |
| | Qualitative Criteria (Continued) |

- 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 unlikelihood 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. $ECL = PD \times LGD \times EAD$

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 Bank has incorporated forward-looking information in its measurement of ECLs. The Group has formulated a 'base case' view of the future direction of relevant economic variables and a representative range of other possible forecast scenarios based on consideration of a variety of external actual and forecast information. This process involves developing two or more additional economic scenarios and considering the relative probabilities of each outcome.

Noting the wide range of possible scenarios and macroeconomic outcomes, and the relative uncertainty of the social and economic consequences of COVID-19, these scenarios represent reasonable and supportable forward-looking views as at the reporting date.

Sensitivity Analysis

There are no significant changes to the ECL at 31 December 2021 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.

3.1.4 Credit Risk Exposure

The below table represents a worst case scenario of credit risk exposure to the Bank at 31 December 2021 and 2020, 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 41% of the total maximum exposure is derived from loans and advances to customers (2020: 49%); 11% (2020:11%) 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'.

| Maximum Exposure to Credit Risk Before Collateral Held | 2021 Shs '000 | 2020 Shs '000 |
|---|-------------------|-------------------|
| Group | | |
| Balances with Central Bank of Kenya (Note 13) | 1,623,861 | 758,929 |
| Deposits and balances due from banking institutions (Note 16) | 2,338,833 | 784,649 |
| Financial assets at amortised cost (Note 15) | 3,912,155 | 3,361,329 |
| Financial assets at FVOCI (Note 14) | 1,270,115 | 585,271 |
| Other assets (Note 18) | 590,801 | 561,390 |
| Loans and advances to customers (Note 17) | 15,288,110 | 15,631,035 |
| | <u>25,023,875</u> | <u>21,682,603</u> |
| Credit risk exposures relating to off-balance sheet items: | | |
| - Acceptances and letters of credit | 1,712,490 | 2,164,306 |
| - Guarantee and performance bonds | 6,291,947 | 6,581,224 |
| - Commitments to lend | 333,840 | 47,180 |
| - Unutilised guarantees | 1,222,365 | 1,175,715 |
| - Forwards, swaps & options | 1,283,922 | - |
| | <u>35,868,439</u> | <u>31,651,028</u> |
| Bank | | |
| Balances with Central Bank of Kenya (Note 13) | 1,594,536 | 758,929 |
| Deposits and balances due from banking institutions (Note 16) | 2,338,833 | 784,649 |
| Financial assets at amortised cost (Note 15) | 3,912,155 | 3,361,329 |
| Financial assets at FVOCI (Note 14) | 1,270,115 | 585,271 |
| Other assets (Note 18) | 544,017 | 525,219 |
| Loans and advances to customers (Note 17) | 15,288,110 | 15,631,035 |
| | <u>24,947,766</u> | <u>21,646,431</u> |
| Credit risk exposures relating to off-balance sheet items: | | |
| - Acceptances and letters of credit | 1,712,490 | 2,164,306 |
| - Guarantee and performance bonds | 6,291,947 | 6,581,224 |
| - Commitments to lend | 250,940 | 47,180 |
| - Unutilised Guarantees | 1,222,365 | 1,175,715 |
| - Forwards, swaps & options | 1,283,922 | - |
| | <u>35,792,330</u> | <u>31,614,856</u> |

3.1.5 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:

| 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 | 2021 Shs '000 | 2020 Shs '000 |
|--|------------------|------------------|
| Neither past due nor impaired (Stage 1) | 10,011,382 | 11,230,797 |
| Past due but not impaired (Stage 2) | 1,705,844 | 3,564,167 |
| Impaired (Stage 3) | 4,337,775 | 1,713,721 |
| Gross | 16,055,001 | 16,508,685 |
| Stage 1 and 2 | (32,039) | (184,312) |
| Stage 3 | (734,852) | (693,338) |
| Net | 15,288,110 | 15,631,035 |

3. Financial Risk Management (Continued)
 3.1 Credit Risk (Continued)
 3.1.4 Financial Assets that are Past Due or Impaired (Continued)

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 | Term Loans | Mortgage | Large Corporate Customers | SMEs | Other | Total Loans & Advances to Customers |
| | Shs '000 | Shs '000 | Shs '000 | Shs '000 | Shs '000 | Shs '000 | Shs '000 |
| 31 December 2021 Stage 1 | 1,886,684 | 1,352,266 | 510,590 | 4,036,499 | 2,225,343 | - | 10,011,382 |
| 31 December 2020 Stage 1 | 2,854,848 | 1,716,666 | 649,776 | 4,011,961 | 1,997,546 | - | 11,230,797 |

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) | | Total Shs '000 |
|---------------------------|-------------------------------|------------------------|-------------------|
| | Overdrafts Shs '000 | Term Loans Shs '000 | |
| 31 December 2021 | | | |
| Past due up to 30 days | 343 | 4,862 | 5,205 |
| Past due 30 - 90 days | 10,264 | 8,085 | 18,349 |
| Past due 60 - 90 days | 154,306 | 35,460 | 189,766 |
| Total | 164,913 | 48,407 | 213,320 |

| Stage 2 Group and Bank | Corporate Entities | | Total Shs '000 |
|---------------------------|---------------------------------------|------------------|-------------------|
| | Large Corporate Customers Shs '000 | SMEs Shs '000 | |
| 31 December 2021 | | | |
| Past due up to 30 days | 710,234 | 82,504 | 792,738 |
| Past due 30 - 90 days | 60,561 | 36,972 | 97,533 |
| Past due 60 - 90 days | 589,124 | 13,129 | 602,253 |
| Total | 1,359,919 | 132,605 | 1,492,524 |

| Stage 2 Group and Bank | Individual (Retail Customers) | | Total Shs '000 |
|---------------------------|-------------------------------|------------------------|-------------------|
| | Overdrafts Shs '000 | Term Loans 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 | | Total Shs '000 |
|---------------------------|---------------------------------------|------------------|-------------------|
| | Large Corporate Customers Shs '000 | SMEs 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 |

3. Financial Risk Management (Continued)
 3.1 Credit Risk (Continued)
 3.1.5 Financial Assets that are Past Due or Impaired (Continued)

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:

| | Individual (Retail Customers) | | | Corporate Entities | | |
|-----------------------------|-------------------------------|---------------------------|----------------------|---|------------------|---|
| Stage 3 Group and Bank | 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 2021 Stage 3 | 945,746 | 281,015 | 53,320 | 2,034,959 | 1,022,735 | 4,337,775 |
| 31 December 2020 Stage 3 | 345,639 | 147,687 | 27,095 | 577,199 | 795,442 | 1,893,062 |

| Collateral Held Against Stage 3 Loans | SME Shs '000 | Corporate Shs '000 | Personal Shs '000 | Total Collateral Held Shs '000 |
|--|-----------------|-----------------------|----------------------|--------------------------------------|
| Product | | | | |
| Loans | 1,181,031 | 2,380,940 | 375,311 | 3,937,282 |
| Overdraft | 491,342 | 50,614 | 58,902 | 600,858 |
| Total | 1,672,373 | 2,431,554 | 434,213 | 4,538,140 |

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 2021 | | |
| Financial institutions | 2% | 99% |
| Manufacturing | 1% | 0% |
| Real estate | 10% | 1% |
| Wholesale and retail trade | 35% | 0% |
| Building and construction | 20% | 0% |
| Other industries | 15% | 0% |
| Individuals | 17% | 0% |
| | <hr/> | <hr/> |
| | 100% | 100% |
| | <hr/> | <hr/> |
| At 31 December 2020 | | |
| Financial institutions | 3% | 0% |
| Manufacturing | 1% | 0% |
| Real estate | 6% | 0% |
| Wholesale and retail trade | 30% | 0% |
| Building and construction | 23% | 0% |
| Other industries | 22% | 83% |
| Individuals | 15% | 17% |
| | <hr/> | <hr/> |
| | 100% | 100% |
| | <hr/> | <hr/> |

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 31st 2021, 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 Kshs19.13Mln/Kes 14.99Mln higher(2020: Kshs (7.56Mln/ Kes 6.49Mln).

ii) Currency Risk

The table below summarises the Bank's exposure to foreign exchange risk at 31 December 2021. Included in the table are the Bank's financial instruments at carrying amounts, categorised by currency (all amounts expressed in thousands of Kenya Shillings).

| Foreign Exchange Risk Exposure | USD | GBP | Euro | Other | Total |
|---|--------------------|-----------------|-----------------|--------------|--------------------|
| At 31 December 2021 | | | | | |
| Assets | | | | | |
| Cash and balances with Central Bank of Kenya | 1,441,503 | 132,442 | 40,132 | 2,595 | 1,616,672 |
| Deposits and balances due from banking institutions | 884,190 | - | - | - | 884,190 |
| Loans and advances to customers | 3,145,907 | - | 13 | - | 3,145,920 |
| Other assets | 19,892 | - | - | - | 19,892 |
| Total assets | 5,491,492 | 132,442 | 40,145 | 2,595 | 5,666,674 |
| Liabilities | | | | | |
| Customer deposits | 2,554,239 | 172,085 | 78,440 | 528 | 2,805,292 |
| Deposits and balances due to banking institutions | 499,617 | - | - | - | 499,617 |
| Long term borrowings | 902,080 | - | - | - | 902,080 |
| Other liabilities | 1,508 | 1,563 | - | - | 3,071 |
| Total liabilities | 3,957,444 | 173,648 | 78,440 | 528 | 4,210,060 |
| Net on-balance sheet position | 1,534,048 | (41,206) | (38,295) | 2,067 | 1,456,614 |
| Net off-balance sheet position | (1,361,092) | 38,773 | 38,397 | - | (1,283,922) |
| Overall net position | 172,956 | (2,433) | 102 | 2,067 | 172,692 |
| As at 31 December 2020 | | | | | |
| Total assets | 2,859,348 | 70,896 | 130,399 | 1,656 | 3,062,299 |
| 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 |

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 2021, 20% increase in Interest Charging Liabilities with Constant volume and yield on interest earning assets will reduce Profits by Kes 23.15Mln (2020:22.36Mln). 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 80.22Mln (2020; 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 2021 | | | | | | |
| Assets | | | | | | |
| Cash and balances with Central Bank of Kenya | - | - | - | - | 1,623,861 | 1,623,861 |
| Financial assets at amortised cost | - | - | - | 3,912,155 | - | 3,912,155 |
| Deposits and balances due from banking institutions | 2,338,833 | - | - | - | - | 2,338,833 |
| Financial assets at FVOCI | 1,270,115 | - | - | - | - | 1,270,115 |
| Other assets and prepaid expenses | - | - | - | - | 590,801 | 590,801 |
| Loans and advances to customers | 4,244,688 | 893,283 | 2,278,466 | 7,871,673 | - | 15,288,110 |
| Property and equipment and intangible assets | - | - | - | - | 383,360 | 383,360 |
| Deferred income tax | - | - | - | - | 161,979 | 161,979 |
| Right-of-use asset | - | - | - | - | 321,180 | 321,180 |
| Current income tax | - | - | - | - | 80,756 | 80,756 |
| Total assets | 7,853,636 | 893,283 | 2,278,466 | 11,783,828 | 3,161,937 | 25,971,150 |
| Liabilities and Shareholders' Funds | | | | | | |
| Customer deposits | 6,152,868 | 7,049,024 | 4,412,293 | 643,500 | 2,107,213 | 20,364,898 |
| Deposits and balances due to banking institutions | 499,617 | - | - | - | - | 499,617 |
| Other liabilities | - | - | - | - | 396,438 | 396,438 |
| Current income tax | - | - | - | - | - | - |
| Lease liability | - | - | - | - | 394,897 | 394,897 |
| Long term borrowings | - | - | - | 954,012 | - | 954,012 |
| Shareholders' equity | - | - | - | - | 3,361,288 | 3,361,288 |
| Total liabilities and shareholders' equity | 6,652,485 | 7,049,024 | 4,412,293 | 1,597,512 | 6,259,836 | 25,971,150 |
| Interest sensitivity gap | 1,201,150 | (6,155,741) | (2,133,827) | 10,186,316 | (3,097,899) | - |
| As at 31 December 2020 | | | | | | |
| Total assets | 17,023,139 | 117,543 | 222,768 | 2,998,834 | 2,850,745 | 23,213,029 |
| Total liabilities and shareholders' funds | 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) | - |

| 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 2021 | | | | | | |
| Assets | | | | | | |
| Cash and balances with Central Bank of Kenya | - | - | - | - | 1,594,536 | 1,594,536 |
| Financial assets at amortised cost | - | - | - | 3,912,155 | - | 3,912,155 |
| Deposits and balances due from banking institutions | 2,338,833 | - | - | - | - | 2,338,833 |
| Financial assets at FVOCI | 1,270,115 | - | - | - | - | 1,270,115 |
| Other assets and prepaid expenses | - | - | - | - | 544,017 | 544,017 |
| Loans and advances to customers | 4,244,688 | 893,283 | 2,278,466 | 7,871,673 | - | 15,288,110 |
| Property and equipment and intangible assets | - | - | - | - | 383,300 | 383,300 |
| Right-of-use asset | - | - | - | - | 321,180 | 321,180 |
| Deferred income tax | - | - | - | - | 161,887 | 161,887 |
| Current income tax | - | - | - | - | 74,366 | 74,366 |
| Investment in subsidiary | - | - | - | - | 5,000 | 5,000 |
| Total assets | 7,853,636 | 893,283 | 2,278,466 | 11,783,828 | 3,084,286 | 25,893,499 |
| As at 31 December 2021 | | | | | | |
| Liabilities And Shareholders' Funds | | | | | | |
| Customer deposits | 6,152,868 | 7,049,024 | 4,412,293 | 643,500 | 2,107,213 | 20,364,898 |
| Deposits and balances due to banking institutions | 499,617 | - | - | - | - | 499,617 |
| Other liabilities | - | - | - | - | 351,774 | 351,774 |
| Lease liability | - | - | - | - | 394,897 | 394,897 |
| Long term borrowings | - | - | - | 954,012 | - | 954,012 |
| Shareholders' equity | - | - | - | - | 3,328,300 | 3,328,300 |
| Total liabilities and shareholders' equity | 6,652,485 | 7,049,024 | 4,412,293 | 1,597,512 | 6,182,184 | 25,893,499 |
| Interest sensitivity gap | 1,201,151 | (6,155,741) | (2,133,827) | 10,186,316 | (3,097,899) | - |
| As at 31 December 2020 | | | | | | |
| Total assets | 17,023,139 | 117,543 | 222,768 | 2,998,834 | 2,783,054 | 23,145,338 |
| Total liabilities and shareholders' funds | 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) | - |

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.

3. Financial Risk Management (Continued)

3.4 Liquidity Risk (Continued)

| Payable Undiscounted Cash Flows | 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 |
|---|----------------------------|------------------------|-------------------------|-----------------------|--------------------------|-------------------|
| Group | | | | | | |
| As at 31 December 2021 | | | | | | |
| Liabilities | | | | | | |
| Customer deposits | 6,152,868 | 7,049,024 | 4,412,293 | 643,500 | 2,107,213 | 20,364,898 |
| Deposits and balances due to banking institutions | 499,617 | - | - | - | - | 499,617 |
| Other liabilities | 339,248 | 10,313 | - | 46,877 | - | 396,438 |
| Borrowings | - | - | - | 902,080 | 51,933 | 954,013 |
| Shareholders' equity | - | - | - | - | 3,361,288 | 3,361,288 |
| Lease liability | - | - | - | - | 394,897 | 394,897 |
| Total liabilities | 6,991,733 | 7,059,337 | 4,412,293 | 1,592,457 | 5,915,330 | 25,971,150 |
| As at 31 December 2020 | | | | | | |
| Liabilities | | | | | | |
| Customer deposits | 9,147,970 | 5,362,395 | 2,989,221 | 414,553 | 25,808 | 17,939,947 |
| Deposits and balances due to banking institutions | 510,781 | - | - | - | - | 510,781 |
| Other liabilities | 301,922 | 112,349 | 5,677 | 46,879 | - | 466,827 |
| Shareholders' equity | - | 25,468 | 36,383 | 955,669 | - | 1,017,520 |
| Lease Liability | - | - | - | - | 3,243,351 | 3,243,351 |
| | - | 14,192 | 40,219 | 568,638 | - | 623,049 |
| Total liabilities | 9,960,673 | 5,514,404 | 3,071,500 | 1,985,739 | 3,269,159 | 23,801,475 |
| Bank | | | | | | |
| As at 31 December 2021 | | | | | | |
| Liabilities | | | | | | |
| Customer deposits | 6,152,868 | 7,049,024 | 4,412,293 | 643,500 | 2,107,213 | 20,364,898 |
| Deposits and balances due to banking institutions | 499,617 | - | - | - | - | 499,617 |
| Other liabilities | 294,585 | 10,313 | - | 46,877 | - | 351,775 |
| Long term borrowings | - | - | - | 902,080 | 51,933 | 954,013 |
| Lease liability | - | - | - | - | 394,897 | 394,897 |
| Shareholders equity | - | - | - | - | 3,328,300 | 3,328,300 |
| Total liabilities | 6,947,070 | 7,059,337 | 4,412,293 | 1,592,457 | 5,882,343 | 25,893,499 |
| At 31 December 2020 | | | | | | |
| Liabilities | | | | | | |
| Customer deposits | 9,147,970 | 5,362,395 | 2,989,221 | 414,553 | 25,808 | 17,939,947 |
| Deposits and balances due to banking institutions | 510,781 | - | - | - | - | 510,781 |
| Other liabilities | - | 112,349 | 5,677 | 46,879 | - | 424,275 |
| Long term borrowings | 259,370 | 25,468 | 36,383 | 955,669 | - | 1,017,520 |
| Lease liability | - | 14,192 | 40,219 | 568,638 | 3,218,211 | 623,049 |
| Shareholders equity | - | - | - | - | - | 3,218,211 |
| Total liabilities | 9,918,121 | 5,514,404 | 3,071,500 | 1,985,739 | 3,244,019 | 23,733,782 |

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 2021 | | | | |
| Assets | | | | |
| Fair value through OCI | | | | |
| - Debt investments | - | 1,270,115 | - | 1,270,115 |
| | | | | |
| At 31 December 2020 | | | | |
| Assets | | | | |
| Fair value through OCI | | | | |
| - Debt investments | - | 585,270 | - | 585,270 |
| | | | | |

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.

| Fair Value | 2021 | | 2020 | |
|---|-----------------------------|------------------------|-----------------------------|------------------------|
| | Historical Cost Shs '000 | Fair Value Shs '000 | Historical Cost Shs '000 | Fair Value Shs '000 |
| Group | | | | |
| Assets | | | | |
| Cash and balances with Central Bank of Kenya | 1,623,861 | 1,623,861 | 1,145,705 | 1,145,705 |
| Financial assets at FVOCI | 1,270,115 | 1,270,115 | 585,271 | 585,271 |
| Financial assets at amortised cost | 3,912,155 | 3,912,155 | 3,361,329 | 3,361,329 |
| Deposits and balances due from banking institutions | 2,338,833 | 2,338,833 | 784,649 | 784,649 |
| Loans and advances to customers | 15,288,110 | 15,288,110 | 15,631,035 | 15,631,035 |
| Other assets and prepaid expenses | 590,801 | 590,801 | 561,390 | 561,390 |
| Right-of-use assets | 321,180 | 321,180 | 407,271 | 407,271 |
| Liabilities | | | | |
| Deposits and balances due to banking institutions | 499,617 | 499,617 | 510,781 | 510,781 |
| Customer deposits | 20,364,897 | 20,364,897 | 17,638,464 | 17,638,464 |
| Other liabilities | 396,438 | 396,438 | 466,828 | 466,828 |
| Borrowings | 954,012 | 954,012 | 891,392 | 891,392 |
| Lease liabilities | 394,897 | 394,897 | 462,216 | 462,216 |
| Bank | | | | |
| Assets | | | | |
| Cash and balances with Central Bank of Kenya | 1,594,536 | 1,594,536 | 1,116,838 | 1,116,838 |
| Financial assets at FVOCI | 1,270,115 | 1,270,115 | 585,271 | 585,271 |
| Financial assets at amortised cost | 3,912,155 | 3,912,155 | 3,361,329 | 3,361,329 |
| Deposits and balances due from banking institutions | 2,338,833 | 2,338,833 | 784,649 | 784,649 |
| Loans and advances to customers | 15,288,110 | 15,288,110 | 15,631,035 | 15,631,035 |
| Other assets and prepaid expenses | 544,017 | 544,017 | 525,219 | 525,219 |
| Right-of-use assets | 321,180 | 321,180 | 407,271 | 407,271 |
| Liabilities | | | | |
| Deposits and balances due to banking institutions | 499,617 | 499,617 | 510,781 | 510,781 |
| Customer deposits | 20,364,897 | 20,364,897 | 17,638,464 | 17,638,464 |
| Other liabilities | 351,774 | 351,774 | 424,275 | 424,275 |
| Borrowing | 954,012 | 954,012 | 891,392 | 891,392 |
| Lease liabilities | 394,897 | 394,897 | 462,216 | 462,216 |

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:

- hold the minimum level of regulatory capital of Shs 1 billion;
- 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% (2020: 10.5%);
- maintain core capital of not less than 8% of total deposit liabilities; and
- maintain total capital of not less than 14.5% (2020: 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 | 2021 Shs '000 | 2020 Shs '000 |
|--|------------------|------------------|
| Tier 1 capital | 1,672,543 | 2,869,788 |
| Tier 1 + Tier 2 capital | 3,328,300 | 3,218,212 |
| Risk-weighted assets | | |
| On-balance sheet | 18,899,773 | 17,588,094 |
| Off-balance sheet | 2,501,525 | 4,567,864 |
| Total risk-weighted assets | 21,401,298 | 22,155,958 |
| Basel ratio | | |
| Core capital to total risk weighted assets (CBK minimum – 10.5% (2020: 10.5%)) | 7.88% | 13.00% |
| Total capital to total risk weighted assets (CBK minimum – 14.5% (2020: 14.5%)) | 15.82% | 14.53% |



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.



| | 2021 Shs '000 | 2020 Shs '000 |
|---|------------------|------------------|
| 5. Interest Income | | |
| Group and Bank | | |
| Loans and advances | 1,983,476 | 2,285,172 |
| Credit related fees and commissions | 194,038 | 181,643 |
| Financial assets at amortised cost | 397,670 | 344,835 |
| Financial assets at FVOCI | 132,690 | 54,806 |
| Deposits and balances due from banking institutions | 24,959 | 15,335 |
| | <u>2,732,834</u> | <u>2,881,791</u> |
| 6. Interest Expense | | |
| Group | | |
| Customer deposits | 1,329,437 | 1,305,139 |
| Deposits and balances due to banking institutions | 57,666 | 60,173 |
| Lease liability | 55,385 | 57,948 |
| | <u>1,442,488</u> | <u>1,423,260</u> |
| Bank | | |
| Customer deposits | 1,332,820 | 1,307,085 |
| Deposits and balances due to banking institutions | 57,666 | 60,173 |
| Lease liability | 55,386 | 57,948 |
| | <u>1,445,872</u> | <u>1,425,206</u> |
| 7. Other Income | | |
| Group and Bank | | |
| Gain on sale of financial assets held at FVOCI | 38,048 | 43,106 |
| Other income | 7,254 | 8,579 |
| Loss on disposal of property and equipment | 47 | (9,131) |
| | <u>45,349</u> | <u>42,554</u> |
| 8. Credit Impairment Losses | | |
| Group and Bank | | |
| Increase/(decrease) in stage 1 ECL | (7,706) | 23,211 |
| Increase/(decrease) in stage 2 ECL | 1,940 | 96,819 |
| Increase in stage 3 ECL | 157,775 | 345,391 |
| | <u>152,009</u> | <u>465,421</u> |
| Loans to customers (Note 17) | | |



| | 2021 Shs '000 | 2020 Shs '000 |
|--|------------------|------------------|
| 9. Employee Benefits | | |
| Group | | |
| Salaries and allowances | 545,033 | 577,823 |
| Medical insurance | 48,733 | 48,622 |
| Training and development | 2,325 | 7,385 |
| Travelling and accommodation | 400 | 497 |
| - Defined contribution scheme | 24,683 | 26,241 |
| - National Social Security Fund | 775 | 560 |
| Other costs | 63,254 | 37,131 |
| | <u>685,203</u> | <u>698,259</u> |
| The number of persons employed by the Group at the year-end was 216 (2020: 222). | | |
| Bank | | |
| Salaries and allowances | 533,483 | 566,368 |
| Medical insurance | 48,007 | 47,828 |
| Training and development | 2,325 | 7,385 |
| Travelling and accommodation | 400 | 497 |
| Retirement benefits costs | | |
| - Defined contribution scheme | 24,140 | 25,722 |
| - National Social Security Fund | 763 | 548 |
| Other costs | 62,739 | 36,809 |
| | <u>671,857</u> | <u>685,157</u> |
| The number of persons employed by the Bank at the year-end was 212 (2020: 217). | | |



| 10. Other Operating Expenses | 2021 Shs '000 | 2020 Shs '000 |
|---|------------------|------------------|
| Group | | |
| The following items are included with other operating expenses: | | |
| Software licensing and other information technology costs | 114,299 | 116,116 |
| Auditor's remuneration | 9,932 | 5,147 |
| Rental expenses | 23,526 | 21,611 |
| Security guards alarms | 37,343 | 36,437 |
| Visa expenses | 34,781 | 32,848 |
| Deposit protection fund | 26,835 | 21,760 |
| Data communication costs | 26,826 | 26,565 |
| Membership subscription | 22,076 | 13,902 |
| Other costs | 172,381 | 192,740 |
| | <hr/> | <hr/> |
| | 467,999 | 467,217 |
| | <hr/> | <hr/> |
| Bank | | |
| The following items are included with other operating expenses: | | |
| Software licensing and other information technology costs | 114,151 | 115,965 |
| Auditor's remuneration | 9,549 | 4,782 |
| Rental expenses | 23,526 | 21,611 |
| Security guards alarms | 37,343 | 36,437 |
| Visa expenses | 34,781 | 32,858 |
| Deposit protection fund | 26,835 | 21,759 |
| Data communication costs | 26,826 | 26,656 |
| Membership subscription | 22,076 | 13,901 |
| Other costs | 171,862 | 191,978 |
| | <hr/> | <hr/> |
| | 466,949 | 465,947 |
| | <hr/> | <hr/> |



| 11. Income Tax Expense | 2021 Shs '000 | 2020 Shs '000 |
|---|------------------|------------------|
| Group | | |
| Current income tax | 82,347 | 63,138 |
| Deferred income tax (Note 19) | (5,496) | (52,927) |
| Underprovision of deferred tax in the prior years (Note 19) | 1,048 | 65,106 |
| (Over)/under provision of current tax in the prior years (Note 19) | (1,577) | (1,382) |
| | <u>76,320</u> | <u>73,935</u> |
| <i>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:</i> | | |
| Profit before income tax | <u>214,461</u> | <u>18,131</u> |
| Tax calculated at a tax rate of 30% (2020: 25%) | 64,338 | 4,533 |
| Tax effect of: | | |
| - income not subject to tax | | |
| - expenses not deductible for tax purposes | (55,865) | (26,105) |
| - under/(over) provision of deferred tax in prior years | 62,960 | 29,984 |
| - (over)/under provision of current tax in prior years | 6,464 | 65,106 |
| - impact of using a different deferred tax rate | (1,577) | (1,382) |
| | - | 1,799 |
| Income tax expense | <u>76,320</u> | <u>73,935</u> |
| Bank | | |
| Current income tax | 79,508 | 60,515 |
| Deferred income tax (Note 19) | (5,486) | (52,792) |
| Underprovision of deferred income tax in the prior years (Note 19) | 1,048 | 65,064 |
| Under provision of currency tax in the prior years | 364 | (1,342) |
| | <u>75,434</u> | <u>71,445</u> |
| <i>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:</i> | | |
| Profit before income tax | <u>205,331</u> | <u>8,361</u> |
| Tax calculated at a tax rate of 30% (2020: 25%) | 61,599 | 2,090 |
| Tax effect of: | | |
| - income not subject to tax | (55,865) | (26,105) |
| - expenses not deductible for tax purposes | 62,872 | 29,693 |
| - underprovision of deferred tax in prior years | 6,464 | 65,064 |
| - (over)/ under provision of current tax in prior years | 364 | (1,342) |
| - impact of using a different tax rate for deferred tax | - | 2,045 |
| Income tax expense | <u>75,434</u> | <u></u> |



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 (2020: Nil).



| | 2021 Shs '000 | 2020 Shs '000 |
|--|------------------|------------------|
| 13. Cash and Balances with Central Bank of Kenya Group | | |
| Cash in hand | 385,095 | 386,776 |
| Balances with Central Bank of Kenya | 1,238,766 | 758,929 |
| | <u>1,623,861</u> | <u>1,145,705</u> |
| Bank | | |
| Cash in hand | 355,770 | 357,909 |
| Balances with Central Bank of Kenya | 1,238,766 | 758,929 |
| | <u>1,594,536</u> | <u>1,116,838</u> |
| The ECL for cash and bank balances was not material and has not been booked. (2020: Not material) | | |
| 14. Financial Assets Held at FVOCI Group and Bank | | |
| Infrastructure bond | 304,550 | 146,650 |
| Treasury bonds | 965,565 | 438,621 |
| | <u>1,270,115</u> | <u>585,271</u> |
| The securities are traded on the Nairobi Securities Exchange. The ECL was not material to the financial statements and has not been booked. (2020: Not material) | | |
| 15. Financial Assets Held-to-Maturity Group and Bank | | |
| Maturing after 90 days of the date of acquisition | 3,912,155 | 3,301,329 |
| Maturing within 90 days from the date of acquisition | - | 60,000 |
| | <u>3,912,155</u> | <u>3,361,329</u> |
| The ECL was not material to the financial statements and has not been booked. (2020: Not material) | | |
| 16. Deposits and Balances from Banking Institutions Group and Bank | | |
| Overnight lending | 884,173 | 700,123 |
| Balances with banks abroad | 1,454,660 | 84,526 |
| | <u>2,338,833</u> | <u>784,649</u> |
| The ECL was not material to the financial statements and has not been booked. (2020: Not material) | | |



| | 2021 Shs '000 | 2020 Shs '000 |
|--|------------------|------------------|
| 17. Loans and Advances to Customers | | |
| Retail customers | | |
| Mortgage lending | 563,910 | 649,776 |
| Personal unsecured | 56,320 | 67,906 |
| Personal secured Loans | 1,625,369 | 2,228,678 |
| Corporate customers | | |
| Commercial term loans | 10,812,060 | 9,864,600 |
| Overdraft facilities | 2,997,343 | 3,697,725 |
| Gross loans and advances | 16,055,002 | 16,508,685 |
| Less: Provision for impairment of loans and advances | | |
| - Stage 1 | (21,577) | (79,028) |
| - Stage 2 | (10,463) | (105,284) |
| - Stage 3 | (734,852) | (693,338) |
| Net loans and advances | 15,288,110 | 15,631,035 |

17. Loans and Advances to Customers (Continued)

| 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 2021 | 11,230,797 | 3,563,601 | 1,714,287 | 16,508,685 |
| Transfer from stage 1 to stage 2 | (1,490,607) | 1,490,607 | - | - |
| Transfer from stage 1 to stage 3 | (1,197,185) | - | 1,197,185 | - |
| Transfer from stage 2 to stage 1 | 217,602 | (217,602) | - | - |
| Transfer from stage 2 to stage 3 | - | (1,736,999) | 1,736,999 | - |
| Transfer from stage 3 to stage 1 | 4,500 | - | (4,500) | - |
| Transfer from stage 3 to stage 2 | - | - | - | - |
| Interest on Stage 3 | - | - | 103,595 | 103,595 |
| Fair Value Recognition for staff Loans | (169,036) | - | - | (169,036) |
| New financial assets originated | 7,059,666 | 168,615 | 15,161 | 7,243,442 |
| Financial assets derecognised | (5,644,355) | (1,562,378) | (424,952) | (7,631,685) |
| Gross carrying amount as at 31 December 2021 | 10,011,382 | 1,705,844 | 4,337,775 | 16,055,001 |
| 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 | - | 4104 | (4104) | - |
| 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 |

| 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 2021 | | | | |
| At start of the year | 79,028 | 105,284 | 693,338 | 877,650 |
| Movements during the year | | | | |
| Transfer to 12 month ECL | (8,457) | 8,457 | - | - |
| Transfer to lifetime ECL not credit impaired | (1,297) | - | 1,297 | - |
| Transfer to life time ECL credit impaired | 6,093 | (78,953) | 72,860 | - |
| Financial assets derecognized | (46,084) | (26,265) | (115,514) | (187,863) |
| Interest on Stage 3 Movement | - | - | (74,905) | (74,905) |
| Charge to profit or loss | (7,706) | 1,940 | 157,775 | 152,009 |
| Loss allowance as at 31 December 2021 | 21,577 | 10,463 | 734,851 | 766,891 |
| 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 life time ECL not credit impaired | (181) | - | 181 | - |
| Transfer to life time ECL credit impaired | - | (432) | 432 | - |
| 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 | 693,338 | 877,650 |

| 18. Other Assets and Prepaid Expenses | 2021 Shs '000 | 2020 Shs '000 |
|---------------------------------------|------------------|------------------|
| Group | | |
| Items in transit | 189,436 | 244,316 |
| Prepaid expenses | 57,764 | 53,705 |
| Stationery stocks | 4,904 | 12,067 |
| Others | 338,698 | 251,302 |
| | <u>590,802</u> | <u>561,390</u> |
| Bank | | |
| Items in transit | 189,436 | 244,316 |
| Prepaid expenses | 57,764 | 53,705 |
| Stationery stocks | 4,904 | 12,067 |
| Others | 291,914 | 215,131 |
| | <u>544,018</u> | <u>525,219</u> |

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% (2020: 30%). The movement on the deferred income tax account is as follows:

| Deferred Income Tax Group | 2021 Shs '000 | 2020 Shs '000 |
|------------------------------------|------------------|------------------|
| At start of year | 164,466 | 176,645 |
| Charge to PL | 5,497 | - |
| Under provision in the prior years | (1,048) | (65,106) |
| Deferred Tax OCI | (6,936) | - |
| At end of year | <u>161,979</u> | <u>164,466</u> |

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 2021 | | | |
| Property and equipment | 10,744 | 6,432 | 17,176 |
| Loans and advances | 155,033 | 18,781 | 173,814 |
| Other provisions | (1,311) | (27,700) | (29,011) |
| Net deferred income tax asset | 164,466 | (2,487) | 161,979 |
| 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 |

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

| Deferred Income Tax Bank | 2021 Shs '000 | 2020 Shs '000 |
|--|------------------|------------------|
| At start of year | 164,384 | 176,656 |
| Change on initial application of IFRS 9 | - | - |
| Charge to profit or loss account (Note 11) | 5,486 | 52,792 |
| Under provision in the prior years | (1,048) | (63,723) |
| Prior year adjustment | - | (1,341) |
| Deferred tax - OCI | (6,936) | - |
| At end of year | 161,887 | 164,384 |

19. Deferred Income Tax (Continued)

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 Bank | At Start of Year Shs '000 | (Credit/ (Charge) to P&L Shs '000 | At End of Year Shs '000 |
|---|------------------------------|--|----------------------------|
| Year ended 31 December 2021 | | | |
| Property and equipment | 10,692 | 6,432 | 17,124 |
| Loans and advances | 155,033 | 18,781 | 173,814 |
| Other provisions | (1,341) | (27,710) | (29,051) |
| | <u>164,384</u> | <u>(2,497)</u> | <u>161,887</u> |
| 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) |
| | <u>176,656</u> | <u>(12,272)</u> | <u>164,384</u> |

| 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 1 January 2020 | | | | | | |
| 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 value | 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 |
| Disposals | (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 | 14,181 | 332,102 |
| At 31 December 2020 | | | | | | |
| Cost | 284,125 | 30,959 | 337,308 | 161,555 | 47,843 | 861,790 |
| 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 | 14,181 | 332,102 |
| Year ended 31 December 2021 | | | | | | |
| Opening net book amount | 141,926 | 3,778 | 165,323 | 6,894 | 14,181 | 332,102 |
| Additions | 2,838 | | 5,316 | 2,001 | 634 | 10,790 |
| Disposals | - | | - | - | - | - |
| Depreciation charged | (24,597) | (2,758) | (34,864) | (3,427) | (2,967) | (68,613) |
| Closing net book amount | 120,167 | 1,020 | 135,775 | 5,468 | 11,848 | 274,280 |
| At 31 December 2021 | | | | | | |
| Cost | 286,963 | 30,959 | 342,624 | 163,556 | 48,477 | 872,579 |
| Accumulated depreciation | (166,796) | (29,939) | (206,849) | (158,088) | (36,629) | (598,301) |
| Net book amount | 120,167 | 1,020 | 135,775 | 5,468 | 11,848 | 274,278 |

20. Property and Equipment (Continued)

| 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 1 January 2020 | | | | | | |
| 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 | 122,791 |
| 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 | | | | | | |
| Cost | 280,674 | 31,089 | 332,514 | 160,285 | 47,276 | 851,838 |
| Accumulated depreciation | (138,746) | (27,311) | (167,190) | (153,454) | (33,137) | (519,838) |
| Net book amount | 141,928 | 3,778 | 165,324 | 6,831 | 14,139 | 332,000 |
| Year ended 31 December 2021 | | | | | | |
| Opening net book amount | 141,928 | 3,778 | 165,324 | 6,831 | 14,139 | 332,000 |
| Additions | 2,838 | - | 5,316 | 2,001 | 634 | 10,788 |
| Disposals | - | - | - | - | - | - |
| Depreciation charged | (24,597) | (2,758) | (34,864) | (3,399) | (2,953) | (68,570) |
| Closing net book amount | 120,169 | 1,020 | 135,776 | 5,433 | 11,821 | 274,218 |
| At 31 December 2021 | | | | | | |
| Cost | 283,512 | 31,089 | 337,832 | 162,287 | 47,911 | 862,631 |
| Accumulated depreciation | (163,343) | (30,069) | (202,055) | (156,853) | (36,090) | (588,410) |
| Net book amount | 120,169 | 1,020 | 135,777 | 5,433 | 11,821 | 274,221 |

| 21. Intangible Assets | Software Licences Shs '000 | Work in Progress Shs '000 | Total Shs '000 |
|------------------------------------|-------------------------------|------------------------------|-------------------|
| Group | | | |
| 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 |
| Year ended 31 December 2021 | | | |
| Opening net book amount | 124,427 | 25,640 | 150,067 |
| Additions | 36,475 | (22,593) | 13,881 |
| Amortisation for the year | (54,868) | - | (54,868) |
| Closing net book amount | 106,034 | 3,047 | 109,079 |
| Bank | | | |
| 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 |
| Year ended 31 December 2021 | | | |
| Opening net book amount | 124,428 | 25,639 | 150,067 |
| Additions | 36,475 | (22,593) | 13,882 |
| Amortisation for the year | (54,868) | - | (54,868) |
| Closing net book amount | 106,035 | 3,046 | 109,081 |



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.

| | 2021 Shs '000 | 2020 Shs '000 |
|--|-------------------|-------------------|
| 23. Deposits and Balances Due to Banking Institutions | | |
| Group and Bank | | |
| Current accounts | 84 | 3,096 |
| Deposits from other banks | - | 23 |
| Overnight borrowing | 499,533 | 507,662 |
| | <u>499,617</u> | <u>510,781</u> |
| 24. Customer Deposits | | |
| Group and Bank | | |
| Retail customers: | | |
| Current and demand deposits | 1,419,015 | 1,075,992 |
| Fixed deposits | 5,332,560 | 4,382,176 |
| Savings accounts | 282,977 | 205,221 |
| Corporate customers: | | |
| Current and demand deposits | 2,955,389 | 2,553,581 |
| Fixed deposits | 10,297,755 | 9,253,319 |
| Savings Accounts | 77,201 | 168,174 |
| | <u>20,364,897</u> | <u>17,638,463</u> |
| 25. Other Liabilities | | |
| Group | | |
| Items in transit | 16,682 | 8,909 |
| Bills payable | 35,294 | 48,928 |
| Unclaimed balances | 6,589 | 5,677 |
| Other payables | 337,874 | 401,993 |
| | <u>396,438</u> | <u>465,507</u> |
| Bank | | |
| Items in transit | 16,682 | 8,909 |
| Bills payable | 35,294 | 48,928 |
| Unclaimed balances | 6,589 | 5,677 |
| Other payables | 293,210 | 360,045 |
| | <u>351,774</u> | <u>423,559</u> |



| | Buildings Shs '000 2021 | Buildings Shs '000 2020 |
|------------------------------------|--|--|
| 26. Right of Use Assets | | |
| Group and Bank | | |
| Year ended 31 December 2021 | | |
| At start of year | 407,272 | 496,120 |
| Additions | - | 19,606 |
| Disposal | (1,347) | (23,982) |
| Depreciation Charge | (84,744) | (84,472) |
| At end of year | 321,181 | 407,272 |

| | 2021 Shs '000 | 2020 Shs '000 |
|---|--------------------------------|--------------------------------|
| 27. Lease Liabilities | | |
| Group and Bank | | |
| At start of the year | 462,934 | 530,982 |
| Add:- additions | - | 6,045 |
| Less:- disposals | - | (17,218) |
| Add:- interest expense | 55,385 | 57,948 |
| Less:- lease payments | (123,422) | (114,822) |
| | 394,897 | 462,935 |
| <i>Lease liabilities can be classified as current or non – current liabilities depending on the expected date of settlement / cash outflow as per the table below:-</i> | | |
| Expected to be settled within 12 months after the year end | 123,422 | 121,642 |
| Expected to be settled more than 12 months after the year end | 271,475 | 341,293 |
| | 394,897 | 462,935 |



| 28. Borrowings Group and Bank | 2021 Shs '000 | 2020 Shs '000 |
|------------------------------------|------------------|------------------|
| Movement during the year: | | |
| At start of year | 891,392 | - |
| Proceeds from borrowed funds | 51,933 | 873,200 |
| Repayment of borrowed funds | - | - |
| Interest charged on borrowed funds | 51,923 | 18,192 |
| Foreign exchange gain/loss | 26,561 | - |
| Interest paid on borrowed funds | (67,796) | - |
| | <u>954,012</u> | <u>891,392</u> |
| Current | 152,469 | 18,192 |
| Non-current portion | 801,543 | 873,200 |
| | <u>954,012</u> | <u>891,392</u> |

| 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 | 51,546 |
| KMRC - AFDB Line | Long term loan | 30,100 | KES | 5% | 1 December 2036 | - |
| KMRC - World Bank Line | Long term loan | 21,833 | KES | 5% | 1 December 2036 | 377 |
| | | <u>954,012</u> | | | | <u>51,923</u> |



| 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 | 26,335 | 2,633,507 | 59,908 |
| Issue of shares | 2,436 | 243,604 | 54,090 |
| Bonus issue | 259 | 25,908 | - |
| Share issue costs | - | - | (16,655) |
| | <u>29,030</u> | <u>2,903,019</u> | <u>97,343</u> |
| As at 31 December 2020 | | | |
| Year ended 31 December 2021 | | | |
| At the start of the year | 29,030 | 2,903,019 | 97,343 |
| Issue of shares | 130 | 12,952 | - |
| Bonus Issue | - | - | (2,704) |
| Share issue costs | - | - | - |
| | <u>29,160</u> | <u>2,915,971</u> | <u>94,639</u> |
| As at 31 December 2021 | | | |

As at 31 December 2021, the Banks authorised share capital was 75,000,000 ordinary shares of Shs' 100 each (20: 75,000,000). During the year an additional 129,524 shares were issued at Par. Retained earnings distributed in form of Bonus shares (Nil) (2020: 259,000). Shares 29,159,714 are issued and fully paid (2020: 29,030,183).

| 30. Regulatory Reserve Group and Bank | 2021 Shs '000 | 2020 Shs '000 |
|--|------------------|------------------|
| At start of year | 350,166 | 164,684 |
| Transfer from retained earnings | 1,337,393 | 185,482 |
| | <u>1,687,559</u> | <u>350,166</u> |
| At end of year | | |

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 | 2021 Shs '000 | 2020 Shs '000 |
|---|------------------|------------------|
| At start of year | (1,742) | (1,514) |
| Revaluation of FVOCI instruments net of tax | (39,078) | 228 |
| Deferred income tax | (9,018) | - |
| At end of year | <u>(31,802)</u> | <u>(1,742)</u> |

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 | 2021 Shs '000 | 2020 Shs '000 |
|---|------------------|------------------|
| Group | | |
| Contingent Liabilities | | |
| Acceptances and letters of credit | 1,712,490 | 2,164,306 |
| Guarantees and performance bonds | 6,291,947 | 6,581,224 |
| Forwards, Options & Swaps | 1,283,922 | - |
| | <u>9,288,359</u> | <u>8,745,530</u> |
| Bank | | |
| Contingent Liabilities | | |
| Acceptances and letters of credit | 1,712,490 | 2,164,306 |
| Guarantees and performance bonds | 6,291,947 | 6,581,224 |
| Forwards, Options & Swaps | 1,283,922 | - |
| | <u>9,288,359</u> | <u>8,745,530</u> |
| Clients' Investments | | |
| Clients' treasury bonds | 288,800 | 1,800 |
| Clients' treasury bills | 750 | 1,150 |
| | <u>289,550</u> | <u>2,950</u> |

Nature of Contingent Liabilities (Group and Bank)

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.

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 2021.

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 2021, the Bank had capital commitments of Kes 414,165,000 (2020: Minimum) in respect of software, buildings and equipment purchases.

| (c) Other Commitments | 2021 | 2020 |
|--|-----------|-----------|
| | Shs '000 | Shs '000 |
| Undrawn formal stand-by facilities, credit lines and other commitments to lend | 1,556,205 | 2,211,486 |

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 2021 treasury bonds valued at Shs Nil (2020: Nil) were pledged to secure trade finance lines with various banks.

There was no contingent liabilities outstanding under these facilities at 31 December 2021 (2022: Nil)



| 34. Analysis of Cash and Cash Equivalents as Shown in The Cash Flow Statement | 2021 Shs '000 | 2020 Shs '000 |
|---|------------------|------------------|
| Group | | |
| Cash and balances with Central Bank of Kenya (Note 13) | 1,623,861 | 1,145,705 |
| Less: cash reserve requirement (see below) | (758,621) | (691,816) |
| Deposits and balances due from banking institutions (Note 16) | 2,338,833 | 784,649 |
| Treasury bills with less than 91 days maturity (Note 15) | - | - |
| | <u>3,204,073</u> | <u>1,238,538</u> |
| Bank | | |
| Cash and balances with Central Bank of Kenya (Note 13) | 1,594,536 | 1,116,838 |
| Less: cash reserve requirement (see below) | (758,621) | (691,816) |
| Deposits and balances due from banking institutions (Note 16) | 2,338,833 | 784,649 |
| Treasury bills with less than 91 days maturity (Note 15) | - | - |
| | <u>3,174,748</u> | <u>1,209,671</u> |

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% (2020: 4.25%) 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 | 2021 Shs '000 Maximum Balance | 2021 Shs '000 Closing Balance | 2020 Shs '000 Maximum Balance | 2020 Shs '000 Closing Balance |
|--|--|--|--|--|
| Mortgage lending and other secured loans | 358,036 | 324,806 | 377,112 | 377,112 |
| Other loans | 29,704 | 51,119 | - | - |

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 | 2021 Shs '000 | 2020 Shs '000 |
|--|------------------|------------------|
| (ii) Key management compensation | | |
| Salaries and other short-term employment benefits | 233,873 | 244,653 |
| | <hr/> | <hr/> |
| (iii) Directors' remuneration | | |
| - fees for services as non executive directors | 9,956 | 10,778 |
| - other emoluments (included in key management compensation above) | 48,503 | 44,980 |
| | <hr/> | <hr/> |
| | 58,459 | 55,758 |
| | <hr/> | <hr/> |

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

At 31 December 2021 advances to companies where the Bank's directors or their families exert significant influence amounted to Kes 592,840,000 (2020: Shs 177,376,540).

At 31 December 2021 advances to employees amounted to 966,597,000 (2020: Shs 946,521,176). The movement in advances to related parties is as shown below:

| v) Loans and Advances to Staff Group and Bank | 2021 Shs '000 | 2020 Shs '000 |
|---|--------------------------|--------------------------|
| At start of year | 946,521 | 900,703 |
| Issued during the year | 130,466 | 492,529 |
| Repaid during the year | (110,391) | (446,711) |
| At end of year | <u>966,597</u> | <u>946,521</u> |
| Interest earned on staff loans during the year amounted to Shs 76,083,953 (2020: Shs 65,679,469). | | |
| <i>The Bank has entered into loan transactions with its directors and associates as follows:</i> | | |
| At start of year | 177,376 | 275,161 |
| Prior year Adjustment | - | 73,506 |
| Interest charged | 62,531 | 27,427 |
| Loans disbursed | 335,336 | 10,000 |
| Repaid during the year | (23,153) | (62,278) |
| Net movement in overdraft balances | 40,749 | (146,440) |
| At end of year | <u>592,839</u> | <u>177,376</u> |
| Interest income earned on these advances | <u>62,531</u> | <u>27,427</u> |

No provisions have been recognised in respect of loans given to related parties (2020: nil).

At 31 December 2021, customer deposits include deposits due to directors or their families and employees of Shs 1,252,695,074 (2020: Shs 1,378,034,858).

(vi) Other Related Party Transactions

Rent expense payments to related parties during the year amounted to Shs 39,426,212 (2020: Shs 32,043,576).

take down some notes

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 29th June 2022 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 2021 together with the Directors' and Auditors' Reports thereon.
☐ For ☐ Against ☐ Abstain
2. To note that the Directors do not recommend the payment of a dividend in respect of the financial year ended 31 December 2021.
☐ For ☐ Against ☐ Abstain
3. To re-elect Directors in accordance with the Articles of Association:-
 - i. To approve the re-election of Dr. Ketan Devram Morjaria 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. Robinson Njagi Gachogu 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. Leon Nyandusi Nyachae who retires from office by rotation and is eligible in accordance with the Company's Articles of Association
☐ For ☐ Against ☐ Abstain
4. To approve the Directors' remuneration for the financial year 2022.
☐ For ☐ Against ☐ Abstain

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 Monday, 27th June 2022 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 Tuesday, 28th June 2022 to allow time to address any issues.

2. Registration for the AGM opens on Wednesday 15th June, 2022 at 8:00 a.m. and will close on Tuesday 28th, June 2022 at 12:00 noon. Shareholders will not be able to register after 28th June 2022 12:00 noon.

3. A full copy of the Audited Accounts and Financial Statements for the year ended 31 December 2021 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.



Our Trade Finance Hits the Right Spot

When you come to us with business growth needs, we offer solutions that fit the bill. We are all about connecting you to the right financial solutions.

Explore our solutions online and discover how your business can thrive:

<https://creditbank.co.ke/get-trade-finance-solutions>

For more information call us on
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ISO 9001:2015 Certified

Credit Bank PLC is Regulated by the Central Bank of Kenya

